BUDGET STATEMENT 2019

(P.114/2018)
AS AMENDED FOLLOWING THE STATES DEBATE OF
3 – 6 DECEMBER 2018

Proposition

Draft Budget Statement 2019
(as adopted on 6 December 2018)

The States are asked to decide whether they are of the opinion:

a) to approve, in accordance with the provisions of Article 10(3)(a) of the Public Finances (Jersey) Law 2005, the estimates of income from taxation and duties during 2019 of £757,812,000 as set out in Summary Table A of the Budget Statement, with the sum to be raised through existing taxation measures and the proposed changes to income tax, impôts duty, goods and services tax, stamp duty, land transactions tax and vehicle emissions duty for 2019 as set out in the Budget Statement; except that, in relation to personal income tax, the estimate of income from taxation during 2019 shall be reduced by £100,000 by commencing the targeted income tax reliefs for non-residents from the 2018 year of assessment rather than the 2019 year of assessment as originally proposed.

b) to approve in accordance with the provisions of Article 10(3)(c) of the Public Finances (Jersey) Law 2005 the appropriation of £20,533,000 in 2019 from the amount appropriated to growth in the MTFP Addition 2017 to 2019 (P.68/2016 as amended) to the revenue heads of expenditure of those States funded bodies as set in Summary Table B, noting that these sums incorporate the £9,400,000 growth funding approved by the States in their Act dated 30th November 2017 (as detailed in paragraph (b) of P.90/2017 as amended);

c) to approve, in accordance with the provisions of Article 10(3)(d) of the Public Finances (Jersey) Law 2005, a capital head of expenditure for each of the capital projects for States funded bodies to be started or continued in 2019 (other than States trading operations) as set out in the proposed programme of capital projects in Summary Table D with the net allocation from the Consolidated Fund totalling £32,975,000;

d) to approve, in accordance with the provisions of Article 10(3)(e) of the Public Finances (Jersey) Law 2005, each of the capital projects that are scheduled to start during 2019 in the recommended programme of capital projects for each States trading operation, as set out in Summary Table E that require funds to be drawn from the trading funds in 2019;

e) to refer to their Act dated 8th October 2015[1] in which they agreed in accordance with Article 4(2) of the Public Finances (Jersey) Law that in 2019 a transfer of £50,000,000 would be made from the Consolidated Fund to the Strategic Reserve Fund; and to vary that decision and instead transfer that same amount from

[1] The decision to transfer monies between the Consolidated Fund and the Strategic Reserve Fund was approved in Paragraph (b)(iii) of P.76/2015 as amended (see: https://statesassembly.gov.je/assemblypropositions/2015/p.76-2015.pdf).

the Consolidated Fund to the Stabilisation Fund in 2019 in line with the requirements of Article 4A(1) of the aforementioned Law.

Minister for Treasury and Resources

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ADDENDUM TO BUDGET STATEMENT 2019

Addendum

Amendments Approved

At the conclusion of the States debate on the 2019 Budget on 6 December 2018, the States approved the Budget as amended by one amendment (the Fourth Amendment) to the original proposition from the Minister for Treasury and Resources. This amendment will have an impact on States revenues in 2019.

Fourth amendment (as proposed by the Minister for Treasury and Resources)

This amendment commenced the targeted income tax reliefs for non-residents from the 2018 year of assessment, rather than the 2019 year of assessment as originally proposed.

Summary

The approved amendments to the 2019 Budget will reduce the estimate of total taxation revenue in 2019 by £100,000 from £757,812,000 to £757,712,000.

The balance on the Consolidated Fund at the end of 2019 is estimated to be £136,319,000.

The full 2019 Budget statement P.114/2018 (as amended) can be viewed at www.statesassembly.gov.je

PART A

Minister's Foreword

Introduction

As the new Minister for Treasury and Resources, I have approached my first Budget with three core principles in mind: the government must ensure that its actions are affordable, we maintain a balanced approach and we apply common sense in all that we do.

As a result, this Budget contains no surprises, with no major tax measures, and will not seek to disturb the sensible long-term fiscal framework of achieving a balanced budget that was pursued by my predecessors.

However, it also highlights that decisive action will be required to maintain the efficiency and savings target that were set for the MTFP2 period

This approach is entirely appropriate, considering the new Council of Ministers has only recently lodged our Proposed Common Strategic Policy 2018-2022 (CSP) which sets out our collective ambition to make a positive difference for Islanders.

At the heart of the CSP are five strategic priorities:

- We will put children first
- We will improve Islanders' wellbeing and mental and physical health
- We will create a sustainable, vibrant economy and skilled local workforce for the future
- We will reduce income inequality and improve the standard of living
- We will protect and value our environment

Underpinning these priorities are four ongoing initiatives, which build on work already started under the previous government – as well as changes we initiated on taking office – to improve how Jersey is governed and how our services are delivered.

1. We are developing a new, long-term strategic framework that extends beyond the term of a Council of Ministers.

2. We are seeking to improve how the States Assembly and Council of Ministers work together for the common good.

3. We are developing "one government" – a modern, innovative public sector that meets the needs of Islanders effectively, efficiently and affordably.

4. And, crucially for me as Minister for Treasury and Resources, we are developing a sustainable long-term fiscal framework for public finances that make the best use of our public assets.

The CSP explains why these priorities are important and sets out what the Council of Ministers intends to achieve through our term of office. We want to work in close partnership with States Members and with wider stakeholders in achieving the ambition outlined in the CSP. We therefore intend to develop, in partnership over coming months, the detailed, costed proposals, that will form a Government Plan (Medium-Term Plan) 2020-23, which will be lodged in summer 2019.

Budget 2019 is therefore not the vehicle via which the Council of Ministers will introduce major changes, since the fully-costed proposals that we need to make to pursue our five strategic priorities will come before the Assembly in 2019 and in later years.

Nevertheless Budget 2019, it is still an important event in our Island's economic calendar, it updates the economic outlook, outlines positive news regarding our national income, increases income tax allowances to benefit lower and middle income taxpayers, provides help to first time house buyers and to those buyers who will require mortgage finance in future. It also signposts consultations on important aspects of our tax system.

This is an affordable, balanced and common sense Budget, which is right for our current circumstances.

Economic outlook

As ever, we are indebted to the expertise afforded to the Island through the Fiscal Policy Panel (FPP). Their latest comments on the Island's economy (released in August 2018), although forecasting flat growth in GVA for 2017, are more positive about the future, highlighting:

- A strengthening labour market – reflected in official statistics released by Statistics Jersey and in Social Security contribution numbers for 2018 to date. The total number of people registered as unemployed and actively seeking work was 820 in June 2018 – the lowest level since December 2008 and marks an 18 per cent fall from the same time last year.

- An encouraging Business Tendency Survey for June 2018 – with the key activity indicators showing an improvement in the current situation, alongside increased optimism and confidence about future trends.

On the basis of the new economic assumptions endorsed by the Panel, the FPP has stated that by 2019 they consider that Jersey's economy may be slightly above its non-inflationary 'potential' level and suggest that we should be seeking to endeavour to run a surplus of General Revenues receipts over departmental expenditure in 2019, with serious consideration being given to starting to replenish the Stabilisation Fund. This is prudent advice, which I intend to follow.

It is important to recognise that whilst Budget 2019 addresses principally General Revenues (largely taxation and duties) and Departmental expenditure, the States of Jersey Group consists of more than this. Future plans will address the financial plans and performance, not only of departments and taxation receipts but also those of major funds, investments and arm's length organisations such as the utility companies.

Finally the FPP continues to recommend caution in our fiscal planning due to the uncertainties that remain around the medium-term outlook for the economy – in particular the impact of Brexit, regulatory challenges to the financial services sector and the ongoing challenges regarding productivity.

As Minister for Treasury and Resources I intend to build on the strong relationship established with the FPP, respecting their independence and heeding their advice, even when it is challenging.

Income forecasts

The positive news about the current and immediate future of the Island's economy has been reflected in the latest forecasts produced by the Income Forecasting Group (IFG) – details of which are presented in the Budget statement.

A combination of the following factors have resulted in markedly stronger income forecasts over the forecast period than those produced in September 2017 for Budget 2018:

- better-than-expected tax receipts in 2017 – in respect of personal income tax, corporate income tax and stamp duty
- the stronger economic assumptions endorsed by the FPP for the next few years – resulting in increased revenue from personal income tax, corporate income tax and GST; and
- the impact of the decisions made in Budget 2018 to raise additional revenue from certain companies operating in the Island.

Based on the latest IFG's forecasts of tax revenues, Total States Income for 2018 is forecast to be £30m higher than predicted in Budget 2018, while for 2019 that figure is projected to be £36m higher. The forecasts beyond 2019 are based upon long-term trends, rather than specific forecasts for each of those years.

The IFG reemphasise the caution expressed by the FPP, highlighting once again that the risks are to the downside, particularly from Brexit uncertainty and that the forecast should be considered as a range.

I am not complacent about these forecasts, and the FPP's advice will be heeded as we develop the new Government Plan.

Expenditure forecast/financial forecast

As we work towards the development of a new Government Plan, expenditure forecasts will continue to be refined.

The rolling four-year Government Plan will be fully-integrated, bringing together in one place policies, actions and funding needed to deliver on priorities. It will provide the detailed measures, costings and forecasts.

In the meantime, a report will be presented to the States before the end of the year, which will reallocate Budgets for 2019 within the existing limits set in the current Medium Term Financial Plan (MTFP).

The reallocation will reflect the new ‘Team Jersey, one government’ structure and the transition towards the new Government Plan.

Ahead of this work, high-level core forecasts have been developed for 2020-23, based on existing total budgets, allowance for inflation, commitments by the previous Council of Ministers and policies agreed by the States.

It is known that not all of the savings and efficiencies of the current MTFP have been delivered, but these forecasts assume that they, or measures equivalent to them, will be delivered.

Overall financial forecast

Ahead of finalising the transition plans for 2019, the forecasts demonstrate that budgets will be broadly balanced for 2019, thanks in part to increased income forecasts. Nonetheless, the forecasts for 2020 onwards demonstrate the considerable challenge ahead.

Making allowance for inflation and commitments made with ongoing financial consequences, the lack of commercial waste charges, along with the unwinding of other provisions in the current MTFP will, if action is not taken, lead to a deficit of up to £30m in 2020.

This does not include additional investments to deliver the CSP priorities.

Inflationary pressures and investment in health (both to transform services and to address an ageing population), will mean that expenditure grows more quickly than income and the gap will increase.

This cannot be allowed to occur. This government is committed to delivering sustainable public finances and as we finalise the savings opportunities that the new Target Operating Model will deliver, I look forward to announcing efficiencies and savings to public services to close this gap and to provide for investment in priorities.

It is important that this is delivered, but equally I am convinced that if Islanders want to continue to enjoy high-quality services, the Government will need to consider revenue-raising measures for the future.

Key taxation proposals

However, in considering taxation proposals for Budget 2019, the Council of Ministers and I have been cognisant of this position, but also of the rising cost of living and other policies of the States.

Personal income tax

I am proposing to increase the standard tax-free income allowance by 3.5%, in line with the increase in average earnings. This will benefit more than 42,000 taxpayers, reducing a single person's annual tax bill by £130 and that of a married couple or civil partnership by £221.

This measure will take Jersey's personal tax-free income allowance (for a single person) to £15,400 in 2019, which compares very generously to Guernsey's allowance in 2018 of £10,500, the UK's of £11,850 and the Isle of Man's of £13,250.

I also intend to increase the second earner's allowance by £150 to £6,000, which maintains the equality (achieved by my predecessor in his last Budget) in allowances between married and cohabiting couples, where both partners are earning. This measure will benefit approximately 10,000 households.

As part of the package agreed by the States Assembly to introduce new Higher Education funding proposals, I am proceeding with the removal of the Higher Child Allowance given to parents with children in higher education. These funds will be added to the existing funding for the new package of Higher Education grants available to the young people of the Island.

Aware of the Assembly's desire that lower-income households should be no worse-off as a consequence of the changes to higher education funding, I have also taken steps to ensure that the Additional Personal Allowance remains available in most circumstances where it is currently available.

The removal of non-residents' relief in Budget 2016 has caused hardship for a small number of lower-income former residents now living in jurisdictions where tax credits are not given in respect of any Jersey income tax paid on Jersey-sourced income. This Budget provides for a scheme to be introduced, which will allow appropriate relief from taxation in Jersey, targeted at those with a low worldwide income or who suffer double taxation on their income.

It will require claimants to demonstrate that they are paying any taxes lawfully due in their country of residence and claiming any double tax credits to which they are entitled in the jurisdiction in which they now live.

Review of personal taxation

I am also announcing an Island-wide consultation on changing Jersey's system for taxing personal income. The government will publish a summary of emerging findings and launch the consultation before the end of November 2018. While driven by the need to address anachronistic features of our existing system, the consultation and review will involve a much broader review of the personal tax system.

Impôts

Jersey has traditionally taxed alcohol, tobacco and road fuel largely for revenue purposes, but like governments around the world, we have increasingly recognised that these products are damaging to health, to wellbeing and to the environment. Price affects both the supply of – and demand for – these products. It is therefore right that we use taxation to incentivise people to change behaviour in line with existing strategies, and also that we seek to recover some of the costs of dealing with the harm that alcohol, tobacco and car usage create for our society.

Ordinarily, the minimum increase in duties would be the latest RPI figure of 4.5%, although many recent Budgets having implemented above-inflation increases in duties.

Having regard to the globally-evidenced impact on health, but also the current inflationary environment and the views expressed to me by representatives of the hospitality sector, I am proposing that alcohol duties are not increased by RPI (4.5%). Instead, I propose to increase the duty payable on alcohol by 3.5% – in line with the increase in average earnings. This will add just over a penny to a pint of beer.

Petrol/diesel will increase a little more, by the equivalent of 2p on a litre of standard petrol/diesel – although this still represents a below-inflation increase.

Given the considerable impact of smoking on people's health, and its associated cost to government, the duty on tobacco will increase in line with RPI (4.5%) plus 5%. This represents an extra 59 pence on a pack of 20 cigarettes.

In light of last year's material changes to Vehicle Emissions Duty (VED), I am bringing forward no measures this year with respect to VED. However, I have asked officials to review the future taxation of car ownership and usage, with a view to determining the fairest and most sustainable ways of raising revenue in the longer run. This will take into account likely future shifts in consumer choices, such as moves towards more environmentally-friendly hybrid and electric cars. For the avoidance of doubt, the temporary relief from the 2018 VED increases for hire car businesses will expire as planned, and forewarned, on 31 December 2018.

Stamp Duty

I am mindful of the housing challenges that currently face Islanders and which feature as a strategic priority in the CSP. In recognition of concerns over housing affordability, I am taking steps in Budget 2019 to reduce stamp duty and land transactions tax (LTT), which will help first-time buyers purchasing their first home up to the average house price. From 2019, properties valued up to £500,000 will qualify for first-time buyer's relief.

I am also conscious of additional stamp duty/LTT (up to 0.5%) that currently has to be paid by homebuyers requiring mortgage finance to pay for their home. This is a tax cost that is not borne by homebuyers with the cash funds to buy a property. I plan to address this inequity by phasing out stamp duty/LTT charges on mortgages over time and in Budget 2019 I am taking the first steps in this process. Stamp duty/LTT on mortgages for homes costing up to £600,000 will be abolished completely and the charge will be tapered for homes valued between £600,000 and £700,000.

To fund these two targeted measures, all standard stamp duty/LTT rates will be raised by 0.5%, for homes valued over £500,000.

The States Treasury and Exchequer/Revenue Jersey will also launch a consultation on a new Stamp Duty anti-avoidance provision for 'enveloped' properties (i.e. those placed within a company structure to avoid Stamp Duty arising on transfers) before the end of November 2018.

Economic substance

Following a significant period of review and consultation with key stakeholders, the Crown Dependencies and the European Union's Code of Conduct Group (Business Taxation), I will be lodging legislation later this month that will ensure that Jersey resident companies undertaking certain identified activities can demonstrate economic substance in Jersey from 2019 onwards.

I am confident that our open dialogue with the Code of Conduct Group, in continuation of our "good neighbour" policy with the EU, means that the legislation lodged will ultimately be assessed favourably by the EU Economic and Financial Affairs Council (ECOFIN) in early 2019 – ensuring that Jersey continues to remain off the list of non-cooperative jurisdictions first published by the EU in December 2017.

GST de minimis

Since GST was introduced in 2008, it has been recognised that there is a level below which it is neither practical nor cost-effective to seek to collect the tax on postal/packet importations for personal (non-business) purposes. The current "De Minimis" level is £240 of goods by value (including any customs-and-excise duties), which equates to £12 in forgone tax.

The government recognises that the existence of this exemption level conflicts with Jersey's tax-policy principles that taxation must be low, broad, simple and fair, because it creates an "unlevel playing field" between domestic and off-island retailers. The exemption exists solely to avoid the position where the States would be paying more in administrative costs to collect the tax than that tax would yield.

It is the long-standing position of previous Treasury Ministers that the exemption will be abolished when Ministers are satisfied that creating an obligation for off-island online retailers to charge, collect and remit GST to Jersey would not result in those retailers withdrawing online shopping services, which could harm consumer choice and reduce price competition. Such exemptions are being cut – or removed entirely – around the world where they create distortions in retail trade.

We expect that time will come (possibly in 2021) when the EU abolishes its corresponding VAT exemption for personal importations from outside the EU and introduces a system where retailers from outside the EU must account for (and pay over) taxes due in the country of residence of their customers. Once major online retailers have invested in systems to meet EU requirements, we believe that they will be more willing and able to put similar processes in place for smaller jurisdictions such as Jersey.

I am mindful that smaller retailers on the high street are struggling and I have listened carefully to their representations with regard to the impact of internet shopping and the impact of the de minimis level. While I am most sympathetic to their representations, I have – after consultation with Ministerial colleagues – decided not to adjust the de minimis level in this Budget. I will consider whether to reduce the de minimis level in my subsequent Budgets, as a transitional step towards its inevitable abolition in the future.

My officers are continuing to lobby UK retailers to try to stop the practice (prevalent among some of them) of charging VAT on supplies of goods into Jersey even though UK tax law allows those to be dispatched free of VAT. A brief report on progress can be found in this Statement.

Other business-related measures

Following advice from officers, based on review and consultation with stakeholders, I do not propose to pursue measures to tax the profits of large alcohol vendors or certain bookmakers. The review of whether to reduce the quantity of tobacco which can be imported into Jersey by individual travellers (the duty-free allowance) is ongoing, with no changes proposed in this Budget; more time is required to allow officers to collate evidence regarding the amount of tobacco imported duty-free, and we are sensitive to the fact that negotiations regarding the Island's future trading relationship with the UK are ongoing.

I am delighted in this Budget to be able to announce my intention to place care provided in the home by regulated providers on the same GST footing as care provided in a care home. Regulated domiciliary care will be exempt from GST with effect from 2019 and I expect any savings from this measure to be passed on to consumers through price reductions, where possible. Again, we will be monitoring the impact of this measure on consumer pricing for care services.

In addition, I am pleased to propose changes that will allow the financial services sector the opportunity to compete for business in the growing area of the provision of international employer saving schemes.

I can confirm that reviews will commence in 2019 into the taxation of the profits of mutual trading and the feasibility of applying GST to imported digital services (including television and music services).

Building Revenue Jersey – the Revenue Administration Law

We are making good progress with modernising Jersey's tax system. The Council of Ministers has confirmed the creation of Revenue Jersey (as part of the restructuring of the States) which will bring together the work of the Taxes Office and teams dealing with Social Security contributions and customs revenue matters over the coming years.

The project to replace the Taxes Office's 35 year old computer systems with a new revenue management system is on time and within budget. The new systems will be in place in early 2019 and will be tested through 2019, processing new-format tax returns for the 2018 year of assessment. I expect Islanders to have access to online filing capabilities in 2020 – a significant step forward in the development of digital public services.

Following public consultation in 2017, as part of this Budget, I am presenting the first part of a new Revenue Administration Law, together with a number of administrative changes to the Income Tax Law, which will enable and give effect to a number of modernisations. These include changes to certain due dates for returns to facilitate online filing for personal taxpayers, better penalties around non-submission of tax returns to incentivise compliance, new tax payment dates for corporate income taxpayers, and – for the first time – provisions to charge interest on outstanding tax debts. New civil penalties are also introduced for those who choose to evade taxes.

Around 200 taxpayers took the opportunity to set their tax affairs in order during our Tax Disclosure Opportunity, which ran from April to Christmas 2017. This has yielded around £1.6m.

Growth proposals

The current MTFP identified considerable additional funding for Health and Community Services, including £5.6m in this Budget, including some for Children's Services.

While not all the savings measures of the current MTFP have been delivered, neither have all revenue-raising measures, in particular commercial waste charges.

This measure directly leads to an £11m shortfall in budgets for the Growth, Housing and Environment department.

In order to meet part of this funding requirement, growth in excess of the above £5.6m for Health has been deferred. This is possible as considerable funding already made available for investment in transforming our Health & Community Services remains available.

It is intended that once the existing programme of Health transformation has been delivered, additional funds released as a result of the reforms to the public sector would be made available to reinstate the planned investments in health care.

Diverting some of the growth allocation is insufficient to meet all of the shortfall in our infrastructure services budgets. It is intended that this gap will eventually be eradicated through the efficiencies and savings arising from the implementation of the Target Operating Model, however pending the delivery of these measures I will transfer £6.9m from existing resources.

This clearly exacerbates the financial position as we move into 2020 and exemplifies the importance of making changes to the Public Finances Law to agree expenditure measures at the same time as the revenue-raising measures that fund them.

Capital spending

The MTFP identified £168m for capital projects over the four years of the plan. Budget 2018 agreed the latest tranche of that programme, as well as a further £21m to address additional priorities and costs further to feasibility works and inflationary pressures.

This required transfers from unspent capital and revenue expenditure to supplement the funds available, resulting in amendments to the indicative 2019 allocations.

Those allocations have been re-examined and we have made small adjustments in Budget 2019.

The most significant of these is the inclusion of an allocation towards Public Realm improvements to commemorate Liberation 75. We propose that this is funded from slight changes to the capital programme and an allocation of £1.4m from existing resources.

The full investment in 2019 will be £36m, including: £20.7m across vital infrastructure, including roads and sewage works; £5.4m for assets, including a CT scanner for Health; and £3.8m to complete the latest phase of the development of Grainville School.

Considerable investments remain to be made in our Island’s infrastructure, to benefit the community, regeneration and the economy.

The overly prudent, “cash up front” means of funding capital must change if we are to meet these challenges and I look forward to the development of an investment framework which makes the best use of our strong balance sheet.

Reserves

The current MTFP was developed heeding the advice of the FPP and it ensured that we continued to invest in our vital infrastructure and schools in particular. It also supported the economy as it continued its recovery from the global financial crisis and delivered balanced budgets.

With the States Assembly's agreement, this was achieved in part through transfers from the Strategic Reserve. As part of that strategy, it was also agreed to transfer back £50m back to the Strategic Reserve in 2019.

Considering the strong growth in the Strategic Reserve in recent years and the flexibility required to be able to adjust to any consequences arising from the uncertainties that face the global and local economies, I propose, with the support of the Council of Ministers, to transfer this sum instead to the Stabilisation Fund, to act as a buffer against those risks.

According to the forecasts, considerable excess balances will remain in the States' current account, the Consolidated Fund, even after this transfer. Given the need to be flexible as we advance the Government Plan, not least because of the considerable capital investment required, I propose to consider the use of those funds once the Government Plan is finalised.

Conclusion

Jersey has a strong financial base and economy from which to harness the opportunities presented by the uncertainties in the near term – such as Brexit – and the challenges in the longer term arising from the consequences of an ageing population.

It is important that we act upon those opportunities, delivering measures to ensure that our books remain balanced, investing to deliver the savings which the new 'Team Jersey - one government' structure promises from modernised public services, together with developing and implementing a new approach to investment in infrastructure, the economy and housing, making the most of that robust balance sheet.

A new Government Plan will set out the detailed actions arising from the priorities of the Council of Ministers in the CSP, as well as their costs and funding proposals, including the new Economic Framework, supported by the establishment of a new Investment Fund.

Underpinning those plans will be the transformation, not only of the services of Revenue Jersey, but also financial management across the States, aiming to ensure that taxpayers' money is used wisely to deliver positive outcomes for Islanders and that the financial implications of decisions are fully understood. These two major work streams within the States Treasury and Exchequer will deliver an efficient and effective customer-focused department.

The ambitious programme of work includes restructuring the finance functions of the States into a single department with common and improved reporting and processes, robust business case methodology, and a modern fit for purpose Public Finances Law and Manual.

We will also shortly open the most fundamental conversation with Islanders about the future of our personal taxation system.

Budget 2019 anticipates these vital and exciting changes, while maintaining necessary investment in infrastructure and services. From this stable platform I look forward to developing and implementing the new Council of Minister’s priorities to improve the lives of Islanders, within an affordable and sustainable financial framework.

The package of proposals in Budget 2019 completes the current MTFP and prepares the way for the new Council of Ministers to start work on the priorities it has set out in the recently launched CSP.

Deputy Susie Pinel
Minister for Treasury and Resources

PART B – BUDGET STATEMENT 2019

1. Summary of Tax Proposals

The Minister for Treasury and Resources considers annual Budget measures within the context of the fiscal strategy, the advice of the Fiscal Policy Panel, spending plans, the economic situation, current income forecasts and the States' strategic priorities, including those proposed by the Council of Ministers in the Common Strategic Policy namely:

- We will put children first
- We will improve Islanders' wellbeing and mental and physical health
- We will create a sustainable, vibrant economy and skilled local workforce for the future
- We will reduce income inequality and improve the standard of living
- We will protect and value our environment.

A summary of the taxation proposals contained in the 2019 Budget has been provided below:

Personal tax proposals

- Income tax exemption thresholds for working age people taxed at the marginal rate (26%) to be increased by 3.5%, delivering a tax reduction of £130 for most single people, and £221 for most married couple/civil partnerships. This follows a standing policy of increasing thresholds by the lower of average earnings and the Retail Price Index (RPI)
- Second earner's allowance to be increased by £150 to £6,000 delivering a further tax reduction of £39 for married couples/civil partnerships where both are earning
- Higher Child Allowance to be removed as part of the measures agreed by the States Assembly (P33/2018) to introduce new Higher Education Funding Proposals, without restricting the Additional Personal Allowance for single parents
- Measures to address hardship arising for those with low worldwide income and those suffering double taxation, as a result of the withdrawal of Non-Residents Relief in the 2016 Budget
- Minor amendments to the rules applying to pensions and pension schemes including greater flexibility in accessing small pension funds
- Minor amendment to the calculation of the Minimum Annual Tax Charge for High Value Residents rules so that Jersey rental income is taken into account when determining the £725,000 taxable income threshold
- Minor amendments to ensure that the tax treatment of foreign charities aligns with new Charities Law

Impôts duty proposals

- A limited 3.5% increase in impôts duties charged on alcohol, in line with the increase in average earnings. This broadly represents a duty increase of 50p on a litre of spirits, 5p on a bottle of wine and just over a penny on a pint of beer or cider.
- Impôts duties on tobacco increased by 59p for a packet of 20 cigarettes. This represents an increase of RPI +5%, with a greater increase on hand rolling tobacco as a continuation of the policy to equalise the duty rate.
- A below RPI increase of 2p per litre on impôts duties charged on road fuel.
- No increase in VED rates and a review to take place of the taxation of car ownership and usage (including fuel duty) for Budget 2020.

Stamp duty proposals

- In recognition of the housing challenges set out in the Common Strategic Policy, Budget 2019 contains a package of stamp duty/LTT measures. The changes are targeted at helping first time buyers and those purchasing lower value properties with borrowed funds.
- From 2019, properties valued up to £500,000 will qualify for first time buyer's relief and the bands qualifying for lower rates up to £500,000 will be extended accordingly.
- Stamp duty/LTT on mortgages (currently up to 0.5%), will be abolished for those buying houses valued up to £600,000. A reduced rate of stamp duty/LTT will be payable on mortgages for properties valued between £600,000 and £700,000.
- To fund these two targeted measures, all standard stamp duty/LTT rates will be raised by 0.5%, for houses valued over £500,000.

Business tax proposals

- New legislation introducing an economic substance test for companies in line with negotiations with the EU Code of Conduct Group.
- Regulation making powers in respect of the taxation of new type of legal bodies.
- Extension of the current GST exemption for care in care homes to domiciliary care.
- Minor technical amendments to the 2018 Budget measures.

Reviews and consultations being announced in Budget 2019

- Announcement of an Island-wide Consultation on Personal Income Tax to be published by the end of November 2018.
- Consultation on a new Stamp Duty anti-avoidance provision for "enveloped" properties.
- A review will commence in 2019 into the taxation of the profits of mutual trading (commissioned by the States Assembly during the Budget 2018 debate).
- A review will commence in 2019 into the feasibility of applying GST to imported digital services (including television and music services). This was also commissioned by the States Assembly during the Budget 2018 debate;
- Review of the taxation of car ownership and usage (including fuel duty) for Budget 2020.

2. Taxation Proposals – Personal Taxation

Income tax exemption thresholds

The income tax exemption thresholds set the income level at which an individual or married couple/civil partnership[2] start paying personal income tax. An individual or married couple with income below the income tax exemption threshold that applies to them will not pay any personal income tax.

In addition, every individual/married couple taxed at the marginal rate calculation benefits from the income tax exemption thresholds; with the relevant income tax exemption threshold reducing the amount of income which is subject to that rate of tax. This represents close to 90% of taxpayers and therefore increasing the income tax exemption threshold benefits the vast majority of Islanders.

Consistent with established policy, the Minister proposes to increase the standard income tax exemption thresholds[3] by 3.5% which is the lower of: (i) the most recently published increase in the Retail Price Index (4.5% June 2018 RPI figure per Statistics Jersey[4]); and (ii) the most recently published increase in average earnings figure (3.5% June 2018 figure per Statistics Jersey[5]).

The approximate cost to the States' General Revenues of this proposal is £5.8m.

The impact of this proposal on standard income tax exemption thresholds is shown in the table below:

Figure 1 – Standard income tax exemption thresholds for 2018 and 2019 years of assessment

Type of taxpayer	2018 Actual	2019 Proposed	Proposed increase	Tax reduction @ 26%[6]
Single Person	£14,900	£15,400	£500	£130
Married Couple / Civil Partnership	£23,950	£24,800	£850	£221

As the following table highlights, the income tax exemption thresholds in Jersey are generous compared to the equivalent tax allowances in Guernsey, the UK and the Isle of Man.

[2] In the remainder of this document the term "married couple" should be read as also referring to civil partnerships.
[3] Taxpayers born on or before 31 December 1951 are entitled to an enhanced income tax exemption threshold.
[4] See: https://www.gov.je/News/2018/Pages/RetailPricesIndexJune2018.aspx
[5] See: https://www.gov.je/News/2018/Pages/AverageEarningsReport2018.aspx
[6] This tax reduction is enjoyed by all taxpayers whose tax is calculated by reference to the marginal rate calculation.

Figure 2 – Single person exemption thresholds/personal allowance across comparable jurisdictions

Jersey (2019 proposed)	Guernsey (2018)	UK (2018/19)	Isle of Man (2018/19)
£15,400	£10,500	£11,850	£13,250

Consistent with the established policy of moving towards a single set of income tax exemption thresholds for all taxpayers regardless of when they were born, the enhanced income tax exemption thresholds for those born on or before 31 December 1951 are being maintained at their current level. It is anticipated that there will be a single set of income tax exemption thresholds within the next couple of years.

On the basis that the Minister's proposal is consistent with established Budget policy, the financial impact of the proposed increase in income tax exemption thresholds is reflected in the September 2018 updated income forecast.

Second earner's allowance

Married couples are entitled to the married couple's income tax exemption threshold (see above) and, where both spouses are in receipt of earnings (i.e. employment income, self-employment income or pension income[7]) they are also entitled to an allowance known as "second earner's allowance". Second earner's allowance reduces the income tax payable on the earnings of the lower-earning spouse.

This differs from co-habiting (unmarried) couples, where each partner is entitled to the single person's income tax exemption threshold.

This differing treatment of married couples and co-habiting couples means that it had previously been tax beneficial for couples where both partners were in receipt of earnings to co-habit rather than get married.

In the 2018 Budget the Minister for Treasury and Resources increased the second earner's allowance so that the married couple's income tax exemption threshold plus the second earner's allowance was equal to two single person's income tax exemption thresholds. See the table below:

Figure 3 – Comparison of 2018 taxpayer allowances – married vs co-habiting

Type of taxpayer	Income tax exemption threshold (2018)	Second earner's allowance (2018)	Total
Single person x 2	£29,800	N/A	£29,800
Married Couple / Civil Partnership	£23,950	£5,850	£29,800

[7] As opposed to investment income such as dividends and interest.

The Minister proposes to maintain this policy so that for the 2019 year of assessment the married couple's income tax exemption threshold plus the second earner's allowance is equal to two single person's income tax exemption thresholds. In light of the Minister's proposals regarding income tax exemption thresholds (see above), to maintain this policy requires a £150 increase to the allowance, taking it to £6,000 for the 2019 year of assessment.

Figure 4 – Second earner's allowance proposal for 2019

Second earner's allowance (2018)	Proposed second earner's allowance (2019)	Increase (and tax benefit at 26%)
£5,850	£6,000	£150 (£39)

Figure 5 – Comparison of proposed 2019 taxpayer allowances – married vs co-habiting

Type of taxpayer	Income tax exemption threshold (2019) proposed	Second earner's allowance (2019) proposed	Total
Single person x 2	£30,800	N/A	£30,800
Married Couple / Civil Partnership	£24,800	£6,000	£30,800

This increase, as existing policy, is assumed in the latest 2018 income forecast, however has an estimated cost of £0.6m.

While an improvement on the position previously, the established policy does not fully equalise the tax treatment of married couples and co-habiting couples in all situations – for some households it will remain tax beneficial to be married, while for other households it will remain tax beneficial to co-habit. A consultation in relation to the review of the Personal Income Tax system will be published by the end of November 2018.

Removal of Higher Child Allowance

The Higher Education Funding Proposal (P.33/2018 as amended) voted by the States Assembly on 9 April 2018 provides Jersey students with a new, more generous, grant scheme.

Parents of people over the age of 17 and receiving full-time higher education are currently entitled to a Higher Child Allowance (HCA) within their tax assessment. As part of the funding mechanism for the new grant scheme it was agreed to remove the availability of this allowance from the 2019 year of assessment.

Additional Personal Allowance (APA) is an allowance given to unmarried taxpayers with children. Currently, one of the conditions that must be met in order to claim APA is that the taxpayer is entitled to either "normal" child allowance (given in respect of school-age children) or HCA. To prevent an adverse economic effect on those taxpayers who would be unable to claim APA after the removal of HCA, it was agreed by the Assembly to alter the conditions of APA eligibility such that the claiming of HCA was no longer a requirement for APA entitlement.

This Budget proposes to give effect to the removal of HCA approved in (P.33/2018) and the changes to APA above.

Furthermore, in order to align the principle of APA with the definition of an “independent student” under the Education (Discretionary Grants) (Jersey) Order 2018, the Minister proposes that the eligibility criteria for APA in respect of the parents of children in higher education is extended to include circumstances where:

a) The child is under the age of 25 years;
b) The child is not married or in a civil partnership; and
c) The child has not been living financially independently of his or her parents for the last 3 years.

Removing the availability of HCA results in additional income tax revenues. On the basis that the removal of HCA had been agreed by the States Assembly in April 2018, the additional income tax revenue has already been accounted for in the September 2018 income forecast – increasing personal tax revenues for the 2019 year of assessment onwards (resulting in additional States income in 2020 onwards).

From 2020 onwards, these increased revenues will be used to fund the increased cost of the new Higher Education Scheme.

Foreign charities which can benefit from tax relief in Jersey

Article 115, Income Tax (Jersey) Law 1961 currently determines which foreign (non-Jersey registered) charities benefit from Jersey tax relief. This tax provision is similar, but not identical, to the definition of “Excepted Foreign Charity” in the new Charities Law (Jersey) 2014 and this could potentially lead to uncertainty.

Therefore, tax law is being amended to align with the Charities Law on the issue of foreign charities, thus easing the administrative burden and eliminating inconsistencies. This is also in keeping with the ‘One Gov’ and ‘Tell us once’ approach. The Minister proposes to amend Article 115(aa) and (ab) of the Income Tax (Jersey) Law 1961, so that an entity which is an “Excepted Foreign Charity” according to the definition in the Charities Law will qualify for tax relief.

This change is expected to impact only a small number of foreign charities that currently benefit from tax relief.

Taxation of non-residents individuals – introduction of targeted tax relief

In the context of non-residents, Jersey, consistent with many jurisdictions across the globe, operates a source-basis of taxation (i.e. non-residents are subject to Jersey tax on their income arising in Jersey). A number of types of Jersey source income are statutorily exempt from income tax in the hands of non-residents, including: (i) interest paid by Jersey banks; (ii) distributions from Jersey resident companies and (iii) the Jersey Old Age Social Security pension. These exemptions are not available to Jersey residents who are taxed on all these forms of income.

Two key types of Jersey source income remain taxable in the hands of non-residents: (i) pension income from Jersey pension schemes (excluding the Jersey Old Age Social Security pension); and (ii) rental income from Jersey property.

Prior to 2016 non-resident individuals were entitled to a form of tax relief known as “non-residents relief” (NRR) which they could offset against sources of taxable income when calculating the amount of Jersey income tax they were obliged to pay.

NRR was a complicated form of tax relief which broadly sought to apply a proportion of the tax allowances/reliefs that the individual would have been entitled to if they were tax resident in the Island, determined by reference to the amount of their Jersey source income *vis-à-vis* their non-Jersey source income.

The calculation of NRR was complicated (for example the interaction between NRR and the way in which Jersey taxes married couples produced a number of anomalies), poorly understood and tax officials were concerned about the risk that non-resident individuals may not have been declaring their Jersey source income in the jurisdiction in which they were tax resident.

NRR was also available to all non-resident individuals irrespective of their connection to the Island. This approach was generous on an international comparison basis. Many jurisdictions (such as the US, Australia and New Zealand) do not give an allowance to non-resident individuals. Many European jurisdictions only give an allowance to non-resident individuals where the individual has a significant economic connection to that jurisdiction. While the UK *prima facie* only give an allowance to non-resident British nationals.

In the 2016 Budget the Income Tax Law was changed to remove the availability of NRR. In removing the availability of NRR it was known that non-resident individuals in receipt of Jersey pension income (except the Jersey Old Age Social Security pension) or Jersey property income would be subject to the standard rate of income tax in Jersey (i.e. 20%) on all of that income. However based on the claims made for NRR through the tax returns submitted by non-residents in earlier years of assessment, it was also known that the vast majority of those claimants should not pay more tax, when looked at on a global basis, as a consequence of the removal of the availability of NRR.

This is because the effect of the removal of the availability of NRR (i.e. that the individual would pay more tax) could be negated in one of three ways:

(i) The individual is resident in a jurisdiction which has a double taxation agreement (DTA) with Jersey under which Jersey cedes taxing rights over the Jersey source income to the jurisdiction in which the individual is resident (i.e. the income is exempt from tax in Jersey under the DTA) – for example, pension income paid from Jersey to residents of France/the UK can only be taxed in France/the UK respectively; or

(ii) The individual is resident in a jurisdiction which has a DTA with Jersey under which the individual is entitled to double tax relief in the jurisdiction in which they are resident such that the amount of tax payable by the individual in the country of residence is reduced by the amount of tax payable in Jersey – for example Guernsey/the Isle of Man must give double tax relief in respect of Jersey tax paid on pension income paid from Jersey to residents of Guernsey/the Isle of Man respectively; or

(iii) The individual is resident in a jurisdiction which gives double tax relief unilaterally under its domestic tax law (i.e. in these jurisdictions there is no requirement for a DTA in order for the individual to obtain double tax relief) such that the amount of tax payable by the individual in the country of residence is reduced by the amount of tax payable in Jersey.

Based on analysis of the jurisdiction of residence of NRR claimants, it was determined that, for the vast majority of NRR claimants, the effect of the removal of the availability of NRR would be negated (i.e. they should pay no more tax when looked at on a global basis).

However the Minister has expressed concern regarding the impact of the removal of the availability of NRR in two areas: (i) those individuals with a low worldwide income; and (ii) situations in which Jersey source income is subject to genuine double taxation. The Minister therefore requested that targeted tax relief should be brought forward to address these specific concerns. The Minister's resulting proposals are outlined below:

The basic tax position under the Minister's proposals remains that non-residents in receipt of Jersey source pension and/or property income will be subject to tax at 20% on the full amount of income received. In many circumstances this tax will be deducted at source. However targeted reliefs will be introduced which non-resident individuals will be entitled to claim to reduce the amount of Jersey income tax that they pay on that income.

Low worldwide income relief

Where a non-resident can demonstrate that their *worldwide income* (both Jersey source and non-Jersey source) is less than the standard income tax exemption thresholds available to Jersey residents, the Jersey tax payable on the Jersey source income will be reduced to nil. The introduction of this relief will prevent the removal of the availability of NRR impacting on any non-resident with a low worldwide income.

> For example: an individual resident in the UK receives property rental income from Jersey of £5,000 and has other sources of income from the UK of £3,000. As the individual's worldwide income is less than the standard income tax exemption threshold in Jersey of £15,400 (as proposed for 2019); the Jersey tax on the Jersey property rental income will be reduced to nil, provided that the individual makes a claim for relief and provides any evidence required by the Comptroller.

Reduced rate relief

Where a non-resident's worldwide income exceeds the standard income tax exemption threshold, the Jersey tax rate paid on their Jersey source income may be reduced below 20% under this relief. Where this relief is claimed, tax will be refunded such that the Jersey tax rate payable on the Jersey source income will be the higher of:

(i) A graduated Jersey tax rate – calculated by reference to their worldwide income and the standard income tax exemption thresholds for the relevant year of assessment – the graphs below indicate the proposed graduated income tax for a single person and a married couple (both in receipt of earnings) utilising the proposed exemption thresholds for 2019 ; and

(ii) The individual's foreign effective tax rate[8] if the individual is resident in a jurisdiction that provides for double tax relief on their Jersey source income (irrespective of whether double tax relief has been claimed by the individual)[9]

[8] Calculated by reference to the amount of tax paid (before any claim for double tax relief) in the jurisdiction in which they are resident as a percentage of their worldwide income.

[9] If the individual is resident in a jurisdiction that does not provide for double tax relief on their Jersey source income, their tax rate will be determined solely by reference to the graduated Jersey tax rate.

Figure 6 – Graduated Jersey tax rate for single person – proposed exemption threshold of £15,400 for 2019

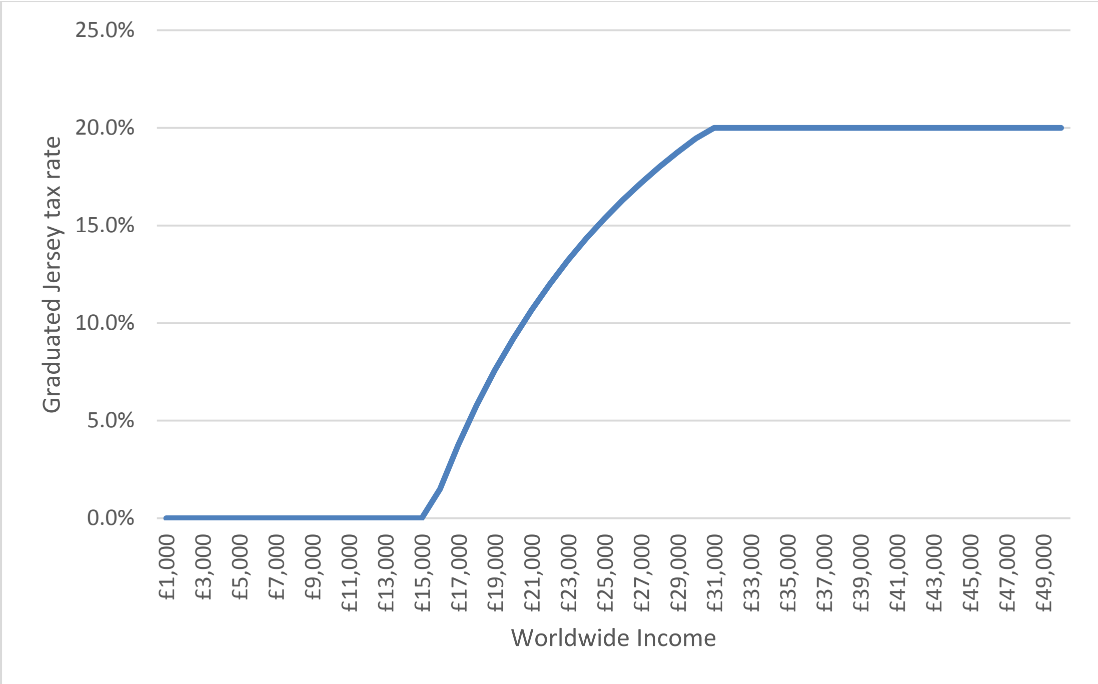
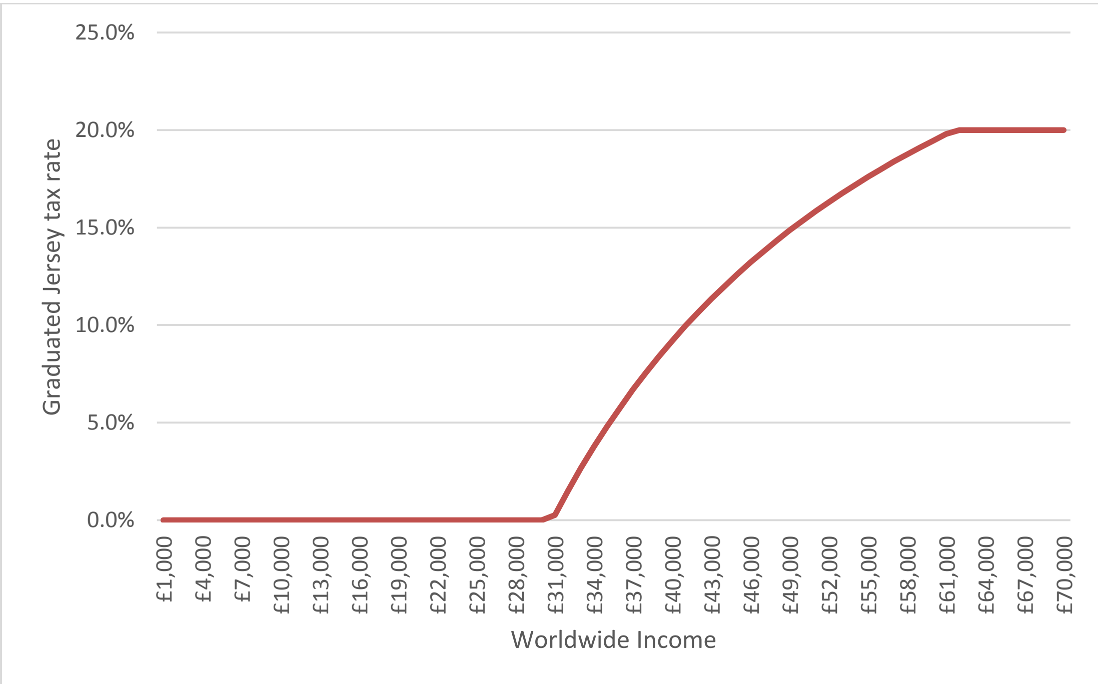


Figure 7 – Graduated Jersey tax rate for married couple (both in receipt of pension income) – proposed exemption threshold of £30,800 for 2019



Example 1: An individual is resident in France and receives £20,000 of rental income from Jersey and has other sources of income from France of £5,000; French tax law does not provide for double tax relief for any Jersey tax paid on the Jersey source rental income; before claiming any relief the individual would pay £4,000 of tax in Jersey on the rental income (£20,000 x 20%); however their graduated Jersey tax rate on their worldwide income of £25,000 is 15.4% and hence relief of £920 can be claimed to reduce the tax on the Jersey rental income to £3,080 (£20,000 x 15.4%).

Example 2: An individual resident in Spain is in receipt of £20,000 of pension income from Jersey and has other sources of income from Spain of £5,000; before claiming any relief the individual will pay £4,000 of Jersey tax on their pension income (£20,000 x 20%); their graduated Jersey tax rate on their worldwide income of £25,000 is 15.4%, assuming (for illustrative proposes) that their effective Spanish tax rate of their worldwide income is 17.5%, and hence relief of £500 can be claimed to reduce the Jersey tax on the Jersey pension income to £3,500 (£20,000 x 17.5%); however the individual should be able to claim double tax relief for all of this tax in Spain.

To claim these reliefs the non-resident will have to disclose to the Comptroller:

(i) The jurisdiction in which they are resident;
(ii) Their worldwide income for the relevant year;
(iii) Whether they have disclosed their Jersey source income to their local tax authority – if not, an explanation should be provided; and
(iv) The amount of tax paid (before any claim for double tax relief) on their worldwide income in the jurisdiction in which they are resident for the relevant year

The non-resident may be required to submit their overseas tax return and/or other documentation evidencing their worldwide income in support of their claim.

The financial implication of this proposal is estimated at £100k per annum. As a result of an amendment made to the Budget by the Minister for Treasury and Resources, the reliefs will take effect from the 2018 year of assessment and will first impact on States income in the financial year 2019 (and subsequent years). The Minister had originally proposed that the reliefs would take effect from the 2019 year of assessment.

Minor amendments to pension rules

A small number of minor amendments are proposed to the tax rules relating to pensions and pension schemes contained in Part 19 of the Income Tax Law to ensure that the rules operate as intended. These amendments are briefly outlined below.

Taxation of commutation of "trivial" pension scheme

In Budget 2018 additional flexibility was introduced into the pension rules to allow pension holders to access small pension funds. It is possible for a pension holder to access 30% of their pension fund as a tax free lump sum and, following last year's changes, if this results in the value of the remaining pension fund falling below £35,000, they can commute that remaining value and also treat 30% of this latter commutation as tax free – *prima facie* this allows a pension holder to access more than 30% of their pension fund value in a tax free manner, this was not the intention of the changes made in Budget 2018.

The Minister therefore proposes that, from the day that the 2019 Budget is lodged, changes will be made to the Income Tax Law to prevent pension holders from utilising the different commutation provisions to access more than 30% of the pension fund tax free.

Commutation – transfers between Jersey approved schemes

Under the current rules, where a pension fund has been part-commuted (meaning that the pension rights have been part exchanged for a cash lump sum) before being transferred between pension schemes, the whole of the amount transferred cannot be taken into account when determining the amount that can be commuted as a tax free lump under Art 131CF of the Income Tax Law.

After listening to feedback from the pension industry the Minister proposes to relax this restriction where the scheme from which the transfer occurs is an approved Jersey scheme and the scheme manager of the receiving scheme has received full details of any previous commutations from the scheme manager of the transferring scheme. For the avoidance of doubt, this approach will not be permitted where the transferring pension scheme is not an approved Jersey scheme.

Minor legislative amendments

There is an erroneous legislative reference within the rules applying to occupational pension schemes and it is considered that the wording of Art 131CF would benefit from the inclusion of the words "lump sum". The Minister proposes to make these minor legislative amendments.

High value residents (HVRs): Amendment to the calculation of the Minimum Annual Tax Charge

Following changes made in Budget 2018 newly arriving HVRs are expected to have taxable income of £725,000 per annum which in turn generates an annual tax liability of £145,000. Where a HVR fails to generate this level of taxable income, they are treated as receiving deemed income, topping-up their taxable income to £725,000 and ensuring a tax liability of £145,000.

Under the Income Tax Law as currently drafted, rental income from property located in Jersey is not taken into account when determining whether a HVR's taxable income has reached the £725,000 threshold.

Without a change in the tax rules a HVR could have taxable income (including Jersey rental income) in excess of £725,000 (paying Jersey tax in excess of £145,000) yet still be subject to a deemed income charge which would result in additional tax to pay. This is not the intention of the deemed income charge.

The Minister therefore proposes to change the tax rules so that Jersey rental income can be taken into account when determining whether a HVR has reached the £725,000 taxable income threshold.

For the avoidance of doubt, Jersey rental income is always subject to tax at the rate of 20% when received by a HVR (i.e. it does not benefit from the preferential rate applied to other forms of income above £725,000). No changes to this position are proposed in this Budget.

This proposal has no financial implications.

3. Taxation proposals – Stamp duties/land transaction tax (LTT)

In the Common Strategic Policy (CSP), the Council of Ministers has committed that:

> "We will reduce income inequality and improve the standard of living by improving the quality and affordability of housing, improving social inclusion and by removing barriers to and at work."[10]

The reason why the quality and affordability of housing has been identified as one of the government's five strategic priorities is that home ownership:

> "… is increasingly out of reach of local families with average incomes. The high cost of housing can make it difficult to attract health and education professionals to move to Jersey."[11]

A Policy Development Board is being established by the government to prepare a long term view for this complex policy issue. In the meantime, the Minister is proposing to support the CSP priority in Budget 2019 with a package of three key stamp duty/LTT measures.

First time buyers and stamp duty/LTT

Islanders broadly qualify as First Time Buyers (FTBs) for the purposes of stamp duty if they have 'entitled' residential status and have never owned a house or flat anywhere in the world (whether on their own or with someone else).

FTBs who meet these criteria qualify to pay reduced rates of stamp duty on houses they buy currently for a value of £450k or less.

Figure 8 - Current rates of Stamp Duty/LTT for FTBs[12]

Value of transaction range		Stamp duty/LTT rate
£1	£300,000	Nil
£300,001	£400,000	Nil on the first £300k 1% on the excess up to £400k
£400,001	£450,000	For transactions in this value range, the stamp duty/LTT rate is tapered up to the standard rate

[10] Proposed Common Strategic Policy 2018-22, Government of Jersey, Page 4

[11] Proposed Common Strategic Policy 2018-22, Government of Jersey, Page 15

[12] Source - Stamp Duty and Fees (Jersey) Law 1998 Items 13(b) and (m) Part 1 of the Schedule and Taxation (Land Transactions) (Jersey) Law 2009 Article 4 of the Schedule

The Minister proposes to provide additional support to FTBs by extending the bands for these nil, 1% and taper rates of stamp duty/LTT as follows:

Figure 9 - Proposed rates of Stamp Duty/LTT for FTBs

Value of transaction range		Stamp duty/LTT rate
£1	£350,000	Nil
£350,001	£450,000	Nil in respect of the first £350k 1% on the excess up to £450k
£450,001	£500,000	For transactions in this value range, the stamp duty/LTT rate is tapered up to the standard rate

Stamp duty/LTT on mortgages

In addition to the stamp duty/LTT payable on the purchase of a residential property, homebuyers who take out a mortgage to fund the purchase of that property are also liable to pay stamp duty/LTT on the mortgage instrument. At present, the standard rate of stamp duty/LTT payable on mortgages is 0.5%. However a lower rate of stamp duty/LTT applies where certain conditions are met:

1) The borrowing relates to a dwelling that the purchaser will occupy;
2) The borrowing and the contract relate to the same property;
3) The borrowing and the contract are passed on the same day; and
4) The gross value of the property against which the loan is secured is £450k or less.

If all these conditions are met[13] then the purchaser can avail of the following reduced rates of stamp duty/LTT on the mortgage taken out to fund the transaction.

Figure 10 - Rate of Stamp Duty/LTT on mortgages[14]

The mortgage amount		Stamp duty/LTT rate
£1	£350,000	Nil
£350,001	£450,000	Nil in respect of the first £350,000 and 0.25% on the excess up to £450,000

The Minister recognises that homebuyers who need mortgage finance to fund the purchase of their homes are paying additional stamp duty/LTT on those mortgages compared with individuals who have the resources to fund the house purchase from their own equity resources.

[13] The lower rates are not restricted to FTBs. They apply to any loan where all the conditions are met.

[14] Stamp Duty and Fees (Jersey) Law 1998 Item 1(aa) Part 1 of the Schedule and Taxation (Land Transactions) (Jersey) Law 2009 Article 3B of the Schedule

To remove this additional cost for all homebuyers who need mortgage finance would be prohibitively expensive. However, the Minister is proposing to equalise the position for those taking out a mortgage on a house valued up to £600k, by eliminating entirely the stamp duty/LTT charge on the mortgage that attaches to those properties. She also proposes reducing the stamp duty/LTT charge on mortgages of property valued between £600k and £700k, by means of a tapering relief.

Stamp duty/LTT on any mortgage that relates to a property valued above £700k will continue to be payable at the standard rate of 0.5%.

The standard stamp duty/LTT rate on residential property

For homebuyers who do not qualify as FTBs, the standard rates of stamp duty/LTT on residential property currently range from 0.5% (£1 to £50,000) up to a top rate of 9% for transactions above £6m.

In order to fund the targeted relief for FTBs and mortgagees outlined above, the Minister proposes increasing the standard rates of stamp duty/LTT on residential property valued over £500k by 0.5%.

Figure 11 - Proposed increase to the standard rate of stamp duty/LTT on residential property

Transaction value up to	Current rate	Proposed rate
£1 - £50k	0.5% up to £50k	0.5% up to £50k
£50,001 - £300k	1.5% on excess up to £300k	1.5% on excess up to £300k
£300,001 - £500k	2% on excess up to £500k	2% on excess up to £500k
£500,001 - £700k	**2.5%** on excess up to £700k	**3%** on excess up to £700k
£700,001 - £1m	**3%** on excess up to £1m	**3.5%** on excess up to £1m
£1,000,001 - £1.5m	**4%** on excess up to £1.5m	**4.5%** on excess up to £1.5m
£1,500,001 - £2m	**5%** on excess up to £2m	**5.5%** on excess up to £2m
£2,000,001 - £3m	**6%** on excess up to £3m	**6.5%** on excess up to £3m
£3,000,001 - £6m	**8%** on excess up to £6m	**8.5%** on excess up to £6m
£6,000,001+	**9%** on excess	**9.5%** on excess

It is proposed that the increases in stamp duty will take effect at midnight on 31 December 2018.

While acknowledging that stamp duties are transactional taxes and therefore difficult to forecast with accuracy, it is anticipated that these proposals will have a broadly neutral Exchequer impact.

Enveloped properties

Under current rules neither stamp duty nor land transaction tax[15] is due where ownership of Jersey commercial real estate is transferred by way of a share transfer. As a result there is a tax incentive to hold Jersey commercial real estate within a company (the real estate is said to be "enveloped" within the company), so that no stamp duty/land transaction tax is payable when the ownership effectively changes due to the transfer of the shares in the company.

The Treasury has previously agreed to look at whether there is a way of removing the tax incentive to envelop commercial property and has correspondingly sought external professional advice on the potential approaches available, together with an estimate of the amount of additional revenue potentially at stake.

The external advice has been received and there appear to be options available to the Treasury to address the existing tax incentive. The Treasury will issue a public consultation on this issue before the end of November 2018; seeking the views of interested parties on the impact of any changes, including the impact on the Island's commercial property sector.

[15] Land transaction tax only applies on share property transfer transactions on dwellings – not on transactions relating to commercial real estate.

4. Taxation Proposals – Business Taxation

Economic substance - concerns of the EU Code of Conduct Group

On 1 December 1997, the Council of the European Union adopted a resolution on a Code of Conduct for business taxation with the objective to curb harmful tax competition[1]. In 1998 the Code of Conduct Group (Business Taxation) (COCG) was set up to assess tax measures and regimes that may fall within the scope of the Code of Conduct for business taxation.

In 2017 the COCG investigated the tax policies of countries, in and out of, the European Union (EU) to reinforce global standards on tax matters. As part of the associated screening process jurisdictions were assessed against the following tax good governance criteria[2]:

- tax transparency,
- fair taxation, and
- implementation of anti–BEPS measures[3]

No concerns were raised by the COCG regarding Jersey's standards of tax transparency and implementation of anti-BEPS measures.

Jersey was regarded by the EU as fully compliant with the general principles of "fair taxation" as its business tax regime had been assessed against the Code of Conduct for business taxation and determined non-harmful in 2011.

As part of the screening process, jurisdictions with low or zero rates of corporate income tax were also assessed against "criterion 2.2" (under the "fair taxation" heading) which states:

> "The jurisdiction should not facilitate offshore structures or arrangements aimed at attracting profits which do not reflect real economic activity in the jurisdiction."

Following this screening process the COCG expressed concern that Jersey did not have a "legal substance requirement for entities doing business in or through the jurisdiction". The COCG recognised substance requirements in respect of regulated entities but were concerned the absence of a clear general statutory requirement "increases the risk that profits registered in a jurisdiction are not commensurate with economic activities and substantial economic presence".

[1] Further information on the Code of Conduct for business taxation can be found here: https://ec.europa.eu/taxation_customs/business/company-tax/harmful-tax-competition_en

[2] Full detail of the tax good governance criteria can be found here: http://data.consilium.europa.eu/doc/document/ST-14166-2016-INIT/en/pdf

[3] Anti-BEPS (Base Erosion Profit Shifting) measures are measures aimed at addressing tax planning strategies of multinational companies that rely on mismatches and gaps between the tax rules of different jurisdictions.

In response Jersey made a commitment to address these concerns by the end of December 2018. The Chief Minister made a statement to the States Assembly in December 2017 updating States Members and providing a copy of the letter sent to the Chair of the COCG containing the commitment made by the Government of Jersey[4].

Jersey was placed in "Annex II" of the list of jurisdictions produced by the Code Group for the EU Economic and Financial Affairs Council (ECOFIN) in December 2017[5]. Annex II lists jurisdictions that were identified as raising concerns to the Code of Conduct Group but had made commitments to address and resolve them. Within Annex II Jersey is listed under criterion 2.2, which states that the jurisdiction committed to address concerns relating to the economic substance of companies tax resident in Jersey.

Identical concerns were raised in respect of Guernsey and the Isle of Man, and so the Crown Dependencies have been working closely together to develop proposals which aim to meet the commitment.

In order to meet its commitment to address and resolve the identified concerns, the Government of Jersey has explored the potential impact of imposing statutory substance requirements in Jersey. In response to requests from the 2.2 jurisdictions for technical guidance on how to comply with criterion 2.2, on 22 June 2018 the COCG published a Scoping Paper on criterion 2.2[6] ("the Scoping Paper").

The Government of Jersey has also engaged closely with the OECD through the Global Forum on Transparency and Exchange of Information for Tax Purposes, the Inclusive Framework on BEPS and a specific voluntary group established to progress discussions on the issue of economic substance. This is particularly relevant as the Scoping Paper broadly asserts "that those expected substance requirements should mirror those used in the [OECD's] Forum on Harmful Tax Practices (FHTP) in the context of preferential regimes".

The FHTP guidance on substance requirements in the context of preferential regimes can be found in the "Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance, Action 5 - 2015 Final Report"[7] and the "Harmful Tax Practices - 2017 Progress Report on Preferential Regimes".[8]

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[4] See: https://statesassembly.gov.je/assemblystatements/2017/2017.12.11%20chief%20minister%20-%20eu%20‘blacklist’%20of%20non-cooperative%20jurisdictions%20for%20tax%20purposes%20consolidated.pdf

[5] See: http://data.consilium.europa.eu/doc/document/ST-15429-2017-INIT/en/pdf. A consolidated and up-to-date version of the report is available at: http://www.consilium.europa.eu/media/35567/st_6236_2018_rev_3_en_pdf

[6] See Annex 4 (pages 45-54) of this document: http://data.consilium.europa.eu/doc/document/ST-9637-2018-INIT/en/pdf

[7] See: http://www.oecd.org/tax/countering-harmful-tax-practices-more-effectively-taking-into-account-transparency-and-substance-action-5-2015-final-report-9789264241190-en.htm

[8] See: http://www.oecd.org/tax/beps/harmful-tax-practices-2017-progress-report-on-preferential-regimes-9789264283954-en.htm

As outlined above the Government of Jersey has been working closely with the governments of the Isle of Man and Guernsey to collectively develop proposals to address the concerns raised by the COCG. This work has included dialogue with the European Commission (Taxation and Customs Union - TAX UD) and the COCG both in plenary sessions (with other jurisdictions) and bilateral meetings. Discussions have also taken place with individual EU Member States (this work being co-ordinated by the Channel Islands Brussels Office) and with the OECD Global Forum and the FHTP.

Outline proposals were developed in partnership with the Crown Dependencies to address the concerns of the COCG, consisting of three distinct stages:

- Stage one: identify companies carrying on relevant activities
- Stage two: impose substance requirements on companies undertaking relevant activities
- Stage three: enforce the substance requirements

In August a consultation document was issued entitled “Consultation on the introduction of substance requirements for companies tax resident in Jersey”[9], which summarised Jersey’s outline proposal regarding the introduction of substance requirements and sought feedback from interested parties.

There were 35 responses, 25 from corporate groups, 4 from individuals, and 6 from Industry Groupings. The consultation suggests that industry perceives that good corporate governance in Jersey, and high professional standards means that most companies will be able to demonstrate they meet the substance requirements.

The consultation produced few real concerns but several suggestions were made for improvements and areas to develop which the Taxes Office will consider. However the major theme throughout was the need for the provision of guidance both in a timely fashion, but also which was clear and unambiguous.

Following the conclusion of the consultation, draft legislation has been prepared (the Taxation (Companies – Economic Substance) (Jersey) Law 201-) and provided to the COCG, in order for the content of that draft legislation to be considered at the meeting of the COCG on 21 September 2018. The Government of Jersey is reflecting on the feedback received from that meeting and considering whether any changes need to be made to the draft legislation.

The Minister proposes to lodge the final version of the Taxation (Companies – Economic Substance) (Jersey) Law 201-, alongside the other legislative changes relating to the 2019 Budget, on Monday 22 October 2018 for debate in the States sitting that commences on Tuesday 4 December 2018. In advance of the debate on the legislation the Taxes Office will also release elements of the guidance notes to aid understanding and start to explain how this will operate in practice; comments will be invited on these draft guidance notes.

[9] See: https://www.gov.je/Government/Consultations/Documents/Consultation%20on%20the%20introduction%20of%20substance%20requirements%20for%20companies%20tax%20resident%20in%20Jersey.pdf

The initial costs of this program have been absorbed by utilising the resources of the Tax Policy Unit. The further additional costs for this program in 2019 will be concentrated on the changes required to systems, in particular the Revenue Management System. Initial estimates of these costs are £50,000.

For future years there will be ongoing monitoring, and enforcement of the legislation which will require the funding of a dedicated team within the offices of Revenue Jersey, in addition the legislation will lead to increased spontaneous exchanges of information which will require additional staff for the International team of Revenue Jersey.

Regulations making powers for the taxation of new types of legal bodies

In May 2018 the Chief Minister lodged a proposition P.85/2018 "Draft Limited Liability Companies (Jersey) Law 2016", which establishes a Limited Liability Company (LLC). This proposition was debated and adopted by the States Assembly on 11 September 2018.

This new legal body, joins a number of bodies created over recent years including Limited Liability Partnerships and Incorporated Limited Partnerships. Each of these new bodies has required specific legislative tax provisions, and once incorporated into Jersey Law there will also be a need to provide specific tax provisions for LLCs.

To maintain Jersey's position as a dynamic financial centre there will be an ongoing demand for regular innovations, including the possibility of further new bodies in the future. To ensure there is full flexibility, in both timeously bringing in the required provisions for LLCs, and anticipating future developments, Budget 2019 includes a power in the Income Tax Law to make regulations in respect of the taxation of new type of legal bodies, which did not exist previously.

Tax provisions made under these regulations will still receive scrutiny from the States Assembly, but the process will become more efficient and flexible, in line with best international practice.

In light of the number of legal bodies now available under Jersey Law, the exemption applicable to non-residents in respect of interest has been extended to interest paid by wider range of bodies.

International employer saving schemes

Many jurisdictions across the world, such as the UAE, require employers to make payments to employees when their employment ceases – helping these employees in the transition between jobs or the transition into retirement. Many employers fund these payments out of their current assets/cash flow. Increasingly however employers are considering establishing saving schemes, which are designed to ensure that they make suitable financial provision for funding such payments; furthermore it is understood that a number of jurisdictions are considering obliging employers to establish adequately funded saving schemes in order to reduce the risk for employees of non-payment.

Jersey is an ideal location in which to establish such saving schemes – with its long track record of providing secure, well-regulated fiduciary services to businesses across the world. To help Jersey meet the needs of employers who are obliged to make payments to employees when their employment ceases, the Minister proposes to make amendments to the Income Tax Law to ensure that the investment income arising to such savings schemes is tax free and the payments made by such savings schemes are ordinarily outside the scope of Jersey tax.

GST on care costs

The Goods and Services Tax (Jersey) Law 2007 currently makes provision for exemption from charging GST on specified medical and paramedical supplies. These are set out in Group 4 of Schedule 5 of the 2007 Law and generally relate to the supply of goods and services supplied by registered care professionals in the course of their occupational practice and similarly for goods and services provided by a registered person to patients and residents in a nursing or residential care home.

Specifically exempted under Group 4 is the supply of any service or goods:

- by a doctor, in the course of his/her practice as a doctor
- by a dentist, in the course of his/her practice as a dentist
- by an optician (Opticians (Registration) (Jersey) Law 1962)
- by a person registered under the Health Care (Registration) (Jersey) Law 1995 made in the course of his or her registrable occupation
- to patients or residents in a care home registered under the Nursing and Residential Homes (Jersey) Law 1994 (“the 1994 Law”)

The GST Law however makes no provision for exempting goods or services provided by private domiciliary care agencies, as these agencies do not currently fall under any regulatory framework. This results in a different GST treatment when individuals receive personal care in their own home as opposed to a residential home.

The Regulation of Care (Jersey) Law 2014 (“the 2014 Law”) provides a framework for the regulation of all health and social care in Jersey. The first phase of implementing the 2014 Law will focus on aligning the regulation of care homes, care at home (domiciliary care) and adult day care services. The Regulations required to achieve this alignment are scheduled to come into force from 1 January 2019. As a consequence of these Regulations coming into force, the equivalent existing provisions for care homes in the 1994 Law will no longer apply.

With the alignment of the regulation of care homes, care at home (domiciliary care) and adult day care services, the Minister proposes that the GST treatment applicable on the supply of goods or services in these contexts should also be aligned (i.e. the supply of goods or services by regulated persons in these contexts should be exempt from GST) from 1 January 2019.

As a consequence of this proposal a number of entities which are currently charging GST on the supplies that they make will no longer charge GST, it is estimated that this will reduce GST revenues by approximately £203k per annum from 2019 onwards.

Minor administrative measures

As part of the Island's annual Budget process the Minister for Treasury and Resources makes minor amendments to various taxation legislation in order to: 1) provide clarity of the application of the rules; or 2) ensure that the rules are operating as intended.

Transitional arrangements relief from taxation for Large Corporate Retailers (LCR) and certain financial services companies

In the 2018 Budget the States Assembly; 1) introduced a tax on LCR; and 2) broadened the definition of financial services companies so that more companies are subject to the 10% rate.

Companies impacted by these changes became subject to the tax for the year of assessment 2018.

The ordinary basis for calculating the profits chargeable to tax is the accounting period ending in the year of assessment (i.e. the profits for the accounting period ending 30 June 2018 are taxable for the year of assessment 2018). Accordingly companies which have an accounting date other than 31 December 2018 could be taxed on the profits which arose prior to 1 January 2018.

Under the "transitional arrangements" introduced in the 2018 Budget companies are entitled to claim relief in respect of the tax due on profits which arose prior to 1 January 2018 provided certain conditions are met.

One of those conditions is that the company must have an accounting date of 31 December 2018.

The Comptroller of Taxes is aware that for some companies to benefit from the transitional arrangements they have to change their accounting date to 31 December 2018, this is a particularly burdensome and costly undertaking for those companies which are part of a larger group. And accordingly such companies cannot easily benefit from the transitional arrangements.

Accordingly it is proposed to amend the transitional arrangement so that a company may elect to calculate its tax liability for the 2018 year of assessment as if it had a 31 December 2018 accounting date. For the avoidance of doubt 31 December will *prima facie* be regarded as its accounting date for subsequent years of assessment and any change in that accounting date will be dealt with under Article 64B of the Income Tax Law.

Large Corporate Retailer (LCR) rules

There are a small number of amendments required to the rules relating to the taxation of LCR in order to ensure that they are clear and operating as intended.
The amendments include:

- Clarification that when calculating the amount of profit for the purposes of determining the rate of tax to be applied to a LCR, there is no deduction made in respect of unilateral relief.
- Clarification of the rules relating to the payment of dividends by a LCR and also the rules relating to the amount of credit a LCR may claim when receiving a dividend.

It is proposed that the changes to the rules relating to the payment of dividends will take effect in respect of the payment of dividends from the date the budget is lodged.

International Services Entity (ISE)

In the 2018 Budget the scope of entities that were able to register as an ISE was broadened. Having had the rules in operation for one ISE return cycle a small number of minor amendments have been identified which will clarify the rules and ensure they are operating as intended.

5. Taxation proposals – Impôts duties

Background

Each year, in advance of the Budget, the proposals for impôts duties are reviewed against the prevailing economic conditions, the Island's financial position and the States health and environmental policies.

To inform her decision the Minister has considered the following:

- The most recent rate of inflation
- The States existing tobacco and alcohol strategies, as well as the States' environmental and transport objectives
- Consultation with the Council of Ministers
- Representations from industry and stakeholders

It is proposed that the increases in impôts duty will take effect at midnight on 31 December 2018.

Alcohol

The Minister is proposing increases in alcohol impôts duty of 3.5% in line with the most recently published increase in average earnings at June 2018. This reflects the fact that increases in average earnings during 2018 have not kept pace with RPI (recorded at 4.5% to June 2018). Figure 6 outlines the proposed increases to alcohol impôts duty rates for the specified products:

Figure 12 – Proposed increases in alcohol impôts duty

Commodity	Impôts duty 2019 proposed increase (%)	Impôts duty 2019 proposed increase (p)
Spirits – litre bottle at 40% abv	3.5%	50.4p
Wine – 75cl bottle of table wine	3.5%	5.3p
Pint of beer/cider exceeding 2.8% abv but not exceeding 4.9% abv (standard)	3.5%	1.3p
Pint of beer/cider exceeding 4.9% abv (strong)	3.5%	2.2p

As a result of these proposals, it is estimated that the impôts duty collected on all alcohol will total close to £22m in 2019. The IFG forecast is based on the assumption that all alcohol impôts duties will increase in line with inflation in 2019, in accordance with minimum expected increases under recent policy. Therefore this lower increase in alcohol impôts will result in an estimated States Treasury and Exchequer cost of approximately £0.2m in 2019 against forecast.

Tobacco

Being cognisant of the significant harm to health posed by tobacco and the associated costs to the Health and Social Services Department, it is proposed that the policy of increasing impôts duty on tobacco at a level above the cost of living is continued. As a result the Minister is proposing to increase the rate of duty on tobacco products by 9.5% (equal to the increase in the RPI to June 2018 plus 5%). This amounts to 59p increase in the impôts duty on a packet of 20 cigarettes.

In the previous Budget the then Minister established a policy of closing the significant differential between the impôts duty on hand rolling tobacco and cigarettes based upon Health policies. In order to continue the policy of closing the gap it is proposed to increase the duty on hand rolling tobacco by 11.5% (equal to the increase in the RPI to June 2018 plus 7%). It is intended to equalise the impôts duty over the next few years.

As a result of these proposals, it is estimated that the impôts duty collected on all tobacco will total close to £16m in 2019. This will raise an additional £765k over and above the IFG forecast update resulting in additional States income in 2019 onwards.

Road fuel

The Minister considers all issues regarding the duty for road fuel, including the current worldwide price of hydrocarbon oil and the retail price of fuel at garages in the island.

Having taken this into account it is proposed to increase the duty on road fuel in line with the increase in the RPI to June 2018, this will result in an approximate 2p increase in the impôts duty on a litre of unleaded petrol/diesel.

As a result of these proposals, it is estimated that the impôts duty collected on all road fuel will total over £23m in 2019. This will raise an additional £0.9m over and above forecast figures.

Detailed impôts duty increases for 2019

Figure 13 – Impôts duty increases proposed for 2019

Commodity	2018 impôts duty	Proposed increase	Proposed 2019 impôts duty
Litre bottle of whisky at 40% abv	£14.39	3.5%	£14.89
Bottle of table wine	£1.53	3.5%	£1.58
Pint of beer/cider exceeding 2.8% abv but not exceeding 4.9% abv (standard)	37p	3.5%	38p
Pint of beer/cider exceeding 4.9% abv (strong)	63p	3.5%	65p
20 king size cigarettes	£6.18	9.5%	£6.77
Litre of unleaded petrol/diesel	48p	4.1%	50p

Figure 14 – 2018 retail price margins – comparisons with the UK (June 2018)

	Jersey Retail Price	Jersey Duty	GST	Jersey duty + GST	Jersey pre-tax price	Duty and GST as a % of Jersey price	UK Retail Price	UK Duty	UK VAT	UK duty + VAT	UK pre-tax price	Duty and VAT as a % of UK price
70cl of whisky	£21.26	£10.07	£1.01	£11.08	£10.18	52%	£15.10	£8.05	£2.52	£10.57	£4.54	70%
Pint of standard beer	£3.72	£0.37	£0.18	£0.55	£3.17	15%	£3.06	£0.49	£0.51	£1.00	£2.06	33%
20 king size cigarettes	£8.87	£6.18	£0.42	£6.60	£2.27	74%	£10.25	£5.78	£1.71	£7.49	£2.76	73%
Litre of unleaded petrol	£1.23	£0.49	£0.06	£0.55	£0.68	45%	£1.34	£0.58	£0.22	£0.80	£0.54	60%

Figure 15 – Comparison of typical 2018 tax and duty levels for a range of commodities (June 2018)

	Jersey Duty	Jersey GST at 5%	Jersey Duty + GST	Guernsey Duty	UK Duty	UK VAT at 20%	UK duty + VAT
70cl of whisky at 40% abv	£10.07	£1.01	£11.08	£9.98	£8.05	£2.52	£10.57
Pint of beer/lager at 4.5% abv	£0.37	£0.18	£0.55	£0.45	£0.49	£0.51	£1.00
20 king size cigarettes	£6.18	£0.42	£6.60	£4.76	£5.78	£1.71	£7.49
Litre of unleaded petrol	£0.49	£0.06	£0.55	£0.67	£0.58	£0.22	£0.80

Note: The figures above are before the impact of the 2019 Budget proposals. The prices shown are based on a narrow range of sources but are for equivalent products. There will be considerable price variations in each jurisdiction. Fuel prices are also subject to rapid change.

Customs duties

It is calculated that the customs duty collected on goods imported from outside the EU will total £145k in 2019 – goods imported from the EU are not currently subject to customs duties due to the relationship between Jersey and the EU under Protocol 3. The effect of Protocol 3 will cease following Brexit – where upon goods imported into Jersey from the EU will be regarded as imports from "3rd countries". Jersey's future trading arrangements relating to goods remains the subject of on-going negotiations with the UK; the conclusion of these negotiations and the progress of Brexit negotiations between the UK and the EU may impact on the amount of customs duties collected by Jersey in 2019 and/or later years.

6. Taxation proposals – Summary of financial implications

Estimated financial implications of 2019 Budget proposals

Figure 16 – Estimated financial implications of 2019 Budget proposals compared to September 2018 IFG forecast

Measure		(Cost)/Saving versus forecast 2019	(Cost)/Saving versus forecast 2020
	£'000	**£'000**	**£'000**
Personal tax threshold increases		Nil	Nil
Higher Child Allowance		Nil	Nil
Non-resident's relief (Note 1)		**(100)**	**(100)**
Stamp duty changes			
Abolish stamp duty on mortgages for properties below £600,000 and have tapered relief for mortgages on properties valued between £600,000 and £700,000	**(989)**		
Extend the First Time Buyer threshold to £500,000	**(268)**		
Raise all standard rates by 0.5% on residential property valued above £500,000	1,296	39	39
GST – extend exemption to regulated domiciliary care providers		**(203)**	**(203)**
Impôts			
Alcohol		**(214)**	**(217)**
Tobacco		765	750
Road fuel		916	907
Total		**1,203**	**1,176**

Note 1: As a result of Budget Amendment No. 4 (Minister for Treasury and Resources), non-residents relief changes will first impact on States' income in the financial year 2019.

Manpower implications

Administration of the Economic Substance regime for companies – an estimated sum of £50,000 is required from 2019, for systems upgrades. Further resources in terms of staff costs will also be needed from 2020 onwards; this figure has yet to be determined.

The remaining proposals within the Budget Statement will be implemented without an increase to current approved staffing levels.

7. Taxation proposals – Tax administration

Building Revenue Jersey and the Revenue Administration Law

The new States Target Operating Model confirmed Ministers' intention to create Revenue Jersey, a new revenue administration within the States Treasury and Exchequer department, bringing together the administration of the States revenue streams.

Revenue Jersey will initially bring together work and officers from the Taxes Office, Social Security Contributions teams and Customs Revenue teams.

This section reports progress in Building Revenue Jersey, building upon the existing Taxes and Social Security Contributions Programme; and the Taxes Office Modernisation Programme.

New Revenue Management Systems

We announced in 2018 that the States had signed a contract to acquire new computer systems to administer Jersey's tax system which also had the capability to administer more of Jersey's revenue streams. The new systems are expected to go live in Revenue Jersey in early 2019 and will be used to process tax returns for the 2018 year of assessment.

The new systems will provide Revenue Jersey with much greater "functionality" to administer revenue streams more efficiently and more effectively, in the case of taxes replacing the current ITAX system which has served Jersey for over 35 years.

Online filing for personal taxpayers

Companies and other businesses can already file various tax returns online.

We expect to offer islanders the facility to file personal tax returns online in 2020 (in respect of the 2019 year of assessment). Later in 2020, we plan to incorporate the collection of social-security contributions into the personal-tax system, in the same way that Long-Term-Care Contributions are collected now.

2018 is therefore the last year of assessment when all islanders will be expected to file a paper tax return. From 2020 all islanders and non-resident taxpayers will have the ability to file online. Tax assessments and effective rates for ITIS will thereafter be issued automatically, significantly reducing the waiting times which taxpayers have historically encountered.

Revenue Jersey will be raising awareness levels of these changes among taxpayers during autumn 2018 and through 2019.

Because new computer systems are being installed early in the New Year, the paper tax return for the 2018 year of assessment will be issued later in January 2019 than usual and its format will be different.

New Revenue Administration Law

Budget 2018 announced work on a new Revenue Administration Law which brings together many of the administrative provisions currently distributed among various tax laws. The new law enables the creation of Revenue Jersey; establishes the office of Comptroller of Revenue (in place of the existing office of Comptroller of Taxes); and introduces important modernisations to the administration of Jersey's tax system, much of which has not been updated since 1961.

Existing tax law relies heavily on criminal approaches for wrongdoing and persistent non-compliance (for example, even with filing obligations); and assumes significant manual intervention by tax officers to make it work properly. The number of taxpayers has, of course, increased significantly over the intervening 6 decades making the existing law difficult to administer. Most tax administrations now routinely rely on non-criminal (civil) approaches; and greater automation of processes to reduce the need for tax officers to intervene manually.

This new Revenue Administration Law will enable Jersey to optimise the value it can get from its new Revenue Management System.

This first tranche of the new draft law – which is presented to the States Assembly as part of Budget 2019 – deals with administrative matters relating to all taxes and increasingly it may apply to other revenue streams administered by Revenue Jersey. It will be built upon over coming Budgets, subject to the States Assembly's agreement.

In due course Ministers will also propose new law to deal with the technical aspects of taxation, replacing the 1961 law establishing the framework of income tax with something more modern.

The first tranche of new law makes the following changes:

- Prepares the way for online filing and tax assessment (in 2020) by changing record-keeping requirements. For the first time, individual taxpayers will be obliged to keep records to support their tax returns instead of today's practice where certain records have to be sent to the Taxes Office every year.

- Enables the Comptroller in future to charge interest on tax debts; and to pay interest on any payments that he makes late. This removes the current incentive not to pay taxes on time and provides "commercial restitution" to the people of Jersey for taxes paid late by keeping the real value of the tax debt.

- Also enables the Comptroller to levy penalty interest where someone does not pay their tax bill within 3 months of the due date, further incentivising prompt payment. The rate of penalty interest will be set by Ministerial Order before 1 January 2020.

- Changes the legal title of the Comptroller of Taxes to Comptroller of Revenue, to assist creating Revenue Jersey and to reflect the wider remit of Revenue Jersey.

- Enables the Comptroller to entrust functions to third parties where he judges that appropriate. This will enable him better to implement the new States Target Operating Model.

- Introduces new civil penalties to deal with under-declaration of tax, geared according to the behaviour exhibited[16]. This was formally consulted upon in 2017 and the responses to – and outcome of - that consultation were published in 2018. Deliberate acts of tax evasion will be subject to the highest penalties (up to 100% of the tax evaded). Careless acts will result in penalties of 10% to 30% of the tax due. Innocent error will not be penalised at all.

- Modernises some of the arrangements for supporting the Commissioners of Appeal who can review the Comptroller's decisions.

- Retains and modernises the various Oaths of Office guaranteeing taxpayer confidentiality and impartiality in the tax system.

- Creates legal gateways to allow greater sharing of taxpayer information where it is necessary and proportionate to do so – both to improve customer service and to tackle fraud.

- Also creates new penalties which apply equally to people who come into possession of tax information but who cannot – or should not – take the Oaths of Office.

- Gives tax officer's flexibility to set off a credit balance in one revenue stream against a debit in another.

[16] Criminal prosecution powers will be retained to address the most egregious cases of tax evasion.

Additional administrative changes included in Budget 2019

In addition to the changes proposed within the new Revenue Administration Law the Minister proposes a series of other administrative changes, primarily to the Income Tax Law, which have been summarised below. The majority of these changes are being made to in order to facilitate the introduction of the new Revenue Management System (see above), facilitate the move to online filing of personal income tax returns from 2020 and create a better tax compliance framework within the Island.

Filing dates – 2020 change

The deadline for personal income tax returns will be set at 31 May in the year following the year of assessment where a paper return is filed, and 31 July where an online return is filed – incentivising the uptake of online filing.

Late filing penalties – 2020 change

The penalty for the late filing of an annual tax return will be increased from £250 to £300 (the quantum of this penalty was last increased in 2010). The penalty for the late filing of GST and ITIS returns will be set at £100.

Additional penalties for long overdue tax returns – 2020 change

Under the current penalty regime once a taxpayer has incurred the standard penalty for late filing, there are no further financial incentives for the taxpayer to bring their tax affairs up to date; this is being addressed with the introduction of additional penalties which are charged when a tax return is filed very late as follows:

- The first additional penalty will be charged when a return is 3 months late;
- Additional penalties will then be charged for each further month that the return is late – up to and including the 12th month that the return is late;
- Ordinarily the additional penalty is £100 every time it is charged, except in the context of long overdue personal income tax returns where the penalty is £50 every time it is charged;
- Additional penalties can be abated with the exception of the late filing of corporate income tax returns;
- Once a return is more than 12 months late the Comptroller will consider using the currently available criminal sanctions in order to ensure the submission of tax returns

Tax payments by companies – 2020 change

The tax payments required by companies will be changed such that they need to make two instalment payments in the year following the year of assessment. Except for “large corporates” (see below), the first instalment payment – representing 50% of the expected liability - will be made by the end of May in the year following the year of assessment, and the second instalment payment – representing the remaining 50% of the tax liability – will be made by the end of November in the year following the year of assessment.

Tax payments by "large corporates"[17] – 2020 change

"Large corporates" will make their instalment payments slightly earlier. The first instalment payment will be made by the end of March in the year following the year of assessment, and the second instalment payment will be made by the end of September in the year following the year of assessment.

Late payment surcharge date – 2020 change

The late payment surcharge date will be moved from "the first Friday following the first Monday in December" in the year following the year of assessment to 30 November in the year following for the year of assessment. For "large corporates" the late payment surcharge date, consistent with the second tax instalment payment, will be 30 September in the year following the year of assessment.

Tax due date's personal income tax – 2020 change

Consistent with the above bullet, the 30 November in the year following the year of assessment will become the "due date" for the payment of income tax, while the due date for the instalment payment will be moved back from last Friday in April in the year following the year of assessment to 31 May in the year following the year of assessment.

Interaction between surcharge and the payment of tax under ITIS – 2020 change

The Income Tax Law will be changed to make it clearer that a person who pays less than 70% of their tax by way of ITIS deductions may be subject to a late payment surcharge.

Provisional ITIS effective rate calculation – 2019 change

The calculation of provisional ITIS effective rates currently contained in the Income Tax Law is too prescriptive and can result in the Taxes Office being legally obliged to issue sub-optimal ITIS effective rates to employees. Additional flexibility is being introduced into the calculation to allow the Taxes Office to issue better ITIS effective rates. There are already provisions in Article 41C Income Tax (Jersey) Law 1961 that give the Comptroller more flexibility to calculate the rate by reference to the circumstances of the person. The change will extend this flexibility to the provisional rate.

Annual ITIS filing for some directors – 2019 change

The ITIS regime will be changed such that directors who are also significant shareholders can opt for annual ITIS filing in order to reduce the administration burden on their companies.

[17] A large corporate is a company whose liability to tax is or exceeds £500,000 for each of the two years preceding the year of assessment.

Tax Disclosure Opportunity 2017

In preparation for these important changes, Budget 2017 announced a Tax Disclosure Opportunity ("tax amnesty") which ran from April to December 2017. This gave taxpayers the opportunity to get their tax affairs in order before the Comptroller would begin to exercise the new powers proposed in the Revenue Administration Law.

The Disclosure Opportunity has raised over £1.6m in additional tax revenues from around 200 taxpayers.

Brexit – consequential Income Tax Law changes

As part of "Brexit Legislation Programme" the Taxes Office were requested to review the Income Tax Law in order to identify any changes that might be required as a consequence of the UK's decision to leave the European Union. During the course of this review two required changes to the Income Tax Law were identified. The Minister proposes that amendments are made so that the Income Tax Law continues to operate as intended post-Brexit.

8. Ongoing taxation work – update on Budget 2018 Reviews

Duty free tobacco allowances

During the course of the 2018 Budget debate the Minister for Treasury and Resources agreed to complete a review of the impact of reducing the duty free allowance from 200 cigarettes to 40 cigarettes (with a corresponding reduction in the duty free allowance for other types of tobacco products).

This approach is also consistent with the Jersey Tobacco Strategy (lodged in November 2016[18]) in which there is a commitment to explore the costs and benefits of reducing the amount of duty free allowance both outbound and inbound at Jersey's borders and, in partnership with the States of Guernsey, to investigate options for restricting the tobacco duty allowance between the Channel Islands, with the aim of contributing to both fiscal and public health goals.

A cross-government working group with representation from the States Treasury and Resources, Jersey Customs and Immigration Service, Statistics Jersey and Economic Policy was brought together in January 2018 under the leadership of Strategic Public Health. Its aim was to look at the issues associated with reducing the duty free tobacco allowance and provide some estimate of the benefits and impacts on States revenue (fiscal impact), the Island's economy and on the health of the local population (public health impact).

The working group focussed its initial work on two aspects: (i) estimating the amount of duty free tobacco being brought into Jersey; and (ii) establishing the legality of reducing the duty free tobacco allowance below 200 cigarettes.

Estimation of duty free being brought into Jersey

No reliable data is currently available regarding the amount of duty free tobacco being brought into Jersey. The working group therefore considered different approaches to estimating that amount. Conducting inbound airside surveys was considered, but the working group determined that these would be biased and unrepresentative samples which would not provide robust or accurate data to support a decision.

The working group determined that it is possible to estimate the total amount of duty free tobacco brought into through asking a series of questions in the 2018 Jersey Opinion and Lifestyles Survey. The information received could be compared against tobacco consumption data from other OECD countries, and data regarding the importation of "duty paid" tobacco in Jersey from the Jersey Customs and Immigration Service. The information from the Jersey Opinion and Lifestyles Survey will become available to the working group in November 2018.

[18] See: https://statesassembly.gov.je/assemblyreports/2016/r.129-2016.pdf

Legality of changing duty free allowances

The legality of changing Jersey's duty free allowances has been considered in the context of the Island's international obligations. Having reviewed those international obligations the working group understands that there are no current international obligations which would prevent the Island from choosing to reduce its duty free tobacco allowance below 200 cigarettes.

However there are recommended minimum duty free allowances for travellers (set at 200 cigarettes) within Specific Annexes to the Revised Kyoto Convention. Although these recommended minimums are not binding on Jersey, the working group understands that the World Customs Organization considers it reasonable to expect customs administrations (such as the Jersey Customs and Immigration Service) to commit to implementing all of the 600 Standards, Recommendations and Practices contained in the Revised Kyoto Convention.

The working group is also aware of the ongoing negotiations between Jersey and the UK regarding a future customs arrangement post-Brexit and recognises that any potential changes to duty free allowances need to be sensitive to those negotiations.

Next steps:

- The working group will receive the data collated through the 2018 Jersey Opinion and Lifestyles Survey and seek to produce a best estimate of the amount of duty free tobacco brought into the Island; and
- The working group will continue to liaise with the team negotiating the future customs arrangement with the UK to understand the impact that those negotiations may have on duty free allowances in Jersey.

Corporate taxation of profits of Class 1 Bookmakers and "Large Liquor Vendors"

During the course of the 2018 Budget debate the Minister for Treasury and Resources agreed to review the case for extending positive rates of corporate income tax to two additional categories of business: (1) companies holding Class 1 bookmakers licenses; and (2) "large liquor vendors" (broadly companies which turnover more than £2m from the sale of alcohol in the Island and generate more than £500,000 of profits from that activity).

The Treasury has undertaken reviews during 2018 which have involved: (a) establishing the potential additional corporate tax revenue at stake; (b) determining the change in the balance of profits between companies subject to tax at 0% and companies subject to tax at a positive rate of corporate income tax; (c) consultation with relevant stakeholders; (d) estimating the additional administrative costs arising from the potential tax changes; and (e) seeking economic impact and distributional analysis from the Economics Unit.

Having considered all the information collected the advice from Treasury Officials is that the amount of additional tax revenues (estimated at approximately £500k from both measures combined) does not justify the additional administration costs that are likely to be incurred – the additional administration costs being particularly material in the context of the "large liquor vendors" proposal, where companies within scope of the measure would have to allocate their central costs across their different business activities in order to identify the profits arising for the sale of alcohol. This type of "income streaming" is not a feature of the Jersey tax system and other jurisdictions which do apply this type of approach have indicated the high administrative costs associated with ensuring compliance.

Consistent with the recommendations made, the Minister is not proposing any changes to the taxation of the profits of Class 1 Bookmakers or "Large Liquor Vendors" in the 2019 Budget.

Although not strictly in scope of the review of the taxation of the profits of Class 1 Bookmakers, a recommendation arising from the review is that the taxation of online gambling in Jersey should be included within the scope of the review of the taxation of digital services consumed within the Island, which is due to be completed by Budget 2020.

UK VAT on imports

As a result of an amendment agreed to the 2018 Budget, the Minister for Treasury and Resources was required to undertake a programme of engagement and awareness-raising with UK businesses who levy UK VAT on goods delivered to Jersey. This programme would encourage them to apply the correct VAT treatment and explore with those businesses the opportunities to collect any GST due from consumers based in Jersey and remit that GST directly to the Taxes Office in order to expedite the delivery of goods.

The Minister was required to report on the progress of this work by 10 April 2018; this progress report was presented to the States and can be found here: https://statesassembly.gov.je/assemblyreports/2018/r.51-2018.pdf. Since the progress report was presented, the programme of engagement has continued, with ongoing correspondence with a number of major UK based retailers.

To date, consistent with the realistic expectations set in the Minister's comments in the 2018 Budget[19], there have been limited results from the programme of engagement as it relies on UK retailers agreeing to engage with the Taxes Office to discuss the issues raised, and voluntarily changing the way in which they sell goods to Jersey consumers. However the Taxes Office will continue with its efforts – with a focus on the largest retailers – and update the Assembly on a periodic basis.

[19] "The Treasury is, however, realistic regarding the likelihood of "complete success" (particularly where Islanders are purchasing from smaller and/or niche retailers), and notes that there is little that can be done beyond pro-active engagement (for example there is no legislative change that can be passed by the States Assembly that would directly impact on the UK VAT treatment applied by UK-based retailers)."

Consultations/Reviews before next Budget

Personal Tax Review

The first stage of the personal tax review was completed with the issuance of a series of documents which formed the “Review of Personal Tax Stage 1 – Data Analysis”. This important series of documents included a detailed study of the distributional impact of the changes made to the Island tax system over the period 2006-2015 produced by Oxera[20].

The next stage of the personal tax review will involve the issuance of a public consultation process before the end of November 2018; seeking the views of Islanders on how the personal income tax system might be changed in the future.

GST and digital imports

As a result of an amendment agreed to the 2018 Budget, the Minister for Treasury and Resources agreed to undertake a review into the feasibility of extending the scope of GST to include the supply of digital services into Jersey by businesses with no establishment in Jersey. As specified in the amendment, this review will be completed such that any recommended legislative changes arising from the review can be included in Budget 2020.

Taxation of mutual trading profits

During the course of the 2018 Budget debate the Minister for Treasury and Resources agreed to review the Jersey tax treatment of profits arising from mutual trading activities. As outlined in the comments lodged by the Council of Ministers[21] this review will be completed such that any recommended legislative changes arising from the review can be included in Budget 2020.

Taxation of car usage and ownership

It is acknowledged that the increasing purchase/usage of electric and hybrid vehicles will ultimately result in reducing road fuel duty revenue at some point in the future, together with reducing revenues from Vehicle Emission Duty (VED). Although this reduction in revenues is unlikely to occur in the short term, the Council of Ministers agrees that now is the appropriate time to identify the fairest and most sustainable ways of taxing car usage/ownership in the longer run – facilitating an appropriate transitional period between the existing tax measures and any future tax measures. This review will be completed such that initial recommendations are put to the Council of Ministers in summer 2019.

[20] See: https://statesassembly.gov.je/assemblyreports/2017/r.30-2017.pdf
[21] See: https://statesassembly.gov.je/assemblypropositions/2017/p.90-2017amd(7)com.pdf

PART C – GROWTH

9. Proposals for the Allocation of Growth for 2019

In the debate of the MTFP Addition (P68/2016) in September 2016, the States agreed a central growth allocation in 2019 and indicative allocation to department heads of expenditure.

The MTFP 2016-2019 (P70/2015) agreed investment in strategic priorities to be funded by a package of expenditure efficiencies and savings, benefit changes and new funding streams. The objective was to establish sustainable investment in priorities which were affordable and delivered broadly balanced budgets by 2019.

Setting aside central growth within the overall expenditure limits provided the Council of Ministers, and the States, with flexibility to reflect the progress on measures within the overall strategy when determining the affordability of 2017, 2018 and 2019 growth expenditure allocations in the respective Budgets.

The significant investment in funding of the strategic priorities for health, education and promoting economic growth were to be funded by the package of measures proposed in the MTFP Addition.

The target for the package of measures was £123m p.a. by 2019, made up of:

- £77m of efficiencies and savings (including £4m user pays);
- £10m of benefit changes;
- £11m of waste charges; and
- £15m from a health charge.

This left £10m of other measures, which in the MTFP Addition were made up of £5m from the Health Insurance Fund (HIF) and £5m from reducing the original central provisions for Restructuring and EPGDP in 2019.

Update on the package of measures

Funding measures

The proposed health charge was rejected as part of the MTFP Addition debate (September 2016) and this funding was largely replaced by a number of additional revenue raising measures in Budget 2018.

Expenditure measures

The £77m target of expenditure measures for efficiencies, savings and user pays and £10m of benefit changes have been reflected in department heads of expenditure. Whilst 'hard-wired' into cash limits it is known that not all measures have been delivered and work continues to identify efficiencies not delivered on a sustainable basis. As well as the contribution to investment required for transformation of public services and emerging Corporate Strategic Priorities (CSP), some of the significant savings arising from the implementation of the Target Operating Model may be required to fund any shortfall in delivering against these savings.

In addition measures are outstanding to address:

- The withdrawal of the transfers from the HIF to support health expenditure of £5m p.a.; and
- The non-domestic waste charges of £11m by 2019

The £5m shortfall in health funding in 2018 has been met from underspends in 2017 carried forward for 2018. The current departmental forecasts for 2018 suggest that the underspend forecast could provide for the £5m required in 2019 if necessary.

The Growth, Housing and Environment (GHE) net expenditure limit for 2019 assumed that £11m of new non-domestic waste charges would be raised in that year. The decision regarding the introduction of those charges was deferred in 2018 and continues to be deferred in 2019.

The GHE net expenditure limit also included provision for £0.9m expenditure for the States payment of rates which, following the amendment by the Constable of St Helier in the last Budget (as amended) was increased to include the payment of Island Wide Rates.

Review of Central Growth Indicative Allocations for 2019

The allocation available for growth in 2019 totals £20.53m, including £9.4m agreed in Budget 2018 for the recurring element of new growth awarded in respect of 2018.

States Treasury and Exchequer has worked with departments to review the original allocations of central growth for 2019 to determine whether the original allocations are still required and would be spent in 2019 and reflection of the deferral of non-domestic waste charges has also required adjustments. As a result of the review a number of variations have been identified:

- Health and Community Services – reduced by £4.589m in 2019
    - 2% investment requirement is unchanged at £5.3m
    - The P82/2012 Programme is behind schedule and underspent against available budget, therefore under review so no new money is to be allocated at this time. The 2018 allocation has been allocated recurringly from 2019.
    - The 2018 P82 allocation of £615k for the Children's Service was transferred recurringly to Office of the Chief Executive along with the transfer of functions in February 2018. From 2019 the functions will transferred to Children, Young People, Education and Skills. The additional 2019 growth money of £378k to extend the Short Breaks service will be allocated in 2019.

- Strategic Policy, Performance and Population
    - A small reduction in the allocation for Healthy Lifestyle reflects latest estimates.

- Children, Young People, Education and Skills – increased by £993k in 2019
    - The revenue costs for schemes in the capital programme taking into account the delays at Les Quennevais and Grainville schools capital schemes reduces the amount needed by £285k.
    - £993k transferred from Office of the Chief Executive, as explained above under Health and Community Services with respect to Children's Services.

- Growth, Housing and Environment – increased by £3.096m in 2019
    - Original request for tipping fees was to reflect pressure on fees which were on a downward trend in 2015 and also recognising a new private site planned for 2018. The new private site has not progressed and is not likely to in 2019. Allocation removed.
    - Revenue consequences of capital schemes has been reduced to reflect the actual requirement.
    - The decision taken by the Assembly to include the States paying the Island Wide Rate was not anticipated and further funding is therefore required.
    - The further delay to the introduction of non-domestic waste charges creates an £11m deficit in GHE's head of expenditure.

- States Assembly – removed in 2018 Budget
    - Following a communication from Chairman of Privileges and Procedures, confirmed by the Greffier, the States Members' Pensions request was removed.

The review of central growth for 2019 has therefore identified insufficient funding available of £6.9m. The shortfall is to be met from unallocated reserves or departmental underspends, pending the delivery of savings from the implementation of the Target Operating Model.

Once efficiencies of the Target Operating Model are delivered, the Health Growth can be reinstated provided the backlog of existing growth priorities are delivered.

The proposed allocations for new growth expenditure for 2019, in addition to the recurring 2018 amount, are as follows:

- **Health and Community Services - 2% investment in Service Standards and Healthcare Inflation - £5.3m**

  The 2% funding for Health and Social Services is provided to help the department respond to changes in standards of care recommended by the Royal Colleges and other professional bodies; to maintain services at a comparable standard to neighbouring jurisdictions; provide for increases in demand for specific care, meet healthcare specific inflation costs (e.g. drugs) and make new drugs, treatments and therapies available to Islanders where appropriate. Therefore, the exact allocation of this funding each year is variable and dependent on factors outside the control of the department.

- **Strategic Policy, Performance and Population - Reducing Preventable Disease, Healthy Lifestyles (Transferred from Health and Community Services) - £84k**
  Further investment in health improvement is planned to introduce targeted programmes on key initiatives, such as weight management programmes with family and multi-disciplinary referral including through primary care, UNICEF baby friendly initiative supporting increased and sustained breast feeding. The short breaks service will also be extended with the additional money.

- **Children, Young People, Education and Skills - Services for Children (Early Interventions) – Short Breaks £933k**
  Investment in early intervention can have a profound impact on a broad range of socio-economic, health and wellbeing factors. This includes future development, learning, behaviour, health and the ability to build positive, secure attachments. It can also affect truancy, conduct disorder and risk-taking behaviours such as substance misuse and mental illness. The further funding allows an opportunity to provide community short breaks, meaning more groups have increased access to universal provision and a wider choice for 1:1, 2:1 overnight and domiciliary to support this particularly vulnerable group of children and families.

- **Growth, Housing and Environment - Contribution towards deferred non-domestic waste charges in 2019 - £6.456m**
  The revenue consequences of the Infrastructure Investment from the Currency Fund to build the new Sewage Treatment works has now been quantified and the amount required for 2019, when repayments of the investment are due to commence is £1,584,000.

  The States decision during the Budget debate last year to pay Parish and Island Wide rates will require additional funding of £794,000 in 2019, over and above the £900,000 originally agreed to pay Parish Rates only.

  The decision to "move on" during the debate on the introduction of non-domestic liquid waste charges in 2017 resulted in deferral of the proposed charges for 2018 and 2019. In the MTFP 2016-19, it was also proposed to introduce non-domestic solid waste charges in 2019, however, pending decisions on the preferred way forward for liquid waste, these further proposals have not been brought to the Assembly for consideration. This leaves a gap in the departmental budget of £11m in total which requires re-prioritisation of the growth requests originally funded by the charges. A contribution of £4.078m is therefore made from the growth allocation.

The balance of funding required to address this shortfall (£6.9m) will be met out of savings to be delivered from the implementation of the Target Operating Model or unallocated reserves if necessary.

Figure 17 - Proposed Allocation of Growth Expenditure for 2019

Dept	Central Growth Funding Proposals	2018 Approved £'000	2019 £'000
H&CS	2% Investment in Service Standards and Healthcare Inflation	**4,714**	9,967
	P82/2012 - Health Transformation (White Paper)		
H&CS	Acute Service Strategy	**1,716**	1,716
H&CS	Mental Health	**442**	442
H&CS	Out of Hospital	**462**	462
	Sub Total Health Transformation - White Paper programme	**2,620**	2,620
H&CS	**Proposed Central Growth Allocation for Health**	**7,334**	**12,587**
SPPP	Healthy Lifestyles (Trf from H&CS)	**265**	357
SPPP	**Proposed Central Growth Allocation for SPPP**	**265**	**357**
CYPES	Revenue consequences of capital schemes - New schools	**90**	115
CYPES	Services for Children (Early Interventions)	**615**	993
CYPES	**Proposed Central Growth Allocation for CYPES**	**705**	**1,108**
GHE	Revenue consequences of capital schemes - Jersey Archive	**20**	25
GHE	**Proposed Central Growth Allocation for GHE**	**20**	**25**
GHE	Revenue consequences of capital schemes - new Sewage Treatment Works	**-**	1,584
GHE	Contribution towards GHE cash limit shortfall for 2018	**2,100**	
GHE	Island Wide Rate element of States paying Rates	**-**	794
GHE	Waste Charges shortfall	**-**	11,000
	Funding shortfall *		**(6,922)**
GHE	**Proposed Central Growth Allocation for Infrastructure**	**2,100**	**6,456**
Total	**Total Proposed Central Growth Allocation for 2019**	**10,424**	**20,533**

***Shortfall - to be funded by unallocated reserves/Target Operating Model Savings**

PART D – CAPITAL PROGRAMME

10. Proposals for Capital Programme - Introduction

Introduction

A Long Term Capital Plan (LTCP) was developed in advance of the first Medium Term Financial Plan (MTFP) to identify capital project requirements over a 25 year planning horizon. This allowed sight of the States capital requirements to enable financial and operational planning and to manage affordability and the impact on the local economy. The LTCP forms the basis for the capital programmes of the future.

The LTCP will be updated and is now proposed to cover the next 20 years, which is in line with many other jurisdictions. The States Treasury and Exchequer will work with all departments offering the opportunity to evaluate the scope, format and processes to ensure that the States asset management and replacement programmes are in line with the long term vision, strategic priorities and demographic and legislative changes.

Delivering the infrastructure, regeneration and housing required will require a different approach to investment and accordingly, as part of the Finance Transformation, a new framework for funding these investments will be brought forward in the new Government Plan.

The MTFP 2016-2019 set out the indicative capital programme for each of the years 2016-2019 and the debate on the MTFP approved the total capital allocations for each of these years. The annual Budget for each of these years then approves the detailed list of projects. To comply with the Public Finances (Jersey) Law 2005, therefore, the States is asked to approve the detailed list of capital projects for 2019 as set out in this document.

Budget 2018 presented a revised capital programme for 2018 and an indicative one for 2019, which responded to increased demand for investment and inflationary pressures. The 2019 programme now presented has been further examined, with few changes.

Updates since Budget 2018

Figure 18 shows a list of the changes from the indicative capital programme identified in the Budget 2018 to that submitted by departments most recently for the Budget 2019.

Figure 18 – Changes from the Budget 2018 Indicative Capital Programme to Budget 2019

	2019 £'000
Changes from Budget 2018	
Data Warehouse Platform	(80)
Corporate Data (Platforms)	(500)
Digital Care Strategy	(600)
Urban Regeneration - Public Space	2,000
Total Revised Project Requirements	**820**
ERP Solution	-
Modernisation and Digital	-
Total Capital Heads of Expenditure Creation	**-**
Total Changes from Budget 2018	**820**

The three largest movements are removal of further funding for Corporate Data (platforms), the removal of a further allocation to Digital Care Strategy and the introduction of the Urban Regeneration - Public Space project.

The new initiative, Urban regeneration - Public Space, has been included to deliver improvements in Public Realm, the first project is a request of the Bailiff's Chambers. This project contributes towards the wider public realm improvement that the Council of Ministers have prioritised as one of the six common themes in the Common Strategic Policy document. It will join Liberation Square and Weighbridge Place to create a large open space to commemorate and help celebrate the 75th anniversary of the Liberation of the Island.

The funding allocation for Corporate Data (platforms) was originally earmarked to upgrade the citizen database and to create the business directory. However, due to the level of change within IT, and subsequent change to the SoJ IT/digital strategy, the requirement for the upgrade of the citizen database and creation of the business directory as described by the original business case has now been superseded and the earmarked funding for this project is not currently required.

Due to the level of change currently being experienced within IT, and subsequent change to the SoJ IT/digital strategy, the requirement for a data warehouse as described by the original business case has now been superseded and the funding is no longer required.

The further allocation for Digital Care Strategy is no longer required in the capital program. The project is still underway but further spend is revenue in nature and will be provided from Health and Community Services' revenue budgets.

Two Heads of Expenditure are also being created but no funding allocated at this time. The creation of these will allow funding from existing resources to be reallocated towards these in 2019 only once final business cases have been considered.

An Investment Appraisal Board has been created whose objective is to provide a robust and objective mechanism for the consideration of all requests for additional funding and to make recommendations for approval (or otherwise) to the Minister for Treasury and Resources, Chief Executive Officer and the Treasurer of the States. Alongside this, work progresses to introduce more robust and consistent business case methodology to inform decision-making.

A new finance/accounting system or Enterprise Resources Planning (ERP) system, which integrates further operational areas of the organisation such as HR and procurement, is an essential enabler to deliver the new target operating model and to modernise public services across the States. This has been a consistent theme in the reviews carried out on financial management and reporting; investment in this area is needed, starting in 2019.

Investment is also urgently needed in the organisation's digital solutions development and modernisation initiatives. There are a number of areas that will require funding in this initiative and the creation of a Head of expenditure allows any capital elements of these solutions to be accounted for correctly once the programme is understood and agreed.

Balancing the 2019 Capital Programme

Unspent Capital Allocations

As part of the quarterly monitoring of capital project spend which is reported back to the Executive Management Team and the Council of Ministers, departments are asked to identify any unspent allocations and those no longer required for the purpose for which they were approved for.

Any unrequired balances are either returned to the Consolidated Fund or can be reallocated to manage priorities. In 2017, as part of the work on the Budget 2018 capital programme, £5.8m was identified as unspent capital to be used to fund the shortfall in capital funding requirements, £1.6m of that related to 2019 funding.

The latest review identified a further £3.7m across a number of existing capital project allocations. £1.4m will be allocated to contribute to the 2019 Capital Programme, £0.5m will be transferred to the existing Orchard House Capital scheme to increase the scope of that scheme and the balance will be available once funding pressures have been prioritised.

The proposed programme therefore becomes:

Figure 19 – Proposed 2019 Programme

Capital Head of Expenditure	Programme (Gross) £'000 2019	Transfers from Unspent Capital £'000	Consolidated Fund Allocation (Net) £'000 2019
Office of the Chief Executive			
Desktop Upgrades	1,000	-	1,000
Corporate Web Platform Refresh Cycle	500	-	500
Content management system refresh (SharePoint	100	-	100
Hardware Refresh	281	-	281
Open Data	77	-	77
CRM Platform Renewal	80	-	80
Replacement Assets - CMD	1,050	-	1,050
ERP Solution			-
Modernisation and Digital			-
Office of the Chief Executive Total	**3,088**	**-**	**3,088**
Children, Young People, Education and Skills			
Grainville Phase 5 *	3,778	(1,505)	2,273
Minor Capital	250	-	250
Children, Young People, Education and SkillsTotal	**4,028**	**(1,505)**	**2,523**
Health & Community Services			
Equipment & Minor Capital	1,073	-	1,073
Child Health IT System	202	-	202
Replacement Assets RIS / PACS IT assets	1,900	-	1,900
CT Scanner	2,225	-	2,225
Health & Community Services	**5,400**	**-**	**5,400**
Growth, Housing and Environment			
Replacement Assets	2,000	-	2,000
Infrastructure Rolling Vote	18,188	-	18,188
La Collette Waste Site Development	500	-	500
Urban Regeneration - Public Space	2,000	(1,420)	580
Equipment, Maintenance and Minor Capital	80	(68)	12
Fisheries Vessels	25	(25)	-
Growth, Housing and Environment Total	**22,793**	**(1,513)**	**21,280**
Justice and Home Affairs			
Minor Capital	505	-	505
Justice and Home Affairs Total	**505**	**-**	**505**
Non Ministerial			
Replacement Assets - Non Mins	179	-	179
Non Ministerial Total	**179**	**-**	**179**
Total Capital Programme	**35,993**	**(3,018)**	**32,975**

Notes: * Denotes projects to be completed by Jersey Property Holdings on behalf of the relevant service department.

2019 Proposed Programme

The below analysis provides details from sponsoring departments to support bids for and update Capital Programme projects.

Office of the Chief Executive

Desktop Upgrades (£1,000,000)

This is a recurring programme of work to ensure the State's end-user operating system and office suite remain up to date and delivering the best productivity, and compatible environment for applications.

Devices for users' desktops/laptops and increasingly mobile will continually need to have their software upgraded to keep current and aligned with other platforms used in the States.

Anticipated Spend in 2019: £1,000,000

Corporate Web Platform Refresh (£500,000)

This capital project is to fund a rolling programme of investment in the States of Jersey websites and the technology behind them. Sites include www.gov.je, the MyStates intranet, statesassembly.gov.je, petitions.gov.je and the new one.gov.je customer services portal, amongst others. It reflects that digital is now the default channel for government services. The specific allocation of funds is made according to priorities and may include new and enhanced functionality, improvements to the look and feel of sites, and technical changes such as moving from on-premise infrastructure to the cloud.

Anticipated Spend in 2019: £500,000

Content Management System Refresh (£100,000)

This project is a technology refresh of the underlying technology that runs a number of government websites. This platform is called the Content Management System and the requirement is to keep current with other States of Jersey platforms.

The web content management system that powers www.gov.je, parish.gov.je, ports.je, statesassembly.gov.je, all of the States' intranet sites, and others is Microsoft SharePoint 2013. This budget is used to fund an upgrade of the public facing sites to a new release – SharePoint 2016, and to part-fund the migration of intranet sites from SharePoint 2013 on-premise to the cloud version, SharePoint Online, which is part of Office 365.

Anticipated Spend in 2019: £100,000

Hardware Refresh (£281,000)

This is a rolling programme to ensure hardware is replaced at the end of its life. Standard lifecycles exist for all hardware types and this is used to create a replacement plan for PCs, laptops, servers and network infrastructure.

If this cycle is not refreshed, hardware will quickly become obsolete and not be able to run up to date software, and risks to business operations increase.

Anticipated Spend in 2019: £281,000

Open Data (£77,000)

Governments worldwide are embarked on work to unlock data that they hold, both to satisfy 'open government' agendas and to enable new and innovative uses of the data that can stimulate the digital economy and improve citizen's lives. Examples include public transport data – train and bus timetables, which are now widely available online and via smartphone apps from third-parties – or crime statistics. Developers are free to combine these data sets in innovative ways – for example overlaying commute times, average house prices, crime rates and school league tables on a map in order to highlight pockets of Greater London which offer improved quality of life.

This allocation will fund work to open up further data which the States of Jersey holds, specifically data on government spending and departmental performance with the aim to also enable individual departments to make software changes so that they can extract data from their databases.

Anticipated Spend in 2019: £77,000

Customer Relationship Management (CRM) Platform Renewal (£80,000)

This project is for the ongoing refresh programme for the CRM platform upon which a number of common departmental applications run.

The CRM platform enables applications to be implemented in a common way, including a shared view of the customer across a number of departments. It enables a common approach to common processes (e.g. government licensing/registrations), and creates a consistent, reusable solution.

This allocation reflects a need for regular refreshes to this platform in line with Microsoft's CRM lifecycle policy, to enable the applications to continue to provide functionality and also enable the ongoing availability and security of the underlying data.

If refreshes are not done in a timely manner, most significantly, the platform will become a security risk to the States of Jersey – since Microsoft only provides support/security patches for current/near-current versions. Other concerns of not updating the platform include higher costs to maintain and compatibility issues with other systems.

Anticipated Spend in 2019: £80,000

Replacement Assets - (£1,050,000)

This funding will allow the department to replace the hardware and software assets required to support the provision of IT services as they reach the end of their useful lives. Funds will be allocated by the Accountable Officer based on the department's asset replacement programme and service needs.

Anticipated Spend in 2019: £1,050,000

ERP Solution

The States is embarking on a finance transformation programme that will ensure that it has the capacity and capability to deliver the finance infrastructure needed by a £1.2 billion organisation.
The States financial system is out-of-date, no longer fit for purpose and is at the end of its life. Over the years it has been heavily configured and customised. It is not suitable for self service functionality and it generates large amounts of transactional activity.

Centralisation of finance teams and standardisation of processes will deliver efficiencies but great efficiencies will be delivered by harnessing advances in technology to reduce transactional activity and free up capacity for value-added decision support.

The creation of this Head of Expenditure will allow existing funding to be reallocated towards this project's needs in 2019 from existing resources once a final business case has been considered

Modernisation and Digital

Investment is urgently needed in the organisation's digital solutions development and modernisation initiatives. There are a number of areas that will require funding in this initiative and the creation of a Head of Expenditure allows any capital elements of these solutions to be accounted for correctly once the programme is understood and agreed.

The creation of this Head of Expenditure will allow existing funding to be reallocated towards this project's needs in 2019 from existing resources once a final business case has been considered

Children, Young People, Education and Skills

Grainville School Phase 5 (£3,778,000 including £1,505,000 to be transferred from existing unspent capital)

The redevelopment of Grainville School began in 1991, and Phase 5 will represent the final stage in this process. The project will bring the remaining parts of the school into line with the minimum UK recommended standards, with the focus being on the West Wing and Link Building.

The classrooms in the current West Wing do not comply with the UK standards in relation to minimum floor areas. The narrowness of the corridors in parts of the complex also restricts circulation at times of peak use. A feasibility study was conducted in 2008/9 and then updated in 2017. The Phase 5 project would see the development of a new English department, Modern Foreign Languages department, Humanities department, Music department, SEN provision and school library.

By undertaking this work the school will be brought into line with modern standards, thereby improving the learning environment for all students.

Estimated Completion Date: 2021

Replacement Assets and Minor Capital (£250,000)

This annual allocation will enable the department to meet a variety of capital needs related to teaching and learning in the education service, including:

- asset replacement e.g. minibuses
- minor building alterations
- acquisition of land for schools' playing fields
- improvements to external areas e.g. 3G artificial playing surfaces

Health and Community Services

Replacement Assets (Various) (£1,073,000)

The Health and Community Services department, and particularly the hospital, deploys a significant amount of specialist equipment to support the provision of care and the day to day operation of the hospital. It is essential that this equipment is maintained and replaced on a regular basis to ensure patient safety. Ever changing technology requires the department to keep it's various equipment assets under review and up to date, utilising new equipment to introduce new treatments, improve care and/or efficiency.

Anticipated Spend in 2019: £1,073,000

Child Health IT System (£202,000)

The Child Health Information System (CHIS) is a database of all children on the island and an IT system that provides the call and recall function for children's physical and developmental checks (new-born bloodspot screening, 6-week developmental check), all childhood vaccinations (birth up to 18 years) and other health improvement interventions, such as speech and language therapy and orthoptic screening (i.e. checking for visual disorders such as squint etc.).

By managing all the vaccination and screening interventions for children, CHIS helps Health and Community Services (HCS) to achieve its objective of 'Improved health outcomes by reducing the incidence of mortality, disease and injury in the population' and also helps achieve the Council of Minister's strategic priority to improve the health and wellbeing of the population of Jersey. That is, it ensures children are vaccinated and screened which prevents disease and identifies developmental problems early (every year in Jersey, HCSD funds over 21,000 vaccines given to protect over 7,000 children - and more than 1,500 adults).

Anticipated Spend in 2019: £202,000

Replacement Assets RIS/PACS IT Assets (£1,900,000)

Radiology Information System (RIS) and the Picture Archiving Communication System (PACS) is a chain of electronic components designed to run the Radiology Department and distribute reports and images to all relevant clinicians both inside and outside the hospital. This is an integrated chain with products from two different manufacturers. These products consist of software which runs on different platforms and hardware used to archive and display the images and reports.

The RIS and PACS systems were originally introduced to improve patient care and safety, enable better planning of radiology activity, improve clinical education and research, and support a better working environment and improved clinical governance. The systems are an essential element of IT within the hospital and will also facilitate the electronic provision of radiology results to GPs.

Anticipated Spend in 2019: £1,900,000

CT Scanner (£2,225,000)

The Computed Tomography (CT) work comprises of a mix of oncology, neurology, chest, abdominal, cardiac, trauma and orthopaedic work. It includes some interventional examinations and the imaging of ventilated patients. The current CT scanner is the only machine on the island and is listed on the hospital's risk register as it is a single point of failure. In some cases other imaging modalities can provide clinical information, however, without a CT scanner many patients (some critically ill) would need to be transported off island for imaging.

The existing scanner provides a 24 hour service 7 days a week. Most non-urgent patients are imaged during normal working hours and there is an oncall service provided for urgent out of hours imaging requests. In 2017 11,413 scans were performed. The purchase of a new scanner will facilitate the opportunity to introduce new technologies and result in faster diagnosis and treatment (sometimes in life threatening situations), perform examinations on patients that could not previously be imaged, perform a wider range of examinations (some examinations can be performed as an alternative to patients having to be transported off island for investigations) and reduce the radiation dose to the patient.

Anticipated Spend in 2019: £2,225,000

Growth, Housing and Environment

Replacement Assets (£2,000,000)

Funding for replacement assets at the Energy from Waste (EfW) plant at La Collette, pumping stations and various items of plant and equipment across the department's responsibilities.

The EfW plant in particular must be maintained to a high standard in order to ensure that it continues to deal with the Island's waste, maintain electrical generation and minimise the use of chemicals and resources whilst meeting emission standards. £1.1m is anticipated to be allocated to the EfW plant.

Many items of plant and equipment, including the EfW plant, pumping stations and other (often unseen) assets are of strategic importance for dealing with the Island's waste and ensuring the risk of pollution, flooding or harm to the environment are minimised and the remaining funding will be used for placing these assets as per the department's replacement asset schedule.

Anticipated Spend in 2019: £2,000,000

Infrastructure Rolling Vote (£18,188,000)

The Infrastructure Rolling Vote (IRV) supports a number of areas including the highways network, sea defences, surface water infiltration remediation and foul and surface water improvements. Since 2014 the IRV has been making a contribution to the funding of the new Liquid Waste Strategy capital project, in 2018 this contribution will be £8.0m (includes £1m for First Tower Rising Main). The intention is for the remainder of the vote to be split as follows:

- Highways and Sea Defences: £7.7m
- Drainage Infrastructure: £2.5m

The major highways projects are anticipated to be resurfacing works at Route de Quennevais, Rouge Bouillon, Gorey Village and La Route de St Aubin (phase 2). The drainage works will be split between foul and surface water separation improvement schemes, InfoNet data collection and input, and ground and surface water infiltration works.

Anticipated Spend in 2019: £10,188,000 (excluding the contribution to the Liquid Waste Strategy)

La Collette Waste Site Development (£500,000)

The La Collette Waste site has been under development since the mid 1990's. Capital funding is required to continue this development and to enable the site to continue to operate in an efficient and compliant manner.

The La Collette site is the strategic hub for all solid waste activities and, in order for it to be fit for purpose and fulfil the requirements for good waste management for the Island, further development is needed.

In 2018 funding was set aside for the construction of the new Commercial Recycling Centre. This project is still in the planning phase and is due to be delivered in 2019. The funding will also be utilised for the construction of a waste cell, and works to the sea wall at La Collette.

Anticipated Spend in 2019: £500,000

Equipment, Maintenance and Minor Capital (£80,000 including £68,000 to be transferred from existing unspent capital)

This funding will allow the department to replace its existing fixed assets, as they reach the end of their useful lives, in line with their replacement asset schedule.

Fisheries Vessels (£25,000 to be transferred from existing unspent capital)

This allocation provides for preparation work on the Norman Le Breton (NLB) vessel in advance of the proposed refit and the replacement of the RIB and inshore workboat with a single vessel appropriate for the service requirements.

Anticipated Spend in 2019: £25,000

Urban Regeneration - Public Space (£2,000,000)

One of the six common themes in the Council of Ministers' Common Strategic Policy document is "we will make St Helier a more desirable place to live, work, do business and visit". Investing in the infrastructure and providing funding for urban regeneration will form part of that solution. The first project to receive funding will be a project that greatly improves a public space in the heart of St Helier.

In 2020 the people of Jersey will celebrate the 75th anniversary of Liberation of the Island. This project will join Liberation Square and Weighbridge Place to create a large open space to commemorate and help celebrate this landmark anniversary.

The budget is provided to the department for Growth, Housing and Environment who will manage the project however it is the Bailiff's Chamber who have bid for funding for this purpose.

Justice and Home Affairs

Minor Capital (£505,000)

The Justice and Home Affairs Department holds a variety of assets including specialist equipment to support the various service areas in the provision of the day to day operations. It is essential that this is maintained and replaced on a regular basis in particular with the ever changing technological requirements.

This allocation will enable the Department to meet a variety of capital needs related to the delivery of the various services within the department, including:

- Various asset replacement throughout all service areas
- Upgrade/replacement to essential service specific Software and Hardware

Estimated Completion Date: 2020

Anticipated Spend in 2019: £400,000

Non-Ministerial Departments

Replacement Assets (£179,000)

Replacement assets are mainly found within the Official Analyst Department which consist of laboratory equipment that is coming to the end of its useful life and needs to be replaced. This allocation provides for equipment used to identify drugs and other chemical compounds and a specialist extraction system to analyse samples.

Anticipated Spend in 2018: £49,000

The Désastre Management Information System (DMIS) is an essential software package which has been introduced into the Viscount's Department Désastre Section in order to provide a more efficient and effective working process. The system controls offer a safer environment with reduced risk. This will be due an upgrade in 2019.

Anticipated Spend in 2019: £130,000

Proposed Capital Programme for 2019 – Funding Sources

The proposed 2019 capital programme has been funded from two sources to manage the requirements with the funding available. The allocation of £33m approved in the MTFP has been funded from the Consolidated Fund with further funding of £3m from existing unspent capital.

Figure 20 – Proposed Capital Programme Funding Sources

	Proposed Funding 2019 £'000
Departmental Capital Allocation	**35,993**
Funding Sources	
Consolidated Fund	(32,975)
Transfer of unspent capital	(3,018)
TOTAL CAPITAL PROGRAMME FUNDING	**(35,993)**

Revenue Consequences of Capital Schemes

Section 9 of the MTFP Addition 2017 - 2019 – 'Additional Funding for Pressures, Demographics & Growth', describes the additional funding requested as a result of new capital schemes where departments feel further funding is necessary in this MTFP period. For example both Growth, Housing and Environment, have requested funding for increased running costs for new premises and facilities in 2019.

Growth, Housing and Environment will also receive £1,584,000 of growth funding from 2019 to service the infrastructure investment in the Sewage Treatment Works from the Currency Fund.

Departments that have not requested further funding have made the assessment that any increased costs can be met from existing budgets or efficiencies generated as a result of the investment made in this MTFP period.

Major Projects Update

A number of major projects were identified as requiring funding during 2016 - 2019. All of these projects required specific funding sources over and above that identified from the Consolidated Fund in order for the allocation to be proposed as part of the Budget process in each year. An update on each project and the funding proposals are:

Liquid Waste Strategy (Sewage Treatment Works – Upgrade)

Total requirement £79.94m - Existing allocations of £60.1m with further allocations proposed from the Department for Infrastructure's Infrastructure Rolling Vote

The Sewage Treatment Works (STW) was originally constructed in the late 1950's for a population of 57,000. In the intervening years it has been continually improved and upgraded to take into account significant population increases, changes in volume of incoming flow, increased environmental standards and technological enhancements.

Whilst the plant has generally performed well over the years, it is now struggling to meet its discharge consents, mainly due to the now inadequate and outdated design, poor performance of the main treatment technology installed, and the variability of loading to the works, particularly under high flow and storm conditions. The only way forward is for a complete regeneration of the Bellozanne site including a new Sewage Treatment Works.

The funding requirement identified in the Waste Water Strategy (P.39/2014) was £75m (at 2012 prices) which was subsequently confirmed in the Budget 2014. Since then the Department for Infrastructure (now Department for Growth, Housing and Environment) has been working on the detail of the proposals to refine the estimated total cost which is now £79.94m. This includes £3m to cover and odour control from the Primary Settlement Tanks (PST's) as a result of a Planning Condition

Figure 21 – Summary of Existing and Proposed Funding for the Liquid Waste Strategy Project

	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	TOTAL £'000
Initial Allocation (Central Planning Vote)	500									**500**
Capital Allocation - Budget Capital Programme			6,100						*8,288*	**14,388**
Transfer from Infrastructure Rolling Vote *			4,000	1,000	4,500	4,500	7,000	*8,000*	*4,000*	**33,000**
Repayment of Central Planning Vote			(500)							**(500)**
Currency Fund - Infrastructure Investment				25,494						**25,494**
Transfer from CWI Refurbishment				558						**558**
Central Contingencies (CWI added cost)						3,500				**3,500**
Central Contingencies - Odour Control							3,000			**3,000**
TOTAL FUNDING	**500**	**0**	**9,600**	**27,052**	**4,500**	**8,000**	**10,000**	***8,000***	***12,288***	**79,940**
Cumulative Funding		**500**	**10,100**	**37,152**	**41,652**	**49,652**	**59,652**	***67,652***	***79,940***	

** The 2020 capital programme is subject to review in advance of Government Plan2020 – 2023. In the event that no other funding source for the remaining requirements of the Liquid Waste Project is identified, funding will have to be provided for from the department's Infrastructure Rolling Vote.*

Figure 21 above shows how the project has been funded to date and the proposed funding for the remaining requirements. The funding includes the Clinical Waste Incinerator works which have now been incorporated into the main Liquid Waste Strategy project (STW). These works include ongoing refurbishment to keep the old plant operational whilst a new plant is constructed. As a result of the increased costs of constructing a new Clinical Waste Incinerator, a further £3.5m was transferred from Central Contingencies in 2017.

During 2015 the Department for Infrastructure (DfI) engaged Doosan Enpure Ltd to undertake a review of the proposals, refine the initial designs and produce detailed plans for siting, programme of works, planning permissions and phasing of construction. This initial work sought to identify the most efficient and effective way of replacing and upgrading the works whilst maintaining operations on site at Bellozanne.

In 2016, the early contractor involvement phase was concluded prematurely as it was not offering the States of Jersey an optimum solution with best value and DfI engaged their technical consultants on the project, Sweco Limited, to fulfil this role instead. The final layout and treatment processes, and extent of enabling works was identified and agreed and the main STW construction works tendered in July 2017.

In December 2017, North Midland Construction PLC (NMC) were awarded preferred contractor status to work with DfI in an Early Award Phase (EAP) to explore the synergies between the Civil Works and Mechanical, Electrical, Instrumentation, Control and Automation (MEICA) Works packages, reduce the overall programme, and review Value Engineering Options, with the purpose of reducing the overall cost and optimising the project delivery.

Following conclusion of the EAP in April 2018, NMC were awarded the full design and build contract for the new STW in the sum of £56,289,243.26, which included £3m for covering and odour controlling on the Primary Settlement Tanks. Based on the award sum, and taking into account costs for hillside removal, CWI costs, professional fees, contingency and inflation, the estimated final outturn cost of the project is £79.94m.

Aside from the construction of a new Clinical Waste Incinerator at La Collette, which is nearing commissioning and completion, enabling works are complete. This has included excavation and stabilisation of adjacent hillsides to create space to construct the new works, as well as the construction of the new Clinical Waste Incinerator at La Collette to replace the existing plant at Bellozanne. This plant is at the end of its useful life and requires re-locating to allow construction of the new STW.

Construction of the main STW works are currently programmed to commence in January 2019 with completion anticipated in December 2022.

Office Consolidation Project

The objectives of this project are well rehearsed. The improved efficiency through greater integration of certain services by means of sharing building resources is a commitment shared across the States.

As an interim step, the States of Jersey has entered into a lease of office property in Broad Street to relocate the majority of functions currently within Cyril Le Marquand House, together with Health and Community Services administration and co-location of other administrative services. The relocation of these staff will take place from late 2018 and conclude early in 2019.

Tax operational teams will relocate to join other Customer Service functions at La Motte Street, within Philip Le Feuvre and Huguenot House. These moves will be integrated into the overall programme of interim moves and will be completed by March 2019. This will represent a significant step forward in delivering 'one front door' for the majority of our face-to-face customer enquiries.

On conclusion of these moves, proposals to redevelop the Cyril Le Marquand site will be brought forward for consideration.

In addition to the above moves, functions located at South Hill will be relocated to other publicly owned buildings to provide a vacant site. Proposals for redevelopment of this site will be brought forward in 2019.

The one-off costs associated with interim moves will be funded through existing resources. The rental costs of the Broad Street offices will be met from existing revenue resources on conclusion of the repayment of the Morier House financing from 2019.

An Outline Business Case (OBC) for Office Modernisation was approved in principle by the previous Council of Ministers. This OBC identified the La Motte Street site as the most appropriate location for a centralised Administration Hub and Customer Services Centre.

A further examination of alternative sites and an associated business case is being developed.

Once the business case is concluded, a proposition will be brought forward for the States consideration in 2019 including a funding solution.

Future Hospital

The States were informed of the need as part of P.82/2012 "Health and Social Services – A New Way Forward"; the States approved the "Jersey General Hospital – Strategic Outline Case" in 2013 and the site was decided in 2016. The estimated capital cost of £466m was also noted at this time.

In December 2017 the States approved (P107/2017) the Future Hospital Outline Business Case and Funding Proposals, confirming the current site together with Westaway Court as the preferred site for development of a new Hospital.

The original outline planning application [PP/P2017/0990] was refused by the Minister for the Environment. A subsequent application [PP/2018/0507] was lodged in April 2018. This application was the subject of a Public Inquiry in September 2018, the outcome of which is awaited.

The revised scheme can be contained within the approved funding envelope of £466m. Funding will be provided into a separately constituted 'Hospital Construction Fund' as approved by the States Assembly (P.107/2017, December 2017), with allocations to the fund made on a rolling forecast basis. P.107/2017 also approved a funding strategy of a blend of debt and transfers from the Strategic Reserve.

There are no further calls for budget allocation to this project from the Consolidated Fund assuming a decision is made to progress as agreed by the States Assembly.

A Hospital Policy Review Board was established to consider the evidence made available in support of the Council of Ministers plan's for the new hospital to be located on the existing site. This is to provide assurance over this States' decision and enable any concerns to be raised from the evidence that led to this decision. The Board is scheduled to report its findings by the end of October 2018.

Projects Dealt With Outside of the Capital Programme

The following projects has also been identified as by the (Council of Ministers) priority but the funding route fell outside of the 2018/2019 capital programme.

Fort Regent Demolitions

£3.0m – transfer from Central Contingencies (£1.5m in 2018 and up to £1.5m in 2019)
£800,000 – from carry forward of unspent 2016 department budgets
£750,000 – from previous capital programme allocation

At the request of the (then) Economic Development, Tourism, Sport and Culture Department, Jersey Property Holdings has been progressing the removal of the disused upper cable station building and swimming pool link footbridge, both of which represented a real and immediate risk to young people who were frequenting them. The Council of Ministers, at their December 2016 meeting approved actions to ensure their removal. The estimated costs are in the order of £800,000 and will be funded through a carry forward of 2016 Department underspend currently held in unallocated reserves. The works are scheduled to complete by the end of 2018.

Further, Jersey Property Holdings have received planning approval [RP/2018/1021] to demolish the disused swimming pool building which also represents a risk to the public due to its poor condition, presence of asbestos and difficulty in securing the building. The size and complexity of managing the safe removal of asbestos in the demolition significantly increases the cost of demolition which has been estimated at £3.0m. This allocation supplements an initial allocation of £750,000 which was made in the 2014 capital programme for the demolition of the Fort Regent pool. The works are scheduled to start in early 2019.

States Trading Operations

States Trading Operations comprise Jersey Car Parking and Jersey Fleet Management in the Department for Growth, Housing and Environment.

The Budget 2019 requires the Assembly to approve each of the capital projects that are scheduled to start during 2019 in the recommended programme of capital projects for each States trading operation where funds are required to be drawn from the trading funds in 2019.

The proposed programme for 2019 has changed from that presented in the MTFP 2016 – 2019 to reflect the agreed change to the way in which the Jersey Car Parking return will be received. The MTFP Addition for 2017 – 2019 approved a redirection of the return, which was previously received into States of Jersey General Revenue Income, to enable it to be received into the Department for Growth, Housing and Environment budget. This was to enable the department to progress work on concessionary bus passes for the disabled, as agreed by the States Assembly in P.140/2015, sustainable transport initiatives and unavoidable non-staff inflationary pressures such as the bus contract and other transport related issues.

As the sustainable transport and road safety schemes will largely be dealt with via the return from Jersey Car Parking into the Department for Growth, Housing and Environment's budget, the proposed capital allocation to that project directly from the trading fund has been reduced in the capital programme below with a corresponding increase on the car park maintenance and refurbishment allocation.

A summary of the capital expenditure proposals for the States Trading operation is shown in **Figure 22** and in **Summary Table E**.

Figure 22 – Proposed 2019 Capital Programme for States Trading Operations

	Indicative Programme 2019 £'000
Car Park Enhancement and Refurbishment	2,992
Jersey Car Parking	**2,992**
Vehicle and Plant Replacement	1,556
Jersey Fleet Management	**1,556**

Jersey Car Parking

Car Park Enhancement and Refurbishment (£2,992,000)

Jersey Car Parking operates 6 multi-storey car parks in addition to the numerous surface car parks in the Island. In order to maintain these facilities and extend their expected lives, the entity undertakes a programme of structural, electrical and mechanical maintenance, surface treatments to waterproof and protect concrete decks, lighting and surface treatments to make them a pleasant experience for customers. This programme not only extends the life of the buildings but also ensures that the facilities continue to meet the needs of the motoring public.

Jersey Fleet Management

Vehicle and Plant Replacement (£1,556,000)

Jersey Fleet Management is responsible for the supply and maintenance of all fleet vehicles for the States of Jersey. Vehicle charges to departments fund the long-term maintenance and replacement of vehicles and items of plant. The budget allocation for 2019 reflects the expected replacement costs of vehicles and plant reaching the end of their useful economic lives during 2019.

PART E – FINANCIAL FORECASTS

11. Financial Forecasts 2018 - 2023

Summary of Financial Forecast Update for the draft Budget 2019

These forecasts are for General Revenues Income (mostly taxation and duties) and Departmental net revenue expenditure which is funded from that income. They do not include forecasts for the wider States of Jersey Group, which includes returns on reserves such as the Strategic Reserve and the Social Security Reserve Fund, or the forecast of revenue and expenditure for States wholly owned companies.

The financial forecast for the draft Budget 2019 has been prepared on the basis of States income and expenditure forecasts as at August / September 2018. Expenditure forecasts are as predicted at the end of August 2018 by Departments, adjusted to reflect expenditure also expected in 2018 but for which funds have yet to be drawn down. The revised income forecasts take account of the latest in-year information on actuals for 2018 and incorporate the updated economic assumptions for August 2018 endorsed by the Fiscal Policy Panel (FPP). **Appendices 1 to 3** to this report provide more detailed information on the income forecast.

The next forecasts of States income will be the full annual review in March 2019, based on a further revision of the economic assumptions and also informed by the 2018 outturn. The current financial forecast shows a small surplus position for 2019 in line with the overall strategy for this MTFP of balancing the books.

Figure 23 – Summary of Updated Financial Forecast for draft Budget 2019 (September 2018)

Outturn	Financial Forecast	Draft Budget 2019 Forecast (September 2018)					
		Forecast		Indicative			
2017		2018	2019	2020	2021	2022	2023
£'000		£'000	£'000	£'000	£'000	£'000	£'000
	States Income						
514,930	Income Tax	529,000	565,900	596,900	624,900	654,900	687,900
87,946	Goods and Services Tax	90,517	92,155	93,279	94,335	95,525	96,630
59,999	Impôts Duty	62,109	64,252	64,119	64,132	64,256	64,400
33,283	Stamp Duty	34,736	35,405	35,047	35,810	36,596	37,405
12,427	Island Wide Rate	12,825	13,261	13,698	14,150	14,617	15,100
12,323	Other Income (Dividends)	14,224	14,422	9,768	10,442	11,125	11,586
17,927	Other Income (Non-Dividends)	11,337	11,727	12,326	12,380	12,788	12,873
28,417	Other Income (Returns from Andium and Housing Trusts)	28,959	30,419	31,493	32,582	33,708	34,871
767,252	**Total States Income**	**783,707**	**827,541**	**856,630**	**888,731**	**923,515**	**960,765**
	Includes approved 2019 Budget Measures of	-	*1,203*	*1,176*	*1,176*	*1,176*	*1,176*
	States Expenditure allocations						
703,811	**Total Net Revenue Expenditure**	**772,583** [1]	**763,227** [2]	**828,941**	**869,329**	**904,350**	**940,051**
63,441	**Forecast Surplus/(Deficit) for the year**	**11,124**	**64,314**	**27,689**	**19,402**	**19,165**	**20,714**
40,063	Departmental Depreciation	45,500	53,000	54,802	56,610	58,479	60,408
23,378	**Indicative Surplus/(Deficit) of General Revenue Expenditure over Income**	**(34,376)**	**11,314**	**(27,113)**	**(37,208)**	**(39,314)**	**(39,694)**
	[1] *Includes Carry Forwards from 2017 and Revenue to Capital transfers*						
	[2] *Includes Carry Forwards from 2018*						

Revised Forecast of States Income for 2018-2023

The revised forecast for States Income derived from taxation and duty has been reviewed and agreed by the Income Forecasting Group (IFG). The IFG forecasts are summarised here and additional detail for each of the income areas for taxation and duty is provided in **Appendices 1 and 2** of this Budget statement.

Forecasts of other States income have also been prepared by officers and reviewed by Treasury and the detail is provided at **Appendix 3**. The IFG and other income forecasts have been reported to the Council of Ministers to inform the development of the final proposals for this Budget.

As part of Finance Transformation, the States is changing its financial planning process, subject to the necessary changes to the Public Finances Law being approved. Income forecasts will still need to be produced and agreed but they will form part of the annual Government Plan. In addition, it is intended to include forecasts for the total States Group.

The forecasts of States income are a critical component of the States medium and long term financial planning. They are also currently required as part of an annual Budget and MTFP, alongside forecasts of States expenditure, to assess the projected balance on the Consolidated Fund, the States' 'current account'.

Forecasts have been extended to 2023 in the draft Budget 2019 to mirror the next four year medium term planning period. It is important to note that these forecasts use economic assumptions specific to 2018 and 2019, but only long-term trends for latter years.

Figure 24 – Summary of Revised Income Forecasts (September 2018)

Total States Income	*Outturn*	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'001	£'002
Income Tax	*514,930*	529,000	566,000	597,000	625,000	655,000	688,000
GST	*87,946*	90,517	92,358	93,482	94,538	95,728	96,833
Impots	*59,999*	62,109	62,785	62,679	62,692	62,816	62,960
Stamp Duty	*33,283*	34,736	35,366	35,008	35,771	36,557	37,366
Higher Growth Scenario	-	*726,721*	*784,251*	*823,516*	*869,178*	*920,373*	*974,790*
Total States Income from Taxation and Duties	***696,158***	**716,362**	**756,509**	**788,169**	**818,001**	**850,101**	**885,159**
Lower Growth Scenario	-	*704,013*	*730,864*	*748,185*	*760,634*	*773,295*	*787,879*
Other States Income	*71,094*	67,345	69,829	67,285	69,555	72,238	74,430
Higher Growth Scenario	-	*795,952*	*858,377*	*895,669*	*945,273*	*1,000,767*	*1,064,016*
Total States Income	***767,252***	**783,707**	**826,338**	**855,454**	**887,555**	**922,339**	**959,589**
Lower Growth Scenario	-	*761,327*	*790,727*	*805,523*	*820,308*	*834,182*	*849,880*

The forecast update of States income for the draft Budget 2019 is presented as a forecast range and it is important that it is recognised that there remains significant uncertainty in the economic outlook. This uncertainty has been emphasised by the IFG in its current report and the FPP commented in August that while the global economy remains resilient, growth prospects are becoming more uneven, with a deceleration in growth predicted from the previous five years which is not expected to pick up in the medium term, given the uncertainties presented by Brexit.

The IFG emphasised certain factors which reflect uncertainty in the outlook as follows:

- Personal Income Tax
  - Variations in employment numbers/earnings both in level and distribution;
  - Impact of unforeseen changes in interest rates on investment incomes;
  - Uncertainty in yield forecasts due to large number of component factors; and
  - Uncertainty regarding the amount of shareholder income arising in a particular year.

- Corporate Income Tax
  - Impact of unforeseen events on the taxable profits of major corporate taxpayers;
  - Impact of UK banking sector reforms and changes in interest rates on banking profits;
  - Impact of business activity of the outcome of the UK Brexit negotiations, particularly through its potential effect on the City of London; and
  - Impact of risks to the global economy and the effect on the market opportunities for local businesses.

- Both personal and corporate income taxes:
  - Performance of the Island economy;
  - Combined impact of future changes in fiscal policy such as public sector reform and future capital expenditure;
  - Impact of current and proposed EU and OECD international tax initiatives including the impact of any listing of the Island by the EU; and
  - Impact of changes to UK tax policy.

For this reason it is essential that appropriate flexibility is maintained in forward financial planning, to recognise the potential range of outcomes and the downside risks for States income forecasts around the central scenario.

Income forecasts for September 2018

The Income Forecasting Group (IFG) produced revised forecasts of States income derived from taxation and duty in March 2018. This report would ordinarily have been presented to the Council of Ministers and the States Assembly once finalised. However, due to the timing of the report coinciding with the election process and purdah, this did not take place.

The IFG has now completed further revised forecasts for September 2018 for States income derived from taxation and duty (see **Appendix 1**).

Summary of Variations in 2017 Outturn compared to Budget 2018 (September 2017) forecast

There was a significant overall variation of actual revenue from taxation and duty compared to the forecast prepared in September 2017 which in summary are made up of:

- A significant increase in personal income tax receipts in 2017 as a result of improved yield, higher levels of taxable income from employment, distributions and personal business income, and a higher contribution from CYB taxpayers than forecast.
- The anticipated drop in corporate tax income in 2017 was not as significant as previous information had suggested, giving rise to a £9m increase over forecast. However, this still represents a £4m reduction on 2016 corporate tax revenues.
- GST revenues were £0.5m higher than forecast largely from GST on imports.
- The Impôts variation was largely due to under reporting in-year for a new fuel importer, which has been subsequently corrected, otherwise Impôts duties were largely as forecast.
- The principle variation in Stamp duty was extremely strong performance in the second half of 2017 for higher value properties (>£2m), together with increases in Probate and Land Transaction Tax (LTT).

Movements in forecasts since the Budget 2018 (September 2017) forecast

The revised forecast shows a number of variations compared to the Budget 2018 forecast and which in overall terms reflect a significant improvement in 2018 and forecast years to 2023.

The main forecast variations are described and explained in more detail in **Appendices 1 to 3**, but are illustrated below in summary in **Figure 25**.

Figure 25 – Total States Income - Summary of Variations in September 2018 forecast to Budget 2018 forecast (September 2017), excluding Budget 2019 measures

Total States Income	*Outturn*	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income Tax	*514,930*	529,000	566,000	597,000	625,000	655,000	688,000
GST	*87,946*	90,517	92,358	93,482	94,538	95,728	96,833
Impots Duties	*59,999*	62,109	62,785	62,679	62,692	62,816	62,960
Stamp Duty	*33,283*	34,736	35,366	35,008	35,771	36,557	37,366
Total States Income from Taxation and Duties	***696,158***	**716,362**	**756,509**	**788,169**	**818,001**	**850,101**	**885,159**
Annual Growth		*2.9%*	*5.6%*	*4.2%*	*3.8%*	*3.9%*	*4.1%*
Other States Income	*71,082*	67,345	69,829	67,285	69,555	72,238	74,430
Total States Income	***767,240***	**783,707**	**826,338**	**855,454**	**887,555**	**922,339**	**959,589**
Annual Growth		*2.1%*	*5.4%*	*3.5%*	*3.8%*	*3.9%*	*4.0%*
Budget 2018 forecast (September 2017)	***726,768***	**748,450**	**777,977**	**799,331**	**827,359**	**n/a**	**n/a**
Variation	*40,472*	35,257	48,361	56,123	60,197		
2018 Budget Measures	-	*(2,900)*	*(10,200)*	*(10,200)*	*(10,200)*		
2018 Budget 2nd Amendment - VED	-	*(2,200)*	*(2,100)*	*(2,100)*	*(2,100)*		
Variation (including 2018 Budget Measures)	***40,472***	**30,157**	**36,061**	**43,823**	**47,897**		

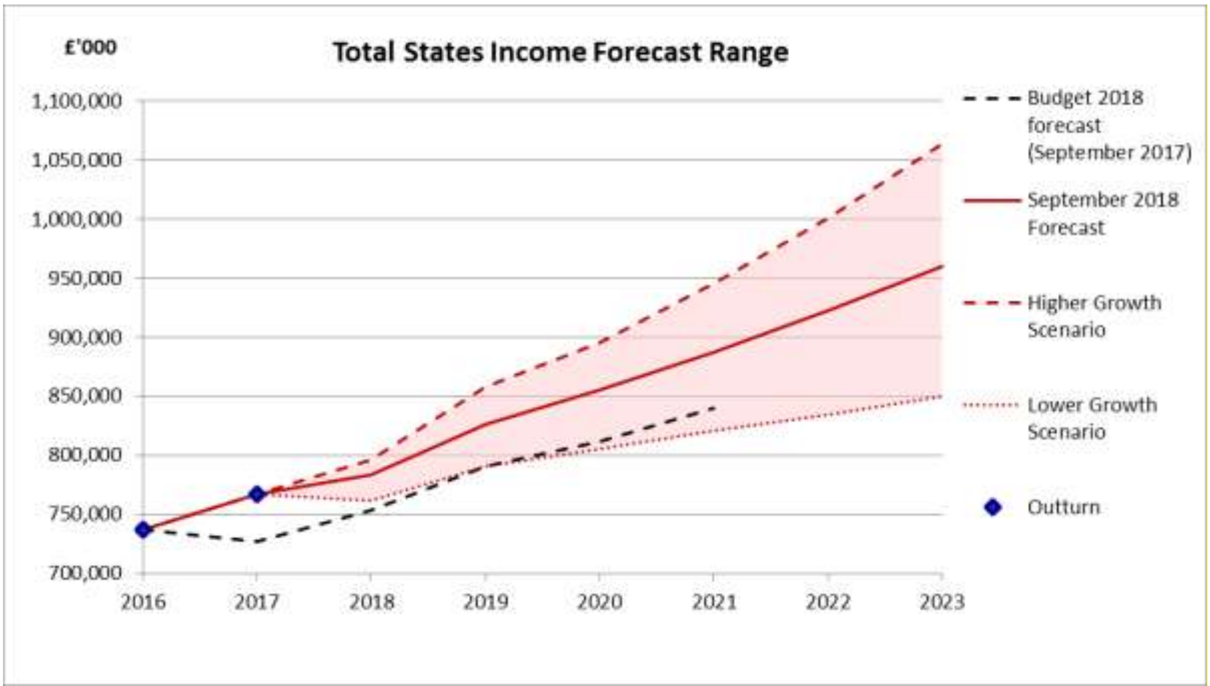
Overall range of forecasts 2018-2023

The updated FPP endorsed economic assumptions (August 2018) provide a range of higher, lower and central assumptions. These assumptions are used within the modelling of the different types of States income along with other modelling factors to provide an illustrative range of income forecasts. The range around the central forecast has not changed significantly but has been updated and re-modelled to reflect the revised range of economic assumptions.

The central scenario is broadly the mid-point of the range which by 2023 amounts **to £214m** between the higher and lower scenarios.

Figure 26 - Forecast range for the draft Total States Income forecasts

Total States Income	*Outturn*	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Higher Scenario	-	795,952	858,377	895,669	945,273	1,000,767	1,064,016
Central Scenario	***767,240***	**783,707**	**826,338**	**855,454**	**887,555**	**922,339**	**959,589**
Lower Scenario	-	761,327	790,727	805,523	820,308	834,182	849,880
Range £'000		*34,625*	*67,649*	*90,146*	*124,965*	*166,586*	*214,136*
Range %		*4%*	*8%*	*11%*	*14%*	*18%*	*22%*



Summary of Economic Assumptions for the draft Budget 2019

The economic assumptions have been updated by the FPP based on the latest local and international developments to August 2018.

The main variations to the economic assumptions provided for the 2018 Budget forecast are summarised at **Figure 28**. The IFG have considered the economic assumptions endorsed by the FPP and have agreed that these assumptions be used as the basis for the income forecast modelling.

Figure 27 – FPP Updated Economic Assumptions (August 2018)

FPP central scenario

	2016	2017	2018	2019	Return to trend 2020	2021	2022	2023
Real GVA	1.2	0.1	1.6	1.5	0.0	0.0	0.0	0.0
RPI	1.7	3.1	4.2	3.4	3.3	3.3	3.3	3.3
RPIY	1.7	3.2	3.8	3.0	3.0	3.0	3.0	3.0
Nominal GVA	1.9	3.3	5.4	4.5	3.0	3.0	3.0	3.0
Company profits	0.9	-0.8	5.0	4.0	3.0	3.0	3.0	3.0
Financial services profits	-0.6	-6.2	4.3	3.5	3.0	3.0	3.0	3.0
Compensation of employees	2.7	6.9	5.8	4.9	3.0	3.0	3.0	3.0
Employment	2.1	2.3	1.5	1.0	0.0	0.0	0.0	0.0
Average earnings	2.1	2.6	4.2	3.9	3.0	3.0	3.0	3.0
Interest rates (%)	0.4	0.3	0.6	0.8	1.0	1.1*	1.3*	n/a*
House prices	4.0	3.0	5.0	4.0	3.0	3.0	3.0	3.0
	OUTTURNS							

** The FPP assumption for interest rates covers 2018-2020 and it has been assumed that rates follow a similar path over 2021 and 2022*

Figure 28 – Variations between FPP Economic Assumptions from August 2017 to August 2018

Variance August 2018 to August 2017

	2016	2017	2018	2019	Return to trend 2020	2021	2022	2023
Real GVA	1.0	-1.1	1.0	1.5	0.0	0.0	0.0	0.0
RPI	0.0	0.3	1.8	0.1	0.0	0.0	0.0	0.0
RPIY	0.0	0.4	1.4	0.0	0.0	0.0	0.0	0.0
Nominal GVA	0.0	-0.7	2.4	1.5	0.0	0.0	0.0	0.0
Company profits	0.0	-4.7	2.1	1.0	0.0	0.0	0.0	0.0
Financial services profits	0.0	-10.2	1.9	0.5	0.0	0.0	0.0	0.0
Compensation of employees	-0.1	2.9	2.8	1.9	0.0	0.0	0.0	0.0
Employment	0.1	1.3	1.0	1.0	0.0	0.0	0.0	0.0
Average earnings	0.0	-0.4	1.7	0.9	0.0	0.0	0.0	0.0
Interest rates (%)	0.0	0.1	0.3	0.4	0.5	-0.2	-0.2	n/a
House prices	0.0	0.0	2.0	1.0	0.0	0.0	0.0	0.0

When compared to the previous August 2017 assumptions, the main changes are:

- Outturn data – there have been a number of new data:
  - Inflation for 2017 was higher than expected.
  - Financial services profits for 2017 fell strongly but total wages in the sector saw strong growth.
  - FTE employment growth in 2017 was higher than forecast.
  - Average earnings outturn for 2017 was lower than expected.
- Inflation – recent data have shown continued high inflation and survey results point towards businesses facing ongoing cost pressures, leading to higher expectations for 2018 and 2019.

- Company profits – profits for both financial services and non-finance are expected to be higher in 2018 and 2019, largely due to higher inflation but also due to a small increase in real terms expectations for finance in 2019.
- Average earnings – 2018 and 2019 expected to be significantly higher, largely due to higher inflation but also a small increase in the real terms expectation in 2019.
- Employment growth – is now expected to be faster in 2018 and 2019, reflecting ongoing momentum from recent strong growth.
- UK policy interest rates – are now expected to be slightly lower throughout the forecast period, based on market expectations published in August.

The changes in these assumptions have had knock-on effects on the nominal and real economic growth (gross value added - GVA) assumptions, with real growth estimated to have been slower in 2017 but higher in 2018 and 2019.

The economic assumptions include a zero trend rate of GVA growth from 2020 onwards.

No inclusion in these forecasts were made for future taxation measures other than inflationary adjustments to personal tax exemption thresholds in line with established policy and inflationary increases to certain Impots duties.

States Departmental Expenditure Forecasts for 2018 and 2019

Background

The MTFP Addition 2017-2019 was agreed by the States in September 2016 and determined the detailed allocations of expenditure to departments and central allocations for 2017-2019, all within the total States net expenditure allocations agreed in the MTFP 2016-2019 in October 2015. The States cannot exceed these total net expenditure limits without an amendment from the Council of Ministers being brought and agreed by the States Assembly.

Expenditure Forecasts for 2018

Department expenditure forecasts to August 2018 showed a predicted departmental underspend for the full year of approximately £12.5m. A review of allocated and unallocated contingencies has been made and, taking into account existing pressures to be funded during the remainder of 2018, central reserves are forecast to underspend by just under £16m which will be carried forward into 2019. It is expected that all funding will be fully utilised in 2019. The States Treasury and Exchequer will continue to provide regular updates on financial monitoring for 2018 to the Council of Ministers on the forecast position for both expenditure and income ahead of the Budget 2019 debate.

Funding measures

The proposed health charge was rejected as part of the MTFP Addition debate (September 2016) and this funding was proposed to be replaced by a number of additional revenue raising measures in Budgets 2018 and 2019. Additional revenue raising measures of £12.3m were agreed in the Budget 2018, resulting in a small shortfall against the original targets for the rejected health charge.

Expenditure measures

The £77m of expenditure measures for efficiencies, savings and user pays and £10m of benefit changes have been reflected in departmental heads of expenditure, which leaves two remaining measures:

- The withdrawal of the transfers from the Health Insurance Fund (HIF) to support health expenditure of £5m per annum, and
- Non-domestic waste charges of £11m in 2019.

The £5m shortfall in health funding in 2018 was met from underspends in 2017 carried forward for 2018. The current departmental forecasts for 2018 suggest that the forecast underspend could provide for the £5m required in 2019 if required.

The Department for Infrastructure (DfI) net expenditure limit for 2019 assumed that £11m of new non-domestic waste charges would be raised in that year. The decision regarding the introduction of non-domestic waste charges has been deferred.

The DfI net expenditure limit also included provision for £0.9m for the States payment of rates which, following the amendment by the Constable of St Helier in the last Budget (as amended), was increased to include the payment of Island Wide Rates.

The result of these decisions was a shortfall in the 2019 Central Growth Allocation of £10.5m. Health and Community Services were asked to refresh their expenditure profile on P.82 Health Strategy funding for Acute Service Strategy, Out of Hospital and Mental Health based upon the backlog of programme delivery of the Health Strategy and associated underspending of previous growth funding provided. As a result, £3.6m was able to be reallocated to address the shortfall, leaving an overall shortfall of £6.9m which will be funded from existing resources in 2019 but is due to be recurrently funded in departmental base budgets from 2020.

It is planned that once savings and efficiencies arising from the introduction of the Target Operating Model are delivered, funds would become available to invest in Health and Community Services once the P.82 Health Strategy delivery is on track.

Financial Forecast – 2018 to 2023

Indicative high level forecasts of current spending plans have been developed to provide a medium term view of the financial position. A number of assumptions have been made in producing these indicative forecasts of expenditure. In 2019 there is an assumption that all monies allocated in the MTFP Addition will be spent; further assumptions are explained below.

Figure 29 – Summary of Financial Forecast for the draft Budget 2019

Outturn	Financial Forecast	Draft Budget 2019 Forecast (September 2018)					
		Forecast		Indicative			
2017		2018	2019	2020	2021	2022	2023
£'000		£'000	£'000	£'000	£'000	£'000	£'000
	States Income						
514,930	Income Tax	529,000	565,900	596,900	624,900	654,900	687,900
87,946	Goods and Services Tax	90,517	92,155	93,279	94,335	95,525	96,630
59,999	Impôts Duty	62,109	64,252	64,119	64,132	64,256	64,400
33,283	Stamp Duty	34,736	35,405	35,047	35,810	36,596	37,405
12,427	Island Wide Rate	12,825	13,261	13,698	14,150	14,617	15,100
12,323	Other Income (Dividends)	14,224	14,422	9,768	10,442	11,125	11,586
17,927	Other Income (Non-Dividends)	11,337	11,727	12,326	12,380	12,788	12,873
28,417	Other Income (Returns from Andium and Housing Trusts)	28,959	30,419	31,493	32,582	33,708	34,871
767,252	**Total States Income**	**783,707**	**827,541**	**856,630**	**888,731**	**923,515**	**960,765**
	Includes approved 2019 Budget Measures of	-	*1,203*	*1,176*	*1,176*	*1,176*	*1,176*
	States Expenditure allocations						
703,811	**Total Net Revenue Expenditure**	**772,583** [1]	**763,227** [2]	**828,941**	**869,329**	**904,350**	**940,051**
63,441	**Forecast Surplus/(Deficit) for the year**	**11,124**	**64,314**	**27,689**	**19,402**	**19,165**	**20,714**
40,063	Departmental Depreciation	45,500	53,000	54,802	56,610	58,479	60,408
23,378	**Indicative Surplus/(Deficit) of General Revenue Expenditure over Income**	**(34,376)**	**11,314**	**(27,113)**	**(37,208)**	**(39,314)**	**(39,694)**
	[1] *Includes Carry Forwards from 2017 and Revenue to Capital transfers*						
	[2] *Includes Carry Forwards from 2018*						

The forecast shows small surplus of £10m at the end of 2019 – so broadly ‘balancing the books’. From 2020 there are annual deficits indicated after funding:

- Base expenditure (including supplementing the Growth, Housing and Environment department’s cash limit to reflect the non-delivery of the waste charge)
- Reserves - £7m
- Depreciation / capital allocation - £53m (inflated by RPI)
- Inflation and Commitments

Assumptions made

Inflation, the rate of which is based on long term trend assumptions, includes provision for pay, provision for uprating benefits, the additional employer’s costs of the new CARE pension scheme and repayments of the Pre-1987 PECRS debt, Health 2% inflation and Education demographics. The States Grant to the Social Security Fund will also return to formula after being frozen in the MTFP 2016-2019.

Commitments to be funded include Health Insurance Fund replacement funding (£5m), Higher Education (partly offset by increased tax income from the removal of the Higher Child Allowance from 2019 onwards), the Children’s Change Programme and Children’s Plan, Health P.82 investment including re-instating the £3.6m of funding which was re-allocated in 2019, and £3m per annum for investment in initiatives to grow the economy.

The previous Council of Ministers has also supported additional recurring expenditure during the MTFP 2016-2019 period for existing commitments including Cyber security measures, the International Taxes team and funding for our response and preparation in respect of Brexit. Many of these commitments will need to be funded into 2020 and beyond.

The indicative deficits shown above are before investment in Common Strategic Policy priorities.

Equally none of the considerable savings that it is anticipated will be delivered as a result of implementing the Target Operating Model have been included.

In addition, the forecasts of States Income do not contain any budget measures beyond those arising from the proposed 2019 Budget which will recur from 2020.

Financial Forecast produced for 2020-2023 show a deficit of almost £30m in 2020 increasing to about £40m by 2023 on the above basis.

Income forecasts use trend assumptions from 2020, as endorsed by the FPP and these will be updated in March and September in each year. They also do not include any future tax measures other than some inflationary and threshold adjustments, these would not be included until the Minister for Treasury and Resources has explored possibilities and conferred with the Council of Ministers on these proposals.

The FPP confirms its position with regards to the risks being on the downside. Tax measures may need to be brought in to help any downturn we experience as a result of uncertainties such as the effect of Brexit.

Expenditure forecasts have been cast using the existing structure and departmental allocations based on information available at this time. A re-mapping exercise is near completion and consideration of ensuring the efficiencies driven by the new Target Operating Model are understood is expected before the end of the year.

This will enable investment in the Council of Ministers' Strategic Priorities to be made appropriately whilst still delivering on the public services Islanders expect such as safety and security.

The bringing together of expenditure and income decisions in the new Government Plan will improve decision making. Actions necessary to be taken as a result of a need to increase expenditure or reductions in expenditure needing to be actioned as a result of income challenges will be considered each year with a rolling forecast for the following 3 further years.

Consolidated Fund Forecast 2017-2019

Article 10(8) of the Public Finances (Jersey) Law 2005 requires the Minister for Treasury and Resources to lodge a Budget where the Consolidated Fund is balanced. The Consolidated Fund forecast is shown at **Summary Table F** and in detail in **Figure 30**, explaining the variations from the Budget 2018 position.

Figure 30 – Detailed Forecast of Consolidated Fund 2017-2019 (September 2018)

Revised Forecast Consolidated Fund Balance	***Outturn***	**Forecast Update for Draft Budget 2019 (September 2018)**	
	2017	**2018**	**2019**
	£'000	**£'000**	**£'000**
Opening Balance brought forward	***90,941***	**119,634**	**126,599**
Accounting Adjustment in 2017 Accounts	*(109)*		
Adjusted Opening Balance brought forward	***90,832***	**119,634**	**126,599**
States Income (including approved 2019 Budget Measures)	*767,252*	783,707	827,541
States Net Revenue Expenditure	*(703,811)*	(772,583)	(763,227)
Carry Forwards adjustments	*(13,261)*	56,856	28,382
Transfers between capital and revenue	*(7,210)*	(18,228)	-
Operating Surplus/(Deficit)	***42,970***	**49,752**	**92,696**
Funding for Capital Programme	***(26,209)***	**(43,233)**	**(32,975)**
Capital Approval in Year for Les Quennevais School	*(39,000)*		
Additional in Year Capital Funding		(6,500)	
Transfers from Strategic Reserve			
Funding for Les Quennevais School	*39,000*		
Funding for Annual Capital Programme	*16,273*		
Transfers to Strategic Reserve			
Repayment for Economic and Productivity Growth Provision	*(5,000)*		
Proposed Transfers to Stabilisation Fund			(50,000)
Proposed Asset Disposals	***506***	***446***	-
Original Proposed Transfer from COCF		**6,500**	
Other Movements	*262*		
Forecast Closing Balance carried forward	**119,634**	**126,599**	**136,319**

Forecast Closing Balance carried forward (Budget 2018 as amended)		***56,848***	***60,305***
Opening balance from improved 2017 outturn		*40,148*	*40,148*
Reduced asset disposals		*(554)*	*(1,554)*
Increased operating surplus due to improved income forecasts		*30,157*	*67,420*
No transfer to Strategic Reserve			*20,000*
Transfer to Stablisation Fund			*(50,000)*
Difference in Closing Consolidated Fund Balance between Budget 2019 and Budget 2018		***69,751***	***76,014***

The balance on the Consolidated Fund in 2019 is forecast to be £135m (before proposed 2019 Budget measures) which is higher than forecast in the Budget 2018 but provides a level of flexibility against variations in the income forecasts particularly with the level of uncertainty referred to by the FPP and IFG. These balances also provide flexibility in developing funding proposals for the Government Plan.

Reserves Transfer

P.76/2015 approved a £50m transfer in 2019 from the Consolidated Fund into the Strategic Reserve. This was to repay £10m invested in the Economic Productivity and Growth Drawdown Provision, £20m of redundancy funding and £20m planned to be received from asset sales.

In subsequent Budgets, that transfer was forecast to be adjusted to reflect changes to the drawdowns and plans for asset disposals; only the £20m repayment of redundancy funding remained.

However, due to the large forecast balances on the Consolidated Fund, the proposal is now to re-instate the transfer of £50m but place it instead into the Stabilisation Fund to provide future funding for economic stimulus as required, in the event of any downturn in the economy.

Strategic Reserve Forecast

The MTFP 2016-2019 proposed the use of the Strategic Reserve as one of the short-term funding measures and the drawdowns and repayments were approved in P.76/2015 (as amended) in October 2015. The MTFP Addition 2017-2019 presented an amended position for 2018 indicating that a potential drawdown of £16m could be required as a result of the slight reduction in the income forecasts based on the FPP's August 2016 economic assumptions post Brexit.

The MTFP addition stated that this position would be reviewed once further updates to the income forecasts were prepared for the 2018 Budget. The improvement in the income forecasts since the MTFP Addition and Budget 2017 result in a position on the Consolidated Fund which would not require the drawdown of £16m in 2018.

The forecast of the Strategic Reserve balances at **Figure 31** reflects the transfers to date and is based upon the target rate of return of the fund of RPI(Y) + 2% over the longer term.

The use of the Strategic Reserve in the early years of this MTFP was in accordance with the FPP's advice to use reserves in the short-term to support the economy and maintain the important investment in the capital programme and in the States strategic priorities. The use of reserves provided time for the sustainable measures to be phased in over the period of the plan to lessen the impact on services and the public and deliver broadly balanced budgets by 2019.

Figure 31 – Strategic Reserve Forecast Balances 2016-2019

Strategic Reserve - Estimated Balances	2016 Actual £'m	2017 Actual £'m	2018 Forecast £'m	2019 Forecast £'m
Strategic Reserve - Protected Capital Value [1]	691	715	743	765
Strategic Reserve - Accumulated Excess Return	129	125	146	168
Strategic Reserve - Estimated Fund balance	**820**	**840**	**889**	**933**

[1] *The protected capital value is based on the 2012 Strategic Reserve value increased annually by RPI(Y)*

PART F – THE ECONOMIC OUTLOOK

12. Economic Background and Outlook

International developments

The global economic expansion may now have peaked, with the Organisation for Economic Cooperation and Development (CECD) expecting growth to settle at 3.7% in 2018 and 2019 but with an intensification in risks and some easing in confidence. Growth is becoming less even between countries, particularly between emerging economies. Strong job growth remains but wage pressures have yet to pick up. Global trade growth has slowed in the first half of 2018, with trade tensions having adverse effects on confidence.

The OECD expects a UK slowdown in growth this year to a modest rate of around 1.3%, with a similar performance next year. While employment growth has been strong, the limited pace of earnings growth restricts growth in household spending. Business investment remains soft, in the light of continued uncertainty on negotiations with the EU.

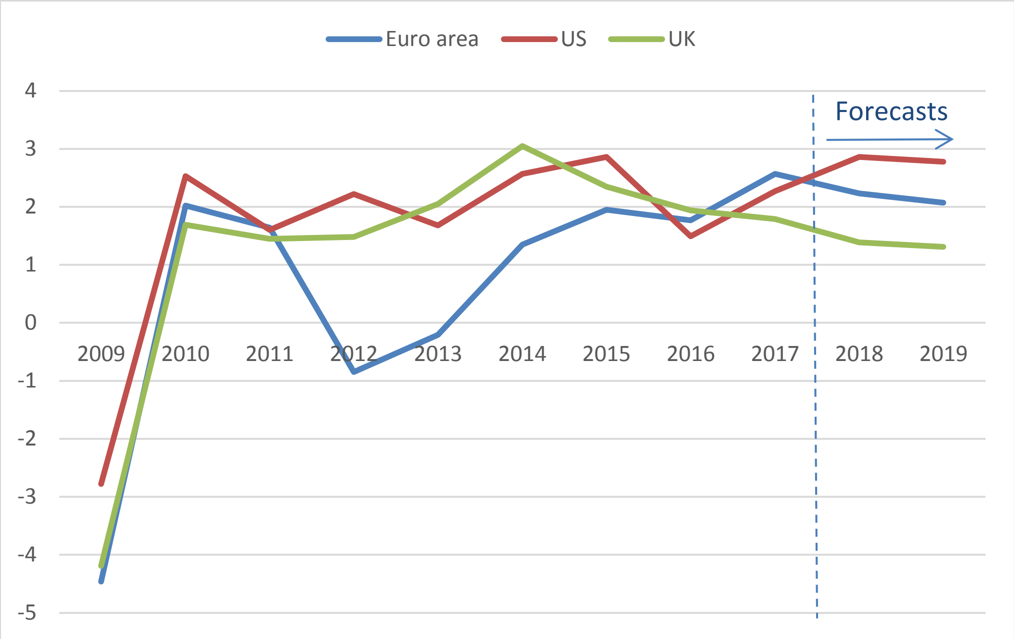
The United States is expected to expand by close to 3% this year before easing slightly next year with the euro area expected to see a gradual slowdown from 2.5% in 2017 to 1.9% in 2019. India is set to remain the fastest growing large economy with China expected to ease slowly and Russia and Brazil both continuing a relatively gradual road to recovery after recent recessions.

Risks to the global outlook identified by the OECD include:

- Increased trade tensions and uncertainty about trade policies which may affect global investment, jobs and living standards.
- Tightening financial conditions which are causing stress in a number of emerging economies, for example in Turkey.
- Faster-than-expected increases in interest rates in advanced economies may lead to significant currency depreciation and volatility in some emerging market economies.
- Financial risks have built up again, ten years after the financial crisis.
- Political risks remain in Europe which could lead to risks around fiscal and financial stability.

Figure 32 - World economic growth

Annual average % change



Source: OECD Economic Outlook September 2018

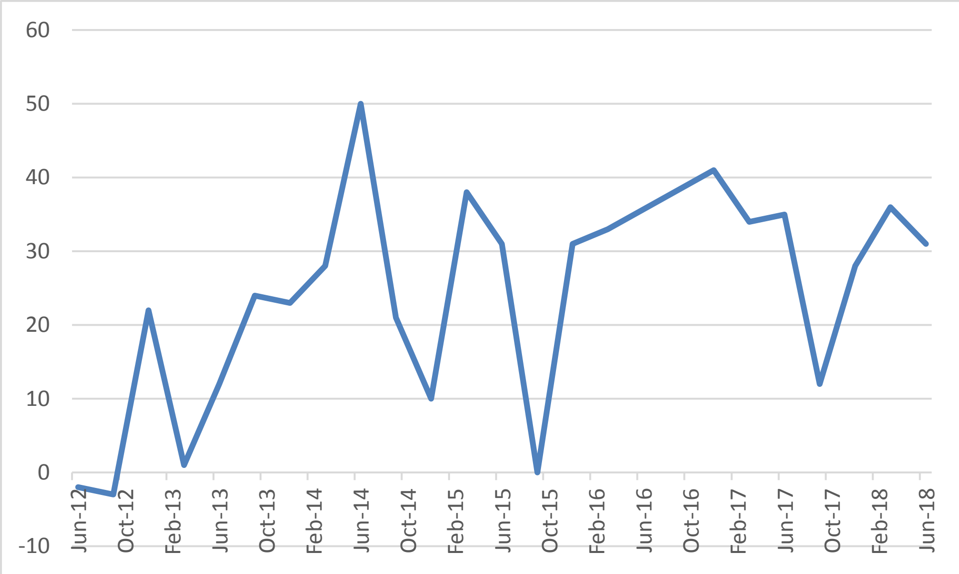
Jersey Economy

Jersey's economy was essentially flat in 2017, with growth of 0.4% in real terms. The finance sector contracted by around 2% but this was outweighed by a relatively strong performance from the non-finance sectors – particularly construction. The Business Tendency Survey (BTS) has continued to paint a positive picture overall in 2018, with the headline business activity indicator having been positive since June 2014. The majority of the other indicators were positive or neutral in June 2018, with the exception of input costs which have been borne out in above average inflation.

For the finance sector, the BTS has been consistently positive in recent rounds. Business activity remained positive in June 2018, with a net balance of +31 – indicating that that the proportion of businesses (weighted by employment) reporting an increase in activity was 31% higher than the proportion reporting a decrease. Expectations for the next three months were high for employment and expectations for future business activity were at their highest in the last ten years.

Figure 33 - Finance business tendency results – business activity indicator

% balance of respondents

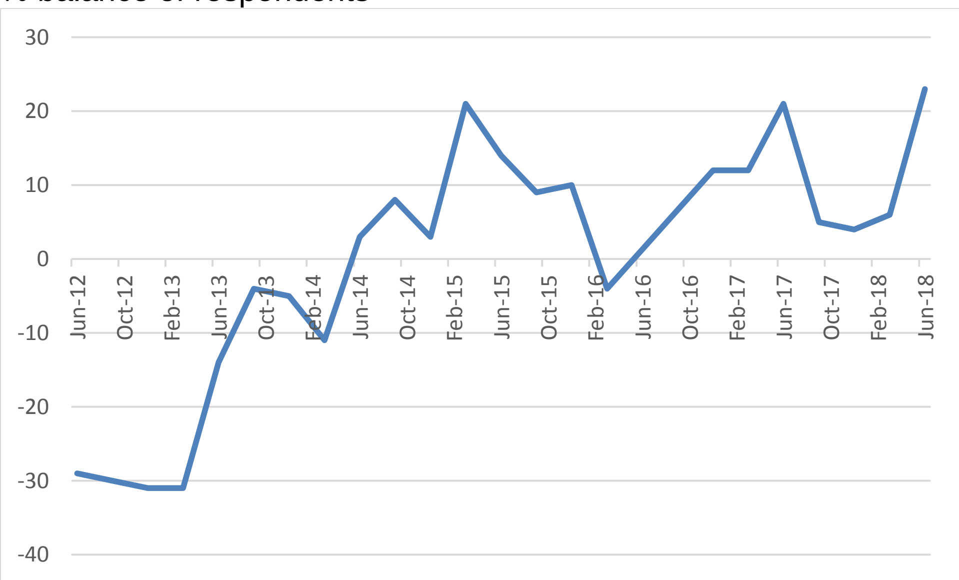


Source: Statistics Jersey

Non-finance has remained positive over the year and business activity has reached a ten-year high. Profitability was neutral and all other indicators were positive in June 2018.

Figure 34 - Non-finance business tendency results – business activity indicator

% balance of respondents



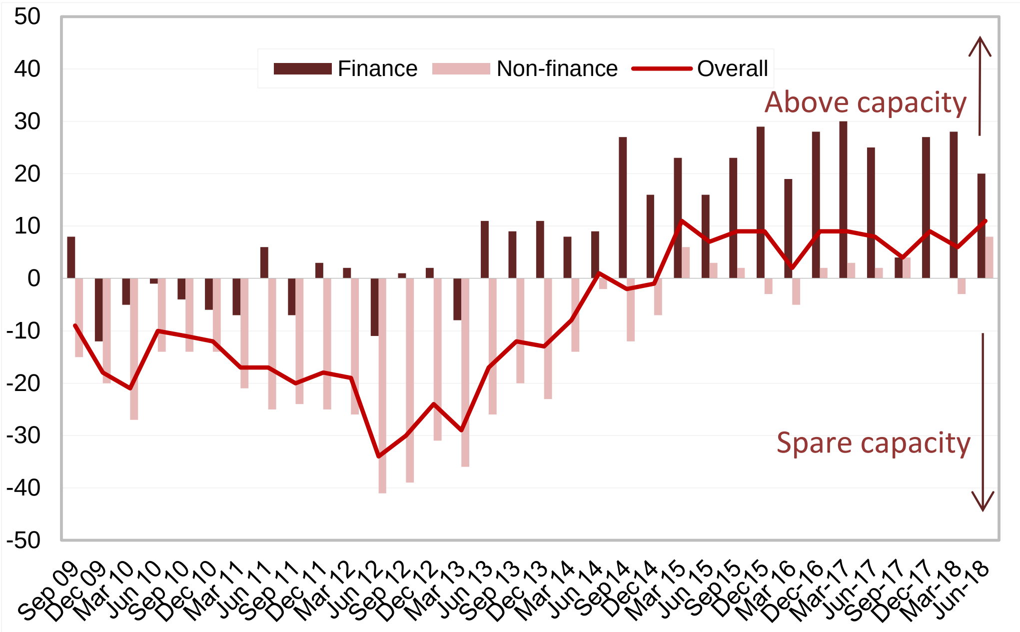
Source: Statistics Jersey

The BTS also provides some data on firms' perceptions of whether they are working above or below capacity. This is potentially an indicator of the amount of spare capacity in the economy as a whole, alongside other indicators including global economic conditions, the competitiveness of financial services, trends in Jersey Gross Value Added (GVA, a measure of economic activity), labour market trends and the ability of businesses to employ recruit.

As can be seen in Figure 6, a majority of firms (weighted by employment) report that they are operating above capacity. The responses from the finance sector have now shown a large number of firms operating above capacity for four years now. The results for non-finance have been neutral for the last three years, but the most recent response suggests a potentially similar story of spare capacity reducing.

Figure 35 - Capacity utilisation

% balance of respondents above/below capacity

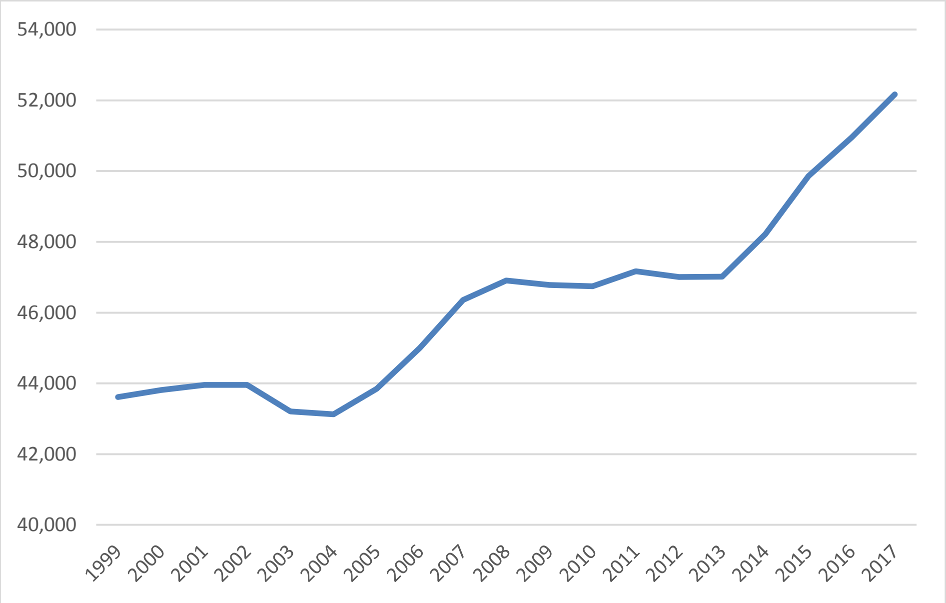


Source: Statistics Jersey

Employment growth has now been strong for four years, with 2017 reaching new record high levels in both June and December. The numbers of those actively seeking work continues to fall, with a 17% annual reduction to June 2018, following a near 30% drop to June 2017.

Figure 36 - Employment trends in Jersey

Private sector employment

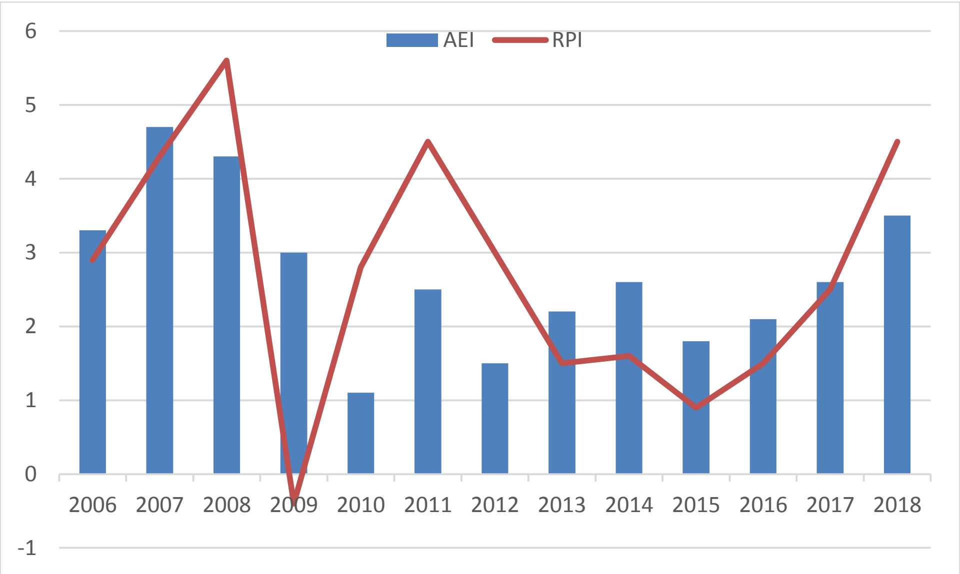


Source: Statistics Jersey

After five successive years of real-term gains, earnings growth was overtaken by inflation in the year to June 2018. With significant losses at the start of the decade, this result has reduced real earnings to 0.9% below their 2007 level.

Figure 37 - Earnings growth and inflation

Annual % change in average earnings and retail prices index

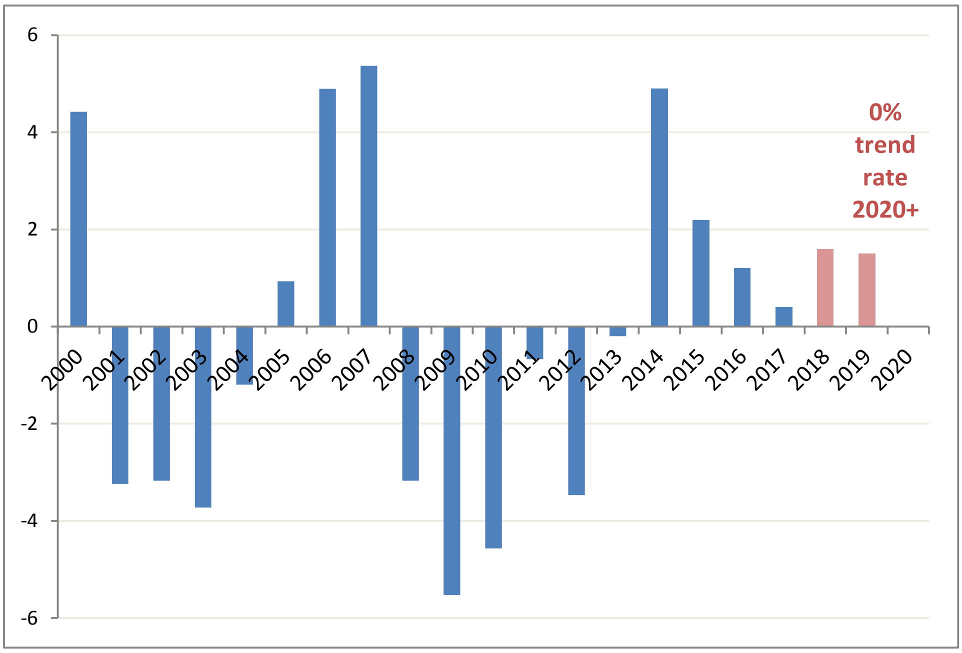


Source: Statistics Jersey

The Fiscal Policy Panel (FPP) last updated their economic assumptions in August 2018. With optimism rising in the finance sector, the Panel forecast growth in 2018 at 1.6%, falling slightly to 1.5% in 2019. However, the Panel repeated its warning that the UK's exit from the EU may have implications for the Jersey economy and though having risen recently there was uncertainty about the normalisation of interest rates, affecting the rate of bank profitability. Furthermore, competitive and regulatory challenges persist for the financial services sector in the medium-to-long term.

Figure 38 - GVA trends

% change in real GVA, actual (blue bars) and FPP assumptions (red bars)

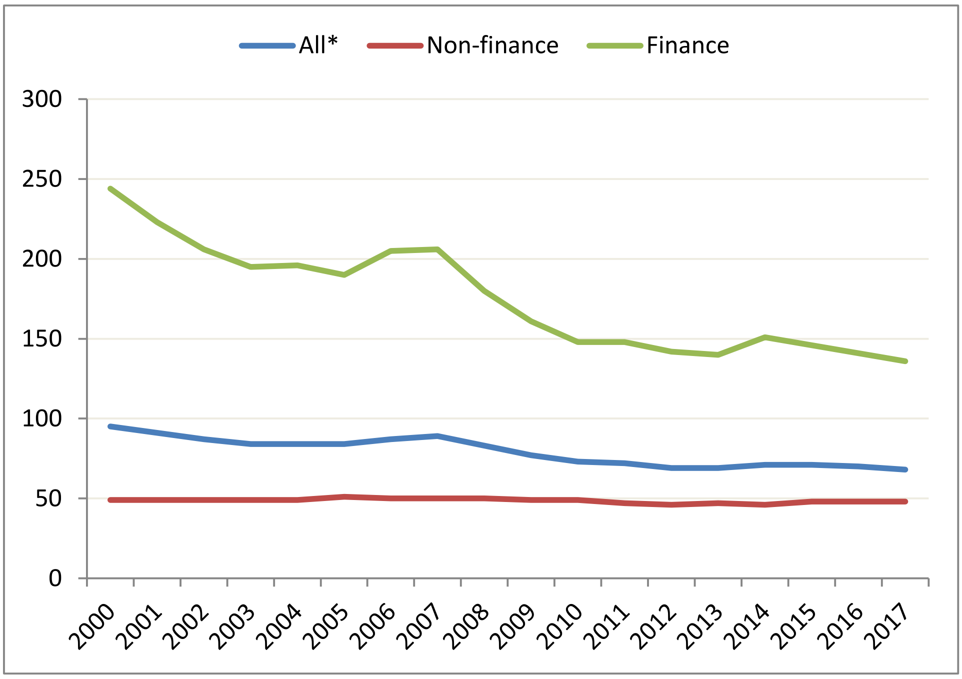


Source: Statistics Jersey; Fiscal Policy Panel

2017 saw productivity (as measured by GVA per full-time equivalent employee) fall in real terms to reach a new record low. Productivity for non-finance was stable whilst output per worker fell again in the finance sector.

Figure 39 - Productivity growth in Jersey

GVA per person employed (full-time equivalent), 2017 prices £000s



*All sectors and non-finance exclude rental

Source: Statistics Jersey

The FPP highlighted that such productivity trends when combined with the fiscal implications of the ageing society will risk pushing Jersey's public finances back out of structural balance in the long-term. In particular the FPP advised in their August 2018 economic assumptions letter that:

> *Jersey's poor productivity performance over recent years has been a concern, with significant falls in the finance sector, largely driven by the low-interest rate environment, but also no measurable growth in non-finance productivity. If this poor productivity performance persists it will act as a drag on the medium-term prospects for the economy.*

PART G – SUMMARY TABLES

Summary Table A – States Income 2017-2023

Outturn	States Income	Sept 2018 Forecast	Draft Budget 2019 Forecast				
2017 £'000		2018 £'000	2019 £'000	2020 £'000	2021 £'000	2022 £'000	2023 £'001
	Income Tax						
428,386	Personal Income Tax	439,000	463,900	489,900	514,900	541,900	571,900
86,444	Companies	93,000	105,000	110,000	113,000	116,000	119,000
100	Provision for Bad Debt	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
514,930		**529,000**	**565,900**	**596,900**	**624,900**	**654,900**	**687,900**
	Includes approved 2019 Budget Measures of		*(100)*	*(100)*	*(100)*	*(100)*	*(100)*
	Goods and Services Tax (GST)						
74,545	Goods and Services Tax (GST)	76,036	77,354	77,975	78,600	79,230	79,866
4,951	Import GST	5,361	5,801	6,304	6,734	7,295	7,764
8,450	ISE Fees	9,120	9,000	9,000	9,000	9,000	9,000
87,946		**90,517**	**92,155**	**93,279**	**94,334**	**95,525**	**96,630**
	Includes approved 2019 Budget Measures of		*(203)*	*(203)*	*(203)*	*(203)*	*(203)*
	Impôts Duties						
5,651	Impôts Duties Spirits	6,046	6,195	6,342	6,488	6,636	6,787
8,209	Impôts Duties Wine	8,537	8,835	9,137	9,441	9,756	10,080
760	Impôts Duties Cider	729	732	735	736	738	739
5,889	Impôts Duties Beer	6,106	6,257	6,405	6,552	6,701	6,855
15,019	Impôts Duties Tobacco	15,285	15,939	15,656	15,377	15,105	14,836
22,761	Impôts Duties Fuel	22,511	23,201	22,969	22,749	22,531	22,314
184	Impôts Duties Goods (Customs)	145	145	145	145	145	145
1,526	Vehicle Emissions Duty (VED)	2,750	2,948	2,730	2,644	2,644	2,644
59,999		**62,109**	**64,252**	**64,119**	**64,132**	**64,256**	**64,400**
	Includes approved 2019 Budget Measures of		*1,467*	*1,440*	*1,440*	*1,440*	*1,440*
	Stamp Duty						
27,991	Stamp Duty	29,673	30,476	30,039	30,721	31,423	32,146
3,000	Probate	2,655	2,300	2,300	2,300	2,300	2,300
2,292	Stamp Duty on Share Transfer (LTT)	2,408	2,629	2,708	2,789	2,873	2,959
33,283		**34,736**	**35,405**	**35,047**	**35,810**	**36,596**	**37,405**
	Includes approved 2019 Budget Measures of		*39*	*39*	*39*	*39*	*39*
696,158	**Total Taxation Revenue**	**716,362**	**757,712**	**789,345**	**819,176**	**851,277**	**886,335**
12,427	**Island Rate Income from Parishes**	**12,825**	**13,261**	**13,698**	**14,150**	**14,617**	**15,100**
12,323	**Other States Income - Dividends**	**14,224**	**14,422**	**9,768**	**10,442**	**11,125**	**11,586**
17,927	**Other States Income - Non Dividends**	**11,337**	**11,727**	**12,326**	**12,380**	**12,788**	**12,873**
28,417	**Other States Income - Returns from Housing Associations**	**28,959**	**30,419**	**31,493**	**32,582**	**33,708**	**34,871**
71,094	**Total Other States Income**	**67,345**	**69,829**	**67,285**	**69,554**	**72,238**	**74,430**
767,252	**Total States Income including 2019 Budget Measures**	**783,707**	**827,541**	**856,630**	**888,729**	**923,515**	**960,765**
	% increase on previous year	*2.1%*	*5.6%*	*3.5%*	*3.7%*	*3.9%*	*4.0%*

Summary Table B – Proposed Allocation of Growth Expenditure for 2019

Dept	Central Growth Funding Proposals	2018 Approved £'000	2019 £'000
H&CS	2% Investment in Service Standards and Healthcare Inflation	**4,714**	9,967
	P82/2012 - Health Transformation (White Paper)		
H&CS	Acute Service Strategy	**1,716**	1,716
H&CS	Mental Health	**442**	442
H&CS	Out of Hospital	**462**	462
	Sub Total Health Transformation - White Paper programme	**2,620**	2,620
H&CS	**Proposed Central Growth Allocation for Health**	**7,334**	**12,587**
SPPP	Healthy Lifestyles (Trf from H&CS)	**265**	357
SPPP	**Proposed Central Growth Allocation for SPPP**	**265**	**357**
CYPES	Revenue consequences of capital schemes - New schools	**90**	115
CYPES	Services for Children (Early Interventions)	**615**	993
CYPES	**Proposed Central Growth Allocation for CYPES**	**705**	**1,108**
GHE	Revenue consequences of capital schemes - Jersey Archive	**20**	25
GHE	**Proposed Central Growth Allocation for GHE**	**20**	**25**
GHE	Revenue consequences of capital schemes - new Sewage Treatment Works	**-**	1,584
GHE	Contribution towards GHE cash limit shortfall for 2018	**2,100**	
GHE	Island Wide Rate element of States paying Rates	**-**	794
GHE	Waste Charges shortfall	**-**	11,000
	Funding shortfall *		**(6,922)**
GHE	**Proposed Central Growth Allocation for Infrastructure**	**2,100**	**6,456**
Total	**Total Proposed Central Growth Allocation for 2019**	**10,424**	**20,533**

***Shortfall - to be funded by unallocated reserves/Target Operating Model Savings**

Summary Table C – Proposed Capital Programme for 2019 (funding sources)

	Proposed Funding 2019 £'000
Departmental Capital Allocation	**35,993**
Funding Sources	
Consolidated Fund	(32,975)
Transfer of unspent capital	(3,018)
TOTAL CAPITAL PROGRAMME FUNDING	**(35,993)**

Summary Table D – Proposed Capital Programme for 2019

Capital Head of Expenditure	Programme (Gross) £'000 2019	Transfers from Unspent Capital £'000	Consolidated Fund Allocation (Net) £'000 2019
Office of the Chief Executive			
Desktop Upgrades	1,000	-	1,000
Corporate Web Platform Refresh Cycle	500	-	500
Content management system refresh (SharePoint	100	-	100
Hardware Refresh	281	-	281
Open Data	77	-	77
CRM Platform Renewal	80	-	80
Replacement Assets - CMD	1,050	-	1,050
ERP Solution			-
Modernisation and Digital			-
Office of the Chief Executive Total	**3,088**	**-**	**3,088**
Children, Young People, Education and Skills			
Grainville Phase 5 *	3,778	(1,505)	2,273
Minor Capital	250	-	250
Children, Young People, Education and SkillsTotal	**4,028**	**(1,505)**	**2,523**
Health & Community Services			
Equipment & Minor Capital	1,073	-	1,073
Child Health IT System	202	-	202
Replacement Assets RIS / PACS IT assets	1,900	-	1,900
CT Scanner	2,225	-	2,225
Health & Community Services	**5,400**	**-**	**5,400**
Growth, Housing and Environment			
Replacement Assets	2,000	-	2,000
Infrastructure Rolling Vote	18,188	-	18,188
La Collette Waste Site Development	500	-	500
Urban Regeneration - Public Space	2,000	(1,420)	580
Equipment, Maintenance and Minor Capital	80	(68)	12
Fisheries Vessels	25	(25)	-
Growth, Housing and Environment Total	**22,793**	**(1,513)**	**21,280**
Justice and Home Affairs			
Minor Capital	505	-	505
Justice and Home Affairs Total	**505**	**-**	**505**
Non Ministerial			
Replacement Assets - Non Mins	179	-	179
Non Ministerial Total	**179**	**-**	**179**
Total Capital Programme	**35,993**	**(3,018)**	**32,975**

Notes: * Denotes projects to be completed by Jersey Property Holdings on behalf of the relevant service department.

Summary Table E – Proposed Capital Allocation to States Trading Operations for 2019

	Indicative Programme 2019 £'000
Car Park Enhancement and Refurbishment	2,992
Jersey Car Parking	**2,992**
Vehicle and Plant Replacement	1,556
Jersey Fleet Management	**1,556**

Summary Table F – Consolidated Fund Forecast 2017-2019

Draft Forecast Consolidated Fund Balance	*Outturn*	Forecast Update for Draft Budget 2019 (September 2018)	
	2017	2018	2019
	£'000	£'000	£'000
Opening Balance brought forward	***90,941***	**119,634**	**126,599**
Accounting Adjustment in 2017 Accounts	*(109)*		
Adjusted Opening Balance brought forward	***90,832***	**119,634**	**126,599**
States Income (including approved 2019 Budget Measures)	*767,252*	783,707	827,541
States Net Revenue Expenditure	*(703,811)*	(772,583)	(763,227)
Carry Forwards adjustments	*(13,261)*	56,856	28,382
Transfers between capital and revenue	*(7,210)*	(18,228)	-
Operating Surplus/(Deficit)	***42,970***	**49,752**	**92,696**
Funding for Capital Programme	***(26,209)***	**(43,233)**	**(32,975)**
Capital Approval in Year for Les Quennevais School	*(39,000)*		
Additional in Year Capital Funding		(6,500)	
Proposed Transfers from Strategic Reserve			
Funding for Les Quennevais School	*39,000*		
Funding for Annual Capital Programme	*16,273*		
Proposed Transfers to Strategic Reserve			
Repayment for Economic and Productivity Growth Provision	*(5,000)*		
Proposed Transfers to Stabilisation Fund			(50,000)
Proposed Asset Disposals	***506***	***446***	-
Original Proposed Transfer from COCF		**6,500**	
Other Movements	*262*		
Forecast Closing Balance carried forward	***119,634***	**126,599**	**136,319**

PART H – APPENDICES

Appendix 1 – Income Forecasting Group (IFG) Report on the Revised Forecast of States Income from Taxation and Duty for September 2018

1. Purpose

To provide the revised forecast of States income from taxation and duty for the Council of Ministers for September 2018. The forecasts reflect:

- the Fiscal Policy Panel (FPP) economic assumptions of August 2018 and other related economic data for Jersey;
- general revenues outturn for 2017;
- actual information on general revenues to June/July 2018;
- latest available information from the Taxes Office for Year of Assessment (YOA) 2017; and
- any other intelligence from the IFG affecting future forecasts.

2. Background

The agreed Terms of Reference for the IFG requires that at least two forecasts are produced each year.

The IFG produced revised forecasts of States income derived from taxation and duty in March 2018. This report would ordinarily have been presented to the Council of Ministers and the States Assembly once finalised. However, due to the timing of the report coinciding with the election process and purdah, this did not take place.
The IFG has now completed further revised forecasts for September 2018 for States income derived from taxation and duty which will inform final proposals for the draft Budget 2019.

The revised forecast period has been extended beyond the normal five-year outlook to cover 2018-2023, where 2023 represents the final year of the next four-year Government Plan.

The IFG forecasts cover a large proportion of States income, but exclude other States income from Island Wide Rate, dividends and returns from States Investments and other fees which are produced and reported separately.

3. Summary of Revised Forecasts of States Income from Taxation and Duty

The revised forecast has been prepared by officers and reviewed by the IFG and is considered as the central scenario within a range for 2018-2023.

Uncertainties and range of forecasts

The FPP has advised that the core reasons for uncertainty around economic assumptions and general economic uncertainty in the medium term remain from its Annual Report for 2017.

The IFG has reviewed its position from September 2017 and also considers that uncertainties are largely unchanged. The view is that the balance of risks to the financial forecasts remains on the downside but less so than before the UK referendum on Brexit.

The IFG view reflects the fact that some of the uncertainty regarding Brexit is factored into the FPP's economic assumptions. The IFG would contend that there are also business opportunities within these areas of uncertainty.

The IFG would emphasise certain factors at September 2018, which reflect uncertainty in the outlook at this time as:

- Personal Income Tax
  - Variations in employment numbers/earnings both in level and distribution;
  - Impact of unforeseen changes in interest rates on investment incomes;
  - Uncertainty in yield forecasts due to large number of component factors; and
  - Uncertainty regarding the amount of shareholder income arising in a particular year.

- Corporate Income Tax
  - Impact of unforeseen events on the taxable profits of major corporate taxpayers;
  - Impact of UK banking sector reforms and changes in interest rates on banking profits;
  - Impact on business activity of the outcome of the UK Brexit negotiations, particularly through its potential effect on the City of London; and
  - Impact of risks to the global economy and the effect on the market opportunities for local businesses.

- Both personal and corporate income taxes:
  - Performance of the Island economy;
  - Combined impact of future changes in fiscal policy such as public sector reform and future capital expenditure;
  - Impact of current and proposed EU and OECD international tax initiatives including the impact of any listing of the Island by the EU; and
  - Impact of changes to UK tax policy.

The IFG continues to emphasise the need to include flexibility within future financial planning given the risks above, and this is particularly reflected by the range around the income tax forecast.

Draft income forecasts for September 2018

Since the previous forecast, the IFG has received further information based on:

- Updated FPP endorsed economic assumptions for 2016-2029 from the Panel's letter to the Treasury Minister (2 August 2018) which show variations in the assumptions over the forecast period compared to those provided for the 2018 Budget forecast.

- Updated data on income tax outturn, particularly corporate income tax, for year of assessment 2017 from the Taxes Office. Initial information for some other income areas for the year to August 2018.
- An update on Contributions data from the Social Security Department for the first quarter of 2018.
- The income tax forecasting model has been updated to reflect the latest FPP endorsed economic assumptions. The personal income tax model was also adapted in 2017 to incorporate the recommendations from Phase 1 of the external review by Oxera, which were accepted by the IFG.
- Oxera also completed Phase 2 of this work, which investigated whether using disaggregated data can help develop a more 'bottom-up' approach to forecasting personal tax. Oxera's work did not result in any suggested improvements to the approach currently used by the IFG.

A summary of the revised forecasts for taxation and duty for September 2018 are shown in **Figure 1**, together with a comparison with the Budget 2018 (September 2017) forecast.

Figure 1: Revised forecast (September 2018) for States income from taxation and duty

Total States Income	*Outturn*	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'001	£'002
Income Tax	*514,930*	529,000	566,000	597,000	625,000	655,000	688,000
GST	*87,946*	90,517	92,358	93,482	94,538	95,728	96,833
Impots	*59,999*	62,109	62,785	62,679	62,692	62,816	62,960
Stamp Duty	*33,283*	34,736	35,366	35,008	35,771	36,557	37,366
Total States Income from Taxation and Duties	***696,158***	**716,362**	**756,509**	**788,169**	**818,001**	**850,101**	**885,159**
Annual Growth		*2.9%*	*5.6%*	*4.2%*	*3.8%*	*3.9%*	*4.1%*
Budget 2018 forecast (September 2017)	***657,903***	**686,246**	**707,335**	**732,052**	**757,830**	**n/a**	**n/a**
Variation	***38,255***	***30,116***	***49,174***	***56,117***	***60,171***		
2018 Budget Measures	-	*(2,900)*	*(10,200)*	*(10,200)*	*(10,200)*		
2018 Budget 2nd Amendment - VED	-	*(2,200)*	*(2,100)*	*(2,100)*	*(2,100)*		
Variation (including 2018 Budget Measures)	***38,255***	***25,016***	***36,874***	***43,817***	***47,871***		

Summary of Variations in 2017 Outturn compared to Budget 2018 (September 2017) forecast

There was a significant overall variation of actual revenue from taxation and duty compared to the forecast prepared in September 2017 which in summary are made up of:

- A significant increase in personal income tax in 2017 as a result of improved yield and higher levels of taxable income from employment, distributions and personal business income.
- The anticipated drop in corporate tax income in 2017 was not as significant as previous information had suggested, giving rise to a £9m increase over forecast. However, this still represents a £4m reduction on 2016 Corporate Tax revenues.
- GST revenues were £0.5m higher than forecast largely from GST on imports.
- The Impôts variation was largely due to under reporting in-year for a new fuel importer, which has been subsequently corrected, otherwise Impôts duties were largely as forecast.
- The principle variation in Stamp duty was extremely strong performance in the second half of 2017 for higher value properties (>£2m), together with increases in Probate and Land Transaction Tax (LTT).

Movements in forecasts since the Budget 2018 (September 2017) forecast

The revised forecast shows a number of variations compared to the Budget 2018 forecast and which in overall terms reflect a significant improvement in 2018 and forecast years to 2023.

The main forecast variations, which are described and explained in more detail in the individual sections of the report, can be summarised as follows:

- Personal Income Tax
    - The revised forecast shows an improved position in the forecast years of £9m in 2018, increasing to £29m by 2021.
    - The 2017 outturn was £13m higher than forecast mainly due to improvements in yield. Higher earned income, personal business income and income from distributions also contributed to the outturn improvement.
    - Changes to employment and earnings economic assumptions increased the employment and pension income forecast and improvements in interest rate assumptions also increase the revised forecast.
    - The States has approved higher education proposals which will lead to the withdrawal of the higher child allowance in 2019 resulting in an increase in revenues of £3.5m from 2020. This is partly offset by the impact of the corporate tax measures in Budget 2018 which are estimated to reduce the tax payable distributions to locally resident shareholders. The net effect of policy changes is estimated at £2m per year from 2020.

- Current Year Basis (CYB) adjustment
    - A review of 2017 outturn, previous CYB trends and improvements in assumptions for real GVA in 2018 and 2019 result in an increase to the annual CYB adjustment of £4m in 2018, £5m in 2019 and £2m from 2020 onwards.

- Corporate Income Tax
    - The improved outturn for 2017 (YOA 2016) and intelligence from the YOA 2017 returns result in an improvement of £6m in the underlying forecast for corporate tax.
    - The adoption of changes to financial services and corporate retail tax in Budget 2018 are forecast to generate £9m increased revenues from 2019.
    - The 2017 outturn variation has again shown that corporate tax revenues can be affected by the performance of a small number of significant tax payers. The potential movements in significant corporate taxpayers increases the uncertainty of future forecasts.

- GST, ISE Fees and Import GST
  - On-Island GST revenues are forecast to rise in excess of previous forecast with an improvement in economic growth assumptions for 2018 and 2019.
  - The trend of increase in Import GST has also given rise to an improved future forecast.
  - ISE Fees appear in line with previous forecasts following the 2018 Budget measures.

- Impôts Duties
  - There are a number of small variations to individual Impôts commodity forecasts but overall the forecast variance is small.
  - In relation to VED, there is a reduction to the forward forecasts for 2018 – 2023 due to uncertainty around the effect of the amendments from the 2018 Budget on future revenues from VED Duty.

- Stamp Duty
  - The changes in Stamp Duty forecasts largely reflect the improved 2017 outturn.
  - Forecasts for 2018 and 2019 are quite significantly increased for the trend and apparent demand for higher value properties.
  - The increased revenues from LTT transactions have also led to a base increase in future forecasts.

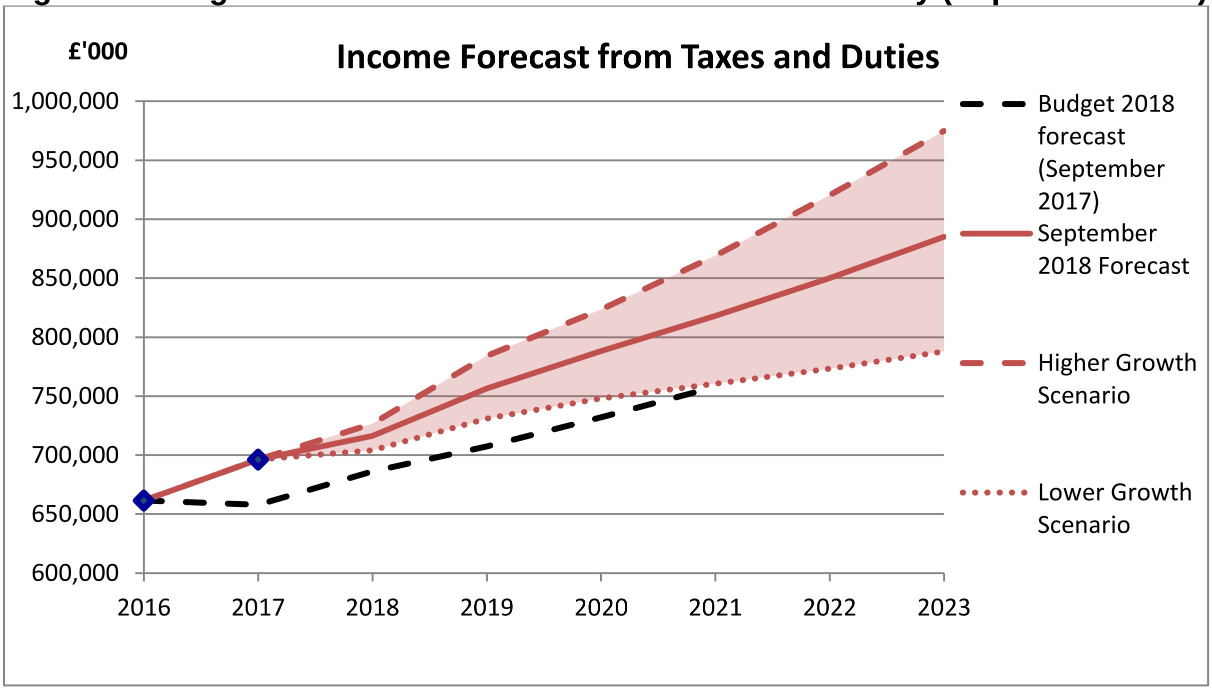
Range of Forecasts

The range around the central forecast has been extended along with the central forecast to 2023 and has been updated and re-modelled to reflect the revised range of economic assumptions.

Figure 2: Range of Income Forecasts from Taxation and Duty (September 2018)

States Income from Taxation and Duty	*Outturn*	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Higher Scenario	-	726,721	784,251	823,516	869,178	920,373	974,790
Central Scenario	***696,158***	**716,362**	**756,509**	**788,169**	**818,001**	**850,101**	**885,159**
Lower Scenario	-	704,013	730,864	748,185	760,634	773,295	787,879
Range £'000		*22,708*	*53,388*	*75,332*	*108,543*	*147,079*	*186,911*
Range %		*3%*	*7%*	*10%*	*13%*	*17%*	*21%*

Figure 3: Range of Income Forecasts from Taxation and Duty (September 2018)



4. Economic Assumptions

The economic assumptions have been updated by the FPP based on the latest local and international developments to August 2018.

The main variations to the economic assumptions used in the September 2017 forecast for Budget 2018, are summarised in **Section 5, Income Tax** in this report. The central assumptions on which the August 2018 forecasts are based are shown at **Figure 4**.

The IFG have considered the economic assumptions from the FPP and have agreed that these assumptions be used as the basis for the income forecast modelling.

Figure 4 – FPP Revised Economic Assumptions for August 2018

FPP central scenario

					Return to trend			
	2016	2017	2018	2019	2020	2021	2022	2023
Real GVA	1.2	0.1	1.6	1.5	0.0	0.0	0.0	0.0
RPI	1.7	3.1	4.2	3.4	3.3	3.3	3.3	3.3
RPIY	1.7	3.2	3.8	3.0	3.0	3.0	3.0	3.0
Nominal GVA	1.9	3.3	5.4	4.5	3.0	3.0	3.0	3.0
Company profits	0.9	-0.8	5.0	4.0	3.0	3.0	3.0	3.0
Financial services profits	-0.6	-6.2	4.3	3.5	3.0	3.0	3.0	3.0
Compensation of employees	2.7	6.9	5.8	4.9	3.0	3.0	3.0	3.0
Employment	2.1	2.3	1.5	1.0	0.0	0.0	0.0	0.0
Average earnings	2.1	2.6	4.2	3.9	3.0	3.0	3.0	3.0
Interest rates (%)	0.4	0.3	0.6	0.8	1.0	1.1*	1.3*	n/a*
House prices	4.0	3.0	5.0	4.0	3.0	3.0	3.0	3.0
	OUTTURNS							

** The FPP assumption for interest rates covers 2018-2020 and it has been assumed that rates follow a similar path over 2021 and 2022*

Figure 5 – Variations in FPP Economic Assumptions from August 2017 to August 2018

Variance August 2018 to August 2017

					Return to trend			
	2016	2017	2018	2019	2020	2021	2022	2023
Real GVA	1.0	-1.1	1.0	1.5	0.0	0.0	0.0	0.0
RPI	0.0	0.3	1.8	0.1	0.0	0.0	0.0	0.0
RPIY	0.0	0.4	1.4	0.0	0.0	0.0	0.0	0.0
Nominal GVA	0.0	-0.7	2.4	1.5	0.0	0.0	0.0	0.0
Company profits	0.0	-4.7	2.1	1.0	0.0	0.0	0.0	0.0
Financial services profits	0.0	-10.2	1.9	0.5	0.0	0.0	0.0	0.0
Compensation of employees	-0.1	2.9	2.8	1.9	0.0	0.0	0.0	0.0
Employment	0.1	1.3	1.0	1.0	0.0	0.0	0.0	0.0
Average earnings	0.0	-0.4	1.7	0.9	0.0	0.0	0.0	0.0
Interest rates (%)	0.0	0.1	0.3	0.4	0.5	-0.2	-0.2	n/a
House prices	0.0	0.0	2.0	1.0	0.0	0.0	0.0	0.0

5. Income Tax Revised Forecast 2018-2023

Introduction

This section summarises the detailed income tax forecast note at **Appendix 2**, and revises the IFG's previous income tax forecast from September 2017. The revised forecast is based on:

- Updated Fiscal Policy Panel (FPP) economic assumptions for 2016-2019 and updated data on 2018 earnings from Statistics Jersey,
- Updated information from the Taxes Office on both personal and corporate tax relating to the 2017 YOA,
- General revenues outturn for 2017 (based on personal and corporate tax relating to YOA16), and
- Intelligence from the IFG affecting future forecasts.

The rest of the section includes:

- Overview of the FPP's revised economic assumptions that have been used to update the income tax forecast, and the reasons for any changes.
- Information from the Taxes Office on the most recent in-year data.
- Revised output from the income tax forecast model on the basis of new economic assumptions.
- Further analysis of trends in Current Year Basis (CYB) tax revenues, resulting in a proposed revision to the CYB forecast adjustment for 2018-2023.

Fiscal Policy Panel (FPP) Revised economic assumptions

The FPP's updated economic assumptions (**Figure 4)** have been used in the tax model to update the income tax forecast. The economic assumptions were published in August 2018.

When compared to the previous (August 2017) assumptions, the main changes are:

- **Outturn data** – there have been a number of new data:
  - Real GVA grew more strongly in 2016 than previously expected
  - Inflation for 2017 was higher than expected.
  - Financial services profits for 2017 fell significantly but total employee compensation in the sector saw strong growth.
  - FTE employment growth in 2017 was higher than forecast.
  - Average earnings outturn for 2017 was lower than expected.
- **Inflation** – recent data have shown continued high inflation and survey results point towards businesses facing ongoing cost pressures, leading to higher expectations for 2018.
- **Company profits** – profits for both financial services and non-finance are expected to be higher in 2018 and 2019, largely due to higher inflation but also due to a small increase in real terms expectations for finance in 2019.
- **Average earnings** – 2018 and 2019 expected to be significantly higher, largely due to higher inflation but also a small increase in the real terms expectation in 2019.
- **Employment growth** – is now expected to be faster in 2018 and 2019, reflecting ongoing momentum from recent strong growth.

- **UK policy interest rates** – are now expected to be slightly lower throughout the forecast period, based on market expectations published in August 2018.

The changes in these assumptions have had knock-on effects on the nominal and real economic growth (gross value added - GVA) assumptions, with real growth estimated to have been slower in 2017 but higher in 2018 and 2019.

The FPP has not made any change to forecasts for a zero trend rate of GVA growth for 2020 onwards.

Updated information from Taxes Office

Personal tax

Personal income tax for Year Of Assessment (YOA) 2016 was £13m higher than forecast. The majority (£10m) was due to the yield (i.e. the amount of tax collected per £1 of personal income) being 0.3 percentage points higher than forecast. Yield increased from approximately 13.1 per cent in YOA15 to approximately 13.4 per cent in YOA16. With total personal income being in excess of £3bn, each 0.1 per cent change in yield is equivalent to £3m of tax.

Overall taxable income was higher than forecast as follows:

- Earned income was £18m higher than forecast, with personal business profits £8m higher, employment and other earned income £7m higher, and pension income £3m higher.
- Unearned income was £2m higher than forecast, with income from distributions £27m higher but most other areas of unearned income being below forecast. As it is not possible to know whether this income from distributions is a one-off (or whether the rate of growth might continue), the forecast has continued to be based on the assumption that distributions grow in line with RPIY inflation going forward.

Figure 6: Changes to personal income tax forecast since Budget 2018 (September 2017) Forecast

Income Tax	*Outturn*	September 2018 Forecast			
	2017	2018	2019	2020	2021
	£'m	£'m	£'m	£'m	£'m
Personal tax					
September 2017 forecast	***397***	**418**	**436**	**456**	**477**
2016 YOA outturn	*+13*	+13	+14	+14	+14
2017 YOA ITIS outturn		-5	-6	-6	-6
New assumptions			+7	+14	+18
2018 Budget policy changes				+2	+2
Tax collectable	***410***	**426**	**451**	**481**	**505**
Overall difference Personal tax		***+8***	***+15***	***+25***	***+28***
	N.B. Some columns may not sum due to rounding				

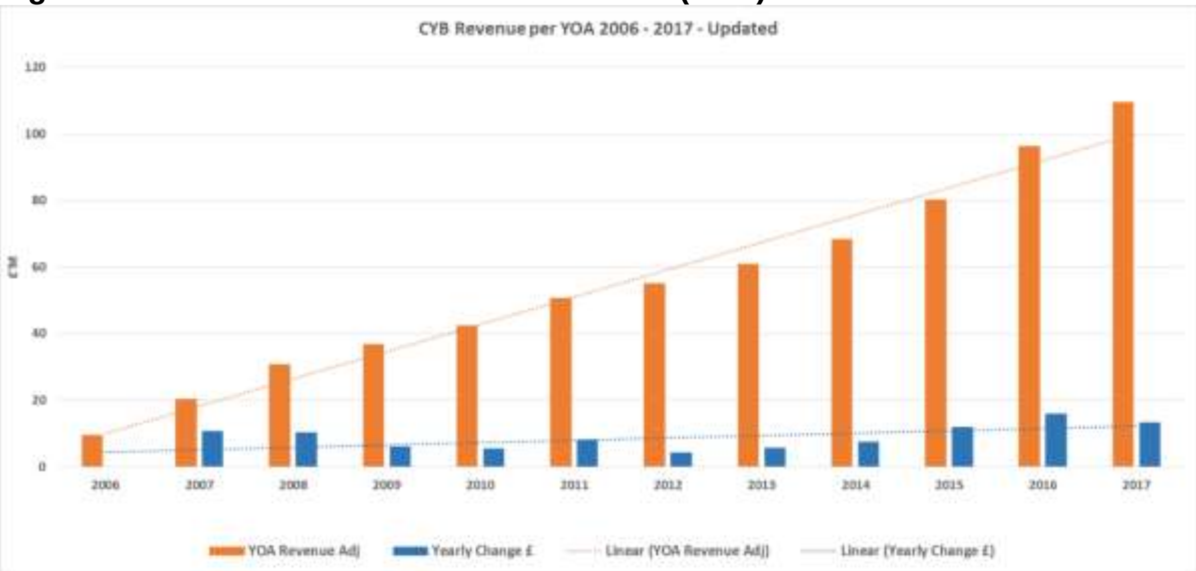
Current Year Basis (CYB) adjustment to forecasts 2018-2023

Following the move in 2015 to recognise CYB in the current year, a method of establishing the effect on forecast of recognising income a year in advance has been applied to the Income Tax Forecasts. In May 2017, IFG agreed, in the absence of other management information, to use the historic year-on-year movement in CYB to establish a rolling average as the extrapolation basis to 2021.

CYB income as a proportion of personal income tax will increase going forward due to all new and returning tax-payers being treated as CYB. At present the Taxes Office is only able to provide high level indications related to tax-payer demography and banding; further analysis should be possible following the introduction of the new Revenue Management System.

Figure 7 shows the year on year increase for CYB income from its introduction in 2006 through to 2017. The variations in the year on year increase appear to be cyclical in nature rather than constant and approximately mirroring that of the economic outturn.

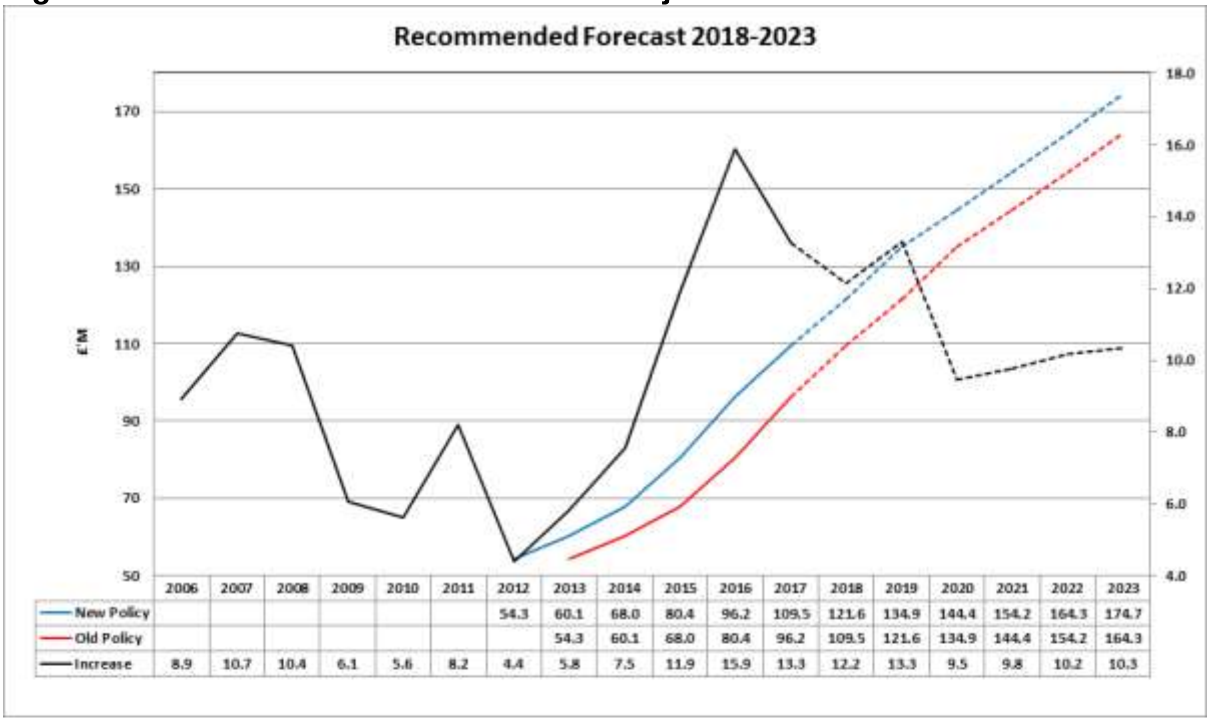
Figure 7 – Past trends of Current Year Basis (CYB) Trends from 2006 to 2017



For 2018 and 2019 the 4 year rolling averages 2014 to 2017 and 2015 to 2018 respectively, have been used based on latest economic growth assumptions. The forecast increase in 2018 is now £12.2m, and in 2019 £13.3m.

For years 2020 to 2023, the forecast reverts to a ten year rolling average based on no 'real' economic growth being forecast at this time. The revised trend and forecast analysis is shown in **Figure 8**. The black line representing actuals and dashed black line the in-year forecast; the red and blue lines also show the effect of the change in accounting policy adopted in 2015 to recognise CYB in current year.

Figure 8 – Recommended CYB Forecast Adjustment 2018 - 2023



Based on the above analysis the CYB forecast will increase slightly over the forecast period as a result of changes to the CYB in previous years and the FPP improved real GVA assumption for 2019 as shown in **Figure 9**.

Figure 9 – Increase in CYB annual adjustment for September 2018 forecast

	2018	2019	2020	2021	2022	2023
	£'m	£'m	£'m	£'m	£'m	£'m
CYB Annual adjustment (September 2017)	8	8	8	8		
CYB Annual adjustment (September 2018)	12	13	10	10	10	10
Variation	**+4**	**+5**	**+2**	**+2**		

Corporate Tax

Corporate income tax was around £10m higher than forecast for YOA16. The previous forecast, which was based on in-year information from the Taxes Office, was for a significant fall of around £16m due to anticipated changes from a number of large taxpayers. In some cases, the expected falls did not materialise, which explains £5m of the increase, with the remainder due to higher tax received from other companies.

Tax from financial institutions was around £9m above the previous forecast, with tax on property income exceeding expectations by around £1m.

Figure 10 – Changes to corporate income tax forecast since Budget 2018 (September 2017)

Income Tax	*Outturn*	September 2018 Forecast			
	2017	2018	2019	2020	2021
	£'m	£'m	£'m	£'m	£'m
Corporate tax					
September 2017 forecast	***78***	**87**	**89**	**92**	**95**
2016 YOA outturn	*+10*	+5	+5	+5	+5
New assumptions			+2	+3	+3
Extension of corporate tax			+9	+9	+9
Taxes Office increased compliance		+1	+1	+1	+1
Tax collectable	***88***	**93**	**106**	**109**	**113**
Overall difference Corporate tax		***+6***	***+17***	***+17***	***+18***
	N.B. Some columns may not sum due to rounding				

Updated Income Tax Forecast 2018-2023

The new forecast suggests tax revenue (including Current Year Basis adjustment) will be £18m higher in 2018, and £38m higher next year. These higher forecasts are broadly driven by:

- Improved YOA16 outturn in both personal and corporate income tax,
- Improved economic assumptions across the forecast period, and
- Broadening of the corporate tax base in Budget 2018.

Figure 11 – Revised Income Tax Forecast 2018-2023

Income Tax	*Outturn*	September 2018 Forecast			
	2017	2018	2019	2020	2021
	£'m	£'m	£'m	£'m	£'m
Personal tax					
September 2017 forecast	***397***	**418**	**436**	**456**	**477**
2016 YOA outturn	*+13*	+13	+14	+14	+14
2017 YOA ITIS outturn		-5	-6	-6	-6
New assumptions			+7	+14	+18
2018 Budget policy changes				+2	+2
Tax collectable	***410***	**426**	**451**	**481**	**505**
Overall difference Personal tax		***+8***	***+15***	***+25***	***+28***
Annual CYB adjustment	*+13*	+12	+13	+10	+10
	+4 [1]				
Tax collectable (including CYB adjustment)	***427***	**438**	**464**	**491**	**515**
Corporate tax					
September 2017 forecast	***78***	**87**	**89**	**92**	**95**
2016 YOA outturn	*+10*	+5	+5	+5	+5
New assumptions			+2	+3	+3
Extension of corporate tax			+9	+9	+9
Taxes Office increased compliance		+1	+1	+1	+1
Tax collectable	***88***	**93**	**106**	**109**	**113**
Overall difference Corporate tax		***+6***	***+17***	***+17***	***+18***
Total tax collectable	***515***	**531**	**570**	**600**	**628**
Bad Debts	*0*	-3	-3	-3	-3
New Forecast	***515***	**529**	**566**	**597**	**625**
September 2017 forecast (including CYB adjustment)		**510**	**530**	**553**	**577**
Overall difference to Budget 2018 forecast		+18	+38	+44	+47

N.B. Some columns may not sum due to rounding

[1] Adjustment for tax relating to YOAs prior to 2016 YOA which was accounted for in 2017 in accordance with States accounting principles

Income Tax Forecast Range 2018-2023

In line with previous IFG forecasts, a range has been applied to the central forecast.

Figure 12: Revised Forecast range 2018-2023

Income Tax	*Outturn*	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Higher Scenario	-	538	589	624	664	709	757
Central Scenario	***515***	**529**	**566**	**597**	**625**	**655**	**688**
Lower Scenario	-	518	545	565	579	593	609
Range £'m		*20*	*44*	*59*	*85*	*116*	*148*
Range %		*4%*	*8%*	*10%*	*14%*	*18%*	*22%*

6. GST and ISE Revised Forecasts 2018-2023

Introduction

There are three components of the GST forecast:

- GST on purchases of goods and services on Island,
- GST on imports, and
- International Service Entity Fees (ISE) fees paid by eligible businesses

GST on purchases on-Island

Good & Services Tax (GST) was introduced in 2008 and is collected by the Taxes Office. GST is collected from purchases of goods and services on the Island. Initially introduced at 3%, the GST rate was increased to 5% in 2011.

The IFG considered as part of its draft MTFP 2016-2019 (June 2015) forecasts changes to the forecast modelling of GST. The previous assumptions to increase GST forecasts by RPI were replaced by assumptions reflecting information on general trends in GST relative to the overall economic situation.

Consideration has also been given to trends by individual market sector but there were no obvious correlations identified that would improve the forward forecasts.

The outturn for GST on-Island for 2017 was marginally (£0.3m) lower than forecast in September 2017. Other than simple price inflation there are no known significant factors influencing the year on year increase and at this time nothing is expected in 2018 or beyond that might affect the IFG's current forecast policy.

The recent FPP economic assumptions forecast an increase in real economic growth in 2018 to 1.6% and 2019 to 1.5%, which is an improvement on the assumptions from September 2017. Therefore in line with the policy adopted by IFG to increase GST by 2.0% in years where real economic growth is predicted, 2018 and 2019 have been increased from 0.8% to 2.0%. From 2020-2023 the increase returns to 0.8% per annum, in line with no real GVA growth in the current forecast assumptions. The impact is an improvement in each year from 2018 to 2023 to the on-Island GST forecast, which can be seen in **Figure 13**.

GST on imports

Import GST has increased in recent years reflecting the increase in on-line purchases. Import GST is still a relatively small revenue stream and is therefore more susceptible to year on year volatility both in volume and yield; single 'big ticket' items can have a significant influence.

The 2017 outturn was slightly lower than expected in the Budget 2018 forecast, but still represented a significant increase over the previous year.

IFG considered the volatility in previous years and agreed that future forecasts should be based on a five year rolling average. This practice will be reviewed each year and the information for the first 6 months of 2018 has been used to consider adjustments to the in-year forecast in the IFG September forecasts.

The outturn for the period to July 2018 shows a four percent increase year on year which may suggest a lower full year outturn than predicted, which is currently forecast at 8% above 2017 full year outturn. Further analysis is also needed on the 'big ticket' items for 2018 to identify where these will be in relation to 2017.

ISE Fees

ISE fees have been in steady decline over the last few years mainly due to the reduction in number of vehicles, reduction in deposit takers, and reduction in affiliated leaders following mergers. The Taxes expects ISE fees to show an increase in 2018 following measures approved in Budget 2018 and this is reflected in the medium term forecast 2018 – 2023 with ISE fees predicted to be £9.2m in 2018 and remain steady at £9m per annum thereon.

Actual income for the year to July 2018 suggests there should be a small reduction in the 2018 forecast of £80,000 from £9.2m to £9.12m. However, this is not expected to impact on the medium term forecast which will remain at £9m over the period.

Summary of updated forecast

Figure 13 – Summary of GST for 2018 – 2023

GST	*Outturn*	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Goods and Services Tax - Net	*74,545*	76,036	77,557	78,178	78,803	79,433	80,069
Goods and Services Tax - Import	*4,951*	5,361	5,801	6,304	6,734	7,295	7,764
ISE Fees	*8,450*	9,120	9,000	9,000	9,000	9,000	9,000
Total GST	***87,946***	**90,517**	**92,358**	**93,482**	**94,538**	**95,728**	**96,833**
Annual Growth		*2.9%*	*2.0%*	*1.2%*	*1.1%*	*1.3%*	*1.2%*
Budget 2018 forecast (September 2017)	***87,428***	**88,828**	**89,494**	**90,382**	**91,291**	**n/a**	**n/a**
Variation	*518*	1,689	2,864	3,100	3,247		
2018 Budget Measures		*1,000*	*1,000*	*1,000*	*1,000*		
Variation (including 2018 Budget Measures)	***518***	**2,689**	**3,864**	**4,100**	**4,247**		

Forecast Range

The forecast range is largely unchanged and remains based on:

- A lower range 1% below the central assumption and a higher range 1% above the central assumptions is used for forecasting net GST.
- A wider 2% range above and below the central forecast is proposed for import GST reflecting the higher trend growth assumption for this income stream.
- ISE fees have been relatively stable between years, and a 0.5% range above and below the central forecast is proposed.

The overall effect of the range of forecasts is shown in **Figure 14**.

Figure 14 – Summary of GST forecast range for 2018 – 2023

GST	*Outturn*	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Higher Scenario	-	91,430	94,241	96,372	98,474	100,766	103,012
Central Scenario	***87,946***	**90,517**	**92,358**	**93,482**	**94,538**	**95,728**	**96,833**
Lower Scenario	-	89,604	90,475	90,592	90,601	90,690	90,654
Range £'000		*1,826*	*3,767*	*5,781*	*7,872*	*10,077*	*12,358*
Range %		*2%*	*4%*	*6%*	*8%*	*11%*	*13%*

7. Impôts Duties Revised Forecast 2018-2023

Introduction

Impôts duties are levied on a range of commodities imported to the Island. The duties on the various commodities, principally alcohol, tobacco and road fuel are reviewed at the annual Budget. The duty increases for alcohol and tobacco are influenced by relevant health strategies and not simply to raise additional revenues.

The policies in that regard can be considered fairly successful based on the importation trends. These show that for most alcohol and tobacco commodities, the long-term trend is for reduced importation. There is some evidence from monitoring and feedback from retailers to suggest an increase in duty free consumption for tobacco goods but this is actively policed by Customs.

The basis of the Impôts duty future forecasts is to take the latest full year outturn and to apply past importation trends to forecast the future volumes and past Budget experience to forecast future duty rates. Customs maintain records going back a number of years and on statistical advice, use a 10 year average of importation trends to forecast future volumes. For the update of the in-year forecast, the half-year figures are used to produce a 5 year trend on which the in-year forecast is then based.

Increases in Impôts duty rates

IFG has recommended that it remains appropriate to assume that recent policies in annual Budgets would continue. Analysis of recent Budgets shows that broadly RPI increases for tobacco and alcohol were common and that increases to fuel and other commodities were less likely. Consequently, the forecasts only assume RPI increases in the duty rate for alcohol and tobacco goods.

The forecasts have been revised and reflect adjustments to the 10 year average trend of all imported goods to include the 2017 outturn volume.

<u>2018 Forecast</u>

The 2017 Outturn was higher than the Budget 2018 forecast (December 2017 – reflecting Budget amendments agreed by the Assembly) by £1.6m, mainly for fuel. The reason behind this is complex and was a consequence of CAESAR (the Customs online goods control system) not recognising the code of a new fuel importer in 2017 in the quarterly statistics report. Consequently the quantities on the quarterly report which formed the basis of the forecast, were significantly down and so the forecast was below the eventual actual.

The current 2018 estimate is based on analysis of in-year annual consumption trends, and on import data collected at the end of quarter 2. There is an increase in the estimated alcohol yield, and a very small decrease in the estimated yields for tobacco and fuel.

2019-2023 Forecasts

The duty rates for 2018 were agreed in 2018 Budget and the future duty rates for 20120-2023 are based on the RPI assumptions provided by the Fiscal Policy Panel (FPP) in August 2018 .i.e. the duty rates are calculated by applying the RPI figures for the respective years. However, the June actual RPI has been used for the 2019 income forecast to bring this into line with the basis for other 2019 Budget taxation policy decisions. The impact on the 2018 to 2023 Impôts Duties forecast can be seen in **Figure 15**.

VED

The VED forecast was increased as a result of the 2nd Amendment to the 2018 Budget, which was expected to bring in an additional £2.1m per annum.

However, based on year to July 2018 actual income, the VED forecast is not showing this level of income being achieved, and has been downgraded by an average of £1.1m per annum. Further investigation and financial modelling will be undertaken to investigate the impact of 2018 Budget changes and resulting consumer behaviour on the future income stream.

Implications of Brexit

The Customs and Immigration Service together with other States departments are currently engaged in operational workshops with the UK government namely HMRC, HM Treasury, DIT and DXEU regarding plans for Brexit.

Discussions are underway to formalise the current trading relationship by introducing a new customs arrangement where all parties agree to apply the same common external tariff. It has already been agreed that the ability to autonomously determine national tax and excise duty rates, such as Impots duties, will continue under the new framework. Aside from generating revenue, determining the Island's own excise rates is crucial when forming policy around health and environmental issues.

It is thought that future income forecasts will be mostly unaffected post Brexit, however, this assumption is entirely reliant on the positive outcome of the withdrawal negotiations. A day one no deal, or hard BREXIT, could result in the UK defaulting to its own version of the common external tariff, which Jersey would be aligned to by virtue of the new customs arrangement. This would mean some goods arriving from the EU would attract third country customs duty. It is impossible to predict the amount of income this would generate but it would be an increase on the current average of circa £145,000.

To conclude it is likely that the amount of income derived from excise goods will continue as per forecasts but income from customs duty applied to third country goods may increase depending on the outcome of the BREXIT negotiations.

Summary of updated forecast

Figure 15: Summary of Impôts duties for 2018 – 2023

Impots	Outturn	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Impots Duties Spirits	*5,651*	6,046	6,256	6,403	6,549	6,697	6,848
Impots Duties Wine	*8,209*	8,537	8,920	9,225	9,529	9,844	10,168
Impots Duties Cider	*760*	729	740	742	743	745	746
Impots Duties Beer	*5,889*	6,106	6,317	6,466	6,613	6,762	6,916
Impots Duties Tobacco	*15,019*	15,285	15,174	14,906	14,627	14,355	14,086
Impots Duties Fuel	*22,761*	22,511	22,285	22,062	21,842	21,624	21,407
Impots Duties Goods (Customs)	*184*	145	145	145	145	145	145
New Environment Tax 2010 (VED)	*1,526*	2,750	2,948	2,730	2,644	2,644	2,644
Total Impots	***59,999***	**62,109**	**62,785**	**62,679**	**62,692**	**62,816**	**62,960**
Annual Growth		*3.5%*	*1.1%*	*-0.2%*	*0.0%*	*0.2%*	*0.2%*
Budget 2018 forecast (September 2017)	***58,420***	**62,877**	**62,400**	**62,611**	**62,843**	**n/a**	**n/a**
Variation	*1,579*	(768)	385	68	(151)		
2018 Budget Measures		*1,900*	*1,900*	*1,900*	*1,900*		
2nd Amendment - VED		*2,200*	*2,100*	*2,100*	*2,100*		
Variation (including 2018 Budget Measures)	***1,579***	**3,332**	**4,385**	**4,068**	**3,849**		

Forecast range

The Group is proposing to maintain the provision of a range around the Impôts duty forecast which uses the variation around the RPI assumptions compounded by a +/- 1% variation on future importation assumptions. The impact on the central forecasts is shown in **Figure 16**.

Figure 16: Summary of Impôts duties forecast range for 2018 – 2023

Impots	Outturn	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Higher Scenario	-	62,109	63,937	65,026	66,270	67,668	69,130
Central Scenario	***59,999***	**62,109**	**62,785**	**62,679**	**62,692**	**62,816**	**62,960**
Lower Scenario	-	62,109	61,645	60,408	59,300	58,315	57,369
Range £'000		*-*	*2,292*	*4,618*	*6,970*	*9,353*	*11,761*
Range %		*0%*	*4%*	*7%*	*11%*	*15%*	*19%*

8. Stamp Duty Revised Forecast 2018-2023

Introduction

Stamp duty is charged on property, equity and share transfer transactions according to the value of the transaction. It is also collected on Wills, Probate and Obligations. The stamp duty forecasts are separated into general Stamp Duty, Stamp Duty on share transfer property transactions (Land Transaction tax) and Stamp Duty on Probate.

Revised Economic Assumptions for House Prices were provided by the Fiscal Policy Panel in August 2018 and the assumptions for Housing Turnover have been reviewed by the States of Jersey Economics Unit. House Prices for 2018 and 2019 show small increases, and although Housing Turnover assumptions for 2018 have fallen, they aer forecast to rise again in 2019 and remain steady thereafter.

General Stamp Duty

The main component of general Stamp Duty is duty on property and in addition the forecasts allow for a relatively fixed forecast of stamp duty on obligations and wills. The duty on property transactions has been particularly volatile over recent years, falling from over £14m in 2009 to £10.7m in 2013 - a fall of 25% - increasing to over £17m in 2014, and £20m in 2016.

The forecast for the MTFP 2016-2019 was based on a considerable analysis of the past years' data. This identified some key trends which informed the assumptions for the forward forecast, in particular to identify an approach which separates the forecasts for properties under £2m and those for higher value properties over £2m. The forward forecasts are then produced in two parts for these two sets of data with the economic assumptions for housing market only applied to the under £2m property transactions.

The updated forecast for September 2018 is showing an increasd, based on the in-year figures, of a further £1.2m. This is mainly from property transactions <£2m. The remainder of the year is expected to follow this trend and information from the Director of High Value Residency has also indicated continuing activity in transactions of >£2m residential property.

Stamp Duty on Share Transfer – Land Transaction Tax (LTT)

The majority of share transfer property transactions are for flats and apartments, and likely to be lower value properties (on average) than non-share transfer property transactions. Therefore they are less likely to be subject to the anomalies and volatility seen on general property transactions.

The same approach as for general stamp duty has been applied to LTT forecasting. A small underachievement in the year to date income, along with changes in the economic assumptions have been factored into the September 2018 forecasts.

Probate duty

Probate duty is extremely difficult to forecast. It is the result of duty payable from estates of individuals who were domiciled in Jersey, or where the individual was not so domiciled but have Jersey moveable property. Between 2009 and 2016 however, transaction volumes have remained fairly steady at around 2,000. The 2013 Budget capped probate duty to £100,000 per estate to attract greater investment in the Island. Therefore forward forecasts have been produced based on the average number of years since the introduction of cap.

Probate receipts to July 2018 have been above the 2018 budget and the in-year forecast has been adjusted accordingly. Anomalies in income have been seen in- the year to date figures due to one-off large transactions, but these are impossible to predict. Therefore no change to the forward forecast 2018 – 2021 is recommended.

Summary of updated forecast

Figure 17: Summary of Stamp Duty Forecast for 2018 – 2023

Stamp Duty	*Outturn*	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Stamp Duty	*27,991*	29,673	30,437	30,000	30,682	31,384	32,107
Probate	*3,000*	2,655	2,300	2,300	2,300	2,300	2,300
Stamp Duty on Share Transfer (LTT)	*2,292*	2,408	2,629	2,708	2,789	2,873	2,959
Total Stamp Duty	***33,283***	**34,736**	**35,366**	**35,008**	**35,771**	**36,557**	**37,366**
Annual Growth		*4.4%*	*1.8%*	*-1.0%*	*2.2%*	*2.2%*	*2.2%*
Budget 2018 forecast (September 2017)	***29,055***	**29,641**	**30,241**	**30,859**	**31,496**	**n/a**	**n/a**
Variation	*4,228*	5,095	5,125	4,149	4,275		
2018 Budget Measures		-	-	-	-		
Variation (including 2018 Budget Measures)	***4,228***	**5,095**	**5,125**	**4,149**	**4,275**		

Forecast range

The existing approach to preparing the forecast range for stamp duty has been maintained for the Budget 2019 forecast. This uses the variation around the economic assumptions on house prices. The forecasts range is shown in **Figure 18**.

Figure 18: Summary of Stamp Duty Forecast Range for 2018 – 2023

Stamp Duty	*Outturn*	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Higher Scenario	-	35,182	37,073	38,118	40,434	42,939	45,648
Central Scenario	***33,283***	**34,736**	**35,366**	**35,008**	**35,771**	**36,557**	**37,366**
Lower Scenario	-	34,300	33,744	32,185	31,733	31,290	30,856
Range £'000		*882*	*3,329*	*5,933*	*8,701*	*11,649*	*14,792*
Range %		*3%*	*9%*	*17%*	*24%*	*32%*	*40%*

9. Social Security Contributions 2018

The IFG has been provided with a summary of the Social Security Contributions for the first quarter of 2018. These figures provide a useful check and balance for aspects of personal tax and employment income trends.

The increase in number of contributors at 1.4% and underlying earnings of 2.4% are fairly consistent with the employment and earnings assumptions used by IFG in the context of the personal tax forecast.

For information, the detailed Social Security Funds forecasts will be revised for inclusion in the draft Budget 2019 as part of the forecasts for States Funds.

10. Recommendation

The IFG presents its revised forecasts for States income derived from taxation and duty for the period 2018-2023 for September 2018, as a range around a central scenario.

In light of the continuing uncertainties identified in the outlook, the IFG would recommend that it is imperative that the new Council of Ministers continues to maintain sufficient flexibility in the forecasts and in the development of the draft Budget 2019 and also in the outlook for the financial planning for 2020-2023.

Appendix 2 – Income tax forecast note

1. Introduction

The income tax forecast has been updated to take account of outturn data for 2017 and the latest economic assumptions published by the Fiscal Policy Panel (FPP) in August 2018. The forecast also takes account of policy changes agreed in the 2018 Budget, and of updated information from the Taxes Office on both personal and corporate tax relating to the 2017 year of assessment.

The forecast follows a similar approach to that taken for the Budget 2018 forecast undertaken in September 2017. This incorporates the updated equations developed by the external advisors Oxera in Phase 1 of their work to review the approach to forecasting income tax. Oxera also completed Phase 2 of this work, which investigated whether using disaggregated data can help develop a more ‘bottom-up’ approach to forecasting personal tax. Oxera’s work did not result in any suggested improvements to the approach currently used by the Income Forecasting Group (IFG).

The remainder of the note is set out as follows:

- Section **2** describes how the forecast is carried out
- Section **3** outlines the new economic assumptions
- Section **4** summaries the new outturn data
- Section **5** sets out the new forecast
- Section **6** describes some of the key uncertainties

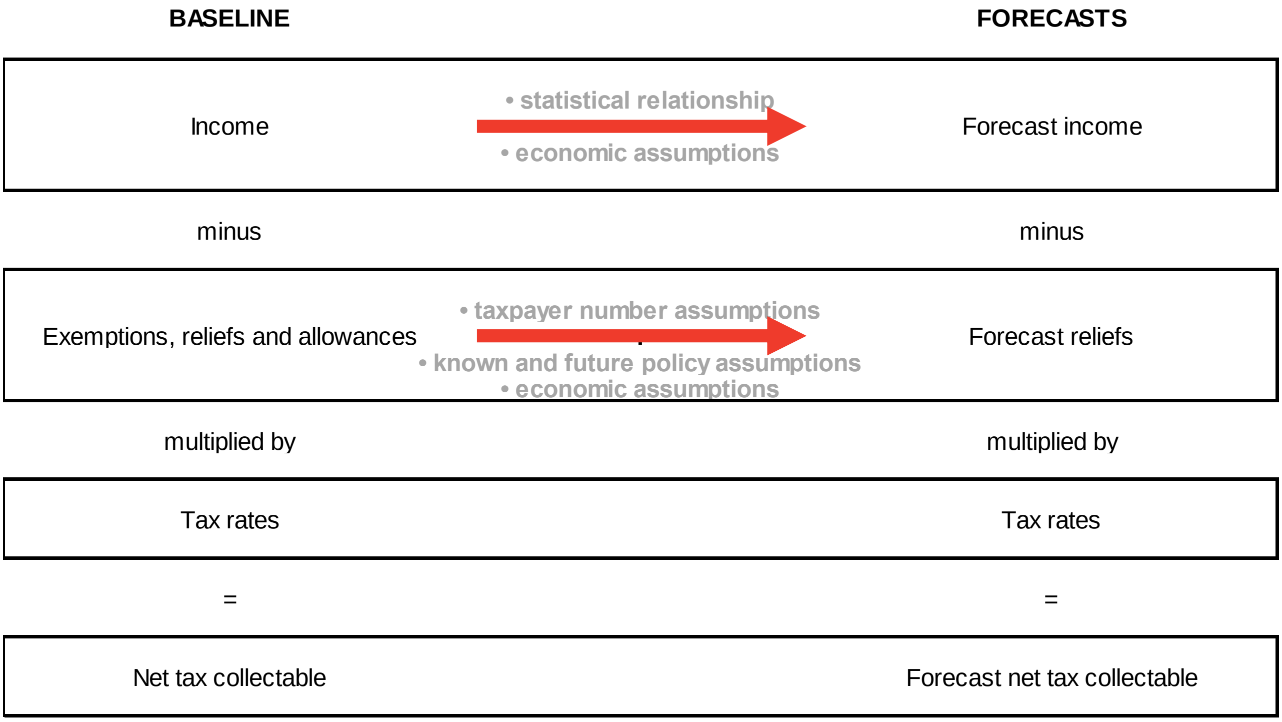
2. How the forecast is carried out

An overview of the tax model is shown in Figure 1. There are two main elements – forecasting taxable income and forecasting the likely yield (i.e. tax collectable per £1 of income) based on forecasts of the value of allowances (including exemption thresholds for marginal rate taxpayers, and the various reliefs, credits and allowances claimed by taxpayers). The forecast of tax collectable is therefore the result of the forecasts of both yield and taxable income.

Taxable income is estimated over the forecast period by taking outturn data provided by the Taxes Office and projecting this forward on the basis of statistical relationships between income and various economic variables. The economic variables include company profits, employment, average earnings, inflation and interest rates. These assumptions are overseen by the independent FPP.

The yield is then forecast by taking the baseline data for the value of allowances and forecasting changes in these in line with assumptions about future taxpayer numbers, inflation, interest rates and policy announced in the Budget. So, for example, the aggregate value of the standard exemption thresholds might be assumed to rise in line with RPI / average earnings (to represent the anticipated annual Budget increase in the threshold) and employment growth (to represent the increase in taxpayer numbers claiming this threshold).

Figure 1: Model overview



The forecast is then adjusted for the expectation of the size of bad debts in the future to arrive at a final forecast for income tax revenue.
In order to reflect the fact that there is significant uncertainty in the forecast, a central forecast is produced with a range, with the emphasis on the range rather than the point estimates.

3. New economic assumptions

The FPP's updated economic assumptions (Figure 2) have been used in the tax model to update the income tax forecast. The economic assumptions were sent to the Treasury Minister and to States Members in August 2018. The FPP's letter to the Minister can be found on the FPP web-site www.gov.je/fiscalpolicypanel

When compared to the August 2017 economic assumptions, the main changes are:

1. **Outturn data** there have been a number of new data released by Statistics Jersey:
    a. Real GVA grew more strongly in 2016 than previously expected.
    b. Inflation for 2017 was higher than expected.
    c. Financial services profits for 2017 fell significantly but total employee compensation in the sector saw strong growth.
    d. FTE employment growth in 2017 was higher than forecast.
    e. Average earnings outturn for 2017 was lower than expected.
    f. Interest rates in 2017 were slightly higher than forecast.

2. **Inflation** – recent data have shown continued high inflation and survey results point towards businesses facing ongoing cost pressures, leading to higher expectations for 2018.
3. **Company profits** – profits for both financial services and non-finance are expected to be higher in 2018 due to higher inflation.
4. **Average earnings** – 2018 expected to be significantly higher due to higher inflation.
5. **Employment growth** – is now expected to be faster in 2018 reflecting ongoing labour market momentum.
6. **UK policy interest rates** – are now expected to be slightly higher throughout the forecast period, based on market expectations published in August 2018.

The Panel has also made a specific forecast for 2019, replacing the previous trend assumptions.

The changes in the Panel's assumptions have had knock-on effects on the nominal and real economic growth (GVA) assumptions, with real growth estimated to have been around 1 per cent slower in 2017 and forecast to be 1 per cent higher in 2018. There are no changes to the assumptions for any of the economic variables from 2020 onward, other than interest rates expected to be around ½ per cent higher in 2020, on the basis of market expectations.

Figure 2: Economic assumptions used (% change, unless otherwise stated)
Boxed numbers are outturns

Updated August 2018 assumptions

% change unless otherwise specified	2015	2016	2017	2018	2019	Return to trend 2020+
Real GVA	2.2	1.2	0.1	1.6	1.5	0.0
RPI	0.6	1.7	3.1	4.2	3.4	3.3
RPIY	0.6	1.7	3.2	3.8	3.0	3.0
Nominal GVA	2.9	1.9	3.3	5.4	4.5	3.0
Company profits	-0.7	0.9	-0.8	5.0	4.0	3.0
Financial services profits	-7.6	-0.6	-6.2	4.3	3.5	3.0
Compensation of employees	5.9	2.7	6.9	5.8	4.9	3.0
Employment	2.0	2.1	2.3	1.5	1.0	0.0
Average earnings	1.8	2.1	2.6	4.2	3.9	3.0
Interest rates (%)	0.5	0.4	0.3	0.6	0.8	1.0*
House prices	4.0	4.0	3.0	5.0	4.0	3.0

*Interest rate assumption for 2020 only

Changes since August 2017

Percentage point change	2015	2016	2017	2018	2019	2020+
Real GVA	0.0	1.0	-1.1	1.0	1.5	0.0
RPI	0.0	0.0	0.3	1.8	0.1	0.0
RPIY	0.0	0.0	0.4	1.4	0.0	0.0
Nominal GVA	0.0	0.0	-0.7	2.4	1.5	0.0
Company profits	0.0	0.0	-4.7	2.1	1.0	0.0
Financial services profits	0.0	0.0	-10.2	1.9	0.5	0.0
Compensation of employees	0.0	-0.1	2.9	2.8	1.9	0.0
Employment	0.0	0.1	1.3	1.0	1.0	0.0
Average Earnings	0.0	0.0	-0.4	1.7	0.9	0.0
Interest rates	0.0	0.0	0.1	0.3	0.4	0.5
House prices	0.0	0.0	0.0	2.0	1.0	0.0

Source: Fiscal Policy Panel August 2017 and August 2018 economic assumptions

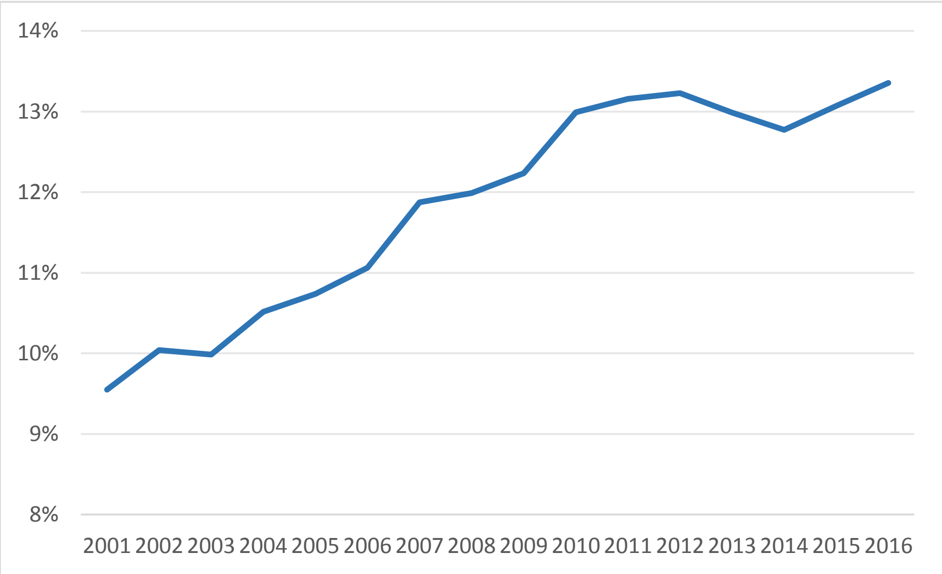
Updated information from Taxes Office

Outturn data for YOA16

Personal tax

Personal income tax for YOA16 was £13m higher than forecast. The majority (£10m) was due to the yield (i.e. the amount of tax collected per £1 of personal income) being 0.3 percentage points higher than forecast. Yield increased from approximately 13.1 per cent in YOA15 to approximately 13.4 per cent in YOA16. With total personal income being in excess of £3bn, each 0.1 per cent change in yield is equivalent to £3m of tax.

Figure 3: Personal tax yield, year of assessment



Source: Taxes Office data

Yield is a function of the amount of taxable income and the value of allowances which taxpayers can set against their incomes, for example relief for the costs of childcare or for mortgage interest. If income rises more rapidly than allowances, this will result in an increase in yield. This may occur either due to budget policy decisions (such as 20-means-20 which saw the gradual removal of most allowances from standard rate taxpayers between 2007 and 2011) but may also occur when earnings are rising more quickly than inflation which they have in all but seven of the last twenty years.

There were a number of tax policy changes which would have increased the personal income tax yield for the 2016 YOA (listed below). Although no single change is expected to be particularly material on its own account, the combined effect is more significant:

- Phasing out of “normal” child allowance from standard rate calculation (estimate of additional revenue: £645k for YOA 2016)
- Phasing out of additional personal allowance at standard rate calculation (estimate included in above)

- Withdrawal of non-resident relief (estimate of additional revenue per annum: £500k)
- Reduction in benefit-in-kind deduction (£1,000 to £250) (estimate of additional revenue per annum: £360k)
- Change from *Wife's* Earned Income Allowance to *Second Earner's* Income Allowance (estimate of additional revenue per annum: £100k)
- Maintaining the value of the age-enhanced exemption thresholds at 2015 YOA values.

Other changes were made in the 2016 Budget, but those changes would not impact on the personal income tax yield for the 2016 YOA.
Furthermore, as the table below indicates, looking at recent years the greatest differential between the increase in the average earnings index and the increase in the exemption thresholds occurred in 2016.

Figure 4: Differential between average earnings index (annual change to June in year) and in the increase in exemption thresholds (YOA)

Year	% change in average earnings index	% increase in exemption thresholds	Differential
2014	2.6%	1.5%	0.9%
2015	1.8%	1.7%	0.1%
2016	2.1%	0.9%*	1.2%

* noting that age-enhanced exemption thresholds were maintained at 2015 YOA values.

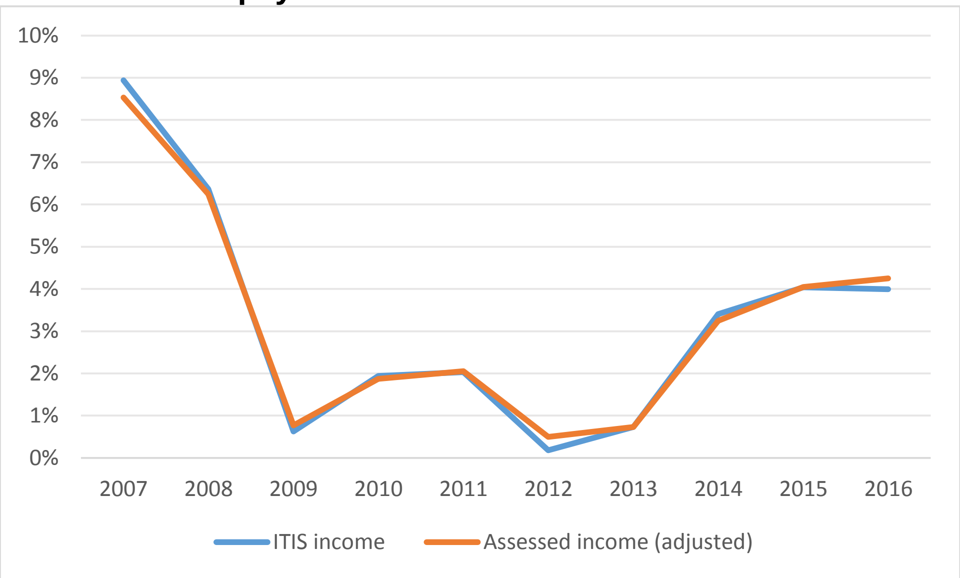
In addition to the yield, overall taxable income was also higher than forecast.

- Earned income was £18m higher than forecast, with personal business profits £8m higher, employment and other earned income[22] £7m higher, and pension income £3m higher.
- Unearned income was £2m higher than forecast, with income from distributions £27m higher but most other areas of unearned income being below forecast.

[22] Other earned income includes foreign earned income, casual earnings, casual earned profits, fees and tips.

Employment and other earned income grew by 4.2 per cent, compared to a forecast growth of 3.9 per cent based on data from the Income Tax Instalment System (ITIS). Due to delays in assessing taxpayers with employment income but who did not submit a tax return in respect of the 2016 YOA (in default of their obligations under the Income Tax Law), there has been some divergence between the amount of employment income assessed at the time the tax data were analysed (in March 2018) and the employment income reported through ITIS (the most recent ITIS figures show 4.0 per cent growth in employment income in 2016). Some adjustments have been made to come to the estimate of 4.2 per cent for what employment and other earned income would have grown by if these taxpayers were included[23]. A similar adjustment was also made to the baseline for tax paid to account for the likely tax on this additional employment income[24].

Figure 5: Annual growth in ITIS income v employment income from tax assessments (year of assessment) including Taxes Office adjustment for unassessed taxpayers



Source: Taxes Office data

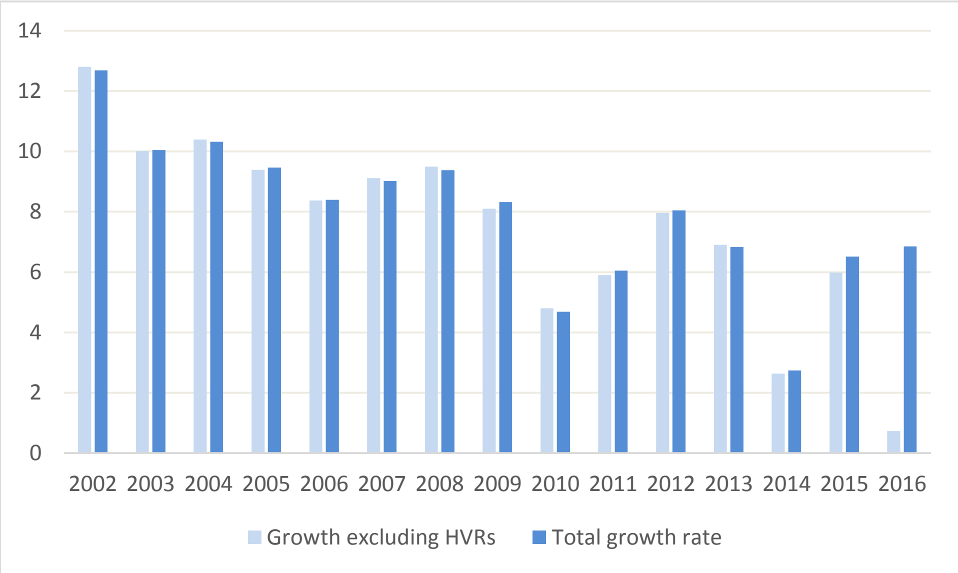
[23] The Taxes Office undertook an exercise in early 2018 to assess some of these taxpayers – focussing on those with the largest incomes. However, as these particular taxpayers were not considered representative of the group of taxpayers who hadn't yet been assessed as a whole, their income and allowances were not included in the outturn data for forecasting purposes, with the decision taken that adjustments based on estimates for the group as a whole would be more representative.

[24] In September 2018 the Taxes Office reviewed the adjustments made against the finalised assessments raised in respect of this cohort of taxpayers and determined that the adjustments made to the YOA17 outturn data in March 2018 appeared reasonable.

Pension income was £3m higher than forecast but this was driven by a trebling in income for individuals on the High Value Residents tax regime (HVR), with income for other taxpayers growing much slower than forecast.

Figure 6 shows that, excluding HVRs, the growth rate of pension income was very slow (0.7 per cent) compared to previous years. This is partly because an exercise was carried out to no longer send tax returns to those with small amounts of mostly pension income. The impact of a similar exercise can also be seen in YOA14 (when IFG chose to adjust the 2.7 per cent growth rate to 5.5 per cent to account for this).

Figure 6: Growth rate (%) of pension income, year of assessment



Source: Taxes Office data

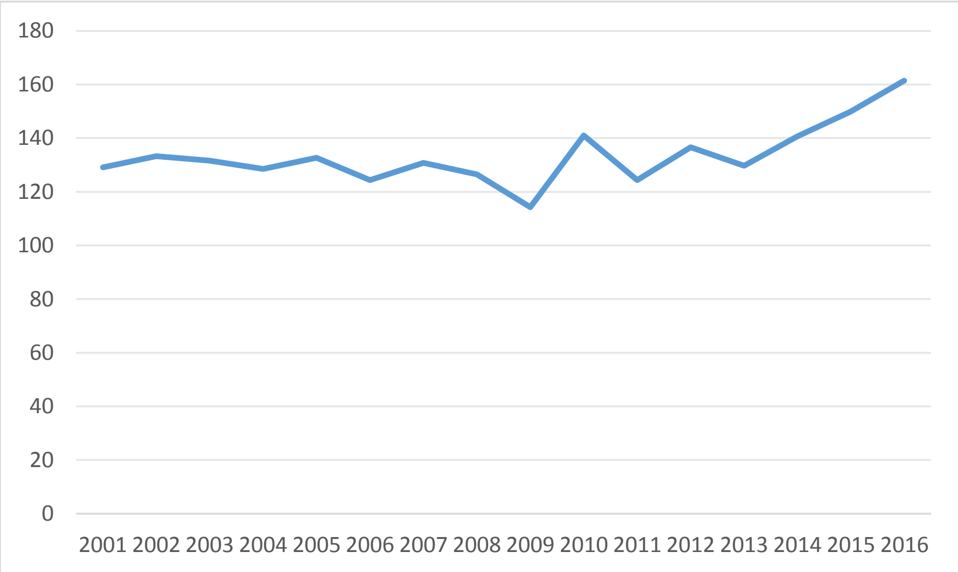
A number of adjustments need to be made to the non-HVR pension income in order to make a like-for-like comparison between YOA15 and YOA16 possible. In addition to the significant number of taxpayers who were 'sent to storage' or 'no longer sent a return', non-residents reported £2.4m of pension income in YOA15 which was not reported in YOA16[25]. Removing all this income from YOA15 results in an estimated underlying rate of growth of 4.4 per cent.

In addition, the significant growth in HVR pension income did not result in significant additional tax. Assuming that this was taxable at 1 per cent (rather than 20 per cent), reduces the growth rate from 329 per cent to 16 per cent (1/20th). When added to the underlying growth rate of non-HVR pension income this results in an overall estimate of underlying growth of 4½ per cent.

[25] This was due to these taxpayers no longer being required to report this income in Jersey, as a result of claims under double tax agreements / tax information exchange agreements. Only a small amount of tax was generated from this income in YOA15.

Personal business profits were £8m above forecast, partly driven by continued rapid growth in profits from legal services partnerships, though even excluding legal partnerships they grew by 5 per cent against a forecast of 1.5 per cent. **Figure 7** shows that annual changes in personal business income can be volatile from year to year, though there is a strong upward trend in the last three years. The draft forecast has been produced on the assumption this continues to grow at the 10 year average (2.6 per cent).

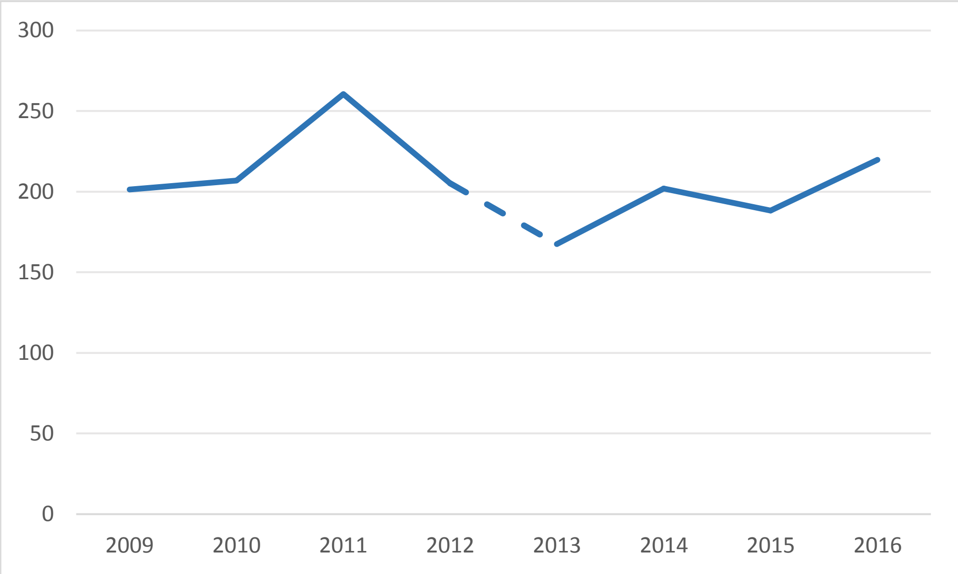
Figure 7: Personal business income, £m, year of assessment



Source: Taxes Office data

Income from distributions was £27m higher than forecast. This increase was due to non-HVR taxpayers who saw income from distributions growing by 17 per cent year-on-year. The majority of this increase appears to be from those with large distributions (>£250k) who account for £31m of the £32m increase in distributions. This is both an increase in the numbers reporting large distributions from around 140 people to around 170 people (20 per cent) and an increase in the average amount of these large distributions from around £660k to around £720k (10 per cent). As it is not possible to know whether this income is a one-off (or whether the rate of growth might continue), the draft forecast has been based on an assumption that distributions grow in line with RPIY inflation going forward.

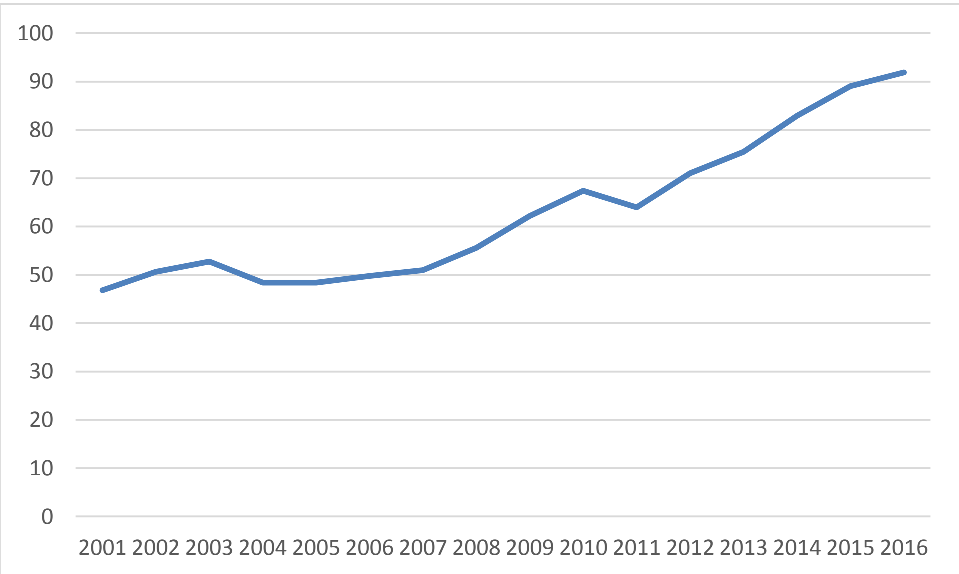
Figure 8: Shareholder income (to 2012) and distributions (from 2013), £m, year of assessment



Source: Taxes Office data

Growth in property income (including Jersey property, furnished let and income from lodgers) slowed to 3.2 per cent in YOA16 following four years of rapid growth. This was due to both a significant fall in income from furnished let and a slowdown in Jersey property income. It is not yet clear whether 2016 represents a slowing of the recent strong trend but in the interests of prudence the forecast continues to assume that property income grows at its longer-term (15 year) average of 4.6 per cent rather than the 10 year average rate of 6.3 per cent. The impact of using a 10 year average would be to increase the forecast by £3m in 2023.

Figure 9: Income from Jersey property, furnished let and lodgers, £m, year of assessment



Source: Taxes Office data

Bank interest and income taxed at source were below forecast, with other elements of unearned income being largely in line with the forecast.

Corporate tax

Corporate income tax was around £10m higher than forecast for YOA16. The previous forecast, which was based on in-year information from the Taxes Office, was for a significant fall of around £16m due to anticipated changes from a number of large taxpayers. In some cases, the expected falls did not materialise, which explains £5m of the increase when compared to forecast – with the rest due to higher tax received from other firms. Tax from financial institutions was around £9m above the in-year expectation, with tax on property income exceeding expectations by around £1m.

Year-on-year, corporate tax fell by almost £6m. Tax from financial institutions fell by £8m which was partly offset by increases of less than £1m each from property, utilities and 'other' sources.

YOA17 personal assessments completed to date

The Taxes Office has assessed around 90 per cent of the YOA17 personal tax returns it has received (51,600 of 58,900). Taxpayers who have so far been assessed for both YOA16 and YOA17 have seen growth in tax of around 3.5 per cent. However, these assessments represent only around 70 per cent of the total value of personal tax payable for YOA16 (£410m) so the final percentage growth figure is likely to change.

ITIS data for 2017

ITIS data suggest employment income in 2017 grew by 3.4 per cent. This is lower than the expectation built into the IFG's previous (September 2017) forecast which was for growth of 4.3 per cent. The Taxes Office is confident that the 2017 ITIS data are unlikely to change.

Conversely, updating the employment income equation using the new economic assumptions would suggest much faster growth of 5.3 per cent in 2017, due to significant increases in financial services compensation of employees (i.e. total salaries as measured by the Finance and Legal Sector Survey) and strong growth in non-finance employment. However, there are a number of potential reasons why compensation of employees in 2017 reported by Statistics Jersey may differ from the 2017 employment income data from ITIS, including the potential for some firms to pay bonuses in 2018 but include them in their accounts for 2017. This is potentially significant for 2017 as there was a 12 per cent increase in the average bonus reported by the financial services sector which in some cases may not have been actually paid to employees (and recognised in ITIS) until 2018.

The new data from ITIS for 2017 have been incorporated into the forecast as ITIS is thought to provide a more accurate reflection of the growth in taxable employment income in 2017. If the economic assumption for 2017 was used, this would increase the forecast by £9m for 2018, rising to £11m in 2023.

ITIS data for 2018

ITIS data are also now available for the first six months of 2018, which show employment income growing 4.6 per cent; compared to the same period last year.

However, part-year ITIS figures are provisional and tend to underestimate the total income as not all ITIS returns are submitted on time.
Therefore the ITIS data for the first half of 2018 have not been incorporated into the forecast. The forecast assumes growth in employment income of 5.2 per cent, based on the economic assumptions (and the outturn for average earnings growth).

Corporate Income Tax - latest data for YOA17
The latest position for YOA17 suggests corporate income tax collectable of around £92m. The Taxes Office consider that this is a baseline position and there may be some slight improvement going forward, and therefore estimate tax collectable of £93m which includes the impact of increased compliance activities.

5. Updated income tax forecast

Personal tax

The personal tax forecast has increased over the forecast period. The forecast has increased by £8m for 2018, £15m for 2019, £25m for 2020 and £28m for 2021. A new forecast has been produced for 2022 and 2023.

Figure 10: Changes to personal income tax forecast since Budget 2017

£m	2017 outturn	2018	2019	2020	2021	2022	2023
Personal tax							
September 2017 forecast	397	418	436	456	477		
YOA16 outturn	+13	+13	+14	+14	+14		
YOA17 ITIS		-5	-6	-6	-6		
New assumptions			+7	+14	+18		
Budget 2018 policy changes				+2	+2		
Tax collectable	**410**	**426**	**451**	**481**	**505**	**532**	**561**
Overall difference personal tax	+13	+8	+15	+25	+28		

Some columns may not sum due to rounding

New data

The new data used in the forecast have been described in **Section 3**. The impact of incorporating the outturn data for 2017 into the base results in approximately £13m additional tax in 2018, with the impact of this rising to £14m by 2021.

New assumptions

The combination of new economic assumptions (outlined in **Section 2**) and updated estimations of their relationship with taxable income results in a net increase in each year of the forecast:

- The changes to employment and earnings assumptions increases the forecast for employment and pension income, which adds around £5m additional tax in 2019, and £12m-£13m in 2020 and 2021. In 2018, however, there is a small downward impact of £2m as higher employment growth leads to higher expectations for growth in allowances (but has no impact on employment income as this is based on ITIS outturn).
- The increased inflation assumptions reduces the forecast by £1/2m in 2019, by £2m in 2020 and by £4m in 2021.

- The increased assumption for interest rates increases the forecast for investment income, leading to a further £1m-£2m additional tax in each year from 2019 onward.
- The increased assumption for financial services profits adds around £½m to £1m to the forecast in each year from 2019 onward.
- As a result of the new outturn data, the equations used to estimate investment income, employment income and pension income have been re-estimated, as have the average growth rates used to forecast personal business profits and rental income. The net impact of these is to increase the forecast by around £1m in 2018, increasing to £5m in 2021.
- Changes to the yield assumption have added £1m to the forecast for 2018 but reduced the forecast by £2m in 2019, £4m in 2020 and £2m in 2021. The yield calculation is considered in more detail below.

The IFG has in the past considered two possible approaches to forecasting yield (i.e. the amount of tax raised per £1 of taxable income).

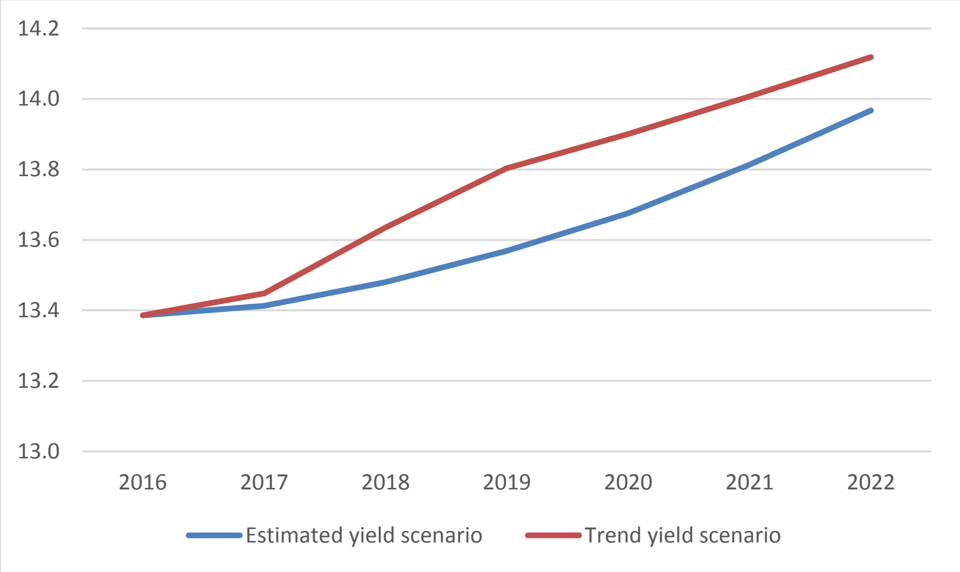
1. The estimated yield assumes that exemption thresholds grow in line with RPI; and the number of taxpayers claiming them is forecast to grow in line with employment growth. Most other allowances are assumed to remain flat, but again with number of claimants growing in line with employment growth. The impact of budget policy changes are applied such as the freezing and grandfathering of age-enhanced exemptions, phasing out of mortgage interest tax relief and the increase in the second earner's income allowance.

   This results in yield growing from 13.4 per cent in YOA16 to 14.0 per cent by YOA22. This increase is partly the result of fiscal drag (i.e. that the value of allowances grows more slowly than income) and partly the result of some budget policy changes which are expected to constrain the growth in the value of allowances over the forecast period (in particular the freezing and grandfathering of age-enhanced exemptions and phasing out of mortgage interest tax relief).

2. The trend yield assumes that the value of the various allowances for marginal rate taxpayers will grow at their recent average rate of growth, with standard rate allowances assumed to grow in line with the estimated yield assumptions.

   This was used in the IFG's recent forecasts as it was considered a more prudent approach than the very strong growth in yield which was suggested by the estimated yield approach. Under this approach, yield grows to 14.1 per cent by YOA22 as shown in **Figure 11**.

Figure 11: Growth of yield (%) under estimated yield scenario and trend yield scenario, year of assessment



The yield is lower under the 'estimated yield scenario' as the aggregate value of tax allowances increase more quickly than they have in the past, due to the relatively high inflation assumptions, thereby reducing the yield and therefore the expected tax take. In addition, the estimated yield takes more account of changes in mortgage interest tax relief. During the early part of the forecast, the value of this grows as interest rates rise – reducing the yield. During the latter part of the forecast, the annual reductions in the cap on the interest that can be claimed begin to have more of an impact and increase the yield (less than 150 taxpayers are affected by the interest cap in 2016 but this is estimated to grow to almost 3,000 by 2022).
The IFG forecast uses the more prudent estimated yield scenario.

In addition, Treasury has stated that a number of recent Budget policy positions should be assumed to be established policy and reflected in the forecasts. Building these Budget policy positons into the forecast results in an additional £3m of tax in 2020 and 2021. These changes are:

- Exemption thresholds – recent policy has been for non-age-enhanced exemption thresholds to grow by the lower of RPI inflation or the annual increase in the Average Earnings Index.
- Age-enhanced exemption thresholds – consistent with the established policy of moving towards a single set of income tax exemption thresholds for all taxpayers regardless of age, exemption thresholds for those born before 1952 will remain unchanged until there is convergence with the standard exemption threshold.
- Second earner's allowance – in the 2018 Budget the second earner's allowance increased so that the married couple's income tax exemption threshold plus the second earner's allowance is equal to two single person's income tax exemption thresholds. This is expected to continue.

Policy changes

The 2018 Budget saw the extension of a positive rate of corporate tax to additional firms in the financial services sector and to large corporate retailers from YOA18. Taxes Office estimate that, if the reduced post-tax profits feed through in full to reduced distributions to locally-resident shareholders, this would result in a reduction in personal tax of around £1m from 2020 onward.

In addition, the States Assembly has voted to remove the higher child allowance from YOA19 as part of the new higher education funding proposal (P.33/2018). Taxes Office estimate this will result in an additional £3½m of personal tax from 2020 onward.

The combined impact of the two policy changes is £2m per year from 2020.

Corporate tax

The forecast for corporate tax has increased over the forecast period, when compared to the previous (Budget 2018) forecast.

Figure 12: Changes to corporate income tax forecast since Budget 2017

£m	2017 outturn	2018	2019	2020	2021	2022	2023
Corporate tax							
September 2017 forecast	78	87	89	92	95		
New outturn	+10	+5	+5	+5	+5		
New assumptions			+2	+2	+3		
Extension of corporate tax			+9	+9	+9		
Taxes Office increased compliance		+1	+1	+1	+1		
Tax collectable	**88**	**93**	**106**	**109**	**113**	**116**	**119**
Overall difference corporate tax	+10	+6	+16	+17	+18		

Some columns may not sum due to rounding

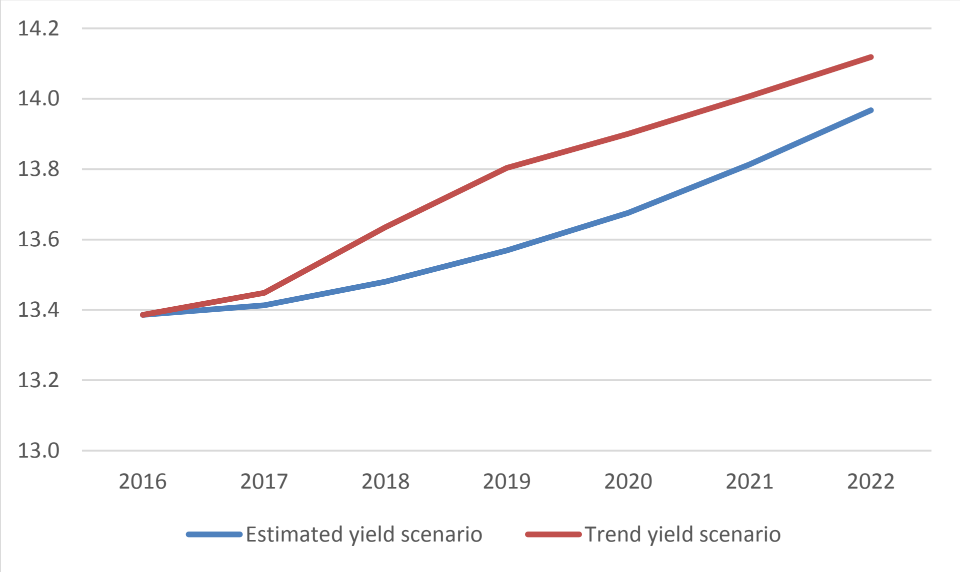
Corporate tax in 2017 was £88m - approximately £10m higher than the Budget 2018 forecast. This has been built into the base, in the absence of any significant evidence that this was due to one-off factors.

The forecast for 2018 assumes that tax grows in line with the FPP economic assumption for financial services profit growth (4 per cent in 2017). This results in approximately £4m of growth, in line with the latest expectations from the Taxes Office.

Previous forecasts had included a 'below-the-line' upward adjustment of £3m from 2018 onward to reflect projected additional tax revenues from corporate and business taxes - arising from improvements and increases in compliance activities. Compliance results indicate that around £2m of this may already have been achieved and the IFG has consequently agreed a £1m adjustment to the forecast from 2018 onward.

It is of note that the economic assumptions saw a significant downgrade for financial services profits in 2017, based on the results of the Finance and Legal Sector Survey. However, the latest information from the Taxes Offices suggests that this has not been reflected in expected tax revenues for YOA17. It is understood that the fall in profits observed in the Finance and Legal Sector Survey was primarily related to banks with a small footprint in Jersey. While some of these firms may have had a significant fall in profits, this will not always result in a fall in tax (for example firms which are carrying forward losses from earlier years of assessment). In addition, there was a fall in profits in the legal sector, which is subject to personal tax (as partnerships) rather than corporate tax.

Figure 13: Growth of yield (%) under estimated yield scenario and trend yield scenario, year of assessment



The yield is lower under the 'estimated yield scenario' as the aggregate value of tax allowances increase more quickly than they have in the past, due to the relatively high inflation assumptions, thereby reducing the yield and therefore the expected tax take. In addition, the estimated yield takes more account of changes in mortgage interest tax relief. During the early part of the forecast, the value of this grows as interest rates rise – reducing the yield. During the latter part of the forecast, the annual reductions in the cap on the interest that can be claimed begin to have more of an impact and increase the yield (less than 150 taxpayers are affected by the interest cap in 2016 but this is estimated to grow to almost 3,000 by 2022).
The IFG forecast uses the more prudent estimated yield scenario.

In addition, Treasury has stated that a number of recent Budget policy positions should be assumed to be established policy and reflected in the forecasts. Building these Budget policy positons into the forecast results in an additional £3m of tax in 2020 and 2021. These changes are:

- Exemption thresholds – recent policy has been for non-age-enhanced exemption thresholds to grow by the lower of RPI inflation or the annual increase in the Average Earnings Index.
- Age-enhanced exemption thresholds – consistent with the established policy of moving towards a single set of income tax exemption thresholds for all taxpayers regardless of age, exemption thresholds for those born before 1952 will remain unchanged until there is convergence with the standard exemption threshold.
- Second earner's allowance – in the 2018 Budget the second earner's allowance increased so that the married couple's income tax exemption threshold plus the second earner's allowance is equal to two single person's income tax exemption thresholds. This is expected to continue.

Policy changes
The 2018 Budget saw the extension of a positive rate of corporate tax to additional firms in the financial services sector and to large corporate retailers from YOA18. Taxes Office estimate that, if the reduced post-tax profits feed through in full to reduced distributions to locally-resident shareholders, this would result in a reduction in personal tax of around £1m from 2020 onward.
In addition, the States Assembly has voted to remove the higher child allowance from YOA19 as part of the new higher education funding proposal (P.33/2018). Taxes Office estimate this will result in an additional £3½m of personal tax from 2020 onward.
The combined impact of the two policy changes is £2m per year from 2020.

Corporate tax

The forecast for corporate tax has increased over the forecast period, when compared to the previous (Budget 2018) forecast.

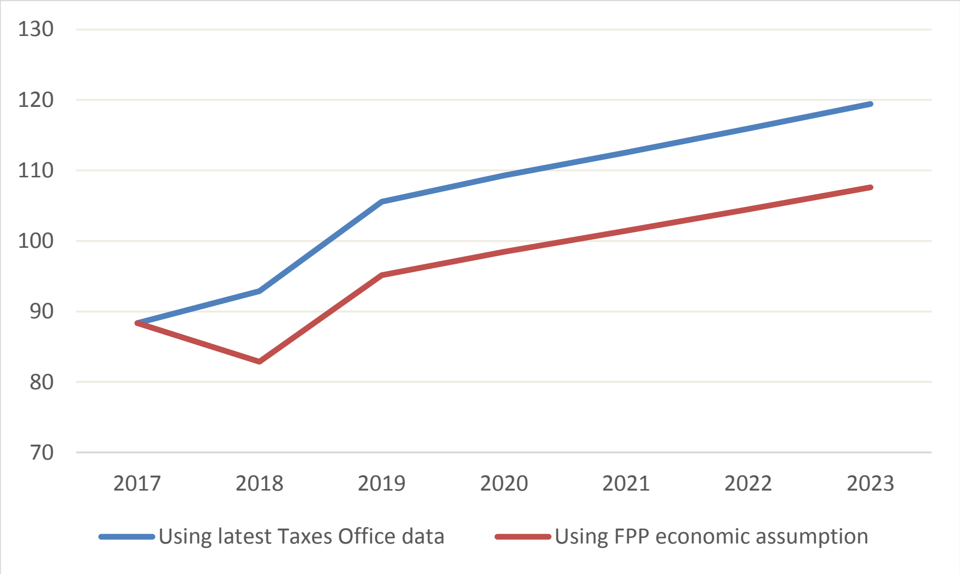
Figure 14: Changes to corporate income tax forecast since Budget 2017

£m	2017 outturn	2018	2019	2020	2021	2022	2023
Corporate tax							
September 2017 forecast	78	87	89	92	95		
New outturn	+10	+5	+5	+5	+5		
New assumptions			+2	+2	+3		
Extension of corporate tax			+9	+9	+9		
Taxes Office increased compliance		+1	+1	+1	+1		
Tax collectable	**88**	**93**	**106**	**109**	**113**	**116**	**119**
Overall difference corporate tax	+10	+6	+16	+17	+18		

Some columns may not sum due to rounding

Corporate tax in 2017 was £88m - approximately £10m higher than the Budget 2018 forecast. This has been built into the base, in the absence of any significant evidence that this was due to one-off factors.
The forecast for 2018 assumes that tax grows in line with the FPP economic assumption for financial services profit growth (4 per cent in 2017). This results in approximately £4m of growth, in line with the latest expectations from the Taxes Office.
Previous forecasts had included a 'below-the-line' upward adjustment of £3m from 2018 onward to reflect projected additional tax revenues from corporate and business taxes - arising from improvements and increases in compliance activities. Compliance results indicate that around £2m of this may already have been achieved and the IFG has consequently agreed a £1m adjustment to the forecast from 2018 onward.
It is of note that the economic assumptions saw a significant downgrade for financial services profits in 2017, based on the results of the Finance and Legal Sector Survey. However, the latest information from the Taxes Offices suggests that this has not been reflected in expected tax revenues for YOA17. It is understood that the fall in profits observed in the Finance and Legal Sector Survey was primarily related to banks with a small footprint in Jersey. While some of these firms may have had a significant fall in profits, this will not always result in a fall in tax (for example firms which are carrying forward losses from earlier years of assessment). In addition, there was a fall in profits in the legal sector, which is subject to personal tax (as partnerships) rather than corporate tax.

Figure 15: Impact of using latest economic assumptions vs Taxes Office data on YOA17 corporate income tax assessments (£m) – reflected in financial year 2018



New combined forecast

The new forecast suggests tax revenue will be £14m higher this year, mainly as a result of the higher outturn in 2017, partially offset by low ITIS outturns for 2017. From 2019 to 2021 the forecast is £32m-£46m higher, due to a number of factors, including the 2017 outturn; the extension of corporate tax; an increase in the economic assumptions for nominal profits and wages (driven by higher inflation); and due to changes in the assumptions for future policy around exemption thresholds.

Figure 16: Updated income tax forecast

£m	2017 outturn	2018	2019	2020	2021	2022	2023
Personal tax							
September 2017 forecast	397	418	436	456	477		
YOA16 outturn	+13	+13	+14	+14	+14		
YOA17 ITIS		-5	-6	-6	-6		
New assumptions			+7	+14	+18		
Budget 2018 policy changes				+2	+2		
Tax collectable	**410**	**426**	**451**	**481**	**505**	**532**	**561**
Overall difference personal tax	+13	+8	+15	+25	+28		
Corporate tax							
September 2017 forecast	78	87	89	92	95		
New outturn	+10	+5	+5	+5	+5		
New assumptions		0	+2	+2	+3		
Extension of corporate tax			+9	+9	+9		
Taxes Office increased compliance		+1	+1	+1	+1		
Tax collectable	**88**	**93**	**106**	**109**	**113**	**116**	**119**
Overall difference corporate tax	+10	+6	+16	+17	+18		
Bad debts[1]	-2	-3	-3	-3	-3	-3	-3
New forecast	**496**	**516**	**554**	**587**	**615**	**645**	**677**
Old forecast	473	502	522	545	569		
Overall difference	***+24***	***+14***	***+32***	***+42***	***+46***		

Some columns may not sum due to rounding

Forecast range

In line with previous IFG forecasts, a range has been applied to the central forecast, starting at +/-2 per cent in the first year of the forecast, rising to +/-11 per cent by the sixth and final year of the forecast.

Figure 17: Forecast range

Forecast range (£m)	2017	2018	2019	2020	2021	2022	2023
Upper		526	576	617	658	703	752
Central	**496**	**516**	**554**	**587**	**615**	**645**	**677**
Lower		506	532	558	572	587	603
Range as % of forecast (+/-)		*2%*	*4%*	*5%*	*7%*	*9%*	*11%*

6. Uncertainties and sensitivities

The FPP has advised that the core reasons for uncertainty around economic assumptions and general economic uncertainty in the medium term remain from its Annual Report for 2017.
The IFG has reviewed its position from September 2017 and also considers that uncertainties are largely unchanged. The view is that the balance of risks to the financial forecasts remains on the downside but less so than before the UK referendum on Brexit.
The IFG view reflects the fact that some of the uncertainty regarding Brexit is factored into the FPP's economic assumptions. The IFG would contend that there are also business opportunities within these areas of uncertainty.
The IFG would emphasise certain factors at September 2018, which reflect uncertainty in the outlook at this time as:

Personal Income Tax

- Variations in employment numbers/earnings both in level and distribution;
- Impact of unforeseen changes in interest rates on investment incomes;
- Uncertainty in yield forecasts due to large number of component factors; and
- Uncertainty regarding the amount of shareholder income arising in a particular year.

Corporate Income Tax

- Impact of unforeseen events on the taxable profits of major corporate taxpayers:
- Impact of UK banking sector reforms and changes in interest rates on banking profits;
- Impact of business activity of the outcome of the UK Brexit negotiations, particularly through its potential effect on the City of London; and
- Impact of risks to the global economy and the effect on the market opportunities for local businesses.

Both personal and corporate income taxes:

- Performance of the Island economy;
- Combined impact of future changes in fiscal policy such as public sector reform and future capital expenditure;
- Impact of current and proposed EU and OECD international tax initiatives including the impact of any listing of the Island by the EU; and
- Impact of changes to UK tax policy.

The IFG continues to emphasise the need to include flexibility within future financial planning given the risks above, and this is particularly reflected by the range around the income tax forecast.

Appendix 3 – Other Income Forecast Update 2018-2023

Introduction

There are a number of areas of States income for which forecasts are prepared which fall outside the scope of the IFG. The majority of this income arises from agreed formulae such as rates of return or are based on agreed investment strategies.

These forecasts are prepared by the officers responsible for managing these areas and reviewed in total by the Treasury. They have been updated for the draft Budget 2019 and in general use the same FPP endorsed economic assumptions from August 2018.

The areas included within 'Other Income' are summarised as:

- Island-wide rate,
- Income from dividends and financial returns from States Strategic Investments,
- Income from investment income, JFSC and other fees and fines, and
- Returns from Andium Homes and Housing Trusts.

The forecasts of other States income have been fully reviewed to reflect the 2017 outturn and to model the effect of the revised economic assumptions and any initial in-year information for 2018 as appropriate.

Economic assumptions for Other States Income

The economic assumptions endorsed by the FPP in August 2018 have been applied for the other income forecasts where appropriate. Where more specific assumptions are required relating to particular investment returns these have been drawn from the States external investment advisers.

Island-wide rate

The 12 Parishes collect an Island-wide Rate, which is levied by the States. It provides a contribution to parish welfare costs which were incorporated into the new Income Support system in 2006.

The Island-wide Rate is increased annually based on the March RPI, which is proposed to the States by the Comité de Connétables.

The 2017 outturn position broadly matched the Budget 2018 forecast (September 2017) and was mainly affected by small changes in numbers of households.

The current 2018 forecast has been set by increasing the actual 2017 Island-wide Rate income of £12.4m by the March 2018 RPI of 3.2%. This results in a 2018 forecast of £12.8m, as presented to the States on 20th June 2018 by the Comité des Connétables (R.76/2018).

All future forecasts (2019 – 2023) have been refreshed using the updated central economic assumptions provided by the FPP in August 2018.

Income from Dividends and Returns

The principal contributions to this area of income arise from the dividends paid by those incorporated bodies in which the States has a shareholding voting rights of:

- Jersey Telecom 100%
- Jersey Post 100%
- Jersey Electricity 86.4%
- Jersey New Waterworks 83.3%
- SoJDC 100%
- Ports of Jersey 100%

The dividends are paid according to the defined dividend policies and forecasts are prepared in line with the company's latest business model. In most cases the dividends are directly related to trading performance but can be affected by particular projects being undertaken.

The revised forecast 2018 – 2023 shows some minor variations in each of the forecast years compared to the Budget 2018 forecast, mainly related to changes in projected RPI and a one-off increase in dividend from Jersey Telecom in 2018. SoJDC have advised that will be bringing forward a dividend payment for College Gardens to 2018 instead of 2019, and therefore their 2018 dividend is increased accordingly, but reduced in the following year.

Income – Non-Dividends

A number of income streams contribute to this area, many of which are fairly small and relatively simple to forecast i.e. income tax penalties, crown revenues and miscellaneous interest, fees and fines.

Larger streams of income arise from:

- Investment returns from the Consolidated Fund and Currency Fund
- Returns from the Jersey Financial Services Commission
- Returns from Jersey Car Parking Trading Account – until 2019

The investment returns from the Consolidated Fund and Currency Fund benefit from the pooled investments in the Common Investment Fund (CIF). The returns are based on the investment strategies of the funds and the holdings available to be invested.

The larger part of investment returns are generated by exposure to risk assets such as equity, these assets are subject to a higher degree of volatility and so are more difficult to forecast over a short time horizon (such as a year). Lower risk assets are less volatile but generate far lower returns and may be predicted with greater certainty. Lower risk assets tend to generate returns more correlated with LIBOR (interest rates) and their current predicted rate of return, though higher than previous projections, remain historically low. Forecast interest rates have improved and are projected to further improve, though this is dependent on a number of economic conditions which are subject to change.

The Consolidated fund income estimate was revised upwards in the Budget 2018 forecast and continued to perform well to outturn, resulting in an additional £1.2m in 2017. However, the 2018 forecast of income from investment returns show minimal changes from that predicted last year, while the forward forecasts for 2019 onwards show some significant reductions attributable to updated investment assumptions, projecting lower future returns following an extended period of high performance and changes to the profile of the infrastructure investment in the Currency Fund.

Returns from Andium Homes and Housing Trusts

The returns from Andium Homes and the Housing Trusts arise from the incorporation of the housing function in July 2014. Andium is obliged to make a return based on the transfer agreement and an agreed rental and return policy.

The return is influenced by the prevailing RPI. Agreements are in place with Housing Trusts to deliver a return tracking each Trust's proposed transition to the 90% market rent levels. This income stream is intended to broadly offset the increases that would be required to the housing component of income support for those claimants in Andium or Housing Trust properties.

There is a small variance in 2018 because Andium Homes has postponed their annual rent increase due to concerns around the cost of living. The forward forecast has also been forecast prudently and shows small annual increases to the returns arising from RPI changes.

Summary of Other Income Forecasts for 2018-2023

The resulting September 2018 forecasts update are shown in **Table 1**. The main variances compared to the September 2017 forecasts are as follows:

- the revised approach to investment income,
- a higher dividend from SoJDC for 2018, and
- the changes to the RPI assumptions.

Table 1: Summary of Other Income and Island Wide Rate for 2018 – 2023

Other States Income	*Outturn*	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Island Wide Rate	*12,427*	12,825	13,261	13,698	14,150	14,617	15,100
Other Income - Dividends	*12,323*	14,224	14,422	9,768	10,442	11,125	11,586
Other Income - Non Dividends	*17,915*	11,337	11,727	12,326	12,380	12,788	12,873
Other Income - Returns from Andium and Housing trusts	*28,417*	28,959	30,419	31,493	32,582	33,708	34,871
Total Other Income	***71,082***	**67,345**	**69,829**	**67,285**	**69,555**	**72,238**	**74,430**
Annual Growth		*-5.3%*	*3.7%*	*-3.6%*	*3.4%*	*3.9%*	*3.0%*
Budget 2018 forecast (September 2017)	***68,865***	**62,204**	**70,642**	**67,279**	**69,529**	**n/a**	**n/a**
Variation	*2,217*	5,141	(813)	6	26		

Forecast range

A forecast range has been provided for those areas of other income that are appropriate relating to business models and investment returns. The impact on the central forecasts is shown in **Table 2.**

Table 2: Summary of Other Income and Island Wide Rate forecast range for 2018 – 2023

Other States Income	*Outturn*	September 2018 Forecast					
	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Higher Scenario	-	69,231	74,125	72,152	76,095	80,394	89,226
Central Scenario	***71,082***	**67,345**	**69,829**	**67,285**	**69,555**	**72,238**	**74,430**
Lower Scenario	-	57,315	59,864	57,338	59,673	60,887	62,001
Range £'000		*11,916*	*14,261*	*14,814*	*16,422*	*19,507*	*27,225*
Range %		*18%*	*20%*	*22%*	*24%*	*27%*	*37%*

Appendix 4 – Social Security Funds Forecasts

Social Security Fund Introduction

The Social Security Fund receives contributions from employers, working age adults and general tax revenues. It provides contributors with benefits when they are unable to work and pensions when they reach a certain age.

Contributions

Contributions to the fund are paid by working age adults (5.2% of earnings) and their employers (5.3%) up to the Standard Earnings Limit (SEL). Employers also pay 2% on earnings between the SEL and the Upper Earnings Limit (UEL). Individuals without an employer are required to contribute both elements.

Contributors with earnings below the SEL, but above the Lower Earnings Limit (LEL) are treated as if contributions up to the SEL have been made to protect pensions and benefit entitlement (known as supplementation). The States provide an annual grant to the Fund, which partly covers the cost of supplementation. The amount is governed by a formula and is set for the period of the MTFP. In the 2016 MTFP the States agreed that, as a short-term measure, the value of the States Grant to the Social Security Fund will be frozen at the 2015 level throughout the MTFP period (2016-2019) to help to maintain balanced budgets throughout the four-year period.

Contributions have been forecast for the period using the central economic assumptions on average earnings (which affects both individuals earnings and the three earnings limits), and employment. More details are given in Appendix 7 to the MTFP Addition.

Contributory Benefits

Old Age Pension

The most significant benefit paid by the Fund is the Old Age Pension, which supports individuals in old age. The value of the pension paid to an individual depends on the number of years of contributions. The maximum, full rate of pension is paid to those with a contribution record of 45 years or more.

Incapacity Benefits

Incapacity Benefits are designed to support people with contribution records who are unable to work or face additional challenges to work. This can be either through short term illness, or long term conditions.

Short Term Incapacity Allowance (STIA) is usually authorised by GPs and paid to working age claimants who satisfy the necessary contribution conditions for periods of incapacity lasting between 2 and 364 days. Most STIA claims are paid at the standard rate of benefit.

Long Term Incapacity Allowance (LTIA) was introduced in October 2004 to replace Invalidity Benefit and Disablement Benefit. LTIA compensates people for their loss of faculty, regardless of whether it is as a result of an illness or injury. It is assessed as a percentage of the standard rate of benefit based on their loss of faculty and is an in work benefit. LTIA allows people to gradually return to work, or work when able to do so, whilst still receiving a benefit which provides some financial support.

Other Benefits

The fund also pays benefits to individuals with contribution records who may need additional support due to other life events.
A Maternity Grant (or Adoptive Parent Grant) is paid to help with the initial costs of having a baby. The Grant is available as a lump sum to either the father or mother who satisfies the contribution conditions. A weekly Maternity Allowance can also be payable to the mother for up to 18 weeks, at the same rate as STIA, but based on only the mother's contribution record before she became pregnant. In 2015 changes came into place which made maternity allowance more flexible, allowing mothers more choice as to when they initiate their 18 week benefit period.

Survivor's Benefits are paid on a percentage basis to survivors based on the contribution record of their deceased spouse or civil partner and are mainly paid to survivors while they are of working age. A contributory Death Grant is also available to help support payment of the costs relating to the death of an individual.

Home Carers Allowance helps people who give up employment to take on a caring commitment for a person who needs a high level of personal care. Insolvency benefit is designed to ensure that all individuals receive their statutory entitlement to redundancy payments, regardless of the financial situation of their employer.

Basis of Benefit Forecasts

The level of benefits has been forecast for the period to allow for expected changes in the rate of benefit (driven primarily by the central Economic Assumptions on earnings and inflation), and volumes of claimants expected under the central population model (+350 p.a.), adjusting for past trends in volumes and other relevant information.

Administrative Costs

From 2016, the department has simplified the way it charges the funds it administers for the cost of this administration. Under the new methodology, a consolidated management charge for both staff and administrative costs is raised to each of the Funds to reflect the operational and management costs. The management charge was agreed for the period of the MTFP (2016-19) agreed in advance of the first year of its operation (2016), and incorporates a 2% reduction per year to reflect anticipated efficiency savings.

Certain costs will continue to be paid directly by the fund where they are incurred under the legislation relating to the fund in question or are specific expenditure of the funds rather than administration. These costs include audit, actuarial and investment management fees.

Fund Position

The States operates a Social Security (Reserve) Fund, meaning that the Social Security Fund maintains a working cash balance only. As benefits have not risen as quickly as forecast in the MTFP, coupled with a rise in contributions income and reverting the annual grant back to the original formula, the fund will continue to generate net cash returns.

Review of the Social Security Fund

The Social Security Fund has substantial reserves, but a major review of the Scheme has started to ensure its long term sustainability. The Review will continue to run until the end of this MTFP period and will be closely aligned with the development of a Long Term Vision for Jersey.

Social Security Fund

Statement of Comprehensive Net Expenditure

2018 Forecast		2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
£		£	£	£	£	£
	Income					
(252,361,500)	Social Security Contributions	(260,796,800)	(281,956,500)	(290,415,300)	(299,127,700)	(308,101,500)
-	Duties, Fees, Fines & Penalties	-	-	-	-	-
(40,700)	Sales of Goods and Services	(40,700)	(40,700)	(40,700)	(40,700)	(40,700)
(224,500)	Investment Income	(210,700)	(267,800)	(321,600)	(333,000)	(328,600)
-	Other Income	-	-	-	-	-
(252,626,700)	**Total Income**	**(261,048,200)**	**(282,265,000)**	**(290,777,600)**	**(299,501,400)**	**(308,470,800)**
	Expenditure					
235,011,600	Social Benefit Payments	246,071,900	255,104,700	264,185,600	275,473,300	287,259,300
-	Staff Costs	-	-	-	-	-
5,454,800	Supplies and Services	5,115,900	5,121,800	5,227,800	5,134,000	5,140,400
-	Administrative Expenses	-	-	-	-	-
-	Premises and Maintenance	-	-	-	-	-
-	Other Operating Expenses	-	-	-	-	-
-	Grants and Subsidies Payments	-	-	-	-	-
-	Impairment of Receivables	-	-	-	-	-
-	Finance Costs	-	-	-	-	-
-	Foreign Exchange (Gain)/Loss	-	-	-	-	-
-	Contingency Expenses	-	-	-	-	-
240,466,400	**Total Expenditure**	**251,187,800**	**260,226,500**	**269,413,400**	**280,607,300**	**292,399,700**
(12,160,300)	**Net Revenue (Income)/Expenditure - Near Cash**	**(9,860,400)**	**(22,038,500)**	**(21,364,200)**	**(18,894,100)**	**(16,071,100)**
563,900	Depreciation	563,900	565,000	565,000	565,000	565,000
(11,596,400)	**Total Net Revenue (Income)/Expenditure**	**(9,296,500)**	**(21,473,500)**	**(20,799,200)**	**(18,329,100)**	**(15,506,100)**

Health Insurance Fund

Introduction

The Health Insurance Fund (HIF) receives contributions from employers and working age adults. It subsidises GP visits, pathology costs and drug and dispensing costs of prescriptions for Jersey residents.

Contributions and investment income

Contributions to the fund are paid by working age adults (0.8% of earnings) and their employers (1.2%) up to the Standard Earnings Limit (SEL). Individuals without an employer are required to contribute both elements.
Contributions have been forecast for the period using the central economic assumptions on average earnings (which affects both individuals' earnings and the three earnings limits), and employment (forecast from trend). More details are given in Appendix 7 to the MTFP.

The fund also receives investment income on the balance accumulated over past periods, which is invested on behalf of the Fund through the Common Investment Fund, and managed in accordance with an investment strategy aligned to the HIF's strategic objectives. This is forecast based on the forecast balance in the fund and predicted investment returns.

Contributory benefits

Medical benefit
A standard benefit is paid for each GP consultation covered by the Fund. The benefit also covers the charge made by the Health and Social Services Department for analysing blood samples provided by GPs.

Pharmacy benefit
Pharmaceutical benefit covers the full cost of prescription drugs prescribed by GPs and includes a dispensing fee paid to community pharmacists in respect of each item dispensed. The Minister for Social Security is responsible for maintaining the list of drugs that are available on prescription from GPs.

Gluten free vouchers
Individuals who require a gluten-free diet can receive vouchers towards the cost of purchasing gluten-free products.

Basis of benefit forecasts
The level of benefits has been forecast for the period to allow for expected changes in the rate of benefit (driven primarily by the central Economic Assumptions on earnings and inflation), and volumes of claimants expected under the central population model (+350 p.a.), adjusting for past trends and other relevant information.

Jersey Quality Improvement Framework

The Jersey Quality Improvement Framework (JQIF) was introduced in 2015 and contains clinical and organisational measures describing the standards and activities which GP surgeries should achieve. These include, for example, the creation of a register of patients with diabetes and measures regarding specific interventions for this condition. Payments are made to GP practices according to their level of activity against each measure.

From 2017 this payment will be grouped with Social Benefits in line with an update to the States Accounting Policies.

Other primary care contracts

The department is exploring new ways to deliver primary care services, including the use of contractual arrangements with suppliers rather than benefits to individuals. These will also grouped with Social Benefits in the accounts. As the exact form and cost (net of any reduction in other benefits) is not yet known, these have not been reflected in the forecasts.

Administrative costs

From 2016, the department has simplified the way it charges the funds it administers for the cost of this administration. Under the new methodology, a consolidated management charge for both staff and administrative costs is raised to each of the Funds to reflect the operational and management costs. The management charge was agreed for the period of the MTFP (2016-19) agreed in advance of the first year of its operation (2016), and incorporates a 2% reduction per year to reflect anticipated efficiency savings.

Certain costs will continue to be paid directly by the fund where they are incurred under the legislation relating to the fund in question or are specific expenditure of the fund rather than administration. These costs include audit, actuarial and investment management fees, and the cost of the Primary Care Governance Team.

Fund position

The fund is operating at a net cash surplus, which is expected to continue as contributions income continues to exceed benefits. Investment returns are predicted to rise, which further increases operational surpluses.

Future of the Fund

The future of the HIF will be considered as part of the overall project to create a sustainable funding mechanism for health and social care.

Health Insurance Fund

Net Revenue Expenditure - Service Analysis

2018 Forecast		2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
£		£	£	£	£	£
(34,290,600)	Social Security Contributions	(35,860,400)	(36,882,400)	(37,988,900)	(39,128,500)	(40,302,400)
(2,660,700)	Net Investment Returns	(2,293,200)	(2,845,000)	(2,836,500)	(3,020,600)	(3,119,800)
	Contributory Benefits					
8,135,600	Medical Benefit	8,128,000	8,258,700	8,388,400	8,517,900	8,647,900
19,815,400	Pharmacy Benefit	20,721,100	21,205,300	21,662,100	22,136,800	22,584,300
450,400	Gluten Free Vouchers	487,600	495,700	503,800	512,000	520,100
28,401,400		29,336,700	29,959,700	30,554,300	31,166,700	31,752,300
1,586,500	Jersey Quality Improvement Framework	1,586,500	1,638,900	1,693,000	1,748,900	1,806,600
400,000	Additional Pharmacy and GP Services	500,000	600,000	700,000	800,000	900,000
-	Transfer to Health and Social Services	-	-	-	-	-
1,944,100	Administration	1,790,000	1,790,000	1,815,000	1,790,000	1,790,000
(4,619,300)	Net Revenue (Income)/Expenditure - Near Cash	(4,940,400)	(5,738,800)	(6,063,100)	(6,643,500)	(7,173,300)
-	Depreciation	-	-	-	-	-
(4,619,300)	Total Net Revenue (Income)/Expenditure	(4,940,400)	(5,738,800)	(6,063,100)	(6,643,500)	(7,173,300)

Health Insurance Fund

Statement of Comprehensive Net Expenditure

2018 Forecast		2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
£		£	£	£	£	£
	Income					
(34,290,600)	Social Security Contributions	(35,860,400)	(36,882,400)	(37,988,900)	(39,128,500)	(40,302,400)
-	Duties, Fees, Fines & Penalties	-	-	-	-	-
-	Sales of Goods and Services	-	-	-	-	-
(2,660,700)	Investment Income	(2,293,200)	(2,845,000)	(2,836,500)	(3,020,600)	(3,119,800)
	Other Income					
(36,951,300)	**Total Income**	**(38,153,600)**	**(39,727,400)**	**(40,825,400)**	**(42,149,100)**	**(43,422,200)**
	Expenditure					
28,801,400	Social Benefit Payments	29,836,700	30,559,700	31,254,300	31,966,700	32,652,300
-	Staff Costs	-	-	-	-	-
3,530,600	Supplies and Services	3,376,500	3,428,900	3,508,000	3,538,900	3,596,600
-	Administrative Expenses	-	-	-	-	-
-	Premises and Maintenance	-	-	-	-	-
-	Other Operating Expenses	-	-	-	-	-
-	Grants and Subsidies Payments	-	-	-	-	-
-	Impairment of Receivables	-	-	-	-	-
-	Finance Costs	-	-	-	-	-
-	Foreign Exchange (Gain)/Loss	-	-	-	-	-
-	Contingency Expenses	-	-	-	-	-
32,332,000	**Total Expenditure**	**33,213,200**	**33,988,600**	**34,762,300**	**35,505,600**	**36,248,900**
(4,619,300)	**Net Revenue (Income)/Expenditure - Near Cash**	**(4,940,400)**	**(5,738,800)**	**(6,063,100)**	**(6,643,500)**	**(7,173,300)**
-	Depreciation	-				
(4,619,300)	**Total Net Revenue (Income)/Expenditure**	**(4,940,400)**	**(5,738,800)**	**(6,063,100)**	**(6,643,500)**	**(7,173,300)**

Long-Term Care Fund

Introduction

The Long-Term Care Fund (LTCF) is a ring fenced Fund. This is funded by the new Long-Term Care Charge payable by local residents and a grant from the States. The Fund pays benefits to adults with long-term care needs.

Fund income

Income within the Long-Term Care Fund (LTCF) consists of both a grant from the States, (which reflects budgets relating to Long-Term Care previously held by the Health and Social Services Department and Social Security Departments) and the LTC charge, calculated as 1% of taxable income up to the Upper Earnings Limit. It was always anticipated that this rate would need to increase as the population ages, and based on current forecasts it is anticipated that this will need to increase to 1.5% from 2020, and this has been reflected in the forecast.

The States Grant is governed by a formula and is set for the period of the MTFP. The Long Term Care Charge has been forecast based on the Personal Income Tax forecast, due to the closely related nature of the calculation.

Long Term Care Benefit

From 1 July 2014 individuals with long term care needs have been able to claim benefits from the new long term care scheme. The value of the benefit depends on the assessed care level of the individual and where the care is being received. Claimants can receive care in their own home, in a specialist group home or in a residential home. A means tested benefit is available from the start of the care for those with lower income and assets. Property loans are available which are secured against the value of the family home. Once standard care costs have reached a certain level all claimants are entitled to a benefit which covers their standard care costs.

The level of benefits has been forecast for the period to allow for expected changes in the rate of benefit (driven primarily by the central Economic Assumptions on earnings and inflation), and volumes of claimants expected under the central population model (+700 p.a.), adjusting for past trends in volumes and other relevant information. As this is a relatively new benefit, there is limited historic information to inform this forecast.

Administrative costs

From 2016, the department has simplified the way it charges the funds it administers for the cost of this administration. Under the new methodology, a consolidated management charge relating to both staff and administrative costs is raised to each of the Funds to reflect the operational and management costs. The management charge was agreed for the period of the MTFP (2016-19) agreed in advance of the first year of its operation (2016), and incorporates a 2% reduction per year to reflect anticipated efficiency savings.

Certain costs will continue to be paid directly by the fund where they are incurred under the legislation relating to the fund in question or are specific expenditure of the funds rather than administration. These costs include audit, actuarial and investment management fees.

Fund position

It is forecast that the fund will move into a net cash consuming position from 2018. However, a balance has been built up in the fund using transfers of underspends in the tax funded benefits budget from previous years which will allow time for the States to consider changes to the level of the Long-Term Care Charge needed to ensure that it is sustainable in the longer term.

Long Term Care Fund

Net Revenue Expenditure - Service Analysis

2018 Forecast		2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
£		£	£	£	£	£
(28,552,500)	States Grant to Long-Term Care Fund	(28,878,600)	(29,600,600)	(30,577,400)	(31,586,500)	(32,628,900)
(19,304,800)	Long-Term Care Charge	(20,935,700)	(32,919,000)	(33,906,600)	(34,923,800)	(35,971,500)
47,454,800	Long-Term Care Benefit	49,513,200	52,972,900	56,303,500	59,952,300	63,762,000
1,298,300	Administration	1,054,600	1,016,100	1,058,200	830,000	753,300
895,800	Net Revenue (Income)/Expenditure - Near Cash	753,500	(8,530,600)	(7,122,300)	(5,728,000)	(4,085,100)
32,000	Depreciation	32,000	32,000	32,000	32,000	32,000
927,800	Total Net Revenue (Income)/Expenditure	785,500	(8,498,600)	(7,090,300)	(5,696,000)	(4,053,100)

Long Term Care Fund

Statement of Comprehensive Net Expenditure

2018 Forecast		2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
£		£	£	£	£	£
	Income					
(47,857,300)	Social Security Contributions	(49,814,300)	(62,519,600)	(64,484,000)	(66,510,300)	(68,600,400)
-	Duties, Fees, Fines & Penalties	-	-	-	-	-
-	Sales of Goods and Services	-	-	-	-	-
(171,700)	Investment Income	(285,400)	(323,900)	(381,800)	(510,000)	(586,700)
-	Other Income	-	-	-	-	-
(48,029,000)	**Total Income**	**(50,099,700)**	**(62,843,500)**	**(64,865,800)**	**(67,020,300)**	**(69,187,100)**
	Expenditure					
47,454,800	Social Benefit Payments	49,513,200	52,972,900	56,303,500	59,952,300	63,762,000
-	Staff Costs	-	-	-	-	-
1,470,000	Supplies and Services	1,340,000	1,340,000	1,440,000	1,340,000	1,340,000
-	Administrative Expenses	-	-	-	-	-
-	Premises and Maintenance	-	-	-	-	-
-	Other Operating Expenses	-	-	-	-	-
-	Grants and Subsidies Payments	-	-	-	-	-
-	Impairment of Receivables	-	-	-	-	-
-	Finance Costs	-	-	-	-	-
-	Foreign Exchange (Gain)/Loss	-	-	-	-	-
-	Contingency Expenses	-	-	-	-	-
48,924,800	**Total Expenditure**	**50,853,200**	**54,312,900**	**57,743,500**	**61,292,300**	**65,102,000**
895,800	**Net Revenue (Income)/Expenditure - Near Cash**	**753,500**	**(8,530,600)**	**(7,122,300)**	**(5,728,000)**	**(4,085,100)**
32,000	Depreciation	32,000	32,000	32,000	32,000	32,000
927,800	**Total Net Revenue (Income)/Expenditure**	**785,500**	**(8,498,600)**	**(7,090,300)**	**(5,696,000)**	**(4,053,100)**