
STATES OF JERSEY



LONG-TERM REVENUE PLANNING REVIEW

**Presented to the States on 16th September 2014
by the Minister for Treasury and Resources**

STATES GREFFE



LONG TERM REVENUE PLANNING REVIEW

September 2014

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Minister's Foreword

One of the main objectives of this Council of ministers has been to improve medium and long-term planning. A move away from short termism to better long-term planning not only aids the efficiency of the States by permitting planned prioritisation of spending, but gives Departments the certainty and confidence of knowing what their budgets will be.

The time and effort that had to be spent on year-to-year budgeting and expenditure allocation has now freed up and has been directed at medium and long-term planning. This document should provide a useful summary and dataset of the main issues facing the next Council of Ministers.

Jersey is in a strong position and many of the challenges we face are the same as other governments. Chief amongst these challenges is the ageing population and the effects this has on the size and make up of future income, and increasing costs, particularly those in the healthcare system.

It is important that the next Council of Ministers can build upon the strong foundation and vision for a new system of Health and Social Care established by the current Council of Ministers. This will enable informed decision making about the sustainable funding of the investment required, based upon robust costings already identified for the next MTFP period.

Education and skills lie at the heart of a community's progress and success, accordingly delivering rising living standards through equipping young people for the workplace of the future will be one of the main debates that the next Council of Ministers will need to have. The extent to which investment in skills and education will be needed is an important political debate as is the structure of the education system not simply from primary to secondary school but from the start of life to developing skills throughout adult life.

At the end of the current political term of office, this document is intended to inform political choices faced by the next Council of Ministers and States Assembly, it is not intended as an end point, rather it is the start of the process that will lead to the conclusion of setting spending for the States of Jersey for the period 2016 to 2019.

Introduction

The States of Jersey has been committed to moving away from annual expenditure planning and has been embracing medium and long term financial planning for a number of years, with positive results. Departments have embraced this new approach and have welcomed the flexibility that it brings.

The move towards longer-term planning has been set against a backdrop of significant challenges, including changes to our corporate tax structure and the impacts of the economic downturn. These factors made it essential for us to take the significant step of changing our Public Finance Law and setting income targets and expenditure limits for the medium-term. As a result, the States approved its first Medium Term Financial Plan (MTFP) in November 2012 for the period 2013-2015.

The MTFP set revenue and capital spending limits given income targets for a three-year period. We met these expenditure limits for the first two years of the plan, and despite tax revenues now reducing below initial forecasts, a balanced Consolidated Fund is still proposed in the final Budget of the MTFP for 2015.

In addition, in the MTFP the States agreed over £35 million of new growth and service improvements and £222 million of capital investment in infrastructure.

Over the period £60 million of savings per annum have been implemented and a new Public Sector Reform process has begun.

Contingency allocations have been used to fund unexpected and unforeseen spending pressures as well as one-off costs. These have included the costs associated with the implementation of Freedom of Information (£4.3 million), and The Historic Child Abuse Committee of Inquiry (£6 million initially).

Regular and extensive monitoring of revenue and capital spending, carry forwards, growth and contingencies has been strengthened and reports are now prepared both monthly and quarterly.

An assessment of the economic impact of States spending has also been introduced with many improvements influenced by the expert advice of the independent Fiscal Policy Panel.

Alongside these considerable advances in financial planning and budgeting, significant improvements in the management of the States Balance Sheet have also been achieved.

The introduction of the Common Investment Fund and the review and improvement of the investment strategies of States Funds have seen tremendous returns in recent years and a strengthening of the States overall financial position.

Work has also been undertaken to develop Long Term Capital Planning (LTCP). LTCP considers the States requirements for assets and infrastructure over the next 25 years.

This Review represents the development and progress of Long Term Revenue Planning (LTRP) to date. It is intended to be a working document that reviews the current MTFP period to date and identifies the challenges, service and demographic pressures and funding options looking forward.

The aim is that the LTRP process will ultimately provide guidance for the period of 2016 – 2020, including:

- A review of long term economic projections.
- A review of long term income forecasts.
- Further development of economic growth policies, including a consideration of targets for economic growth and other factors to improve States income and productivity.
- Consideration of the potential tax and funding options within a long-term tax policy Framework.
- Considerations of the appropriate pay, inflation and benefit provisions.
- Affordable expectations of service growth and improvements.
- A review of capital requirements from the work on LTCP.
- Required savings and efficiency targets to achieve a balanced budget.

Publication of this Review is intended to set out the range of major issues and potential policy considerations which might affect the next Strategic and Medium Term Financial Plan, to assist States Members as to their future financial policy options and to inform the decisions that the next States Assembly faces.

It is important to be very clear that this review does not seek to predetermine decisions but to inform the debate on what policies might be included in the future.

Context

Longer term financial planning

In 2011 the States approved changes to the Public Finances (Jersey) Law 2005, to establish a Medium Term Financial Plan (MTFP) for the period of a government.

These changes, brought forward by the Minister for Treasury and Resources, permitted setting expenditure budgets for all States Departments for 3-4 years in advance. In 2012, the first MTFP was approved by the States which set expenditure for the period 2013 to 2015. The MTFP also described how the States would manage its resources (finance, infrastructure and property) efficiently over the next three years and direct those resources towards meeting its key priorities.

Medium Term Financial Planning was also designed to improve value for taxpayers' money. It gave Departments the ability to plan ahead for service development and improvement and allows them to let longer term contracts with more certainty.

Following the approval of the MTFP, having abolished the time consuming Annual Budgeting Cycle, work could begin on extending financial planning horizons still further. This work delivered on the Chief Minister's commitment in the 2012 Strategic Plan to develop sustainable long term planning and also enabled initial consideration of the financial framework for the next MTFP 2016 – 2019.

The move to longer term planning

The 2012 Strategic Plan set an objective to produce a comprehensive long term plan that would draw together the longer term social/economic/environmental and financial strategies into a cohesive plan and would enable each new States Assembly to make informed decisions on their priorities.

The independent expert Fiscal Policy Panel (FPP) and its reporting structure were placed on a statutory basis in 2014 and, as now required by the Public Finances Law, make recommendations to the Minister for Treasury and Resources and the States on fiscal policy with reference to the medium and long-term sustainability of States' finances. In the FPP's 2014 report, the Panel recommends that:

“The States should produce projections for future States' income and expenditure for the next 20 years, adopting an approach similar to that used by the UK's Office for Budget Responsibility.”

In February 2014, the Council of Ministers launched “2035 Preparing for our Future”, a new long term strategic planning framework for consultation. This framework proposes a new way of working for Jersey Government. In November 2014, a new Council of Ministers will be appointed and inherit a leaner, more integrated system of strategic planning management. This new framework will be an opportunity to review how the structure and resources of the public sector are aligned to the core strategies and the changing needs and priorities of the public.

Integral to this approach will be the development of a Public Sector Resource Plan that draws together long term plans across the range of resources and considers how they impact, support and drive each other in order to deliver affordable and sustainable public services. The key components of the Public Sector Resource Plan will be:

- Long term revenue and capital planning
- Infrastructure development plans
- Workforce and technology planning.

Introduction to Long Term Revenue and Long Term Capital Planning

Following the approval of the MTFP, work began to develop Long Term Revenue and Long Term Capital Planning (LTRP & LTCP). The initial LTRP period covers two MTFP periods plus a further year 2013-2020. The LTCP period covers 25 years from 2013 - 2037, with the first eight years in more detail to provide the revenue consequences for the LTRP.

LTRP and LTCP are constantly evolving processes, which provide a review of the current MTFP period and a forecast of income and expenditure for future years. LTRP and LTCP will naturally be refreshed in each of the years of an MTFP period. The intention at this point of the planning cycle is to publish a document that explains the issues identified and potential measures to be considered.

The income and expenditure forecasts require the central set of future economic assumptions to be revised each year by the States' Economic Adviser. The use of a common set of economic assumptions ensures the modelled impacts across all types of income and all areas of expenditure are consistent.

Departments will be required to identify funding pressures and growth in expenditure aspirations further ahead and this should also help to identify any necessary policy and legislative changes, allowing appropriate time for implementation.

The eventual product of the LTRP will provide an indication of the likely financial position. This will allow early consideration of any spending constraints or fiscal measures that may be required over the period of the next MTFP and beyond.

The aim of LTCP is to identify the States and individual departments' requirements for assets and infrastructure for the next 25 years, as currently understood, and will also give initial consideration of how they could be prioritised and financed.

States Income

The States income forecasts reflect the position at the time of lodging the draft Budget 2015. The States income forecasts were reviewed and adjusted to reflect the 2013 Outturn, current in-year position available at that time and the latest financial and economic assumptions.

General Revenue Income

The largest element of income received by the States is “General Revenue Income”, which includes Income Tax, GST, Impôt Duty, Stamp Duty, Island Wide Rate, financial returns, fines and investment income.

Income Tax

Income Tax comprises two main elements, Personal Income Tax and Company Income Tax.

Personal Tax

Personal Income Tax is set at a standard 20% with a limited number of allowances/reliefs. To protect the lower to middle income earners, a separate calculation is also performed using exemption thresholds and a greater number and value of reliefs, but with a higher tax rate (26%). The lowest of the two tax calculations is then used to determine the tax charge. Therefore individuals will be charged no more than 20% tax on their income. Certain residents qualify for the High Value Residency rules.

The reductions in forecast of personal tax have been influenced by lower growth in average earnings and employment together with a downward revision of assumptions for future growth as the full impact of the global financial crisis became known. Personal tax from 2015 is also affected by the 2014 budget measure to reduce the marginal rate from 27% to 26%.

Company Tax

Companies pay tax under the 0/10 Regime. Three tax rates are possible:

- 0% – all non-financial service entities (except those at 20% below).
- 10% – Financial Services Companies (a company registered, or holding a permit, by virtue of various Laws administered by the Jersey Financial Services Commission).
- 20% – Utility Companies, Rental and Property Development Companies.

Although business tax exceeded forecast in 2013, this was partly due to a one-off receipt. The 2013 position has been offset by lower growth expectations in 2014 and 2015 affecting future years' forecasts which are broadly in line with those in the MTFP.

Goods and Services Tax

Goods and Services Tax (GST) is a consumption tax of 5% on imports and supplies made in Jersey. The underlying principles are that the tax is low, broad and simple. As a result there are a limited number of reliefs. Businesses within the financial services industry who generally undertake the majority of their activity outside Jersey may apply to be approved as an International Services Entity (ISE) for GST purposes. They pay a flat rate annual fee instead of accounting for GST.

Impôts Duty

Impôts duties are duties charged on goods as they are imported to the Island. The duties apply to a range of commodities including alcohol, tobacco and fuel.

Stamp Duty

Stamp Duty is charged on property, equity and share transfer transactions according to the value of the transactions. Jersey operates a discount scheme for first time property buyers. Duty is also collected on Wills, Probate and Obligations.

Stamp Duty income has suffered during the downturn. The number of transactions has broadly held up over the last three years but the average value of transactions has fallen together with a much reduced number of high value transactions.

Island Wide Rate

The Parishes in Jersey levy rates to pay for parish services. In addition the Parishes collect an Island Wide Rate levied by the States. The Island Wide Rate was introduced in 2006 to provide a contribution to parish welfare costs which were incorporated into the Island's new Income Support system.

Fines and Other Income

Fines and Other Income includes returns on States strategic investments in utility companies, returns on cash balances and various fees and charges.

Changes in the investment strategies for the Consolidated Fund and Currency fund are aimed at improving the position in future years.

From July 2014 the States will receive a return from Andium Homes following the transfers as a result of the Housing transformation programme.

LTRP Income Forecast

The forecasts for the MTFP

The March 2012 income tax forecast was used in the MTFP was based on analysis conducted largely in February 2012 and in particular drew on the most up to date forecasts by the FPP for the Jersey economy, by the Office for Budget Responsibility (OBR) for the UK economy and by the International Monetary Fund (IMF) and other forecasters for the global economy.

In early 2012 while the euro crisis continued to unfold, the extent and depth of the consequences were not fully apparent. This meant that forecasts at this time did not fully anticipate the fallout from the euro crisis.

- The FPP were still forecasting weak growth in 2011 and 2012, although risks were to the downside. As it turned out Jersey GVA fell by 1% in 2011 and 4% in 2012.

- The OBR stated in its March 2012 Economic and Fiscal Outlook that although activity in the euro area had weakened, actions by the European Central Bank “seem to have eased immediate tensions in the euro area financial markets significantly”. UK economic growth turned out to be lower than forecast by the OBR in 2011 and 2012 and only narrowly avoided entering a double dip recession in 2012.
- In January 2012 the IMF identified that the global recovery had stalled and downside risks intensified largely as a result of the strains in the euro area. However, by April 2012 they identified that the “threat of a sharp global slowdown eased with improved activity in the United States and better policies in the euro area”. As it turned out the euro crisis was protracted and GDP fell in both 2012 and 2013 against a forecast of a return to growth in 2013.

Budget 2014 and 2015 forecasts

By the time of the modelling for the March 2013 forecast the extent of the euro crisis and its impact on the global economy was much more apparent and it was clear that the Jersey economy was not performing as well as expected.

GVA growth was below expectations and quite crucially for income tax forecasts earnings and employment trends were also significantly weaker than expected. This also led to reductions in future economic assumptions for these variables as expectations of recovery were pushed back. This delay in economic recovery meant that personal income tax growth was revised down by about £25 million in 2014 and £30 million in 2015 and was the sole reason for the downgrading of forecasts last year (and partially offset by expectations of higher corporate tax from in-year forecasting).

When this forecast was updated in March 2014 the economic assumptions were revised in the light of the latest economic developments locally and internationally and based on the most recent FPP forecasts.

The revisions to the economic forecast were not significant and included slightly weaker growth in earnings and employment in 2013, 2014 and 2015. In addition, overall economic growth was revised up slightly in 2015-17 as interest rates were expected to rise sooner (in line with market expectations) and that this could lead to stronger growth in financial services profits. The overall impact of the change in economic assumptions was to revise income tax downwards slightly by about £5 million in 2015.

The March 2014 forecast for 2014 income tax was nearly £20 million lower and for 2015 £25 million lower than the March 2013 forecast and there are a further three key reasons why this was the case:

- 2013 outturns resulted in a £5 million decrease in the starting tax base, driven by a decrease in the personal tax (relative to previous forecast and partially reflecting the removal of deemed distribution).
- In year news on company tax for 2014 that suggested company tax would be £5 million lower from 2014 (and relative to a £5 million increase assumed in the previous forecast).

- The combined impact of the 2014 Budget measures (including lowering the marginal rate of income tax from 27% to 26%) reduced personal tax by £5 million from 2015.

The combined impact of the March 2013 and March 2014 forecasts was to reduce the forecast for 2014 and 2015 by £31 million and £45 million respectively, relative to the original MTFP forecast after adjusting for the 2014 Budget measures.

The Income Tax Forecasting Group (ITFG) reported the potential shortfall in income tax revenues at that time, against the MTFP forecasts in 2013. However, at that time the Taxes Office in-year forecasts for 2013 were more encouraging and as a result the 2014 Budget was prepared using the MTFP forecasts, adjusted only for the impact of budget measures. The original ITFG forecasts (May 2013) were, however, incorporated into the Long Term Revenue Planning process as part of the framework for the next MTFP.

The current review of income tax by the ITFG in March/April 2014, and published in May 2014, has reported the further decline described above in income tax revenues from 2014 compared to MTFP. These forecasts are significantly below the MTFP forecasts to the extent of £31 million in 2014 and £45 million in 2015, after adjusting in 2015 for the effect the 2014 budget measures. The principal measure was the reduction in the marginal rate from 27% to 26%.

These forecasts have been incorporated in the 2015 Budget and necessitated the identification of proposed measures to maintain a positive balance on the Consolidated Fund.

The review of other States income forecasts has also been carried out as part of the annual update to the Long Term Revenue Planning process and reflect the position at the time of lodging the draft Budget 2015 (July 2014).

The latest forecasts of other States income indicate a potential shortfall against the MTFP adjusted forecasts of £3.8 million in 2014 and £6.2 million in 2015. The main changes are a shortfall in Stamp Duty and GST revenues offset by improvements in investment returns. The figures also reflect the agreed changes following States approval of P59/2013 and the financial return from Andium Homes of £13.8 million in 2014 and £29.4 million in 2015.

Figure 1 shows income forecasts at the time lodging the draft Budget 2015. The Income Tax forecasts through to 2017 are those of the ITFG and refer to a mid-point of a range of forecasted outcomes.

The 2018 to 2020 forecasts are not those of the ITFG and are calculated after applying economic assumptions to the ITFG base for 2017, creating even greater ranges. All forecast will include a level of uncertainty, the level of uncertainty increases the further out the forecasting horizon.

Figure 1. States Income Forecasts 2013-2020

		MTFP Period (July 2014)			Long Term Revenue Plan Period (Indicative forecasts July 2014)				2020 £'000
		2013	2014	2015	2016	2017	2018	2019	
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	
States Income									
- Income Tax	MTFP	454,965	474,965	499,475					
	LTRP	451,660	444,000	455,000	LTRP	475,000	499,000	525,000	558,000
						1,700	1,700	1,700	1,700
- GST	MTFP	79,761	81,955	84,508					
	LTRP	77,603	79,107	80,650	LTRP	82,584	84,571	86,460	89,171
- Impôt Duties	MTFP	54,534	54,903	55,012					
	LTRP	54,320	55,613	55,012	LTRP	54,950	54,921	54,929	54,965
				637		637	637	637	637
- Stamp Duty	MTFP	24,529	27,402	28,961					
	LTRP	17,370	22,730	23,878	LTRP	25,645	27,803	31,770	33,249
				325		325	325	325	325
- Island Wide Rate	MTFP	11,670	12,032	12,453					
	LTRP	11,641	11,956	12,219	LTRP	12,549	12,888	13,210	13,672
- Other Income (Dividends)	MTFP	8,319	11,186	13,287					
	LTRP	11,127	8,284	10,503	LTRP	9,264	12,974	13,255	15,379
- Other Income (Non-Dividends)	MTFP	12,226	10,740	11,477					
	LTRP	12,966	16,724	17,200	LTRP	15,789	16,713	17,736	17,818
- Other Income - return from Andium Homes	MTFP								
	LTRP		13,834	29,472	LTRP	29,574	30,653	31,767	32,919
- Other Income - proposed return from Ports Incorporation	MTFP								
	LTRP				LTRP	1,227	1,980	2,866	2,032
Total States Income	MTFP	646,004	673,183	705,173					
Total States Income for LTRP	LTRP	636,687	652,248	683,934	LTRP	706,582	741,503	776,993	817,205
<i>2015 draft Budget 2015 - Proposed measures</i>				<i>962</i>		<i>2,662</i>	<i>2,662</i>	<i>2,662</i>	<i>2,662</i>

Note: The forecasts do not include the impact of the draft Budget 2015 measures for tax and duties or the impact of the other proposed measures to manage the balance on the Consolidated Fund.

The Resource principles from the States Strategic Plan include a requirement to **“Maintain balanced budgets over the medium term for current expenditure and achieve an appropriate balance between taxation and spending over the course of the economic cycle.”** The fiscal framework is currently being reviewed, including advice from the FPP to ensure we have the most robust framework and rules in place for the next MTFP.

With this in mind it is crucial to keep recurrent public sector spending under control so that the Island can remain competitive with relatively low levels of inflation. If the States are to provide sustainable services to the public it is fundamental that we take account of the economic outlook, be prudent in our spending plans, ensure that savings and efficiencies are implemented and do not increase public spending unless it is matched by savings or additional income.

The Fiscal Policy Panel advice also needs to be considered. The Panel is supportive of the draft Budget 2015 proposed measures to balance the expected revenue shortfall because the majority of them do not impact on economic activity in 2014 and 2015 which they state is appropriate in these economic conditions.

However they recognise that the shortfall between income and expenditure needs to be addressed over the course of the next MTFP and suggest the following principles:

“The States should bear in mind the following principles when forming the next MTFP:

- Aim to balance the budget over the economic cycle - i.e. surpluses and deficits which broadly balance out over more than one MTFP period.
- Adopt prudent assumptions for income and realistic assumptions for expenditure.
- Include flexibility within a clear framework for expenditure.”

Policy considerations to improve increase States Revenues

Economic growth, productivity and efficiency

- Continued development of the States’ existing Economic Growth and Diversification Strategy including policies on skills, enterprise, inward investment, innovation and infrastructure
- Safeguard Jersey as a competitive economy by effectively applying the competition law and keeping Jersey open to competition and investment
- Continue to resource innovative financial services campaigns
- Encourage initiatives for other local market sectors, support modernisation initiatives
- Consider new business incentives, additional High Net Worth Individuals, new industries and diversification
- Address barriers to entry and to doing business

Other measures

- Maximise departmental income generation or cost recovery – past examples being the recovery of the cost to the States of the regulation of gambling.
- Consideration of the Long Term Tax Policy Options
- Targeted immigration measures – getting the most out of net 325 immigration per annum
- Widening the scope of tax and benefits
- Property tax review – explore possibilities
- Increase/introduce other charges – ie reinstating prescription charges, looking to introduce charges that incentivise behaviours

States Net Revenue Expenditure

Total States revenue expenditure comprises departmental base budgets, allocations to contingency and the net contribution from the Consolidated Fund to fund part of the capital expenditure allocation. It excludes expenditure of funds such as the Social Security and Health Insurance Funds.

Previous allocations from contingency are now incorporated within base budgets. These are the MTFP pay provisions for 2012-2014, the central growth allocations for 2014 and 2015 and the procurement savings.

This leaves allocations to contingency and capital allocations as separate items. In light of the pressures on income, consideration could be given to constraining future Contingency allocations. Potentially, as is currently provided, £5 million for central contingencies and £7 million for restructuring could be considered. It will be important to balance the need to constrain expenditure allocations with the potential increased calls on Contingency allocations over a four year MTFP.

The States decisions to progress with the “Reform of Social Housing” and the creation of Andium Homes Ltd from 1 July 2014 have approved financial implications. States General Revenue Income increases in respect of the return from Andium Homes although net revenue expenditure also increases with the loss of Housing rent income. Increased costs of income support following the associated change in rental policy leave a small deficit position of £700,000 in 2016 rising to £1.5 million in 2020.

The proposed incorporation of Ports of Jersey from 2015 could lead to an increased return from them of nearly £3 million by 2020, based on their most recent business plan for Incorporation.

Updating base expenditure for increases in pay and prices

Pay rises and inflation on non-pay costs are added to the departmental revenue expenditure budgets, for example at 2% each year for most departments. Historically this provision has often been 2.5% but given current lower actual levels of inflation alongside the worsened income forecasts consideration could be given to this being reduced to 2% each year. Cost implications of this provision would be approximately £8 million per annum for pay and £3.6 million per annum for inflation on non-staff expenditure.

Following from P82/2012, Health and Social Services have a requirement for nurses, doctors and consultants pay awards; any specific pay awards that weren't allocated from central pay allocations in the last MTFP will need to be added to departmental base budgets. The MTFP will need to include this provision which would be £2 million per annum from 2016.

This base central scenario of 2% p.a. may be challenging to deliver but each 1% for a pay provision costs almost £4 million p.a. At 2% p.a. the cost would be over £35 million on a cumulative basis for the four year period of the next MTFP.

If reductions to the wage bill are required they are more likely to be achieved by targeting payroll savings rather than unrealistic targets on the actual pay settlements themselves such as vacancy management, delivering services differently and restructuring the organisation.

Reviewing and Updating Social Security forecasts

The Social Security Department regularly reviews its in-year forecast of benefit expenditure. These forecasts are informed by economic assumptions and any changes therein, performance against the previous forecast for the year to date and any trends in either numbers of benefit recipients overall or within particular benefit groups, or amounts being paid on a weekly basis to those different groups.

As part of the LTRP process and as otherwise requested, forecasts for future years have been made and reviewed. These forecasts use in-year data, historic trends and economic assumptions which are applied to a forecasting model.

The major factors driving the future forecast for changes to Income Support expenditure are forecast reductions in the level of unemployment as discussed and agreed with the States' Economic Advisor, the effects of the ageing demographic, changes to average earnings (which also drive pension uprates) and forecasts of inflation in the economy.

The cost impacts of the reductions in the number of those actively seeking work forecast over the coming years are currently estimated to marginally exceed the additional costs arising from the ageing population.

However the costs of Income Support will still rise over the coming years with the effects of the cost of living and the new rental policy agreed ahead of the incorporation of Andium Homes.

The other major cost element within the Social Security tax funded expenditure is the States Grant to the Social Security Fund which contributes towards the future pension costs of the low to middle earners in the Island's workforce.

This expenditure is governed by a formula within legislation which is driven by the increase in the those in employment and the rise of average earnings.

The current forecast LTRP suggests an increase of £25 million p.a. by 2020, over that provided for in the MTFP for 2015: £13 million for Supplementation and £12 million for Income Support and Benefits.

These forecasts will be updated ahead of the next MTFP using the most up to date data and economic assumptions.

Funding options

Consideration could be given to how the forecast increases are funded and the way in which contributions to the Social Security and Health Insurance Funds are funded. This could include identifying benefit savings, varying the uprating mechanism or reviewing social security contribution rates and caps.

Pension debt and a new pension scheme

Prior to 1987, PECRS pension increases were paid from the States revenue budget. In 1987 all pension increases became payable from PECRS and the States of Jersey are now repaying this past service debt over 82 years. The amount payable increases each year in line with average pay

increases (including increments). The debt is valued as a salary linked bond and long term returns mean that the level of the debt is sensitive to market conditions and can increase and decrease. In 2012 the States Pre-1987 debt repayment was around £4 million. This is projected to rise to £10 million per annum by 2032 (just from inflation) and £131 million per annum by 2083 when the debt will be repaid in full.

The 10 Point Agreement on which the Pre-1987 debt is repaid allows for consideration to be given to accelerating or completing repayment of the debt as and when the financial position of the States improves. The Agreement was made at a time of higher interest rates and the current low levels of interest rates were not envisaged.

At the time, in 2003, the States had a limited revenue budget with which to repay the pre-1987 debt and was constrained by not wanting to increase employee or employer contributions. Whilst the arrangement was appropriate at the time it was made, it may now be an appropriate time to consider increasing repayments and/or restructuring the debt as the States aims to manage the balance sheet alongside the revenue budget.

The allocation in the Medium Term Financial Plan provided an additional £1 million in 2013, £2 million in 2014 and £3 million in 2015 to reduce the repayment term from 2082 to 2053 and also significantly reduce the total cost of repayment from £2.7 billion to £940 million.

Whilst the latter 2 years additional increases have been deferred temporarily, the 2013 increase continues for each of the years in the current MTFP period. Further increases above the current level of repayment will be required over the period of the next MTFP and beyond to reduce the overall cost and in preparation for the changes to the Public Sector pension scheme.

A similar debt exists for the Jersey Teachers Superannuation Fund and the coming MTFP process needs to give consideration increases to the repayments. Calculations have been undertaken and for example increasing the repayment by £1.2 million in 2016, £2.4 million in 2017 and £3.6 million in 2018 if maintained over future years would provide a reduction in repayment term from 2089 to 2040 and would reduce the projected costs of repayment from £1.5 billion to £420 million. But the long term cost advantages, as with PECRS, will have to be balanced against the short to medium term requirements for balanced budgets.

Changes to the PECRS and JTSF Pensions Schemes

The proposed changes to the PECRS and JTSF schemes to a model similar to the CARE scheme being considered in the UK have been put out to consultation in Jersey.

The financial implications of the scheme are an increase in employee and employer contributions. The cost to the States as an employer is broadly a 2.4% increase in contributions planned in 2016. Currently, there is an assumption that departments will fund the 2.4% from pay savings.

Similar changes are likely to be proposed for the JTSF scheme and currently these are phased for 2018 onwards, along with compensating savings, scheduled for the Education budget.

MTFP Commitments

Other current MTFP commitments would need to be added to the base budget if the activities that they fund are to be maintained. These consist of permanent funding which has been met from the restructuring provision during the MTFP period. This funding of CSR staff (now Public Sector Reform staff) and increasing the HR budget to strengthen the HR team to work on initiatives such as workforce planning. In total, these commitments currently amount to £1million.

Reviewing and Updating Health Growth requests

The challenges facing the Health and Social Services Department are the same issues faced by health care providers across the world. The number of older people increases, life expectancy has increased significantly, the cost of health care goes on rising and the cost of drugs continues to grow.

P82/ 2012, “ ‘A New Way Forward for Health and Social Care’ set out the future strategy for Health and Community Care in the Island, a strategy which it is intended will, over the longer term time reduce the level of expenditure below that which would otherwise have been spent.

Further to the agreement of P82/2012, the Health and Social Services Department submitted growth estimates for the period to 2020 to maintain a 2% real growth in funding, increases for nurses pay beyond 2016, the “White Paper” proposals and for additional capacity funding related to the future hospital.

In 2014, the Department has undertaken a review of the original business cases and included the capacity requirements in revised business cases for the White Paper funding.

Currently the combined total of 2% real growth, provision for Nurse improvements in pay and investment in following the agreement of the health strategy increase over the period to a level of an additional £58.9 million per annum by 2020.

The requests for growth in health funding are inevitably a major element of the increased funding required.

Funding options

At the outset of the MTFP process, in the Health White Paper ‘*Caring for each other, Caring for ourselves*’ and in P82/2012 ‘*A New Way Forward for Health and Social Care*’ it was clear that the extent of the growth in health funding could not be absorbed within existing taxpayer funded budgets.

It was apparent that at some stage a sustainable stream of funding would need to be identified for increased healthcare spending. This sustainable funding source would need not only to replace the existing £6 million p.a. funding from Health Insurance Fund (HIF) but also address the Health funding challenges in future years.

A number of scenarios will be developed as part of the LTRP process and this will be informed by the recent independent panel review of Health and Social Services (July 2014) which supports the proposals for a “social insurance fund” linked with patient charges such as the payment for prescriptions. The panel also recommends further work on the potential funding gap and on the productivity assumptions within the existing business model.

What is clear is that healthcare funding cannot be sustained at current and forecast levels from the general revenue budget alone.

Reviewing and Updating Departmental Growth requests and funding pressures

All other Departments have provided preliminary submissions as to service growth expectations and funding pressures in the existing base. Whilst these submissions will no doubt be subject to revision, it was clear that these growth bids could not be all be afforded from within the current funding envelope and will be the subject of further consideration by the CMB ahead of the appointment of the new Council of Ministers.

It will be for the new Council of Ministers to decide upon what total growth to provide for, what items will be prioritised and how it will be afforded, however, there are a number of options being considered to make the growth more affordable:

- Rephase the same levels of growth but over a longer period
- Take a growth holiday in 2016
- Determine an affordable sum for growth each year and prioritise items
- Identify partial or full compensation in the form of savings for the remaining growth
- Give consideration as to a process addressing how to assess new growth requested against current services to identify the relative priorities and allocate funding accordingly.

Further reductions in Growth

Before further savings in Department budgets are targeted CMB considered that the level of growth could be further cut back. A target of a further 10% of Departments' proposed growth would deliver over £7 million saving.

Consideration was also given to a 10% reduction in the MTFP1 allocations to Get People into Work where a number of these projects could be considered discretionary, amounting to £0.6 million p.a.

As the economic conditions improve and unemployment falls further, consideration of the funding requirement for Back to Work initiatives should be taken. This should include the level of service required to ensure that businesses are able to make the most of the opportunities and challenges the ageing population represents. This might include schemes to ensure that the work force continues to have the necessary skill sets for our economy.

Existing savings measures

LTRP over the coming period must include existing savings measures that need to be recognised before further savings or efficiencies are proposed.

Education, Sport & Culture will make CSR savings in 2016 (£1 million) which reflects the agreed delay for that department to achieve its final plan. This means the departments will have achieved their aim to deliver over £60 million savings from the CSR programme.

As part of the above growth exercise, savings were identified by Economic Development to offset part of the growth that was provided as part of the original MTFP 2013-2015.

Offsetting savings have been required by all departments to fund the cost of the new PECRS CARE scheme proposals and the savings in Education, Sport and Culture to fund similar proposals for the JTSF. The savings for the PECRS scheme amount to a 2.4% saving in 2016 equating to £6.2 million in 2016. The JTSF scheme is currently proposed at £2 million increase from 2018.

Other savings measures considered to balance the budget by 2020

Corporate Management Board (CMB) have given initial consideration to a number of measures that could be proposed to potentially offset part or all of the growth proposals from 2016 to 2020.

Department staff and non-staff savings targets

In addition to the savings for the pension scheme proposals CMB have suggested that further savings could be targeted that represent 1% efficiency savings on staff budgets and 1% on non-staff budgets which would deliver £5.3 million p.a. savings from 2017 onwards. How those savings would be found in departments would be for CMB to manage.

This proposal would amount to £23 million in the four years to 2020.

Further careful consideration would be given through the process to develop the next MTFP as to future savings targets that might be appropriate for the Income Support budget for future years.

Pro Rata Department Savings

Although un-targeted, consideration could be given to setting further savings targets on a simple prorate across departments where the departments could be given flexibility to determine how this is delivered.

Other more cross-cutting savings being considered:

- Look at corporate changes to department structures to achieve savings in management and efficiency
- Employ the E-Government, public sector reform and lean work-streams to deliver savings
- There is an opportunity for the new Council of Ministers to review and prioritise the services provided and the use that review process to allocate resources on a service deliver basis

Long Term Capital Planning (LTCP) requirements

Main Capital Programme

Huge progress has been made on Capital Planning in the last three years. This includes extensive work between Treasury, the CMB Capital Sub-Group and departments to produce an initial Long Term Capital Plan (LTCP) for 2013-2037.

For a number of years the States financial forecasts have included a notional £20 million contribution from the Consolidated Fund to capital. It has been identified that this level of contribution would not be sufficient to maintain the existing level of asset replacement, refurbishment and new asset purchase or construction currently proposed over the next 25 years.

In many years it has been possible to reduce the contribution with funding from other sources. There is further work needed to identify surplus property and other States assets that could be released to fund the Capital programme and maximise the use of States owned land, for example for affordable housing.

Initially it has been estimated that an indicative £35 million capital be allocated from the Consolidated Fund for each of the years 2016 to 2020. Proposed schemes will initially be considered by the Corporate Management Board Capital Sub-Group and final proposals will be for the next Council of Ministers to decide upon.

Longer term planning aims to ensure that capital decisions must look to the future which can help departments plan for service change and improvement, help boost the economy and safeguard the Island for the future. The detail of the capital programme will be determined for each year as part of the setting of the annual Budget, usually in December.

The current annual sums required, based upon the current phasing of the capital programme over the period to 2020, exceed the increased allocation of £35m initially provided for some years. Given the reduced income forecast over the period, affordability as well as other factors will need to be considered before committing to the capital plan over the coming years.

Some capital schemes will have revenue implications, such as increased numbers of teachers required and extra maintenance costs for new and more complex equipment. It is important that these full life costs are built in to future revenue plans rather than only the capital costs and it is equally important that these costs are fully known and understood ahead of decisions in respect of future capital programme items.

Jersey Property Holdings have been progressing a new plan for Fort Regent. A draft Business Case will be completed by the end of the year. Initial indications around the funding required is in the region of £50 million. This has not been included in the LTCP as yet and whilst it is accepted there may well be a strong case for some infrastructure investment, such an amount is unlikely to be funded by Capital allocations alone.

Further work is therefore necessary to identify revenue contributions or capital receipts possibly through joint ventures, to meet this expenditure.

Major Capital Schemes

The three major capital schemes currently in progress - the Future Hospital, Liquid Waste Strategy and Social Housing , but the provision of social housing has now left the States and is managed by Andium Homes Ltd, so their capital requirements no longer feature in States documents.

Future MTFP's need to include the cost of repaying the Currency Fund for its infrastructure investment in the Liquid Waste Strategy; some of that cost is to be met by the department as the new Sewerage Works will result in maintenance efficiencies. There is an amount that the Consolidated Fund will contribute to the Liquid Waste Strategy too.

Also associated with the major schemes, Health and Social Services have requested further maintenance funding to help them keep the estate in working order whilst the new premises are being built of £5 million per year.

Options to address the capital funding requirements

Consider Public Finances Law changes

The Public Finance Law currently requires the full cost of a capital project to be allocated from the Consolidated Fund in the year in which a project is due to start. This is a very prudent provision and protects the Accounting Officer by ensuring the full budget will be available at the time a contract is let. This does however mean that at any one time there is a significant cash balance in the Consolidated Fund of allocated but unspent capital. This amounted to £101 million at 31 December 2013.

Consideration will be given ahead of the next MTFP to introducing allocations on a cash flow basis but with a mechanism to ensure Accounting Officers continue to be protected.

Alternative sources of funding

Several different sources of funds have been used over the past five years or so such as disposal of property assets and the repayment of the Jersey Telecom Preference Shares to fund the capital programme and further options should be considered to supplement or partly replace the planned Consolidated Fund contribution.

Consideration of Asset Sales

A small proportion of the capital programme each year is funded from capital receipts. High value capital receipts could be released to contribute to either specific projects or as a general contribution to the capital requirements.

Consideration of liquid waste and commercial solid waste fees.

There may be an opportunity to consider the introduction of particular charges where the resulting income is either set aside or hypothecated to individual schemes.

Summary of Issues raised in the LTRP

Income scenarios

- Consider variations around the central range to represent a lower range option and a higher range option reflecting a more optimistic and aggressive approach and investment in economic growth. Plan what would be done if either of those variations materialise.
- A further option where growth continues to be weak and remains relatively flat as in recent years and decide what that means to plans if that should happen.

Economic growth

- Continued development of the States' existing Economic Growth and Diversification Strategy including policies on skills, enterprise, inward investment, innovation and infrastructure
- Safeguard Jersey as a competitive economy by effectively applying the competition law and keeping Jersey open to competition and investment
- Continue to resource innovative financial services campaigns
- Encourage initiatives for other local market sectors, support modernisation initiatives
- Consider new business incentives, additional High Net Worth Individuals, new industries and diversification
- Address barriers to entry and to doing business

Other measures

- Consideration of the Long Term Tax Policy Options
- Targeted immigration measures – getting the most out of 325 per annum
- Widening the scope of tax and benefits – consider LTC model
- Property tax review – explore possibilities
- Increase/introduce other charges – i.e. reinstating prescription charges, looking at introducing charges that incentivise behaviours

Pay

The level of pay provision needs to be constrained and combined with the pay modernisation review and early negotiations with trade unions and employer groups should begin to establish a workable and affordable framework for pay in the next MTFP.

It is anticipated that any reductions in funding of pay will be achieved via targeted staff savings by departments rather than by the imposition of unaffordable pay agreements.

Supplementation and income Support

Consideration will need to be given to levels of funding required for supplementation and income support with regard to the latest available information:

- Identifying acceptable benefit savings
- Rates of increase and uprating
- Considering social security contribution limits and caps.

Health care growth and funding

What is clear is that healthcare funding cannot be sustained continue at current levels from the general revenue budget alone.

It was obvious at the outset of the MTFP that a sustainable stream of funding needed to be identified for increased healthcare spending. This sustainable funding source is not only needed to

replace the existing £6 million p.a. funding from HIF but also to address the funding challenges in future years.

A number of scenarios will be considered as part of the LTRP process and these will be informed by the recent independent panel review of Health and Social Services (July 2014) which supports the proposals for a “social insurance fund” linked with extra patient charges such as the payment for use of A&E. The panel also recommends further work on the potential funding gap and on the productivity assumptions within the existing business model.

Other Department Growth

Savings options

- Options considered by CMB
 - If pay related savings are required, target the existing wage bill and apply constraint to future pay award provisions linked to pay modernisation rather than setting unrealistic targets for future pay negotiations
 - Annual efficiency targets on pay and non-staff budgets for ALL departments
- Other options
 - Look at corporate changes to department structures
 - E-government, public sector reform and lean work streams

Capital allocation changes and alternative funding sources

- Consider finance law changes to allow cash flow allocations
- Allocations and commitments to whole projects still needed
- Alternative sources of funding for capital
- Consideration of Asset sales (incinerator/waste water)
- Enable liquid waste and commercial solid waste charges
- Consider re- phasing of capital programme to be afforded by funds available

So what next?

The LTRP process highlights the issues to be addressed and promotes the need to identify potential solutions. Potential solutions will need working through with Departments and Ministers to understand the intended and unintended consequences of such actions. These will then feed into the MTFP II 2016 -2019.

In addition to this the lessons learnt from MTFP I, such as holding growth allocations centrally, need to be incorporated in the next MTFP which will improve the States of Jersey's financial management.

The Resource Plan, which will accompany the States Strategic Plan, will need to be developed and reflect the intended direction of the next MTFP.

Appendices

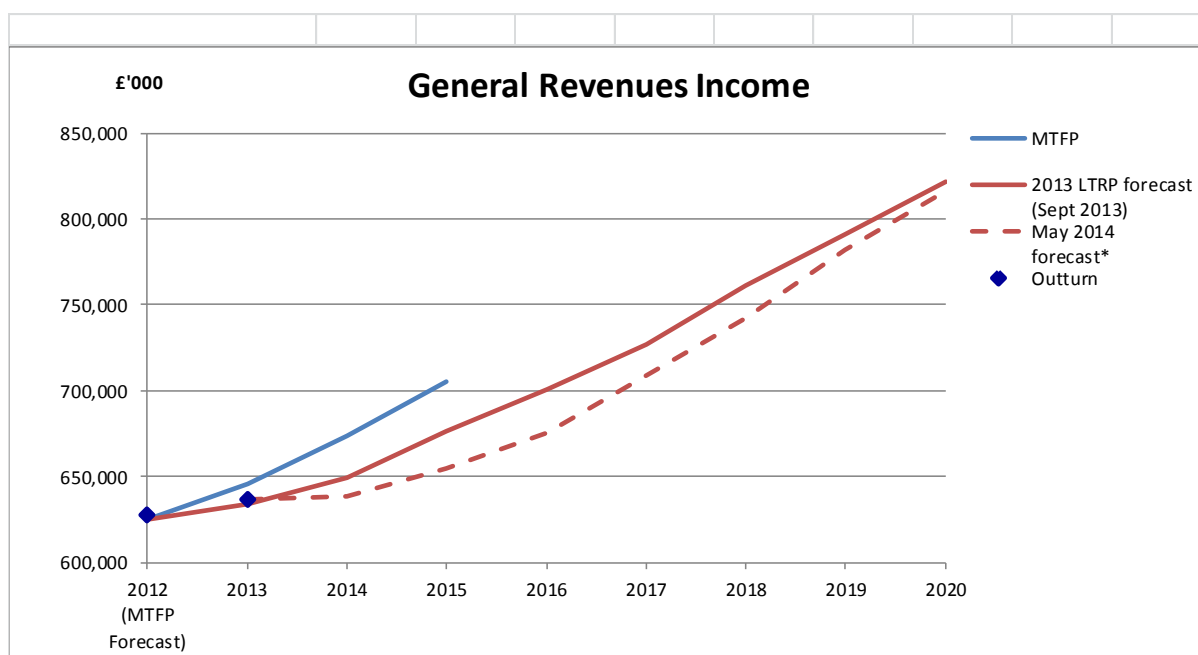
Appendix 1 – General Revenues Graph

Appendix 2 – Summary Half Year Corporate Report

Appendix 3 – Summary of Department Growth requests (June 2014)

Appendix 4 – Forecasting Timeline

Appendix 1 – General Revenues Graph



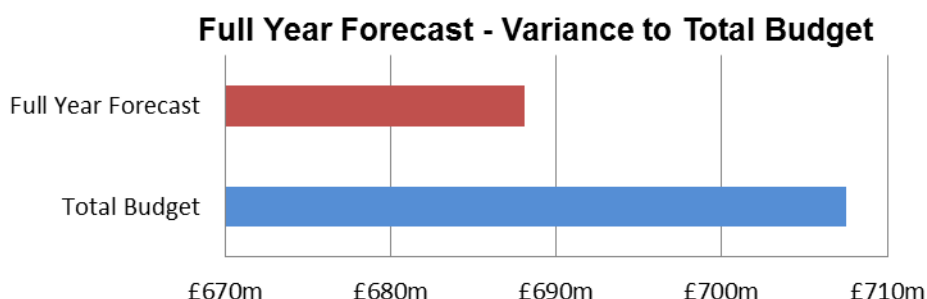
	2012 (MTFP Forecast)	2013	2014	2015	2016	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Outturn	627,733	636,687							
MTFP	624,602	646,004	673,183	705,173					
2013 LTRP forecast (Sept 2013)	624,602	633,573	649,186	676,228	700,415	727,270	761,333	790,582	822,048
Variance 2013 LTRP to MTFP	0	(12,431)	(23,997)	(28,945)					
May 2014 forecast*		636,668	638,414	654,462	675,781	709,050	742,360	782,254	816,506
Variance to 2013 LTRP		3,095	(10,772)	(21,766)	(24,634)	(18,220)	(18,973)	(8,328)	(5,542)
Variance to MTFP		(9,336)	(34,769)	(50,711)					

*not including 2015 Budget Measures, Measures to Balance the Consolidated Fund or the Financial returns forecasts from Andium Homes or the Ports Incorporation to enable comparison with the adjusted MTFP and LTRP 2013 at the time of the 2014 Budget

INTRODUCTION

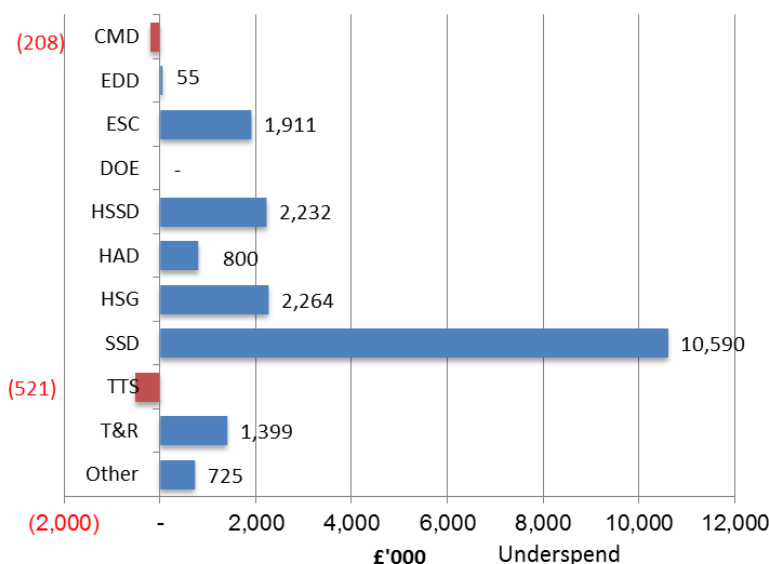
The full year general revenue income forecast as at June 2014 is £39.7 million below original budget. Near cash net revenue expenditure forecast (excluding central reserves, restructuring and depreciation) is £19.2 million better than budget, with two departments currently forecasting an overspend. Further detail and explanation for the variances can be found in the report.

NET EXPENDITURE – NEAR CASH



- The full year near cash net revenue expenditure forecast (excluding central reserves, restructuring and depreciation) of £688.2 million is £19.2 million less than budget.
- In addition to this, there is £18.3 million in central reserves and restructuring provision which has not been allocated out to departments. However, of this, £11.7 million is earmarked pending the correct approval process, leaving a balance of £6.6 million available (See Appendix 1).

Full Year Forecast Underspend - Near Cash

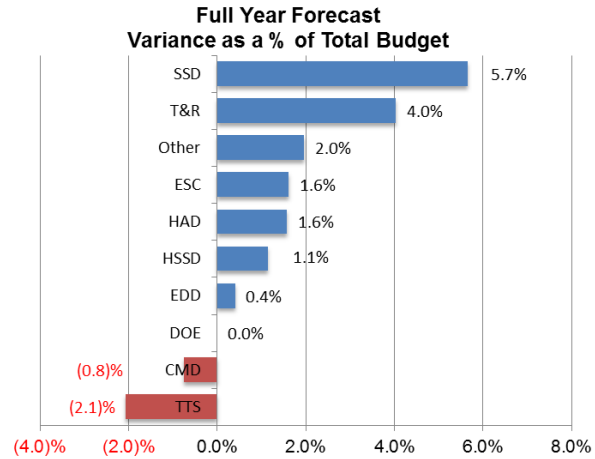
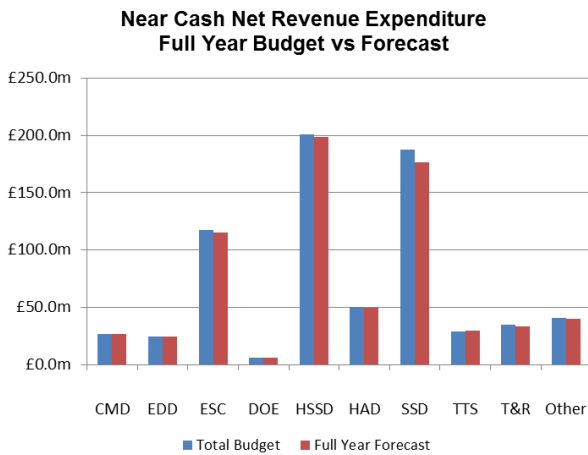


The Housing Department was incorporated as Andium Homes Ltd on 1st July 2014. The variance shown here is the position that will be shown in their half year accounts.

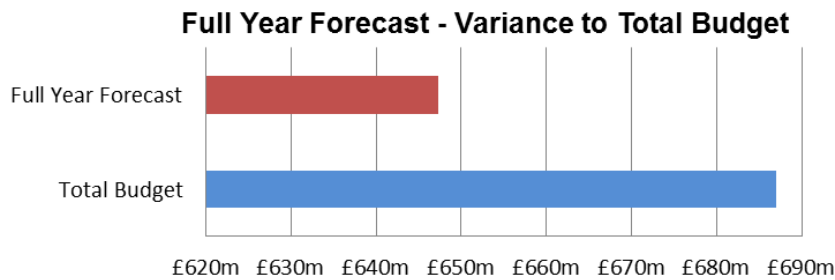
The Department has been removed from subsequent analysis in this report on

- The £19.2 million balance of underspends relating to departments comprises:
 - Social Security has forecast a £10.6 million underspend. £6.0 million relates to the impact of lower Income Support claimant numbers and revised unemployment assumptions. £1.9 million relates to lower than budgeted Residential Care claimant numbers and an increase in income per claimant. A further £0.8 million underspend has

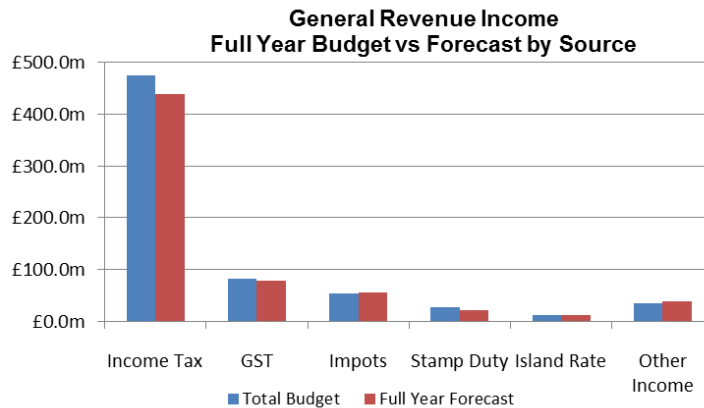
- been identified on Back to Work projects due to slower uptake on schemes than anticipated. The balance of £1.9 million is made up of underspends on Employment Grants, Income Support contingencies and other minor variances. £8.9 million of this forms the Department's plan to contribute underspend to the Long Term Care Fund (LTCF) in the form of a grant. Consideration will be given to deferring part of this funding in 2014 and 2015 providing sufficient funds exist in the LTCF to meet expected commitments.
- Health and Social Services have forecast a £2.2 million underspend. £2.9 million of the underspend relates to delays in implementing White Paper projects and the allocation of contingency throughout the Autumn review. £1.0 million of underspend has resulted from staff vacancies and minor variances across services, including a forecast underspend on Primary Care. There has also been an increase in activity resulting in a £0.6 million overachievement of income related to patient charges, particularly in radiology and pathology. Contributing to this was an increase in tariff for private patients. This is offset by overspends of £2.3 million due to increased incidences of both on and off-island placements plus a growth in on-island care packages. There has also been an increase in the incidences of older adult placements within community services and an increase in the cost of high cost prostheses and appliances.
- Education, Sport and Culture have forecast a £1.9 million underspend. £0.4 million relates to Schools and Colleges. Schools are encouraged to manage finances across years so as to respond to demographic changes. A £1.2 million underspend has been identified in Higher Education based on the September 2013 cohort. Further underspends of £0.3 million were identified across the Department.
- Treasury have forecast a £1.4 million underspend. £1.0 million relates to planned carry forwards on a procurement project spanning multiple years and a provision protecting against variability in future years PECRS Pre-1987 pension debt repayments. There is an additional planned underspend of £0.1 million to fund an asset valuation required under accounting standards. Further underspends of £0.3 million were identified across the Department.
- Home Affairs have forecast a £0.8 million underspend. This relates to planned underspends on staff costs and supplies and services across the Department, to be requested for carry forward to manage the delivery of CSR savings and Police recruitment.
- Transport and Technical Services have forecast an overspend of £0.5 million. £1.1 million is the result of an underachievement in income due to unit rate changes for electricity generated by the Energy from Waste plant and sold externally. An overspend of £0.3 million relates to pumping stations due to increased electricity costs coupled with excessively wet weather. This is offset by a £0.5 million overachievement of inert waste tipping income and £0.4 million of minor underspends across the Department.
- Chief Minister's Department have forecast a £0.2 million underachievement of income due to the States Assembly rejecting one component of the Control of Housing and Work Law which proposed charging employers an annual fee for their licences for registered employees. This is being funded from Central Contingencies.
- Economic Development, Non Ministerial Departments and States Assembly have forecast underspends totalling £0.8 million.



GENERAL REVENUES



- The full year forecast of £647.3 million is £39.7 million less than the Budget for 2014.
- Income Tax is forecast to be £36.1 million lower than the budget position, all of which relates to Personal Tax.
- GST is forecast to be £2.8 million lower than the budget.
- Impôts is forecast to be £0.9 million better than budget.
- Stamp Duty is forecast to be £4.7 million lower than budget.
- Other income is forecast to be £3.1 million above budget with investment returns £4.2 million favourable and European Savings Tax Directive (EUSTD) income £1.6 million favourable offset by a £3.1 million adverse position in dividends due to JT dividends being lower than previously budgeted but in line with more recent forecasts mostly due to higher levels of capital expenditure impacting shareholder returns.



HALF YEAR CORPORATE REPORT | JUNE 2014



STATES OF JERSEY SERVICE ANALYSIS

The table below excludes non-cash expenditure such as depreciation.

States of Jersey Variance Report by Entity										
Figures exclude IFRS Revenue Expenditure such as depreciation, impairments and any loss or gain on the sale of assets										
Prior YTD	Prior Yr	Entity	Year To Date (June)				Full Year			
Actual (£'000)	Actual (£'000)		Actual (£'000)	Budget (£'000)	Budget Variance (Adv)/Fav	Var %	Forecast (£'000)	Budget (£'000)	Forecast Variance (Adv)/Fav	Var %
259,655	451,660	Income Tax	245,744	282,748	(37,004)	13%	438,865	474,965	(36,100)	8%
42,773	77,603	GST	42,727	43,728	(1,001)	2%	79,107	81,955	(2,848)	3%
24,091	54,320	Impots	22,682	26,222	(3,540)	14%	55,773	54,903	870	(2%)
7,146	17,370	Stamp Duty	11,828	13,648	(1,820)	13%	22,670	27,402	(4,732)	17%
4,784	11,641	Island Rate	5,740	6,016	(276)	5%	12,032	12,032	0	0%
12,704	24,093	Other Income	13,839	8,895	4,944	(56%)	38,831	35,760	3,071	(9%)
351,153	636,687		342,560	381,257	(38,697)	10%	647,278	687,017	(39,739)	6%

Actual (£'000)	Actual (£'000)	Entity	Actual (£'000)	Budget (£'000)	Budget Variance (Adv)/Fav	Var %	Forecast (£'000)	Budget (£'000)	Forecast Variance (Adv)/Fav	Var %
10,376	23,223	Chief Minister's Department	12,312	12,619	307	2%	26,568	26,360	(208)	(1%)
7,199	9,182	- Overseas Aid	8,012	8,012	0	0%	9,945	9,945	0	0%
7,865	17,015	Economic Development	14,289	14,294	5	0%	24,210	24,265	55	0%
53,975	106,909	Education, Sport and Culture	56,840	58,837	1,997	3%	115,553	117,464	1,911	2%
3,088	6,238	Department of the Environment	2,710	3,245	535	16%	6,389	6,389	0	0%
90,689	186,723	Health and Social Services	94,305	95,334	1,029	1%	198,348	200,580	2,232	1%
24,107	47,149	Home Affairs	25,102	25,849	747	3%	49,942	50,742	800	2%
(14,257)	(26,126)	Housing	(12,571)	(10,307)	2,264	22%	(12,571)	(10,307)	2,264	22%
83,201	181,782	Social Security	85,596	92,693	7,097	8%	176,770	187,360	10,590	6%
12,146	25,861	Transport & Technical Services	11,934	13,141	1,207	9%	29,565	29,044	(521)	(2%)
13,158	32,359	Treasury and Resources	14,731	14,460	(271)	(2%)	33,311	34,710	1,399	4%
9,806	20,917	Non Ministerial States Funded	10,352	12,331	1,979	16%	22,642	23,354	712	3%
2,533	4,954	States Assembly	3,535	4,052	517	13%	7,505	7,518	13	0%
303,886	636,186		327,147	344,560	17,413	5%	688,177	707,424	19,247	3%

Actual (£'000)	Actual (£'000)	Entity	Actual (£'000)	Budget (£'000)	Budget Variance (Adv)/Fav	Var %	Forecast (£'000)	Budget (£'000)	Forecast Variance (Adv)/Fav	Var %
(3,606)	(7,885)	Jersey Airport	(3,953)	(2,931)	1,022	35%	(7,339)	(7,262)	77	1%
(2,078)	(3,677)	Jersey Harbours	(1,976)	(1,508)	468	31%	(3,597)	(3,460)	137	4%
(558)	(1,270)	Jersey Car Parking	(802)	(868)	(66)	(8%)	(1,143)	(1,283)	(140)	(11%)
(552)	(953)	Jersey Fleet Management	(615)	(731)	(116)	(16%)	(1,081)	(1,276)	(195)	(15%)
(6,794)	(13,785)		(7,346)	(6,038)	1,308	(22%)	(13,160)	(13,281)	(121)	1%

Reconciliation Near Cash to IFRS Budget	£'000
MTFP 2014 Department Net Revenue Expenditure	661,966
Carry Forwards	19,872
Allocation of Contingency	7,700
Additional Budget	5,332
Revenue to Capital	(1,230)
Housing Adjustment	13,783
Total Department Near Cash	707,424
Non-Cash Depreciation	65,359
Non-Cash Housing Adjustment	(8,912)
Total Department IFRS	763,871

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STATES OF JERSEY SERVICE ANALYSIS – (continued)

The following tables separate the significant Near Cash and Non Cash elements that make up the year to date and full year variances explained in this summary. The aim is to show how Non Cash net revenue expenditure, such as depreciation and impairments, affects the overall variances. Accounting Officers are only responsible for their Near Cash position.

Entity	YTD Variance			FYF Variance		
	Near Cash	Non Cash	IFRS	Near Cash	Non Cash	IFRS
	Variance Fav/(Adv) £'000	Variance Fav/(Adv) £'000	Variance Fav/(Adv) £'000	Variance Fav/(Adv) £'000	Variance Fav/(Adv) £'000	Variance Fav/(Adv) £'000
Chief Minister's Department	307	35	342	(208)	63	(145)
- Overseas Aid	0	0	0	0	0	0
Economic Development	5	0	5	55	3	58
Education, Sport and Culture	1,997	50	2,047	1,911	0	1,911
Department of the Environment	535	41	576	0	181	181
Health and Social Services	1,029	409	1,438	2,232	475	2,707
Home Affairs	747	(45)	702	800	0	800
Housing	2,264	132	2,396	2,264	132	2,396
Social Security	7,097	0	7,097	10,590	0	10,590
Transport & Technical Services	1,207	(1,364)	(157)	(521)	620	99
Treasury and Resources	(271)	316	45	1,399	648	2,047
Non Ministerial States Funded	1,979	19	1,998	712	(6)	706
States Assembly	517	6	523	13	0	13
Total	17,413	(401)	17,012	19,247	2,116	21,363

INVESTMENT PERFORMANCE

The CIF has shown consistent growth since inception. Unlike the Strategic Reserve, additional contributions have contributed to the rise in asset value and must be separated to examine investment performance.

Movement in asset value:

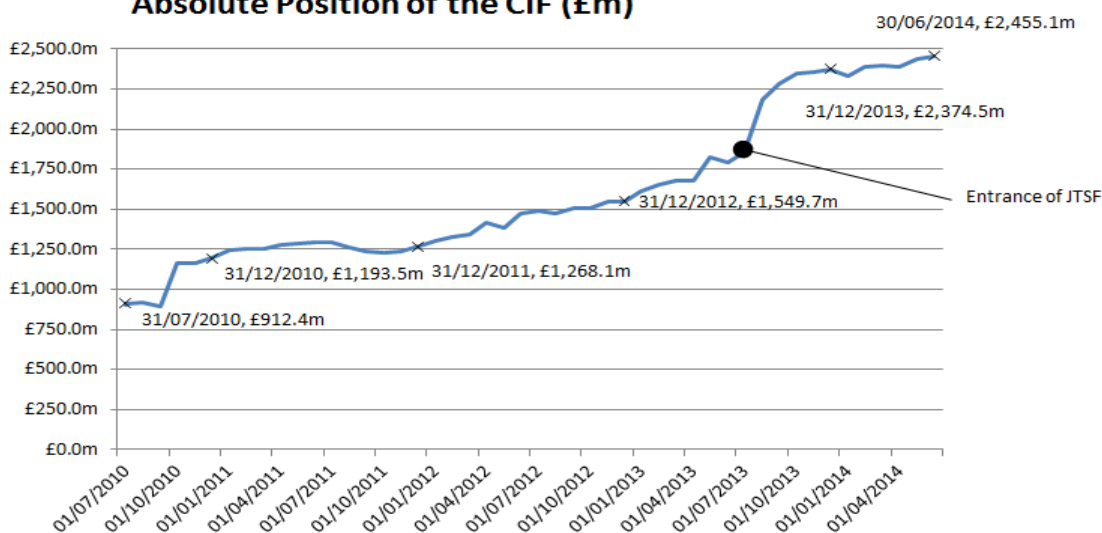
30 June 2014 valuation: £2,455.1m

31 December 2013 valuation: £2,374.5m

31 December 2012 valuation: £1,549.7m

31 December 2011 valuation: £1,268.1m

Absolute Position of the CIF (£m)

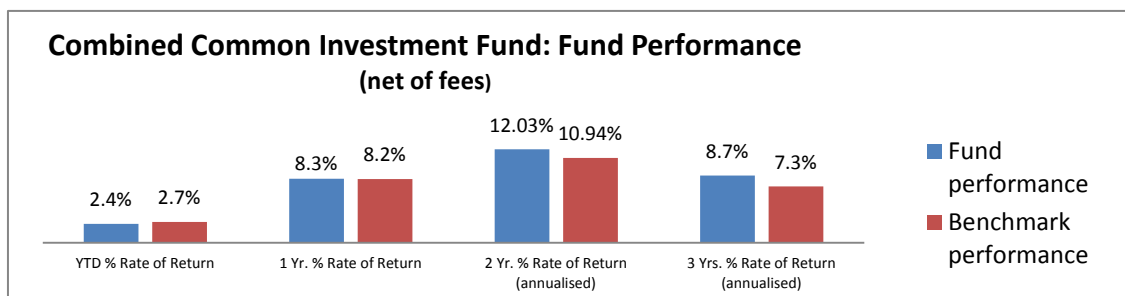


Excluding the additional capital contributed, the CIF has generated the following growth through investment performance:

Net return for 6 months to 30 June 2014	£64.0m*
Net annual return to 31 December 2013	£273.6m
Net annual return to 31 December 2012	£141.1m
Net annual return to 31 December 2011	£11.8m

* As a result of short term market volatility, this does not necessarily represent half of the expected outturn.

The cumulative performance of the CIF since inception has been in excess of benchmark. Performance is best review over the long term (3 years+), short term figures are subject to greater volatility.



Strategic Reserve Investment Performance:

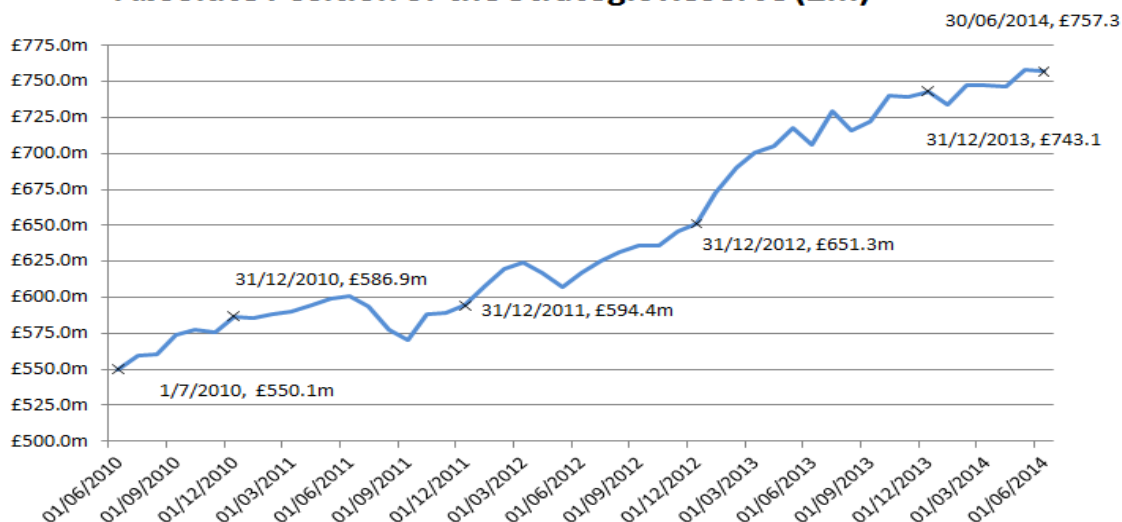
As at 30th June 2014 the Strategic Reserve was valued at £757.3m

The Strategic Reserve has shown consistent growth since inception of the Common Investment Fund ('CIF'). Performance is examined below, no additional transfers have been contributed into the Strategic Reserve over the illustrated time periods and all increases are due to investment performance.

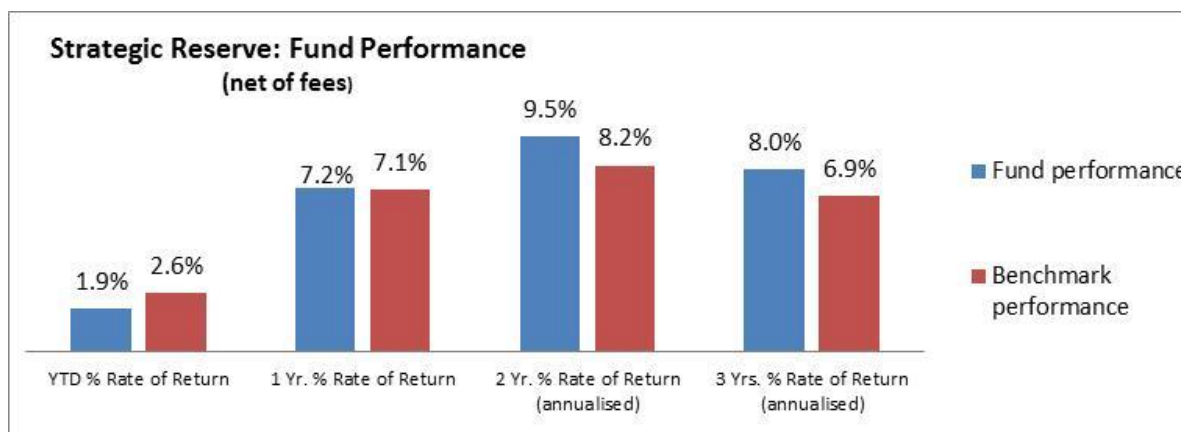
30 June 2014 valuation: £757.3m	(Growth for 6m to June 2014: £14.2 million)*
31 December 2013 valuation: £743.1m	(Growth over 2013: £91.8 million)
31 December 2012 valuation: £651.3m	(Growth over 2012: £56.9 million)
31 December 2011 valuation: £594.4m	

* As a result of short term market volatility, this does not necessarily represent half of the expected outturn.

Absolute Position of the Strategic Reserve (£m)



The cumulative performance of the Strategic Reserve since inception has been in excess of benchmark. Performance is best review over the long term (3years+), short term figures are subject to greater volatility.



APPENDIX 1 - CENTRAL RESERVES AND RESTRUCTURING COSTS

	Decision Reference MD- TR-20XX- XXXX	Future Funding Available 2014 £	Committed 2014 £	Balance of Budget Not Allocated from Central Funding £	Future Funding Available 2015 £	Committed 2015 £	Balance of Budget Not Allocated from Central Funding £
As at 08 July 2014							
Central Contingency							
Opening Balance 01/01		23,000,300			32,700,300		
Carry Forward - Emerging Items		4,000,000			0		
Carry Forward - Smoothing Reserve		3,396,519			3,596,265		
Carry Forward - Smoothing Reserve from Depts		199,746			0		
Carry Forward - Pay Provision		1,855,627			1,855,627		
Carry Forward - One Off (Insurance)		2,691,114			1,906,744		
Carry Forward - One Off		7,381,579			1,976,294		
Carry Forward - One Off (MTFP Commitments)		(3,300,000)					
Carry Forward - One Off (Dept Unrequested)		716,901					
T&R ~ Project Omega		(784,369)			0		
Pay awards for 2013/14	CoM	(16,583,627)				(16,583,627)	
Pay awards for 2015	MTFP					(8,700,000)	
CMD ~ McKinsey - Financial Services Sector Review	13-0052	(500,000)				(500,000)	
EDD ~ Band of the Island of Jersey	13-0038	(20,000)				(20,000)	
OLG ~ Cadet and Military Officer	13-0042	(42,000)				(42,000)	
DoE ~ Island Plan/Masterplanning	MTFP		(100,000)				
ESC ~ Infrastructure Contingency to JHT	13-0049	(315,000)				(315,000)	
HSS ~ Doctors Pay 2013	13-0048	(189,000)				(189,000)	
HSS ~ Doctors Pay 2014 + 2015			(40,000)			(400,000)	
HSS ~ Nurses Pay Award 2013	13-0079	(1,600,000)				(1,600,000)	
HA ~ Firefighters Pay Award 2013	13-0100	(83,300)				(83,300)	
ESC ~ Prince's Trust	13-0102	(184,155)	(46,845)			(230,000)	
ESC ~ Sports Strategy	13-0101	(750,000)				(750,000)	
CMD ~ Freedom of Information 2013 - 2015	13-0084	(750,000)	(1,250,000)			(2,287,610)	
SA ~ Committee of Inquiry	13-0059	(2,300,000)	(3,700,000)				
WW1 Centenary Anniversary	14-0120	(116,900)				(348,100)	
Mont Orgueil Gates	14-0053	(325,629)					
Planning Appeals	P87/2013		(148,000)			(148,000)	
Brighter Futures	CoM		(160,000)			(160,000)	
Income Support Costs from Housing Incorporation	MTFP		(351,000)			(834,000)	
EDD ~ Cattle Health	14-0036	(192,039)	(74,991)			(71,515)	
Smoothing Reserve			(3,596,265)			(3,596,265)	
Project Omega Balance			(1,906,744)			(1,906,744)	
Central Contingency Totals for 2014		15,205,767	(11,373,845)	3,831,921.41			
Central Contingency Totals for 2015					42,035,231	(38,765,161)	3,270,069.41
Restructuring Costs							
Opening Balance - Restructuring 01/01		6,540,000			7,170,000		
Opening Balance - Procurement Savings		(3,451,300)			(3,451,300)		
Carry Forward - From Restructuring		1,403,550			2,797,550		
CMD - Public Sector Reform	13-0029	(1,695,000)					
HSS - Reform Team	13-0098	(493,000)				(469,000)	
DoE - Eco-Active States - Continued Support	13-0098	(33,000)					
HSG - Housing Transformation Programme	13-0098	(260,000)					
HSS - Senior Health Leadership	13-0098	(150,000)					
ALL - Procurement Savings (Budget reduction)	14-0044	3,451,300				3,451,300	
CMD - Public Sector Reform	14-0027	(2,240,000)				(4,913,000)	
CMD - HR Initiatives	14-0063		(275,000)			(1,884,200)	
Restructuring Costs Totals 2014		3,072,550	(275,000)	2,797,550			
Restructuring Costs Totals 2015					6,516,250	(3,814,900)	2,701,350
Central Contingency and Restructuring Costs		18,278,317	(11,648,845)	6,629,471	48,551,481	(42,580,061)	5,971,419

Appendix 3 – Summary of Department Growth requests (June 2014)

DEPARTMENTAL REVENUE GROWTH 2016-2019 (Revised Schemes - 30th June 2014)						
Revenue Growth Schemes (listed with Department's order of priority)	2016	2017	2018	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	FTE
CMD						
Two Additional Assistant Law Draftsmen	272	277	283	288	294	2.0
Strengthening the HR Function in Health and Social Services	261	267	272	277	283	1.0
Corporate Learning and Development Strategy	523	533	544	555	566	1.0
Financial Services / McKinsey Implementation	523	533	544	555	566	3.0
FOI (Including Legal and Regulatory and Jersey Archives)	1,690	624	636	649	662	5.0
Reduced income stream - Control of Housing and Work Law	261	272	272	277	283	-
Joint Safeguarding	125	128	131	133	136	-
Jersey Charity Commissioner	223	227	264	270	275	2.0
CMD Subtotal	3,878	2,861	2,946	3,005	3,065	14.0
EDD						
Locate Jersey	435	435	460	465	477	2.0
Jersey Business Ltd	150	160	175	190	195	-
Digital Jersey Ltd	523	537	622	648	664	-
Jersey Aircraft Registry	200	230	-	-	-	4.0
Category 1 Shipping Register	220	-	-	-	-	5.5
Use of Ofcom Income	(500)	(500)	(500)	(500)	(500)	-
EDD Subtotal	1,028	862	757	803	836	11.5
ESC						
Primary School Demographics (Skills)	745	1,053	1,434	1,744	1,863	20.6
Secondary School Demographics (Skills)	1,313	1,575	1,755	2,100	2,368	32.0
Nursery Education Fund (Skills)	564	443	411	455	501	-
Raising Achievement Funding - (UK Pupil Premium Equivalent) (Skills)	1,537	1,801	2,077	2,365	2,424	15.0
Provision of a Data Team (Skills)	120	122	125	127	130	2.0
Extending Professional Partnering (Skills)	288	294	300	306	311	2.0
Early Years (Skills)	278	284	289	295	301	11.6
Sports Strategy - Fit for the Future	750	755	735	740	400	5.0
Prince's Trust Jersey (Skills)	297	303	309	315	321	-
Trackers Apprentice Programme (Skills)	550	688	702	716	731	-
Arts Sector Reorganisation	500	510	520	443	-	-
ESC Subtotal	6,942	7,828	8,657	9,606	9,350	88.2
DoE						
Independent Planning Appeals Tribunal	228	234	240	247	252	-
DoE Subtotal	228	234	240	247	252	0.0
HSS (see Note)						
White Paper Funding	10,787	16,648	19,084	23,044	27,544	156
2% Investment in Service Standards and Healthcare Inflation	4,175	8,790	13,754	19,007	24,507	66
Nurses Pay 2016+	2,097	4,299	6,543	6,707	6,875	-
HSS Subtotal	17,059	29,737	39,381	48,758	58,926	222.0
Home Affairs						
Additional Funding for Jersey Field Squadron	51	78	106	108	111	-
Home Affairs Subtotal	51	78	106	108	111	0.0
Social Security						
JACS Outreach Advisory Service	49	50	51	52	53	-
Social Security Subtotal	49	50	51	52	53	0.0
TTS						
Energy From Waste - Shortfall in Income (JEC/waste volumes)	1,121	1,169	1,218	1,267	1,293	-
Energy From Waste - No Guernsey Waste Income	1,530	1,561	1,591	1,624	1,656	-
Bus Contract - Main Contract and School Bus Service	278	288	300	311	317	-
Tipping Fees Shortfall	-	-	340	346	976	-
Corporate Health & Safety - Operating Costs	52	52	53	54	55	-
TTS Subtotal	2,981	3,070	3,502	3,602	4,297	0.0
T&R						
Nil	-	-	-	-	-	-
T&R Subtotal	-	-	-	-	-	0.0
NMSFB						
Judicial Greffe						
New Staffing Structure for Tribunal Service	195	199	203	207	211	3
Law Officers' Department						
Legal Adviser Recruitment and Reward restructure	247	276	282	289	294	6.5
Office of the Lieutenant Governor						
Cadet and Military Support Officer	42	43	44	45	46	-
NMSFB Subtotal	237	242	247	252	257	9.5
Total of Departmental Revenue Growth	32,700	45,238	56,169	66,722	77,440	348.2

Appendix 4 – The forecasting timeline

