DRAFT BUDGET STATEMENT 2018

Embargoed until 00:01 on Tuesday 3 October 2017

P.90/2017

Proposition

Draft Budget Statement 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 estimate of income from taxation during 2018 of £689,146,000 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 2018 as set out in the Budget Statement;

b) to approve, in accordance with the provisions of Articles 10(3)(c) and 11(3) of the Public Finances (Jersey) Law 2005 the appropriation of £10,424,000 in 2018 and the full year effect amounting to £9,400,000 in 2019 from the amount appropriated to growth in the Medium Term Financial Plan Addition 2017 to 2019 (P.68/2016) to the revenue heads of expenditure of those States funded bodies as set in the recommended allocation of growth expenditure in Summary Table B;

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 2018 (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 £43,233,000;

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 2018 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 2018.

Minister for Treasury and Resources

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PART A – INTRODUCTION

1. Ministerial Foreword

Introduction

Budget 2018 builds on the package of measures agreed in the Medium Term Financial Plan (MTFP), combining savings, efficiencies and revenue raising measures to enable investment in priority services. It does this in a balanced and prudent way that ensures Jersey's continued prosperity by preserving strong public finances and delivering balanced budgets by 2019.

When developing the Strategic Plan, Ministers listened to Islanders, businesses and independent experts, and identified our priority investment areas as health, education, infrastructure and promoting economic growth. Since then we have been investing in these priorities and ensuring we have sustainable finances for the long term.

Budget 2018 continues that work. It supports working families by increasing tax allowances and asks businesses and future High Value Residents to contribute a little more. It continues to support the economy in the short term, maintains investment in the health and social care we need as our society ages, and funds improvements to schools so all our children can develop the skills they will need to achieve fulfilling lives and careers.

Of course, there are still some difficult decisions ahead of us.

User-pays charges proposed as part of a package of measures in the MTFP were carefully developed in the context of our priorities. If we do not implement these, or if equivalent revenue raising measures are not found, we will not be able to fully fund the growth in spending we need in health, social services and education.

Budget 2018 is the latest stage of the MTFP, which incorporates efficiencies, savings and charges to enable investment in priority services and achieve broadly balanced budgets by 2019. Budget 2018 is critical to the delivery of the financial plan agreed by the States Assembly and to securing Jersey's future.

Economic outlook

The latest data shows Jersey's economy is continuing its recovery, with businesses feeling positive and employment at an all-time high. The economy grew by 1% last year, earnings continue to grow faster than inflation for the fifth successive year, and registered unemployment has fallen to its lowest level since 2009. There are a number of challenges on the horizon, not least the implications of the UK exit from the EU, but these also present some opportunities.

The Fiscal Policy Panel (FPP) has updated its economic assumptions and now expects Gross Value Added (GVA) to grow slightly more than expected in 2017 and 2018. Employment growth is expected to continue but slightly slower growth is anticipated in financial services profits. In its August 2017 letter, the panel continues to advise that we should balance our budgets by 2018/19 and support the economy in the short term.

The panel has raised concerns that revenue-raising measures proposed as part of the MTFP package are proving difficult to implement. The panel is urging us to implement these, or comparable measures, to address a structural imbalance by 2018/19.

Based on the latest data and the new economic assumptions, the income tax forecast is unchanged for this year and next. However, the forecast has been reduced by between £2 million and £3 million per year from 2019 because of earnings growth being slightly lower than expected and the lower assumptions for financial services profits.

There is also a reduction in income forecasts from impôts, Island-wide rates and investments from 2018-2021, mainly due to the effect of the lower Retail Price Index (RPI) and interest rate assumptions.

Budget proposals

Personal tax

I am proposing to increase the tax-free income allowance for working-age people by the June RPI figure of 2.5%. This will benefit 35,000 taxpayers, reducing a single person's annual tax bill by £91 and that of a married couple or civil partnership by £156.

This measure will take Jersey's personal tax free income allowance (for a single person) to £14,900, which compares to Guernsey's allowance of £9,675, the UK's of £11,500 and the Isle of Man's of £12,500.

I intend to increase the second earner's allowance by £850 to £5,850, which eliminates the disparity in allowances between married and cohabiting couples, where both partners are earning. This measure will benefit 12,000 households.

I am also proposing to increase the minimum annual tax payable by new High Value Residents from £125,000 to £145,000 and to review their minimum tax contribution every five years, starting in 2023. This will apply from January 2018.

Company tax

I am proposing a number of changes to our corporate tax regime to help fund the necessary investment in health and social care.

First, I am widening the definition of a financial services company to move more financial services companies into the 10% tax rate. This will raise an extra £3 million a year.

Last year I said we would look at how best to tax large retailers. After detailed research, I am now proposing to apply a 20% income tax to larger retailers.

Where the retailer's taxable profits are less than £500,000 a year, the company will be taxed at 0% on all of its profits.

Where the taxable profits are £750,000 or more, the company will be taxed at 20% on all its profits.

Where the taxable profits are between £500,000 and £750,000 a year, a tapering provision will reduce the effective rate on a sliding scale from 0% to 20%. This avoids the 'cliff edge' effect created in other jurisdictions.

This will raise an estimated £5.7 million a year from around 20 businesses, at least 75% of which are not locally owned.

I am also proposing to increase ISE fees and to require more companies to pay them. These fees, which are paid by regulated financial services businesses, currently raise approximately £9 million per year. This measure will raise an estimated £1 million from approximately 1,500 companies.

Impôts

I am proposing to maintain the value of the duty payable on alcohol, petrol and diesel by increasing it in line with RPI.

Given the considerable impact on people's health, and associated cost to government, of smoking, the duty on tobacco will increase in line with RPI plus 5%, with a slightly higher increase for hand rolling tobacco to continue equalising the duty rates.

Vehicle Emissions Duty

VED is charged when vehicles are first registered in Jersey, depending on the level of CO2 emission or engine size. The duty was introduced to encourage Islanders to choose low emission vehicles and I am proposing to amend the VED bands so that only cars emitting 50g CO2/km or less are exempt from paying VED.

This initiative is not solely aimed at raising additional revenue, but also at encouraging people to choose the least polluting vehicles. We are already seeing a gradual move to electric and hybrid vehicles in Jersey. In 2011 there were 82 new registrations. That rose to 148 in 2016 and 140 in the first eight months of this year. This is a trend that is accelerating globally with manufacturers adopting these new technologies. Volvo has announced that all its cars from 2019 will be electric or hybrid, and more than twenty motor manufacturers are offering scrappage schemes to encourage consumers to trade up to new, cleaner models.

This is positive for our environment but it does pose an eventual risk to government's income. Fuel duty currently raises £22 million a year, and we will be considering how to address the gradual reduction in this income as Islanders move to the less polluting options of electric and hybrid vehicles.

Growth proposals

The MTFP identified an extra £40 million per year to be spent on health and social care. This budget allocates £8 million of that funding in 2018.

We made it clear in the MTFP that without the necessary revenue-raising measures, this growth would not be affordable. Therefore, in this budget I am taking £2.1 million from 2018's growth allocation to fund the Department for Infrastructure, as a result of liquid waste charges being deferred until 2019.

The allocation of the remaining £11 million of growth for 2019 will be proposed in Budget 2019, subject to the approval of £11 million of waste charges or equivalent revenue raising measures.

Capital spending

The MTFP identified £168 million for capital projects over the four years of the plan, including £55 million for school buildings, £43 million for sewage works and £21 million for IT systems.

The MTFP identified £43 million for capital projects in 2018. Since then, departments have identified a number of additional priority projects and there have been some increases in estimated costs due to further feasibility work and rising inflation.

The extra £14.7 million needed is coming from unspent capital budgets, existing revenue budgets, and £6.5 million from the Criminal Offences Compensation Fund for the latest phase of work on the prison.

The capital projects for 2018 include the refurbishment of St Mary's Primary School and the final phase of redevelopment of Grainville School.

Nearly £7 million will be spent on projects in Health and Social Services, including the relocation of adult mental health services from Orchard House to Clinique Pinel.

More than £18 million has been allocated for infrastructure projects, delivering roads, drainage and sewage works.

Reserves

In line with FPP recommendations, it is important to ensure flexibility in our plans. This is delivered through annual budgets and contingencies as well as the balances in our current account, the Consolidated Fund. Jersey's financial performance in 2016 has left the Consolidated Fund in a strong position, which means it will no longer be necessary to withdraw money from the Strategic Reserve in 2018.

Future challenges

It is important that we develop sustainable funding mechanisms to meet the growing cost of health and social care. Our MTFP works as a package of measures, incorporating savings, charges and economic growth to fund priority services. It provides a clear strategy to balance budgets by 2019, focusing on the priorities agreed in the Strategic Plan.

Following the States Assembly's decision on waste charges I will work closely with the Infrastructure Minister in the coming months to consult Islanders on the details of such charges. The Fiscal Policy Panel has urged us to approve this, or comparable revenue raising measures, in time to be able to balance the budget by 2019.

I have already announced my intention to bring proposals on student finance to the Assembly. A number of options are still being evaluated and I intend to provide full details in November alongside the debate on Budget 2018.

Work on the final funding strategy and outline business case for a new hospital is continuing and I expect to be ready to lodge proposals for debate in December.

In consulting stakeholders over the payment of rates by the States, it has been made clear that 11 of the 12 Connétables, who are the guardians of the parish rate system, do not support either the principle of the States paying rates or the specific proposal put to them. In light of this, I am not bringing forward measures in this budget.

Environment

The 'My Jersey' survey found that climate change is a key concern for Islanders. This budget is investing £17 million in infrastructure projects, following £650,000 allocated last year to prepare for the impact of climate change. Work has started to ensure our coastline is resilient to the effects of coastal and surface water flooding and to coastal erosion.

In 2018 the latest climate predictions will help identify appropriate solutions for the most vulnerable areas. There may be challenging decisions ahead and I will continue to support the solutions identified from this work.

I remain committed to maintaining Jersey's resilience by providing appropriate resources to Departments to maintain and adapt the defences that keep our businesses and homes secure; to reinforce the critical infrastructure that keeps our Island running; and to set standards for building homes fit for the future through the Island Plan review process, which will start in 2018. These actions will ensure Jersey continues to be a safe jurisdiction for all Islanders and businesses.

Review of personal tax system

Earlier this year the Treasury, assisted by a working group of States Members, completed the first stage of a comprehensive review of personal tax. We released data in March that explained the impact of tax policy changes implemented from 2006 to 2015. This established a shared understanding of the Island's personal tax system, which will help us consider future changes.

The Treasury is now progressing with the second stage of the review, looking at how the personal tax system could be amended to remove some of the discrepancies in income tax paid by similar households. The increase in the second earners' allowance announced in this budget is a significant step in addressing such discrepancies.

The Treasury is building a tool that will allow us to model the impact, on both the Treasury and taxpayers, of moving from the current system of married couple taxation to a system of either independent or household taxation.

We will shortly start consulting Islanders on how this system might change and this consultation will continue throughout 2018.

Taxes Office modernisation

I will soon be proposing the first tranche of the draft legislation I promised last year to improve Jersey's tax compliance framework and to enable online filing by personal taxpayers.

The legislation will introduce a range of civil penalties that will be easier and cheaper to enforce than existing penalties, which usually require intervention by Jersey's Commissioners of Appeal for Taxes or the Royal Court. These penalties raise the stakes for those who evade their tax obligations, and who can take advantage of the Disclosure Opportunity until 31 December 2017.

I expect the Taxes Office computer system to be replaced by 2020. If all goes to plan, the Comptroller of Taxes expects online filing to be offered from that time.

Work continues on integrating the assessment and collection of social security contributions with the personal tax system. This should be ready at around the same time, or soon afterwards.

Conclusion

The package of proposals in Budget 2018 builds on measures to protect and grow revenues in a fair and sustainable way, and it focuses available funds on the priority services identified in the MTFP. It does this in a balanced and prudent way that ensures Jersey's continued prosperity by preserving strong public finances and delivering balanced budgets by 2019.

We need to maintain investment in priority services and I believe our balanced approach to savings, efficiencies, and revenue raising secures that investment in a way that is fair, appropriate, and in the best interests of our island.

The post-Brexit reality is an uncertain one but our strong public finances and resilient economy are ready to manage both the opportunities and threats that will emerge. With our considerable reserves, minimal debt and net assets of more than £6 billion, our public finances are in a stronger position than those of most other places in the world. We want to protect this position, and Budget 2018 maintains the investment that will support our economy, create jobs and improve the living standards for all of us in Jersey.

Senator Alan Maclean
Minister for Treasury and Resources

PART B – BUDGET STATEMENT 2018

2. Summary of Tax Proposals

The Minister for Treasury and Resources considers annual Budget measures within the context of spending plans, the economic situation, current income forecasts and the States strategic priorities. The spending proposals for 2018 were set out in the MTFP Addition 2017-2019 which was adopted by the States Assembly in September 2016.

A summary of the taxation proposals contained in the 2018 Budget has been provided below:

Personal Tax Proposals

- Income tax exemption thresholds to be increased by 2.5% for working age people, delivering a tax reduction of £91 at 26% for a single person, and £156 at 26% for a married couple/civil partnership
- Second earner’s allowance to be increased by £850 to £5,850 delivering a further tax reduction of £221 for married couples/civil partnerships where both are earning.
- Enhancements to the tax regime applied to high value residents, including requiring future high value residents to pay more
- Minor amendments to the rules applying to pensions and pension schemes including greater flexibility in accessing small pension funds

Business Tax Proposals

- Subjecting the profits of larger corporate retailers to tax at 20%
- Extending definition of “financial services company” to bring more companies within the scope of the 10% company income tax rate
- Increasing some International Services Entities (“ISE”) fees paid by businesses
- Disallowing the deduction of rates by landlords renting property in Jersey consistent with the 2017 Budget amendment
- Legislating for the taxation of non-Jersey limited liability partnerships
- Introduction of a Stamp Duty anti-avoidance provision

Impôts Duty Proposals

- RPI limited increases in impôts duties charged on alcohol and road fuels
- Impôts duties on tobacco increased by RPI +5%, with a greater increase on hand rolling tobacco as a continuation of the policy to equalise the duty rate
- RPI limited increases in VED rates, plus a change in the nil band threshold to incentivise the purchase of the least polluting vehicles

3. Personal Tax Proposals

Income tax exemption thresholds

The income tax exemption thresholds set the income level at which an individual or married couple/civil partnership[1] 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 taxable by reference to 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 the marginal rate of tax. Therefore increasing the income tax exemption threshold benefits the vast majority of taxpayers.

Consistent with established policy the Minister proposes to increase income tax exemption thresholds for working age[2] taxpayers by 2.5% which is the lower of: (i) the most recently published increase in the RPI (2.5% June 2017 RPI figure per Statistics Unit[3]); and (ii) the most recently published increase in average earnings figure (2.6% June 2017 figure per Statistics Unit[4]).

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

FIGURE 1 – Income tax exemption thresholds for 2017 and 2018 years of assessment

Type of taxpayer	2017 Actual	2018 Proposed	Proposed increase	Tax reduction @ 26%[5]
Single Person – working age	£14,550	£14,900	£350	£91
Married Couple/Civil Partnership – working age	£23,350	£23,950	£600	£156

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.

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

Jersey (2018 proposed)	Guernsey (2017)	UK (2017/18)	Isle of Man (2017/18)
£14,900	£9,675	£11,500	£12,500

Consistent with the established policy of moving towards a single set of income tax exemption thresholds for all taxpayers regardless of age, the income tax exemption thresholds for those born on or before 31 December 1951 are being maintained at their current level.

The personal income tax forecast is created utilising a number of economic assumptions (endorsed by the FPP). One of the economic assumptions utilised relates to the increase in RPI. Due to the fact that the June 2017 RPI figure reported by the Statistics Unit (2.5%) is slightly lower than the assumed RPI figure for 2017 (2.8%), the

[1] In the remainder of this document the term "married couple" should be read as also referring to civil partnerships.
[2] Working age refers to taxpayers born on or after 1 January 1952.
[3] See: https://www.gov.je/government/jerseyinfigures/businesseconomy/pages/inflation.aspx
[4] See: https://www.gov.je/Government/JerseyInFigures/EmploymentEarnings/Pages/EarningsIncomeStatistics.aspx
[5] This tax reduction is enjoyed by all taxpayers whose tax is calculated by reference to the marginal rate calculation.

Minister's proposal will increase expected personal income tax revenues by approximately £500k per annum from the 2018 year of assessment onwards compared to the IFG forecast (resulting in additional States income in 2019 onwards).

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[6]) 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 to 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 has been tax beneficial for couples where both partners are in receipt of earnings to co-habit rather than get married.

In the 2017 Budget the Minister increased second earner's allowance by £500 in order to narrow the tax benefit enjoyed by co-habiting couples and in the 2018 Budget the Minister proposes that the second earner's allowance is increased by a further £850 so that the proposed married couple's income tax exemption threshold plus the second earner's allowance is equal to two single person's income tax exemption thresholds. See the table below:

FIGURE 3 – Second earner's allowance proposal for 2018

Second earner's allowance (2017)	Proposed second earner's allowance (2018)	Increase (and tax benefit at 26%)
£5,000	£5,850	£850 (£221)

FIGURE 4 – Comparison of taxpayers with the 2018 proposals

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

The proposed increase of £850 reduces the tax payable by married couples utilising all of the second earner's allowance by £221; for such married couples the combination of the proposed increases in income tax exemption thresholds and the second earner's allowance will increase their allowances by £1,450 (reducing their income tax payable by £377). It is estimated that the proposed increase in the second earner's allowance will cost approximately £2.6m per annum from the 2018 year of assessment (resulting in reduced States income in 2019 onwards).

Although a significant step forward, this proposal does not fully equalise the tax treatment of married couples and co-habiting couples in all situations. Despite this change for some households it will remain tax beneficial to be married, whilst for other households it will remain tax beneficial to co-habit. A review of the personal tax

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

system is currently underway which is seeking to address the discrepancies in the way that similar households are taxed. See the on-going taxation work for more details.

Taxation of high value residents ("HVR")

An HVR is an individual who has come to Jersey by obtaining entitled status under Regulation 2(1)(e) of the Control of Housing and Work (Residential and Employment Status) (Jersey) Regulations 2013. As a result of obtaining this status, they are entitled to access preferential income tax rates once their taxable income exceeds a certain threshold[7].

In December 2016 the Tax Policy Unit published a post-implementation review of the HVR regime applicable since July 2011[8]; making a number of recommendations that were endorsed by the Council of Ministers. In the 2018 Budget the Minister proposes to bring forward the legislation in order to give effect to those recommendations, creating a new regime for those granted HVR status on or after 1 January 2018. The key aspects of the new regime are outlined below:

1. Increase the expected annual minimum income tax contribution to £145,000

The expectation under the new regime is that an HVR will have taxable income of at least £725,000, thereby generating an annual personal income tax liability of at least £145,000 (i.e. £725,000 @ 20%) year on year. This represents a £20,000 increase in the annual minimum income tax contribution from those HVRs granted 2(1)(e) status in 2017.

Any income (with the exception of income generated from Jersey real estate) in excess of £725,000 will be subject to tax at the existing preferential tax rate of 1%.

2. Ensuring the £145,000 income tax contribution is paid

As highlighted above, it is expected that HVRs arriving under the new regime will generate, at least, £725,000 of taxable income each year, so that they will pay £145,000 of income tax. Under the existing HVR regime, if a HVR has insufficient income (for example due to change in circumstances or fluctuating business profits) to meet their expected annual minimum income tax liability, there is no mechanism to enable them to pay more income tax.

The Minister therefore proposes the introduction of a top-up mechanism that means that where a HVR has insufficient income to generate their expected income tax contribution, they will be deemed to receive income so as to ensure that their tax liability is £145,000. This will also apply in cases where the HVR is entitled to claim any reliefs and allowances that would ordinarily reduce the tax payable below £145,000. The purpose of this proposal is to ensure that all HVRs arriving under the new regime will pay their expected minimum income tax contribution.

The facility to access the income top up mechanism will also be available to existing HVRs on an election basis. Anecdotal evidence suggests there are some HVRs who will opt for this.

3. Periodically revalorise the expected annual minimum income tax contribution

The level of the expected annual minimum income tax contribution will be reviewed on a regular basis so as to ensure the tax contribution made by HVRs retains its value over time. It is proposed that the first review will be completed for 2023 and will take place every 5 years thereafter. It is proposed that any increase will not be more than the accumulated increase in the RPI for the relevant period and will be subject to a review of the internationally competitive position of the HVR regime. This revalorisation will apply to all HVRs that are within

[7] The threshold for those arriving since 2011 is £625,000 of taxable income.
[8] See: http://www.statesassembly.gov.je/assemblyreports/2016/r.130-2016.pdf

the new regime.

Tax rules applying to pensions and pension schemes

The Minister proposes a number of minor changes to the tax rules applying to pensions and pension schemes:

1. Fund transfers by occupational pension schemes

Firstly, the Minister proposes to extend the circumstances in which pension fund transfers can take place so that the scheme manager of an approved Jersey occupational pension scheme is able to transfer the whole, or part, of the fund value of all of the members, or part of the membership, of the scheme to another approved Jersey occupational pension scheme. This change will assist the scheme managers of occupational pension schemes to reorganise these schemes. Scheme managers wishing to enter into such a transfer must seek the approval of the Comptroller in advance of completing the transfer.

2. Targeted anti-avoidance rule – transfers to overseas schemes

In the major pension changes introduced with effect from 1 January 2015, the broad ability to transfer pension funds overseas was introduced. With, in particular, the introduction of pension freedoms in the UK, there is the potential for individuals to break Jersey residence for a short period of time, transfer their pension fund outside of Jersey, withdraw all of their pension fund whilst non-resident and then subsequently return to Jersey – accessing the whole of their pension fund without paying any Jersey tax.

As a consequence the Minister proposes that a targeted anti-avoidance rule is introduced to prevent Jersey income tax being avoided in these circumstances. This anti-avoidance rule will apply where:

(i) a pension fund transfer from Jersey to another jurisdiction occurs, and

(ii) the pension holder establishes tax residence in Jersey in the year of assessment in which the transfer occurs, or any of the following three years of assessment; and

(iii) following the transfer but at a time that the pension holder is non-Jersey resident, a lump sum payment is made to the pension holder from the fund value transferred

Where the anti-avoidance rule applies, the pension holder will be deemed to have received, on the date that they establish residence in Jersey, a lump sum payment from an overseas pension scheme which is taxable in Jersey.

3. Greater flexibility with small pension funds

The current pension rules allow both trivial pension funds and very small occupational pension schemes funds to be paid out as a lump sum in certain circumstances in order to allow small pension funds that are unlikely to pay a material pension to be paid out to the pension holder, avoiding the pension fund incurring further administrative charges and hence achieving a better outcome for the pension holder.

The Minister proposes that the circumstances in which such lump sum payments can be paid are made more flexible. In the context of trivial pension funds it is proposed that the monetary limit is increased in line with inflation to £35,000 and the prohibition on paying a lump sum where the pension holder has commenced benefits is removed.

In the context of very small pension funds (those worth less than £19,000), the Minister proposes that pension schemes may allow the whole of the pension fund to be paid out at any time, with whatever amount is paid being treated as taxable income of the pension holder. A £50,000 cap is proposed on the total amount that can be paid out under this provision in order to prevent pension holders seeking to access all of their pension savings by breaking their pension fund into a series of small pension funds.

4. Business Tax Proposals

Taxation of larger corporate retailers

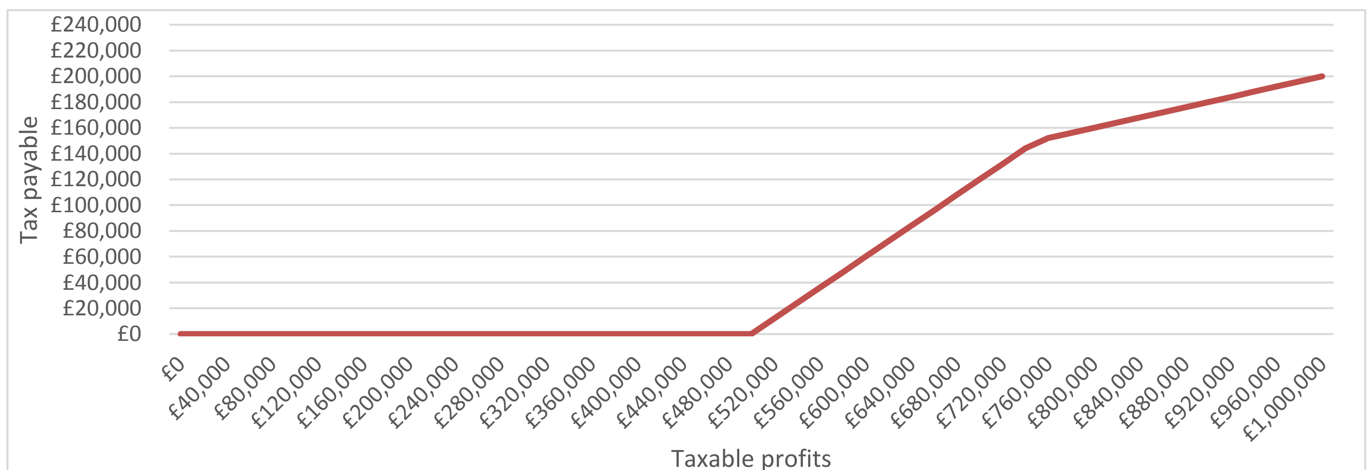
In the 2017 Budget the States Assembly adopted the following proposition:-

> *"to agree in principle that from 2018 a higher rate of tax on profit should be applied to retail businesses operating in Jersey, whether owned by Jersey resident companies or by non-resident companies, where annual taxable profits exceed a certain threshold (which is to be determined during 2017) providing this does not pose a risk to the zero-ten regime and to direct the Minister for Treasury and Resources to bring forward the necessary legislative changes for debate by the Assembly during 2017"*

Correspondingly the Minister is bringing forward proposals in the 2018 Budget which seek to tax the assessable profits of "larger corporate retailers" for the 2018 year of assessment at 20%. The key points of the proposal are as follows:

- A "large corporate retailer" will be a company which meets the following tests:
  - 60% of its trading turnover is from retail sales to customers in Jersey; and
  - retail sales to customers in Jersey are equal to or greater than £2m per annum
- "Retail sales" will not include wholesale supplies or the provision of services.
- Where the taxable profits of a "large corporate retailer" are less than £500k per annum the company will be subject to tax at 0% on all of its profits.
- Where the taxable profits of a "large corporate retailer" are £750k or more the company will be subject to tax at 20% on all of its profits.
- Where the taxable profits of a "large corporate retailer" are more than £500k but less than £750k per annum a tapering provision will apply. The effect of the tapering provision for "large corporate retailers" with taxable profits of between £500k and £750k per annum will be to reduce the effective rate of tax on a sliding scale from 0% up to 20%. This tapering provision avoids the "cliff edge" effect created in both the Isle of Man and Guernsey's version of the larger corporate retailer tax. The impact of the tapering provisions is shown in the graph below:

FIGURE 5 – Tapering effect of the larger corporate retailer tax proposals



- Targeted anti-avoidance rules will be introduced alongside the taxing provisions in order to prevent companies disaggregating retail sales and/or profits amongst companies under common ownership in order to avoid the scope of the tax.

- There will be no difference in the taxation of "larger corporate retailers" owned by locally resident individuals and those owned off-island; both will be subject to the tax in exactly the same way.

- Locally resident individuals will be entitled to a tax credit for any tax paid by the company when taxed profits are distributed by way of dividend, including where the dividend is paid through an intermediate holding company based in Jersey or Guernsey. In the context of locally owned companies the Minister's proposals will effectively result in the acceleration of tax which would have ultimately been paid by the individual shareholders when the profits are distributed.

It is estimated that this proposal will result in approximately 20 additional companies (of which approximately 5 are locally owned) paying company income tax for the 2018 year of assessment and will raise approximately £5.7m of additional States income for 2019.

Widening of definition of "financial services company"

Only companies which falls within the definition of "financial services company" contained within the Income Tax Law[9] are subject to the 10% company income tax rate. A number of companies that undertake financial services activities fall outside that definition and hence are subject to the standard 0% company income tax rate. In the 2018 Budget the Minister proposes that the definition of "financial services company" is widened so that more companies that undertake financial services activities are subject to the 10% company income tax rate.

It is proposed that the definition of "financial services company" is widened from the 2018 year of assessment to include:

- Companies registered under the Financial Services (Jersey) Law 1998 to carry out general insurance mediation business ("GIMB")
- Companies registered with the Jersey Financial Services Commission as a registrar
- Companies holding permits under the Insurance Business (Jersey) Law 1996
- "Finance companies" – companies trading in the provision of credit/finance to customers

As with the proposed changes to larger corporate retailers, locally resident individuals will be entitled to a tax credit for any tax paid by the company when taxed profits are distributed by way of dividend. In the context of locally owned companies the Minister's proposals will effectively result in the acceleration of part of the tax which would have ultimately been paid by the individual shareholders when the profits are distributed.

It is estimated that this proposal will result in approximately 25 additional companies (of which approximately 10 are locally owned) paying company income tax for the 2018 year of assessment and will raise approximately £3.0m of additional States income for 2019.

[9] Companies which fall within the definition of "financial services company" must also have a permanent establishment in the Island in order to be subject to the 10% tax rate.

Increase in ISE fees

An entity which meets certain conditions is eligible to be registered as an International Service Entity ("ISE"). The benefits of being an ISE is that the entity is broadly taken out of the scope of GST (i.e. it is not obliged to register for and charge GST on the supplies it makes, nor is it charged GST on the supplies it receives).

The ISE status is elective. Eligible entities which do not wish to be registered as ISEs are instead required to comply with the normal GST rules (i.e. an entity making taxable supplies which exceeds the £300k threshold is liable to be registered and charge GST and all entities must pay GST on the supplies they receive).

The fees payable by ISEs are set out in the Goods and Services Tax (International Services Entities) (Jersey) Regulations 2008 ("the ISE Regs"). There are separate fees applicable depending on the class of financial services business an entity is regulated under. An entity which is regulated under a number of different classes of financial services business must pay the cumulative fee arising from each of those classes of financial services businesses for which it is regulated.

When introduced the ISE regime was anticipated to raise between £5m and £10m per annum. Figure 6 below summarises the ISE fees collected each year since the regime was introduced alongside GST in 2008:

FIGURE 6 – ISE fees collected per year since regime was introduced

Year	Total ISE fees
2008	£6,113,100
2009	£5,736,100
2010	£5,208,100
2011	£8,911,000
2012	£9,058,000
2013	£9,427,600
2014	£9,166,300
2015	£9,078,700
2016	£8,791,100

The level of ISE fees payable were last reviewed in 2010/2011. At that time the fee for "vehicles administered" and "other entities" was increased from £100 to £200 and the fee for entities registered under the Banking Business (Jersey) Law 1991 was increased from £30,000 to £50,000. All the remaining ISE fees have been unchanged since the ISE regime was introduced in 2008.

The Minister is proposing the following changes to the ISE regime from 2018:

- Revalorisation: it is proposed that all ISE fees (with the exception of the fees charged for "vehicles administered" and CIF/AIF vehicles) are revalorised upwards by reference to the June 2017 RPI figure. A summary of the revalorisation proposed is provided in figure 7 below. It is estimated that this specific proposal will raise approximately £400k per annum in additional ISE fees from 2018 (resulting in additional States income in 2018 onwards).

FIGURE 7 – Summary of proposed revalorisation of ISE fees

Regulation	Type of entity	Current ISE fee	Proposed 2018 ISE fee based on RPI
4(1)(a)(i)(A)	Trust company business	£7,500	£9,350
4(1)(a)(iii)(A)	Trust company business	£7,500	£9,350
4(1)(b)	Banks	£50,000	£58,000
4(1)(c)	CIF permit holders	£2,500	£3,120
4(1)(d)	CIF permit holders (managed)	£500	£625
4(1)(e)	Fund service business	£2,500	£3,120
4(1)(f)	Fund service business (managed)	£500	£625

- "Other entities": entities which are not entitled to claim ISE status by reference to their regulatory status can claim ISE status provided they meet a series of conditions[10]. The fee payable by these ISEs is £200; in light of the benefit of ISE status it is proposed that the fee payable by these ISEs is increased to £500. It is estimated that this specific proposal will raise approximately £220k per annum in additional ISE fees from 2018 (resulting in additional States income in 2018 onwards).

- Fee payable by AIFSBs: the requirement for an entity carrying on Alternative Investment Fund Services Business ("AIFSB") to register with the JFSC was introduced from 2nd April 2013. As the ISE Regs were introduced prior to that date they do not specifically refer to AIFSBs. As the ISE Regs do not specify a fee in respect AIFSBs, an entity which is solely regulated as an AIFSB and wishes to register as an ISE will *prima facie* pay the "other entities" fee of £200 rather than the higher fee payable by entities holding permits under the CIF Law and entities registered to carry on fund services business under the Financial Services Law. The proposal is to align the ISE fee payable by AIFSBs with that payable by entities holding permits under the CIF Law and entities registered to carry on fund services business. It is estimated that this specific proposal will raise approximately £135k per annum in additional ISE fees from 2018 (resulting in additional States income in 2018 onwards).

- Fee payable by AIFs: similarly the ISE Regs do not specify the fee payable by Alternative Investment Funds ("AIFs"). It is proposed that ISE Regs are updated so that AIFs pay a specified ISE fee of £200, equivalent to the fee currently payable by Collective Investment Funds ("CIFs"). This specific proposal will not raise any additional revenue.

- Use of term "managed manager": the ISE Regs utilise the term "managed manager", a term which does not appear in the JFSC's regulatory framework. It is proposed that the term "managed manager" is therefore replaced with the term "managed entity" which does appear in the JFSC's regulatory framework. This specific proposal will not raise any additional revenue.

- ISE fee charged to "managed entities": it is then proposed that the ISE fee charged to "managed entities" which are registered exclusively as fund managers is increased so that it aligns with the fee payable by non-managed entities which are registered as fund managers of £3,120. It is estimated that this specific proposal will raise approximately £155k per annum in additional ISE fees from 2018 (resulting in additional States income in 2018 onwards).

[10] These conditions seek to ensure that the entity is broadly not making supplies within Jersey and no-one based in Jersey has an interest in the entity.

GST on flu vaccinations

The Minister proposes a minor amendment to the GST Law in order to align the GST treatment of flu vaccinations delivered by pharmacists and doctors.

Deduction of rates by landlords renting property in Jersey

In Budget 2017 the States Assembly adopted the proposition[11] to agree in principle that from 2018 a landlord renting out property in Jersey would no longer be entitled to deduct the cost of rates paid under the Rates Law when calculating the amount of rental income chargeable to tax.

Accordingly, as directed by the Assembly, the Minister proposes an amendment to the Income Tax Law. Under this amendment, with effect from the 2018 year of assessment, any landlord receiving rents from property situated in Jersey may no longer deduct property rates (i.e. foncier rate, occupier rate and Island-wide rate) when calculating the amount of rental income on which they pay tax. This would include rates which are paid by a landlord indirectly, for example where the rates are paid by the landlord to a share transfer property company as a proportion of a service charge paid to the company.

It is estimated that this measure will raise approximately £600,000 from the 2018 year of assessment (resulting in additional States income in 2019 onwards).

Foreign limited liability partnerships

Under the Income Tax Law the profits of a limited liability partnership ("LLP") which is established under Jersey Law are assessable on the partners of the LLP rather than the LLP itself. The rule specifically applies to LLPs established under Jersey Law and in strictness does not apply to LLPs established in foreign jurisdictions ("foreign LLPs").

The established practice of the Taxes Office has been to apply the same tax treatment to foreign LLPs as the treatment which is applied to LLPs established in Jersey (i.e. to assess the profits of foreign LLP on the partners). Accordingly the proposal is to amend the Income Tax Law to ensure that the Law catches up with established practice. This proposal will not raise any additional revenue.

[11] Budget 2017 P109/2016 Third Amendment (Amendment) Deputy Mézec
http://www.statesassembly.gov.je/assemblypropositions/2016/p.109-2016amd(3)amd.pdf

Stamp Duty anti-avoidance

Stamp duty is paid on various documents which are registered in the Public Registry or with the Royal Court under the Stamp Duty Law.

Unlike other revenue raising laws there is currently no anti-avoidance rule within the Stamp Duty Law. The Minister is concerned that the lack of an anti-avoidance rule within the Stamp Duty Law could be exploited and accordingly proposes to introduce such a general anti-avoidance rule into the Stamp Duty Law.

This general anti-avoidance rules will take effect on the day that the Draft 2018 Budget is lodged. This is to prevent any potential loss of stamp duty in respect of transactions which might be registered between the date that the Draft 2018 Budget is lodged and the date of the Budget debate.

The Minister emphasises that the general anti-avoidance rule will be applied where necessary in respect of any transaction which is registered in the Public Registry or with the Royal Court on or after 3 October 2018.

5. Impôts Duty Proposals

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 strategies on alcohol and tobacco and for the environment. The Minister's proposals for 2018 take all the above factors into account.

To help inform his 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

It is proposed that the proposed increases in impôts duty will take effect at midnight on 31 December 2017.

Alcohol

The Minister is proposing increases in alcohol impôts duty of 2.5% in line with the increase in the RPI to June 2017, maintaining the real value of the impôts duty on alcohol. Figure 8 outlines the proposed increases to alcohol impôts duty rates for the specified products:

FIGURE 8 – Proposed increases in alcohol impôts duty

Commodity	Impôts duty – 2018 proposed increase (%)	Impôts duty – 2018 proposed increase (p)[12]
Spirits – litre bottle at 40% abv	2.5%	35p
Wine – 75cl bottle of table wine	2.5%	4p
Pint of beer/cider exceeding 2.8% abv but not exceeding 4.9% abv (standard)	2.5%	1p
Pint of beer/cider exceeding 4.9% abv (strong)	2.5%	2p

As a result of these proposals, it is estimated that the impôts duty collected on all alcohol will total close to £21m in 2018. This would be in line with the IFG forecast update which assumes that all alcohol impôts duties will increase in line with inflation.

Tobacco

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 7.5% (equal to the increase in the RPI to June 2017 plus 5%). This amounts to 43p increase in the impôts duty on a packet of 20 cigarettes.

[12] Value rounded to the nearest pence.

There is currently a significant differential between the impôts duty on hand rolling tobacco and cigarettes and in order to close the gap it is proposed to increase the duty on hand rolling tobacco by 10% (equal to the increase in the RPI to June 2017 plus 7.5%). It is intended to equalise the impôts duty over the next three to five year period.

As a result of these proposals, it is estimated that the impôts duty collected on all tobacco will total just over £15m in 2018. This will raise an additional £800k over and above the IFG forecast update resulting in additional States income in 2018 onwards.

Road Fuel

The Minister continues to consider 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 2017, this will result in an approximate 1p increase in the impôts duty on a litre of unleaded petrol/diesel. This maintains the value of the duty in real terms.

As a result of these proposals, it is estimated that the impôts duty collected on all road fuel will total £22.5m in 2018. This will raise an additional £500k over and above the IFG forecast update.

Customs Duties

It is calculated that the duty collected on goods imported from outside the EU will total £145k in 2018. This is in line with the 2018 forecast.

Detailed Impôts Duty Increases for 2018

FIGURE 9 – Impôts Duty increases proposed for 2018

Commodity	2017 impôts duty	Proposed increase	Proposed 2018 impôts duty
Litre bottle of whisky at 40% abv	£14.04	2.5%	£14.39
Bottle of table wine	£1.49	2.5%	£1.53
Pint of beer/cider exceeding 2.8% abv but not exceeding 4.9% abv (standard)	36p	2.5%	37p
Pint of beer/cider exceeding 4.9% abv (strong)	61p	2.5%	63p
20 king size cigarettes	£5.75	7.5%	£6.18
Litre of unleaded petrol/diesel	47p	2.5%	48p

FIGURE 10 – 2017 retail price margins – comparisons with the UK (June 2017)

	Jersey Retail Price	Jersey Duty	GST	Price net of Duty & GST	Duty & GST as a % of price	UK Retail Price	UK Duty	UK VAT	Price net of Duty & VAT	Duty & VAT as a % of price
Litre of whisky	£20.96	£14.04	£1.00	£5.92	72%	£21.00	£11.50	£3.50	£6.00	71%
Pint of standard beer	£3.56	£0.36	£0.17	£3.03	15%	£3.06	£0.49	£0.51	£2.06	33%
20 king size cigarettes	£8.38	£5.75	£0.40	£2.23	73%	£9.52	£5.73	£1.59	£2.20	77%
Litre of unleaded petrol	£1.11	£0.47	£0.05	£0.58	48%	£1.16	£0.58	£0.19	£0.39	66%

FIGURE 11 – Comparison of typical 2017 tax and duty levels for a range of commodities (June 2017)

	Jersey Duty	Jersey GST at 5%	Guernsey Duty	UK Duty	UK VAT at 20%
Litre of whisky at 40% abv	£14.04	£1.00	£13.58	£11.50	£3.50
Bottle of table wine	£1.49	£0.34	£1.79	£2.16	£1.00
Pint of beer/lager at 4.5% abv	£0.36	£0.17	£0.43	£0.49	£0.51
20 king size cigarettes	£5.75	£0.40	£4.41	£5.73	£1.59
Litre of unleaded petrol	£0.47	£0.05	£0.64	£0.58	£0.19
Litre of diesel	£0.47	£0.05	£0.64	£0.58	£0.20

Note: The figures above are before the impact of the 2018 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.

6. VED Proposals

Introduction

Vehicle Emissions Duty is charged on motor vehicles when they are first registered in Jersey. The duty has a range of rates according to the vehicle's emissions or engine size. The rates are intended to incentivise the choice of less polluting vehicles, the least polluting currently being charged no VED and the highest polluting charged at £1,839.60.

Changes to VED were last introduced in 2016 and the Minister's 2018 Budget proposals represent an evolution of the tariffs, rather than a major step change.

Restricted speed agricultural tractors attract their own rate of VED, no changes are proposed to these VED bands.

Background

The States Energy Pathway 2050 recognises that more punitive bands are likely to be needed in future years if current bands are not effective in encouraging the use of low emissions vehicles.

The nil rate band is currently set at 100gm CO_2/km. As vehicles are becoming more efficient this rate now includes relatively high performance cars and is considered too high. It is not consistent with a planned change to the DfI eco-permits scheme, which will see free parking in States car parks introduced for all newly registered 'full' electric vehicles and plug in hybrid electric vehicles (PHEVs) in their first year and half price parking in the following years.

Existing Bands

The current VED bands for vehicles are given in Figure 12 and Figure 13:

FIGURE 12 – 2017 rates of VED: CO_2 emissions

Manufacturer's CO_2 Emission specifications (gm/CO_2/km)	Current Rate of Vehicle Emission Duty
<100	£0
101-125	£51.10
126-150	£153.30
151-175	£255.50
176-200	£408.80
201-225	£766.50
226-250	£1,277.50
>251	£1,839.60

FIGURE 13 – 2017 rates of VED: cylinder capacity

In the absence of CO2 Emission data charge by cylinder capacity of engine	Current Rate of Vehicle Emission Duty
<1000cc	£0
1001-1400	£204.40
1401-1800	£357.70
1801-2000	£511.00
2001-2500	£715.40
2501-3000	£1,022.00
3001-3500	£1,328.60
>3501cc	£1,839.60

Revenue Implications

The total revenue collected from VED in 2016 was £1.4m. As things stand, the amount of VED anticipated to be collected in the future will diminish as engine technology improves and increasing numbers of vehicles are anticipated to fall into the lower bands.

The current forecast VED revenue for MTFP 2 is given below in Figure 14:

FIGURE 14 – Forecast VED revenue for MTFP 2

Year	Forecast VED Revenue
2017	£1.376m
2018	£1.306m
2019	£1.242m
2020	£1.242m
2021	£1.242m

Proposed VED rates and bands

It is proposed that the VED rates are increased in line with the increase in the RPI to June 2017 of 2.5%. In addition it is proposed that the limit for the nil rate VED band is reduced to 50gm CO2 per km (down from 100gm). This is consistent with the DfI aspiration regarding free parking outlines above for a period

of twelve months for all newly registered electric and plug-in hybrid electric vehicles.

Figure 15 and Figure 16 outline proposed changes to the VED bands and rates.

FIGURE 15 – Proposed changes to the VED bands and rates: CO2 emissions

Manufacturer's CO2 Emission specifications (gm/CO2/km)	Proposed Rate of Vehicle Emission Duty
0-50	£0
51-125	£ 52.38
126-150	£ 157.13
151-175	£ 261.89
176-200	£ 419.02
201-225	£ 785.66
226-250	£ 1,309.44
>251	£ 1,885.59

FIGURE 16 – Proposed changes to the VED bands and rates: cylinder capacity

In the absence of CO2 Emission data charge by cylinder capacity of engine	Proposed Rate of Vehicle Emission Duty
500cc or less	£0
501cc - 1400cc	£ 209.51
1401cc-1800cc	£ 366.64
1801cc-2000cc	£ 523.78
2001cc-2500cc	£ 733.29
2501cc-3000cc	£ 1,047.55
3001cc-3500cc	£ 1,361.82
>3501cc	£ 1,885.59

It is estimated that the proposed changes would raise as additional £600k of VED in 2018 (increasing States income in 2018); the proposed changes are expected to have a slightly lower impact in 2019 recognising changes in behaviour and the fact that vehicle manufacturers are increasingly producing less polluting vehicles.

7. On-going Taxation Work

Modernising Jersey's system of personal taxation

The Taxes Office is continuing its review of the personal tax system with a view to modernising the current model. This is in particular with regard to the current system of married taxation (where a married man is taxed on his own income and the income of his wife).

Looking at options such as independent taxation (taxing people individually on their own income), or household taxation (taxing cohabiting and married couples on their joint income) requires a major review of the current system of tax reliefs and allowances.

The work required is complex and detailed. Careful analysis is required in order to determine whether an equitable system can be developed which minimises financial impact on taxpayers whilst maintaining yield for the Treasury.

In recent Budgets steps have been taken to improve the equality of the tax system, for example removing gender based tax allowances. Now the fact that different households with the same income may have different tax bills, needs to be addressed.

There are two main aspects to the review. The first being the modelling tool that the Taxes Office is continuing to develop. This will be used to analyse the impact of potential changes to the tax system both in terms of any 'winners and losers' taxpayers and the overall impact on States tax revenues.

The second aspect being to engage with Islanders. This will take a number of forms, commencing with an Apptivism chatbot, to be launched in mid-October. This is aimed at gathering views on the equality of the current tax system and to find out the broad direction that people may prefer for taxing households, married or otherwise, in the future. The findings of the chatbot will be used to inform the approach taken as the consultation moves onto the next stage which will include focus groups, questions within the 2018 Jersey Opinions and Lifestyle Survey and followed by a full consultation.

The intention is that emerging findings will be published in Budget 2019, with recommendations within the Budget 2020.

Additional Personal Allowance ("APA") – P109/2016 Amendment 5

In Budget 2017 the States Assembly agreed an amendment that required the Minister for Treasury and Resources to bring forward legislative changes that would commence the phasing out of the additional personal allowance ("APA") from cohabiting couples from year of assessment 2018.

The Minister is not proposing to bring forward such legislative changes within Budget 2018. There are three key reasons for this:

- Further work undertaken since last year's Budget has found that this measure would have an adverse impact on a number of lower income households contrary to the original intention of the amendment.
- The Budget 2018 proposal to further increase the second earner's allowance goes some way to equalising the position between unmarried and married couples
- The aforementioned ongoing work in relation to modernising Jersey's system of personal taxation should be completed before removing personal tax reliefs and allowances so as to minimise unintended consequences for Islanders

The above has been discussed with the Deputy of St John who proposed the original amendment, and who is in agreement with the Minister that the legislative changes should not be brought forward at this time.

The future availability of the APA will be considered specifically as part of the modernisation process.

Benefits in Kind (BIK) consultation

A public consultation on potential changes to the future taxation of benefits in kind will be launched before the 2018 Budget is debated.

Collection of company profit information

In the 2017 Budget the Assembly approved the law change required in order for the Comptroller to oblige all companies to report their profits to the Comptroller. Correspondingly the Taxes Office changed the tax return issued to companies for the 2016 year of assessment in order to collect more information from a broader range of companies taxable at 0%.

Consideration is being given to whether the tax return issued to companies for the 2017 year of assessment requires further changes in order to obtain more detailed information from a broader range of companies.

Tax Gap Analysis

The "tax gap" is the difference between the amount of tax that should, in theory, be collected by the Taxes Office and what is actually collected. Across the globe tax authorities have used such tax gap analysis to target their resources in order to maximise additional revenue from their activities. The production of Jersey's "tax gap" will therefore assist the Taxes Office with its plans to increasingly allocate its resources on a risk basis.

No similar analysis has been completed previously in Jersey, and although methodologies/approaches utilised in other jurisdictions (such as the UK) can be drawn upon, the analysis will ultimately have to reflect the unique characteristics of the Jersey economy. Due to current workloads within both the Taxes Office and the Statistics Unit it is anticipated that work on Jersey's tax gap will commence later this year and take approximately 2 years to complete.

Review of interest tax relief

The Tax Policy Unit will issue a technical issues paper on the future tax deductibility of interest in the context of business activity before the end of 2017.

Revaluation of property for rates purposes

In the 2017 Budget the States Assembly amended the Rates (Jersey) Law 2005, creating the power for the States to introduce regulations containing provisions for the revaluation of property within the Island when determining its rateable value. Work developing these regulations is ongoing and the Treasury will liaise closely with the Constables before any proposals for revaluation are finalised.

Stamp duty – enveloped property

Work is continuing on the issue of the sale of Jersey real estate owned within a corporate structure by way of transfer of shares which crystallises neither a stamp duty charge nor a land transaction tax liability. The Tax Policy Unit is seeking external advice to identify the approach to the issue taken in other jurisdictions with similar property transfer tax regime and determine whether they might be applicable in a Jersey context. Based on the advice received it will be determined whether it is feasible to bring forward amendments in the 2019 Budget.

Revenue Administration Law

In March 2017 the Taxes Office released a consultation document on proposed changes to the Island tax compliance framework[13]. The consultation document covered a number of issues, including the introduction of a range of civil penalties to be levied by the Comptroller of Taxes. A summary of responses to that consultation document will be published shortly, which will outline the direction of travel on the key issues.

The Taxes Office is currently working with the Law Draftsman on the preparation of a new Revenue Administration Law. The ultimate aim of this new piece of legislation is to consolidate the administrative elements of the various taxes administered by the Comptroller of Taxes; creating a simplified and coherent framework. The introduction of a new Revenue Administration Law is a significant undertaking and hence it is proposed that it is developed and introduced in tranches over the next few years; with the first tranche scheduled to be lodged with the Assembly later this year.

[13] See: https://www.gov.je/government/consultations/pages/newfinancialpenalties.aspx

8. Financial and Manpower Implications

Estimated financial implications of 2018 Budget proposals

FIGURE 17 – Estimated financial implications of 2018 Budget proposals compared to IFG forecast

Proposed Measures	Estimated impact on 2018 taxation revenue (£'000)	Estimated impact on 2019 taxation revenue (£'000)
Personal Tax		
Increase 2nd earner's allowance	-	(2,600)
High Value Resident taxation changes	-	300
Increase income tax exemption thresholds at June 2017 RPI		500
Disallowance of Rates - Deputy Mézec Amendment (Budget 2017)		600
Corporate Tax		
Taxation of larger corporate retailers	-	5,700
Widening of definition of "financial services company"	-	3,000
Income Tax sub-total	**-**	**7,500**
Increase in ISE Fees	**1,000**	**1,000**
Impôts Duties:		
Tobacco duty increases	800	800
Fuel duty increases	500	500
VED duty increases	600	400
Impôts Duties sub-total	**1,900**	**1,700**
Total Financial Implications	**2,900**	**10,200**

Manpower Implications

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

PART C – GROWTH

9. Proposed Central Growth Allocation 2018

Proposals for the Allocation of Growth for 2018

In the debate of the Medium Term Financial Plan Addition (P68/2016) in September 2016, the States agreed a central growth allocation in 2018 and 2019 and indicative allocation to department heads of expenditure for the items in **Figure 18**.

Figure 18 – Original Central Growth Indicative Allocations for 2018 and 2019

Dept	Proposals to be held in Central Growth Provision	2018 Indicative £'000	2019 Indicative £'000
HSS	2% Investment in Service Standards and Healthcare Inflation	4,714	9,967
	P82/2012 - Health Transformation (White Paper)		
HSS	Acute Service Strategy	**2,705**	**3,408**
HSS	Healthy Lifestyles	**324**	**360**
HSS	Mental Health	**540**	**480**
HSS	Out of Hospital	**768**	**2,329**
HSS	Services for Children (Early Interventions)	**615**	**993**
HSS	**Proposed Central Growth Allocation for Health**	**9,666**	**17,537**
Edu	Revenue consequences of capital schemes - New schools	360	400
Edu	**Proposed Central Growth Allocation for Education**	**360**	**400**
SA	States Members' Pensions (as amended)	58	100
SA	**Proposed Central Growth Allocation for States Assembly**	**58**	**100**
DFI	Tipping Fees Shortfall	340	**796**
DFI	Revenue consequences of capital schemes - new Sewage Treatment Works	-	1,700
DFI	**Proposed Central Growth Allocation for Infrastructure**	**340**	**2,496**
Total	**Total Proposed Central Growth Allocation for 2018 and 2019**	**10,424**	**20,533**

MTFP 2016-2019 Overall Strategy

The MTFP 2016-2019 (P70/2015) agreed an 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.

Additional Growth Funding as part of the Overall Strategy

Part of the package of expenditure was for all departments to reprioritise existing resources in line with the agreed strategic priorities and to identify where additional funding was required to support the strategic priorities.

The outcome of this work between departments and Treasury produced a range of proposals for additional funding which was then prioritised with Chief Officers and then the Council of Ministers, recognising the distributional impact assessment alongside all other expenditure measures and proposals.

The 2016 and 2017 additional funding has been allocated to departments as part of the detailed expenditure allocations in the MTFP 2016-2019 (October 2015) and then the MTFP Addition 2017-2019 (September 2016).

Additional funding that was prioritised for departments for 2018 and 2019 was allocated to Central Growth for 2018 and 2019 to be proposed in the 2018 and 2019 Budgets.

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 2018 and 2019 growth expenditure allocations in respective Budgets.

Progress on Expenditure Measures and Funding Proposals

Figure 19 - Update of the progress on the expenditure and funding measures from the MTFP Addition

MTFP package of measures	Upto 2017 £m	RAG Rating	2018 £m	RAG Rating	2019 £m	RAG Rating	Full Year £m	Target £m
Department Efficiencies/Savings/User Pays	32	Delivered	10	On track	10	On track	52	52
Pay related savings	17	On track	4	On track	4	On track	25	25
Benefit changes	7.9	Delivered	1.3	Delivered	0.6	Delivered	9.8	10
Non-Domestic Liquid Waste Charges			3	Defer/withdraw	4	On track	4	3
Non- Domestic Solid Waste Charges					7	On track	7	8
Proposed Health Charge			7.5	Defer/withdraw	15	Defer/withdraw	0	15
Proposed Transfers from HIF	5	Defer/withdraw	5	Defer/withdraw	5	Defer/withdraw	0	5
Reduced Central Provisions					5	Delivered	5	5
Total Proposed Measures	**61.9**		**30.8**		**50.6**		**102.8**	**123**
Proposed replacement measures								
Future revenue raising measures (Budget 2018)			2.9	On track	10.2	On track	10.2	
Replacement for HIF								
- Carry forwards from 2016	5	Delivered						
- Dept underspends and AME Contingency			5	On track	5	On track		
- Recurring measures to be identified from 2020					5	Not identified		
Total Revised Measures (Budget 2018)							**113**	

Key (RAG colours):
- Green: Delivered
- Amber: On track - subject to final decisions
- Red: Not identified - further work required
- Black: Decision to defer or withdraw

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

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

- £73 million of efficiencies and savings and £4 million user pays;
- £10 million of benefit changes;
- £11 million of waste charges; and
- £15 million from a Health charge.

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

Figure 19 shows the progress of these measures at the time of lodging this draft Budget, which would deliver almost £113 million by 2019.

Funding measures
The proposed health charge was rejected as part of the MTFP Addition debate (September 2016) and this funding is proposed to be replaced by a number of additional revenue raising measures in this Budget to raise revenues in 2018 and 2019.

Expenditure measures
The £77 million of expenditure measures for efficiencies, savings and user pays and £10 million of benefit changes are largely on track and departments are currently updating their proposals to be published in the Update to the MTFP Department Annex for 2018 in December 2017.

This leaves two remaining measures:

- The withdrawal of the transfers from the Health Insurance Fund (HIF) transfers to support health expenditure £5 million p.a.; and
- The deferral of the non-domestic liquid waste charges of £3 million until 2019

The £5 million shortfall in health funding in 2017 has been met from underspends in 2016 carried forward for 2017. The current department forecasts for 2017 suggest that the underspend forecast on social security benefit budgets, coupled with the central AME budget which will not be needed could provide for the £5 million required in each of 2018 and 2019.

The Department for Infrastructure (DfI) net expenditure limit for 2018 of £35.367m assumed that £3 million of new non-domestic liquid waste charges would be raised in that year. The decision regarding the introduction of non-domestic liquid waste charges has been deferred until 2019 which will result in DfI having a £3 million shortfall in 2018. The DfI net expenditure limit also included provision for £0.9 million expenditure for the States payment of rates which, following the majority of the Comité des Connétables not supporting either the principle of the States paying rates or the specific proposals from the Minister for Treasury and Resources, will no longer be needed. The net effect of these two decisions will mean that DfI will have a shortfall of £2.1 million in its 2018 net expenditure limit.

The Council of Ministers is therefore proposing that £2.1 million is allocated to DfI as a priority from the growth expenditure allocations for 2018, thus managing within the overall expenditure limits and the strategy for balanced budgets.

Review of Original Central Growth Allocations for 2018 and 2019

Treasury has worked with departments to review the original allocations of central growth for 2018 to determine that the original allocations are still required and would be spent in 2018. As a result of the review by departments a number of variations have been identified:

- Health and Social Services – reduce by £1.452m in 2018
    - 2% investment requirement is unchanged
    - The P82/2012 Programme has been reviewed and rephased such that these programmes reflect the level at which they will actually be delivered in 2018, releasing £1.452 million in 2018 to be reallocated. Which will be replaced in 2019.
    - The review also identified that the growth for the Healthy Lifestyles Programme should be allocated to Community and Constitutional Affairs for 2018 onwards, reflecting the transfer of the Strategic Health Unit amounting to £0.265 million in 2018 and £0.273 million for 2019
- Education – reduce by £250k in 2018 and £260k in 2019

- Represents the revenue costs for schemes in the capital programme
- Includes revenue costs for Jersey Archive capital scheme which amounts to £20,000 in 2018 and £25,000 in 2019 which should now be allocated to Economic Development, Tourism, Sport and Culture, reflecting the change in responsibilities
- Completion of Les Quennevais and Grainville schools capital schemes will slip to 2020 allowing these revenue costs to be reallocated.

- Department for Infrastructure – reduce by £340k in 2018, review in 2019
  - Original request was to reflect pressures in tipping fees which was on a downward trend in 2015 and also recognising a new private site planned for 2018.
  - Current position is that tipping fees exceeded budget in 2016, and is forecast to continue to exceed budget in 2017 and 2018.
  - Additional funding for 2018 can be reallocated with 2019 funding reviewed ahead of the 2019 Budget.
- States Assembly – remove £58k in 2018 and £100k in 2019
  - Following a communication from Chairman of Privileges and Procedures, confirmed by the Greffier, it is unlikely that a proposal to introduce a States Members pension scheme will be brought forward in this MTFP
  - This funding can be reallocated for both 2018 and 2019

The review of central growth for 2018 has therefore identified sufficient funding of £2.1 million to reallocate to DfI to offset the net shortfall in the department's 2018 expenditure limit for one year.

Proposals for the Allocation of Growth Expenditure in 2018 and the full year effect in 2019

The proposals for the allocations of growth expenditure for 2018 are shown in **Figure 20**

Figure 20 – Proposed allocations for growth expenditure for 2018 and 2019

Dept	Proposals to be held in Central Growth Provision	2018 Proposed	2019 Proposed		
			Recurring	New	Total
		£'000	£'000	£'000	£'000
H&SS	2% Investment in Service Standards and Healthcare Inflation	4,714	4,714	5,253	9,967
	P82/2012 - Health Transformation (White Paper)				
H&SS	Acute Service Strategy	1,716	2,019	1,389	3,408
H&SS	Mental Health	442	442	99	540
H&SS	Out of Hospital	462	1,045	1,223	2,268
H&SS	Services for Children (Early Interventions)	615	767	226	993
	Sub Total Health Transformation - White Paper programme	3,235	4,273	2,936	7,209
H&SS	**Proposed Central Growth Allocation for Health**	**7,949**	**8,987**	**8,189**	**17,176**
CCA	Healthy Lifestyles (Trf from H&SS)	265	273	88	361
CCA	**Proposed Central Growth Allocation for CCA**	**265**	**273**	**88**	**361**
EDN	Revenue consequences of capital schemes - New schools	90	115	-	115
EDN	**Proposed Central Growth Allocation for Education**	**90**	**115**	**-**	**115**
EDTS&C	Revenue consequences of capital schemes - Jersey Archive	20	25	-	25
EDTS&C	**Proposed Central Growth Allocation for EDTS&C**	**20**	**25**	**-**	**25**
DFI	Tipping Fees Shortfall			796	796
DFI	Revenue consequences of capital schemes - new Sewage Treatment Works	-		1,700	1,700
DFI	Contribution towards DfI cash limit shortfall for 2018	2,100			
DFI	**Proposed Central Growth Allocation for Infrastructure**	**2,100**	**-**	**2,496**	**2,496**
	Unallocated growth funding available for 2019			**360**	**360**
Total	**Total Proposed Central Growth Allocation for 2018 and 2019**	**10,424**	**9,400**	**11,133**	**20,533**

In accordance with the provisions of Articles 10(3)(c) and 11(3) of the Public Finances (Jersey) Law 2005 the proposed allocation to revenue heads of expenditure also includes the full year recurring effect of the 2018 proposals in 2019 amounting to £9.400 million shown **in Figure 20**. The full year recurring effect of the 2018 proposals in 2019 is reduced by the one-off allocation of £2.1 million to offset the shortfall in DfI expenditure limit in 2018 only.

Proposals for the Allocation of Growth Expenditure in 2019

After the allocation of growth expenditure to departments in 2018 and the full year effect for 2019, there remains £11.133 million to be allocated in the Budget 2019.

At this time the Council of Ministers is recommending that the allocation of any new growth expenditure for 2019 should be deferred until the Budget 2019 and be subject to the prior approval of at least £11.85 million of non-domestic waste charges or equivalent expenditure measures to be consistent with the overall MTFP strategy and objective of broadly balanced budgets by 2019.

Narratives for Proposed Growth Expenditure in 2018

Health and Social services

HSS 2% investment in Service Standards and Healthcare Inflation

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.

HSS White Paper funding – P.82/2012 Health Transformation

Programme management and rephrasing allowing proposed reduction of £1.452m in 2018

The total additional 2018 funding allocated for P.82/2012 Health Transformation is £8.9m, comprising of £3.9m, allocated in the MTFP Addition, and being the full year effect of 2017 spend and £5.0m being the part year cost of new initiatives planned for 2018. It has been agreed that through re-planning and re-phasing the implementation of 2018 proposals, funding of £1.452m can be released in 2018.

HSS Acute Services Strategy

Acute services are being redesigned to ensure that we avoid hospital attendance, reduce hospital admissions and reduce the length of stay of those who do require admission.

Priority investments in ‘ambulatory emergency services’ are needed to provide enough capacity until the opening of the Future Hospital. Patient pathways need to be redesigned to reduce hospital length of stay and ensure only those needing an inpatient stay are admitted. This work will be underpinned by the ongoing process of workforce redesign to ensure best value is obtained from these posts and that they are appropriate for a future where care will be wrapped around the needs of patients.

Making these essential changes to the models of care is critical in order to deliver the proposed Future Hospital.

HSS Healthy Lifestyles – Transferred to Community and Constitutional Affairs

HSS Mental Health Services

One in four people will experience a mental health problem at some point in their lifetime and one in six adults has a mental health problem at any one time. One in ten children aged between five and 16 years has a mental health problem, and many continue to have mental health problems into adulthood. Mental health problems can have a wide ranging impact including: obtaining housing, participating in education and training, physical health and relationships with family and friends. Investment has already been made to improve and develop services but more is needed. This will result in an integrated service (spanning both mental health and physical health needs), incorporating specialist expertise for individuals with alcohol and/or drug dependency, 'dual diagnosis', learning disability, autism, a new recovery model, investment in more community services and improved medium and low secure facilities.

The Mental Health Strategy has been produced with Islanders, carers and service users and prioritises investment in crisis, recovery, early intervention and criminal justice. This work will build on what has already been achieved in 2013-2015 when P82 funding was used to establish Jersey Talking Therapies, providing accessible services for individuals with anxiety and depression in non-stigmatised, local settings. Furthermore in 2015 the Department opened new, safe facilities on Robin Ward for children and young people with mental health problems.

HSS Out of Hospital Services

In the 30 years from 2010 to 2040 the numbers of Islanders aged over 65 is projected to rise by 95%; in the period to 2020 the increase is projected to be 35%. This demographic change will create a surge in demand for health and social care services which would overwhelm the current capacity of existing services.

The current capacity in community services will be inadequate to meet demand. Investment has been made in 'out of hospital' services during MTFP 1, such as the rapid Response and Reablement service; these have had a positive impact on hospital demand, choice and patient experience. These services need to be expanded in the coming years, to ensure Islanders can be cared for in their own homes rather than in hospital or long term residential settings.

Investment in the care needs of the whole person will be prioritised rather than in silo-based specific conditions or diseases. This will ensure that individuals receive the relevant blend of physical and mental health care, and will help to improve outcomes for individuals and for the whole system. Needs will be proactively identified, and care co-ordination provided by the most appropriate professional. The aim of this investment is to manage care effectively and so reduce crises, the need for ED attendances and hospital admissions. Care will be provided in partnership across the system (including Primary Care and the voluntary sector), and with patients, carers and families themselves.

International evidence demonstrates that IT is an important enabler for integrated health and social care and the delivery of safe, effective services for patients. Investment, including IT integration, will support a single care record, and facilitate teams working closely together (including Primary Care and the voluntary sector) to meet the needs of Islanders.

HSS Services for Children (Early Interventions)

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. UK studies have shown that each child with untreated behavioural problems costs statutory services an average of £70,000 a year by the time they reach 28 years old, the average cost of an individual spending a lifetime on benefits is £430,000 not including lost tax revenue. Returns of up to 3 to 7 times the original investment can be achieved by the time the young person is 21 years old. Investment in 2013 – 2015 was targeted in this way, with funding for new services such as Sustained Home Visiting, and increased services such as Mellow Parenting.

Investment in service redesign is needed in order to:

- Discharge the States' statutory obligation to safeguard and promote the welfare of children
- Prevent breakdown of families where children are in need and have a range of complex needs
- Improve outcomes for the most vulnerable and at risk children
- Minimise the risks of young people's suicide and increase treatment options for children and young people with mental ill health
- Deliver timely and high quality child protection services to prevent further and/or more significant harm
- Provide quality services to looked after children
- Intervene with pregnant women with a range of risk factors likely to impact on their parenting abilities

Community and Constitutional Affairs

CCA Healthy Lifestyles – Transferred from Health and Social Services

Further investment in health promotion programmes has been phased in order to reduce costs in 2016 and 2017. From 2018 additional investment is planned to introduce targeted programmes on key initiatives, such as weight management programmes introduced through schools and referral schemes through primary care. Prevention and early intervention is more efficient and effective in the longer term than treatment and will help to reduce the incidence of long term conditions. Investment will enable health and social care professionals to focus on health promotion activities, thereby improving health outcomes for Islanders.

Education

EDU Revenue consequences of capital schemes – New schools

New premises cost more to run than previous premises due to increased footprint and/or additional facilities provided. Additional non-staff revenue budgets of £90,000 in 2018 increasing to £115,000 in 2019 are required for the capital projects that provided additional primary classrooms, St Martin's school and St James Youth service facilities.

The revenues costs associated with the Archive project are transferred to Economic Development, Tourism, Sport and Culture who now have responsibility for Jersey Heritage.

The provisions originally set aside for Les Quennevais and Grainville School are re-allocated as a contribution to offset the deferred waste charges for 2018, but there will be a funding provision required in the next MTFP, once these education capital projects are completed.

Department for Infrastructure

DfI Contribution towards deferred non-domestic liquid waste charges in 2018

The department originally requested growth funding to reflect pressures in tipping fees which were on a downward trend in 2015 and also recognising a new private site planned for 2018. The current position is that tipping fees exceeded budget in 2016, and are forecast to exceed budget in 2017 and 2018. Potential delays in the alternative private site further reduces pressures on this area of the budget.

As a result, this additional funding for 2018 can be reallocated along with the monies identified by Health and Social Services, Education and States Assembly to provide the £2.1 million needed for the shortfall in the department's net expenditure limit for 2018.

The tipping fees budget will be reviewed ahead of the 2019 Budget to determine if the £0.8m in 2019 is required for that purpose.

PART D – PROGRAMME OF CAPITAL PROJECTS

10. Proposed/Indicative Capital Programme 2018-2019

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 MTFPs.

The LTCP is currently under review and is now proposed to cover the next 20 years, equivalent to 5 MTFPs, which is a similar period to the Strategic Vision and in line with many other jurisdictions. The Treasury is working with all departments with the review 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. The review is also considering best practice from the UK and elsewhere to ensure the LTCP provides an appropriate framework for long term asset management, capital funding and the treatment of surplus assets.

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 2018 as set out in this document.

The MTFP 2016 – 2019 approved a total allocation in 2018 of £43,233,000 and £32,975,000 in 2019, based on an indicative programme, with 2018 including £8,233,000 for the Prison Phase 6 project which was subject to a sufficient balance in the Criminal Offences Confiscation Fund being available. That conditionality was required as previously the balance in the Consolidated Fund was forecasted to be insufficient. There are now sufficient balances to fund £43,233,000 from the Consolidated Fund and it is proposed to do so.

As part of the annual Budget process the previously presented indicative programme is subject to confirmation by departments, including the submission of supporting documentation to the Treasury and Resources Department to support the proposals. Departments also consider any new strategic priorities requiring capital funding and any capital heads of expenditure required to align budget approvals with accounting treatment.

As a result of the updated 2018/2019 submissions from departments, the cost estimates for a number of projects already in the MTFP indicative capital programme were increased by £10,003,000 in 2018 and £1,598,000 in 2019. Departments have also identified a number of projects to be funded from within existing resources but where there will be an element of capital expenditure in accordance with accounting rules. In these instances, a capital head of expenditure is required to enable budgets to be aligned with accounting treatment. There are also examples of projects being newly identified as separate requirements where departments are reprioritising existing resources to enable them to proceed. The proposed creation of new capital heads of expenditure with funding from existing resources total £4,650,000 in 2018 and £600,000 in 2019.

Combined, the above variations to the indicative programme included in the MTFP amount to £14,653,000 in 2018 and £2,198,000 in 2019, bringing the total capital programme to £57,886,000 in 2018 and £35,173,000 in 2019.

Updates since MTFP - Projects

Below is a list of the changes from the indicative capital programme identified in the MTFP to that submitted by departments most recently for the Budget 2018.

FIGURE 21 – Changes from the MTFP Indicative Capital Programme to Budget 2018

	2018 £'000	2019 £'000	Total £'000
MTFP Approved Allocations	**43,233**	**32,975**	**76,208**
Variations to projects included in the MTFP indicative programme			
ISD Reprioritisation	(499)	251	**(248)**
Grainville Phase 5	4,000	1,271	**5,271**
St Mary's School	1,000	-	**1,000**
Les Quennevais	5,600	-	**5,600**
C&CA Minor Capital	(169)	-	**(169)**
DoE Minor Capital	-	68	**68**
Fisheries Vessels	71	25	**96**
Treasury Replacement Assets	-	(17)	**(17)**
Total Variations to MTFP Project Requirements	**10,003**	**1,598**	**11,601**
Digital Care Strategy	850	600	**1,450**
Autism Jersey	1,000	-	**1,000**
Orchard House	2,000	-	**2,000**
DVS Systems	550	-	**550**
Haute de la Garenne	50	-	**50**
La Collette Fire Equipment	200	-	**200**
Additional Capital Heads of Expenditure	**4,650**	**600**	**5,250**
Total Changes from MTFP	**14,653**	**2,198**	**16,851**
Total Capital Programme	**57,886**	**35,173**	**93,059**

The two biggest movements are on the Les Quennevais and Grainville School projects where the estimated total cost of the projects has increased by £5.6 million (to £45.6 million) and £5.3 million (to £15.5 million) respectively.

In the case of Grainville, this was following the detailed feasibility study with an additional £4.0 million required in 2018 and £1.3 million in 2019. This is clearly a significant increase which has prompted Treasury to work with the Education Department and Jersey Property Holdings to ascertain the key reasons for the change.

In summary, the cost increases are the result of inflation in the period from the bid originally being identified and costed a number of years ago to the more detailed work being done in the feasibility study in 2017. Due to the pressure on the capital programme in recent years, the time elapsed between original submission and inclusion in the capital programme was longer than would conventionally be the case. The movement was also exacerbated by the exceptional levels of inflation experienced in the construction sector over the last year. More detailed work on the project has also identified complications to the site and construction programme that were not fully anticipated when the initial cost estimate was compiled.

It should also be noted that the Jersey Music Service facility is no longer being provided as part of the proposed Grainville scheme due to the additional cost and complication of doing so identified in the feasibility study. The Education Department is considering alternative options for the provision of this facility which will have to be brought forward as part of future funding requests.

The increase in the estimated cost of the Les Quennevais School project is largely the inflationary impact of the delay plus the design changes required following the outcome of the planning inquiry.

The increase in the St Mary's School estimated cost reflects the anticipated inflationary impact on the cost of the project from the point it was fully costed based on provisional design work. Once committed, more detailed design and procurement work will be done to confirm the outturn cost.

Provisions have also been included for:

- Work to relocate the Orchard House facility which forms part of the wider St Saviour's Hospital site. This will provide an appropriate facility for adult acute mental health patients with the preferred option to co-locate with the Clinique Pinel facility on the other side of the road.

- Public consultation and feasibility work around the future of the Haute de la Garenne building in recognition of the commitment to the recommendation made in the Independent Jersey Care Inquiry report.

Updates since the MTFP - Summary

Funding from the Consolidated Fund has been increased to the total amount available to allocate, as approved in the MTFP, of £43.2 million in 2018 and £33.0 million in 2019. Further capital allocations in respect of increased cost estimates for existing projects, reprioritisation of spend and aligning budget allocations with accounting treatment have been enabled by utilising existing resources. The revised requests and requirement for capital heads of expenditure result in an allocation shortfall of £14.7 million in 2018 and £2.2 million in 2019 per below.

FIGURE 22 – Summary of Identified Capital Requirements for 2018 and 2019 Compared to MTFP 2016 – 2019 Indicative Programme

	2018 £'000	2019 £'000
Total MTFP Approved Allocation Envelope	43,233	32,975
Variations to projects in MTFP indicative programme	10,003	1,598
New capital items funded from existing resources	4,650	600
Total Proposed Capital Programme	**57,886**	**35,173**

Proposed Funding Sources		
Consolidated Fund	43,233	32,975
Total Proposed Funding Available	**43,233**	**32,975**

Allocation (Shortfall)	**(14,653)**	**(2,198)**

Balancing the 2018/2019 Capital Programme

Using the Criminal Offences Confiscation Fund (COCF)

The MTFP 2016 – 2019 introduced the concept of applying funds confiscated and held in the COCF to contribute towards the cost of the Prison Phase 6 capital project. At that point it was proposed that the entire £8.2 million cost of the project be funded from the COCF subject to a sufficient balance being available.

Following initial consultation with the Attorney General and confirmation of the available balance, a formal request has been submitted to the Attorney General to confirm his approval to apply £6.5 million from the COCF towards the Prison Phase 6 capital project. This transfer will happen in 2018 as a grant via the Community and Constitutional Affairs Department rather than as envisaged in the MTFP 2016 – 2019.

By transferring this funding to the Prison project, plus the transfer of £1,360,000 from unspent capital and revenue allocations as identified in the following sections, this reduces the allocation required in the capital programme to £1,202,000. It also reduces the oversubscription to the capital allocations down to £8.2 million in 2018 and £2.2 million in 2019 whilst enabling this high priority project to continue.

FIGURE 23 – Balancing the Capital Programme – Transfer from the Criminal Offences Confiscation Fund

Balancing 2018 - 2019 Budget Allocation	Total £'000	2018 £'000	2019 £'000
MTFP Approved Capital Allocation		43,233	32,975
Revised Programme		57,886	35,173
Total Capital Allocation Shortfall	**(16,851)**	**(14,653)**	**(2,198)**
Transfer from COCF	**6,500**		
Prison Phase 6	(6,500)	6,500	
Balance of COCF to Allocate	**-**		
Remaining Shortfall b/fwd		**(8,153)**	**(2,198)**

Proposed Transfer from Anticipated Unspent Contingencies to be Carried Forward

The estimated cost of the St Mary's School project included in the MTFP 2016 – 2019 was based on 2015 prices and more detailed work will be required through the standard design and tendering process to refresh that estimate in advance of tenders being returned. In light of the levels of inflation experienced in the construction industry over the past few years, it is recognised that the 2015 estimate is likely to be insufficient to complete the project as required. To address that, it is proposed that a provision is made against anticipated unspent Contingencies to be carried forward. Subject to the estimate being revised, a request will be submitted to transfer up to £1,000,000 from Central Contingencies carried forward to manage this pressure.

Transferring £1,000,000 from anticipated unspent Central Contingencies carried forward reduces the oversubscription to the capital allocations down to £7.2 million in 2018 and £2.2 million in 2019 whilst enabling this high priority project to continue.

FIGURE 24 – Balancing the Capital Programme – Transfer from Anticipated Unspent Central Contingencies to be Carried Forward

Balancing 2018 - 2019 Budget Allocation	Total £'000	2018 £'000	2019 £'000
Remaining Shortfall b/fwd		(8,153)	(2,198)
Transfer from Anticipated Contingencies C/fwd	**1,000**		
St Mary's School	(1,000)	1,000	
Balance of Contingencies C/fwd to Allocate	**-**		
Remaining Shortfall b/fwd		(7,153)	(2,198)

Unspent Capital Allocations

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

Any unrequired balances are either returned to the Consolidated Fund or can be reallocated to manage priorities. The last review in advance of preparing this report identified £5.8 million across a number of existing capital project allocations shown below to be reallocated.

FIGURE 25 – Balancing the Capital Programme – Existing Unspent Capital Allocations for Re-allocation

Ministry	Capital Projects	Amount available to Reallocate £	Additional Information
DFI	Adult Care Homes	3,810,575	£1.0 million is being used for the Autism Jersey project and £2.0 million reprioritised towards the Orchard House project
DFI	St Martin's School	651,555	
C&CA	Minor Capital	336,000	
DFI	Replacement Assets	299,999	
T&R	Contingency Fund	160,900	
DFI	Limes Upgrade	158,783	Balance after £1.0 million returned to the Le Seelleur Fund
DFI	Intensive Care Unit Upgrade	95,593	
DFI	Clinique Pinel Upgrade	94,794	
DFI	Office Rationalisation	44,000	
DFI	G&A Hospital Fire Safety Works	16,716	
DFI	Contingency Infrast. Maint.	14,974	
DFI	FB Fields Running Track	14,928	
DFI	T&R Grainville Phase 4a	13,114	
DFI	Fire Fighting System	7,920	
H&SS	Laundry Batch Washer - Planning	6,886	
DOE	Fisheries Vessel Mid Yr Refit	6,507	
DFI	Crabbe Silver Jubilee Works	6,217	
DFI	Mont-a-l'Abbe Phase II	5,228	
DFI	Highlands (A Block)	3,825	
H&SS	PSA Oxyenators	2,707	
DFI	Les Quen. Artificial Pitch	2,245	
DFI	Jersey Opera House	2,145	
DFI	T&R HD Farm Building and Incin	325	
DFI	Integrated Property System	154	
Total		**5,756,090**	

Transferring these balances to the projects identified below reduces the oversubscription to the capital allocations down to £3.0 million in 2018 and £0.6 million in 2019 whilst also enabling these high priority projects to continue.

FIGURE 26 – Balancing the Capital Programme – Re-allocating Unspent Capital

Balancing 2018 - 2019 Budget Allocation	Total £'000	2018 £'000	2019 £'000
Remaining Shortfall b/fwd		(7,153)	(2,198)
Unspent Capital Budget to Reallocate to:	**5,756**		
Haute de la Garenne	(50)	50	-
Autism Jersey	(1,000)	1,000	-
Orchard House	(2,000)	2,000	-
DoE Minor Capital	(68)	-	68
Fisheries Vessels	(96)	71	25
DVS Systems	(300)	300	-
Grainville School Phase 5	(1,906)	401	1,505
Prison Phase 6	(336)	336	
Balance of Unspent Available to Allocate	**-**		
Remaining Shortfall b/fwd		(2,995)	(600)

With the exception of £1.0 million for the Limes Upgrade project, which was a conditional contribution from the Le Seelleur Trust in the Budget 2013 and will therefore be returned to the Fund, the balances in Figure 25 above will be transferred to Central Contingencies for onward allocation to the capital projects identified in the above table, subject to their approval in this capital programme where relevant.

The largest unspent balance being returned is from the Adult Care Homes project which was originally allocated £4.0 million in the Budget 2013. This project was going to deliver a number of residential and day services for adults with significant and complex needs. Whilst one element of the project was delivered in conjunction with Andium Homes Limited, more detailed work by Jersey Property Holdings to develop a costed preferred solution identified a requirement for significant further funding. The Health and Social Services Department also reviewed its priorities which confirmed the requirement for work on Orchard House. A feasibility study has been undertaken by Jersey Property Holdings identifying a preferred site option with estimated costings for Orchard House as included above.

The original allocation brief for Adult Care Homes included the development of appropriate day time services for people on the autistic spectrum of £800,000. From the balance of the £3.8 million to be returned, £1.0 million will be reallocated to a new specific head of expenditure with a view to providing Autism Jersey with enhanced funding for this purpose. Autism Jersey are also raising their own funds to contribute to the facility.

Transfer of Revenue Budgets

Departments receive net revenue budgets annually which they must prioritise in order to deliver services in the most efficient and effective way and in line with strategic priorities. Revenue budgets can include specific growth, carry forward and contingencies allocations that have been agreed in order to manage identified pressures. It is recognised that departments must have sufficient flexibility to prioritise those budgets in the way they deem best delivers their service objectives and the priorities agreed by the States Assembly whilst operating within the financial controls in place. This is particularly important

during a period of service redesign and organisational reform. In some instances, that may mean revenue budgets are used for projects where the expenditure will have to be recognised as capital under accounting rules and end up creating an asset.

To facilitate this in the most transparent way, the Budget 2018 includes a number of projects where capital expenditure is required and a capital head of expenditure must therefore be set up in accordance with the Public Finances (Jersey) Law 2005 but where funding already exists within departmental revenue budgets to fund the projects. The table below identifies those projects as well as contributions from revenue budgets to Les Quennevais School and the Prison Phase 6 projects which were included in previous programmes.

It is also important that in instances where a funding pressure materialises in a department, the department has the ability to look across all available resources under its control to manage that pressure before seeking additional funding. In the case of the Les Quennevais School project where the estimated cost has increased beyond the amount allocated in previous capital programmes, the Education Department will transfer £1.5 million from their 2017 revenue budget which is forecast to be underspent as at the end of 2017 to manage the pressure.

Transferring these balances to the projects identified below reduces the net additional contribution from the Consolidated Fund to the overall programme in 2018 and 2019 to within the allocation envelope agreed in the MTFP.

FIGURE 27 – Balancing the Capital Programme – Transfer of Revenue Budgets

Balancing 2018 - 2019 Budget Allocation	Total £'000	2018 £'000	2019 £'000	
Remaining Shortfall b/fwd		(2,995)	(600)	
Transfer of Revenue	**3,595**			**Source of Revenue**
Les Quennevais School	(1,500)	1,500		Education Department 2017 Revenue Budget
Digital Care Strategy	(1,450)	850	600	Health and Social Services 2017 Revenue Budget
DVS Systems	(250)	250		Department for Infrastructure Revenue Budget
La Collette Fire Systems	(200)	200		
Prison Phase 6	(195)	195		Community and Constitutional Affairs 2017 Revenue Budget
Balance of Revenue to Allocate	-			
Remaining Shortfall b/fwd		-	-	

<u>Summary of Proposals to Balance the 2018 and 2019 Capital Programmes</u>

The table below summarises the changes to the 2018 and 2019 proposed capital programmes and the proposals to fund those projects whilst maintaining the overall capital allocation envelope for 2018 and 2019 set in the MTFP.

FIGURE 28 – Balancing the Capital Programme – Summary

	2018 £'000	2019 £'000	Total £'000
MTFP Approved Allocations	**43,233**	**32,975**	**76,208**
Variations to projects included in the MTFP indicative programme			
ISD Reprioritisation	(499)	251	**(248)**
Grainville Phase 5	4,000	1,271	**5,271**
St Mary's School	1,000	-	**1,000**
Les Quennevais	5,600	-	**5,600**
C&CA Minor Capital	(169)	-	**(169)**
DoE Minor Capital	-	68	**68**
Fisheries Vessels	71	25	**96**
Treasury Replacement Assets	-	(17)	**(17)**
Total Variations to MTFP Project Requirements	**10,003**	**1,598**	**11,601**
Digital Care Strategy	850	600	**1,450**
Autism Jersey	1,000	-	**1,000**
Orchard House	2,000	-	**2,000**
DVS Systems	550	-	**550**
Haute de la Garenne	50	-	**50**
La Collette Fire Equipment	200	-	**200**
Additional Capital Heads of Expenditure	**4,650**	**600**	**5,250**
Total Changes from MTFP	**14,653**	**2,198**	**16,851**
Total Capital Programme	**57,886**	**35,173**	**93,059**
Adjustments Outside of Capital Allocation			
Apply COCF to Prison Phase 6	(6,500)	-	**(6,500)**
Transfer of Anticipated Contingencies C/fwd	(1,000)	-	**(1,000)**
Transfer of unspent capital	(4,158)	(1,598)	**(5,756)**
Transfer of revenue budgets	(2,995)	(600)	**(3,595)**
Capital Allocation	**43,233**	**32,975**	**76,208**
Difference to MTFP Approved	**-**	**-**	**-**

The proposed 2018 programme continues to allocate funding into the priority services agreed in the Strategic Plan for Jersey with over £20 million for work on Grainville, St Mary's and Les Quennevais Schools and £7 million across Health and Social Services projects. Nearly £20 million will also be invested in the Island's infrastructure.

It is important to stress that this programme excludes the funding requirements for the Future Hospital and Office Consolidation Project, for which options are under separate consideration and will require separate approval, including the source of funding. There are also no further allocations directly to the Liquid Waste Strategy (Sewage Treatment Works) project as the remaining funding required in the period, after the pending transfer from Central Contingencies in respect of the Clinical Waste Incinerator, is being managed by the Department for Infrastructure through their Infrastructure Rolling Vote.

The financial planning assumptions within the existing MTFP include depreciation in assessing whether budgets are balanced. By doing so a provision for capital spend can be established which is linked to the recognised cost of using existing assets. On that basis, a provisional funding allocation of £55 million for

2020 and £55 million for 2021 is estimated which will form part of the next MTFP.

FIGURE 29 – Proposed 2018 Programme and Indicative Capital Programme 2019

Capital Head of Expenditure	Proposed Programme (Gross) £'000 2018	Proposed Programme (Gross) £'000 2019	** Other Transfers £'000	Transfers from Unspent Capital £'000	Transfers from Unspent Revenue £'000	Consolidated Fund Allocation (Net) £'000 2018	Consolidated Fund Allocation (Net) £'000 2019
Chief Minister's							
Desktop Upgrades	-	1,000	-	-	-	-	1,000
Corporate Web Platform Refresh Cycle	326	500	-	-	-	326	500
Content management system refresh (SharePoint Upgrades)	-	100	-	-	-	-	100
Hardware Refresh	201	281	-	-	-	201	281
Open Data	53	77	-	-	-	53	77
Data Warehouse Platform	647	80	-	-	-	647	80
CRM Platform Renewal	396	80	-	-	-	396	80
Replacement Assets - CMD	200	1,050	-	-	-	200	1,050
Corporate Data Platforms Upgrade	500	500	-	-	-	500	500
Chief Minister's Total	**2,323**	**3,668**	**-**	**-**	**-**	**2,323**	**3,668**
Education							
Grainville School Phase 5 *	8,458	3,778	-	(1,906)	-	8,057	2,273
St Mary's School *	6,500	-	(1,000)	-	-	5,500	-
Les Quennevais School *	5,600	-	-	-	(1,500)	4,100	-
Replacement Assets and Minor Capital - EDU	200	250	-	-	-	200	250
Education Total	**20,758**	**4,028**	**(1,000)**	**(1,906)**	**(1,500)**	**17,857**	**2,523**
Health & Social Services							
Replacement Assets (Various)	2,351	1,073	-	-	-	2,351	1,073
Barrier Washer Extractor	229	-	-	-	-	229	-
Ironer Line	420	-	-	-	-	420	-
Child Health IT System	-	202	-	-	-	-	202
Replacement Assets RIS / PACS IT assets	-	1,900	-	-	-	-	1,900
CT Scanner	-	2,225	-	-	-	-	2,225
Digital Care Strategy	*850*	*600*	-	-	(1,450)	-	-
*Autism Jersey Facility**	*1,000*	*-*	-	(1,000)	-	-	-
*Orchard House **	*2,000*	*-*	-	(2,000)	-	-	-
Health & Social Services Total	**6,850**	**6,000**	**-**	**(3,000)**	**(1,450)**	**3,000**	**5,400**
Department for Infrastructure							
Replacement Assets	2,250	2,000	-	-	-	2,250	2,000
Infrastructure Rolling Vote	14,003	18,188	-	-	-	14,003	18,188
La Collette Waste Site Development	2,500	500	-	-	-	2,500	500
DVS Systems	*550*	*-*	-	(300)	(250)	-	-
*Haute De La Garenne**	*50*	*-*	-	(50)	-	-	-
La Collette Fire Equipment	*200*	*-*	-	-	(200)	-	-
Department for Infrastructure Total	**19,553**	**20,688**	**-**	**(350)**	**(450)**	**18,753**	**20,688**
Department of the Environment							
Equipment, Maintenance and Minor Capital	-	80	-	(68)	-	-	12
Fisheries Vessels	125	25	-	(96)	-	54	-
Department of the Environment Total	**125**	**105**	**-**	**(164)**	**-**	**54**	**12**
Community and Constitutional Affairs							
Prison Phase 6 *	8,233	-	(6,500)	(336)	(195)	1,202	-
Minor Capital	-	505	-	-	-	-	505
Community and Constitutional Affairs Total	**8,233**	**505**	**(6,500)**	**(336)**	**(195)**	**1,202**	**505**
Non Ministerial							
Replacement Assets - Non Mins	44	179	-	-	-	44	179
Non Ministerial Total	**44**	**179**	**-**	**-**	**-**	**44**	**179**
Total Capital Programme	**57,886**	**35,173**	**(7,500)**	**(5,756)**	**(3,595)**	**43,233**	**32,975**

Notes:

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

** Other transfers comprises a £6.5 million transfer from the Criminal Offences Confiscation Fund to the Prison Phase 6 project and an up to £1.0 million transfer from anticipated unspent Central Contingencies carried forward to the St Mary's School project.

The highlighted projects above have been included in the capital programme to approve the necessary capital head of expenditure but they are being funded from within existing departmental resources.

States Members are being asked to approve the capital heads of expenditure for 2018 in Figure 29 above and the net Consolidated Fund allocation totalling £43,233,000.

2018 Proposed Programme

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

Chief Minister's Department

Corporate Web Platform Refresh (£326,000)

This capital project is to fund an ongoing refresh of the technology behind the core gov.je, MyStates and States Assembly websites. With an increasing requirement for digital services and constant improvements to the look and feel of the site, this is a recurring programme of work. Gov.je has become the main channel for pushing content and delivering services, so will need continued investment.

The specific enhancements would reflect user needs at the time, but would be likely to include, for example (in no particular order):

- Search engine configuration
- Customer segmentation and personalisation
- Portuguese and Polish translation of key pages
- Improve Google rankings
- Blogs
- More accurate click tracking
- Monetisation of Jersey Met premium services online e.g. buy a more detailed forecast via PayPal
- Expand A to Z of contacts to be A-Z of services
- Ability to narrow a search when done on a smartphone
- Page layout tweaks
- Use of mapping and geo-location based services e.g. "find my nearest"
- Wide use of infographics, "smart pages" and interactive features to make the content more engaging

- Improved meta data which would power new ways of navigating to and filtering content based on subject/topic

Anticipated Spend in 2018: £326,000

Hardware Refresh (£201,000)

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 2018: £201,000

Open Data (£53,000)

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. The Information Management team are developing planned activity in the latter part of 2017.

Anticipated Spend in 2018: £53,000

Data Warehouse Platform (£647,000)

This project is for the delivery of a platform that will enable data sharing to be increased and for the States to gain the most benefit from the information it holds. This information is currently typically held in departmental systems, and increasingly is requested by other departments to enable them to perform basic processes.

A data warehouse would enable information to be updated real time to data sets, which would be available for subscribing sections/other departments to use instead of generating that information themselves or asking the public repeatedly.

A data warehouse would also enable the bringing together of data sets for management information, modelling and strategic planning in a more efficient, timely and accurate manner than is currently possible.

The need for this capability has been increasing in the last few years, but will increase as departments work increasingly closer together, and as more shared data is needed for eGovernment, FOI requests etc.

A growing need to not only use the organisations data as part of a more joined up government, but also to use this for better decision making. The need for departments to create their own data analytic or data science capability will require a core platform for data to reside on. This project is to create that platform.

Anticipated Spend in 2018: £647,000

Customer Relationship Management (CRM) Platform Renewal (£396,000)

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 2018: £396,000

Replacement Assets - CMD (£200,000)

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

Anticipated Spend in 2018: £200,000

Corporate Data Platforms Upgrade (£500,000)

In order for the States to improve the quality, efficiency and business use of information authoritative sources (Systems of Record - SOR) should be developed for core enterprise datasets. The three identified primary enterprise datasets are address/GIS, citizen and business. At this point there is no SOR for individuals and companies interacting with the SoJ that can confirm the integrity, completeness and validity of the datasets. Right now multiple States systems hold inconsistent data making information sharing very challenging if not impossible.

This allocation amalgamates the 'citizen database upgrade' and 'business directory creation' projects which were separately identified in the MTFP.

Estimated Completion Date: 2020

Community and Constitutional Affairs

Prison – Phase 6 (Gatehouse) (£8,233,000 including £6,500,000 to be transferred from the Criminal Offences Confiscation Fund in 2018, £336,000 from existing unspent capital and £195,000 from the 2017 Community and Constitutional Affairs Department revenue budget)

The prison was designed in the late 1960s and was opened in 1974. Typically, prisoners are housed in various cell blocks of differing capacities along a central corridor and, due to the diversity of prisoner groups, accommodation cannot be met in alternative ways.

Various works pertaining to the overall Prison Masterplan have been undertaken since the prison opened. Phase 6 is for the construction of a new secure Gate House which incorporates a new vehicle lock and new administration support offices. The proposed new building is the second of two building that will form the main entrance and new public face for the prison. The building is designed to link with the recently completed Visitor Block and to connect into the existing control room building.

An initial allocation towards this project from the Consolidated Fund is included in 2018 with further funding to come from the transfer of existing unspent capital and the 2017 Community and Constitutional Affairs revenue budget but the project can only proceed once sufficient funding has been provided from the Criminal Offences Confiscation Fund.

Education

Grainville School Phase 5 (£8,458,000 including £401,000 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

Anticipated Spend in 2018: £500,000 - £750,000

St Mary's School (£6,500,000 including £1,000,000 to be transferred from anticipated unspent Central Contingencies)

St Mary's school dates back to the beginning of the 20th century. Since construction the school has had additional builds, the first one in 1901, the second in 1929, and the latest in the mid-1970s. The school falls below the standards expected of Jersey primary schools, particularly in relation to acoustics, thermal efficiency, disabled access and ancillary support rooms. This capital request will not only bring the school up to the required standards, but will also future proof the school for many years to come in terms of size, maintenance and facilities available for improved teaching and learning.

The refurbishment of school buildings will include electrical works, boiler replacement, repairs to external fabric, drainage works, disabled access, increase in number of toilets, new ancillary rooms (e.g. for pupils with Special Needs), acoustic improvements, staff accommodation, server room and new reception area. A nursery will also be added to the school to bring St Mary's into line with the majority of other non-fee paying primary schools.

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: 2020

Anticipated Spend in 2018: £900,000

Les Quennevais School (Additional £5,600,000 including £1,500,000 to be transferred from the 2017 Education Department revenue budget)

Construction of a new Les Quennevais School is needed to replace the existing school which is reaching the end of its useful life. A full feasibility study was completed in May 2016 with 67% of people who responded preferring option 2, a new build on the fields north of St Brelade's Social Club alongside Route de Quennevais. A planning application was submitted on 23 June 2016 supported by extensive environmental impact assessments, including ecology and archaeological studies, geotechnical surveys and an independent traffic and transportation plan.

On 28 July 2016 the Minister for the Environment announced that a public inquiry into the planning application would be held as the land is in the green zone on the 2014 Island Plan, where there is a general presumption against development, and where exceptional reasons are required to justify new buildings. The outcome of the inquiry resulted in some design alterations, particularly a greater floor area required to separate the sports hall, and further planning and design consultation which has added cost and time to the project. Combining these factors at a time when the construction industry is experiencing above average cost increases has added further cost to the project which this allocation will provide for. The total estimated cost of the project is now £45.6 million.

Estimated Completion Date: End of 2020

Anticipated Spend in 2018: £13,800,000 (including previous allocations)

Replacement Assets and Minor Capital (£200,000)

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

Estimated Completion Date: 2018

Anticipated Spend in 2018: £200,000

Health and Social Services

Replacement Assets (Various) (£2,351,000)

The Health and Social 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 its various equipment assets under review and up to date, utilising new equipment to introduce new treatments, improve care and/or efficiency.

Anticipated Spend in 2018: £2,351,000

Barrier Washer Extractor (£229,000)

The Barrier Washer Extractor is essentially an industrial washing machine aimed at combatting the threat of hospital acquired infections. It is essential in processing infectious materials to aid in stopping cross contamination whilst adhering to the infection control policies in the Health and Social Services Department. It also must be able to cope with future demands due to an ageing population. This equipment also serves the community services and the many charities around the island to help prevent cross contamination which leads to less infections entering the Hospital if patients are admitted.

Anticipated Spend in 2018: £229,000

Ironer Line (£420,000)

The ironer line irons and folds bed sheets and other items and has been essential in helping the service to deliver a high standard of quality to all areas of the Hospital and Community. Over its life, it has also proven to assist with manual handling by protecting staff from injury and helps in delivering a service in a timely manner to meet the demands of the Hospital and Community services.

Anticipated Spend in 2018: £420,000

Digital Care Strategy (£850,000 with all funding from the Health and Social Services 2017 revenue budget)

The Digital Care Strategy is the overarching technology transformation programme supporting and facilitating the implementation of P82/2012. It includes the development of a Jersey Care Record and the integration of data from primary, secondary and social care settings.

The capital head of expenditure is required for the capital element of the programme. The funding is sourced from existing P82 expenditure approvals.

Anticipated Spend in 2018: £850,000 (capital element)

Autism Jersey Facility (£1,000,000 with all funding to be transferred from existing unspent capital)

An allocation of £4.0 million was approved in the 2013 capital programme for 'Adult Care Homes' to address several key issues within the Special Needs Service. That allocation included the development of appropriate day time services for people on the autistic spectrum. As work progressed through feasibility, a proposed site and scheme was developed to address all elements of the original brief which identified a considerable funding shortfall. As a consequence, Health and Social Services have agreed to return the unspent element of the original allocation and will come back to a future capital programme with the confirmed requirements for the facilities in scope. In the meantime, this allocation enables the provision of a facility for people on the autistic spectrum to progress. The allocation will be a contribution towards the total cost of the facility which will be supplemented by funding from Autism Jersey with the facility solution being developed by Autism Jersey with the support of Jersey Property Holdings.

Orchard House (£2,000,000 with all funding to be transferred from existing unspent capital)

The current 24/7 admission facility at Orchard House, situated on the St Saviours Hospital site to the South of La Route de la Hougue Bie is for adult acute mental health patients below the age of 65 and has 17 bedrooms.

The current property does not enable optimum quality of service for patients and is the last functional service on the site. This project allows the service to be relocated to provide a single unit for adult acute mental health patients of all ages at the Clinique Pinel building.

This project is being funded by reprioritising the funding previously allocated for the Adult Care Homes project with work ongoing to finalise the cost estimate of the proposed solution.

Department for Infrastructure

Replacement Assets (£2,250,000)

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. £1.2 million 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.

Anticipated Spend in 2018: £2,250,000

Infrastructure Rolling Vote (£14,003,000)

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 £7.0 million. The intention is for the remainder of the vote to be split as follows:

- Highways and Sea Defences: £5.75 million
- Drainage Infrastructure: £1.253 million

The major highways projects are anticipated to be resurfacing works in St Peter's Valley, St Clement's Coast Road and La Route de St Aubin. 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 2018: £7,003,000 (excluding the contribution to the Liquid Waste Strategy)

La Collette Waste Site Development (£2,500,000)

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 DfI 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 is required for construction of the new Commercial Recycling Centre (in addition to the funding allocated in the 2017 budget), capital works associated with Waste Cells and other associated works at the La Collette site.

Anticipated Spend in 2018: £2,500,000

Driver and Vehicle Standards (DVS) Systems (£550,000 including £300,000 to be transferred from existing unspent capital and £250,000 to be transferred from the 2017 Department for Infrastructure revenue budget)

The existing Vehicle Registration System (VRS) was installed in 2001 and is now well past its original estimated useful life, resulting in both higher costs and higher risks of system failures. A new VRS is required to address both of these risks, in addition to this a new VRS will have functionality that is not currently catered for within the existing system.
In 2016 the Department for Infrastructure allocated £250,000 from DVS income overachievement and £50,000 was allocated from the Restructuring Provision to the Replacement Assets head of expenditure.

By the end of 2017 approximately £180,000 is expected to be spent on planning and initial costs associated with the project. In 2017 a further £250,000 has been funded from the sale of vehicle registration numbers giving a total funding of £550,000. This funding will be sufficient to develop and install the new VRS.

This project has been included to create the necessary separate capital head of expenditure to enable distinct project management and reporting.

Anticipated Spend in 2018: £370,000

Haute de la Garenne (£50,000 with all funding to be transferred from existing unspent capital)

This provides for a public consultation and feasibility work around the future of the Haute de la Garenne building in recognition of the commitment to the recommendation made in the Independent Jersey Care Inquiry report. A public consultation will give the Island's residents an opportunity to steer what the future use of the building and site should be.

Anticipated Spend in 2018: £50,000

La Collette Fire Equipment (£200,000 with all funding to be transferred from the 2017 Department for Infrastructure revenue budget)

The replacement fire fighting system at La Collette was commissioned in 2013. It provides a high pressure salt water fire ring main around La Collette and foam fire drench systems at the fuel storage facility. In order to provide for fire training, it is necessary to use fresh water in the system as the foam cannot be released to sea unless in a genuine emergency and salt water entering the sewer system would cause issues both in the sewers and at the sewage treatment works. It is proposed to connect the foam system to a fresh water storage tank to enable foam training to be undertaken by the fire service. Funding for this addition to the original project has been provided by the Department's revenue budget with the final cost to be confirmed following contractor engagement in the final quarter of 2017.

Department of the Environment

Fisheries Vessels (£125,000 with £71,000 to be transferred from existing unspent capital)

The Marine Resources section of the Department operates the Norman Le Brocq (NLB) research / enforcement vessel, two Rigid Inflatable Boats (RIBs) and a 16ft "Orkney" class inshore vessel. Following the interim refit of the NLB in 2014 a review of the operation of the other vessels identified that the trailer-mounted RIB and the inshore vessel should be replaced with a single vessel that meets new coding standards required for operational use and is more suited to the tasks required of it. The other RIB is mounted on the NLB and will be retained for operational use at sea. Funding is also included for preparatory work prior to the planned next refit of the NLB in 2020.

This allocation provides for preparation work on the 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 2018: £125,000

Non-Ministerial Departments

Replacement Assets (£44,000)

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: £44,000

Proposed Capital Programme for 2018 – Funding Sources

The proposed 2018 capital programme has been funded from a number of sources to manage the requirements with the funding available. The allocation of £43.2 million approved in the MTFP has been funded from the Consolidated Fund with further funding of £6.5 million as a grant from the Criminal Offences Confiscation Fund towards the Prison Phase 6 project, £1.0 million from anticipated unspent Central Contingencies to be carried forward towards the St Mary's School project, £4.2 million from existing unspent capital and £3.0 million from existing departmental revenue budgets.

FIGURE 30 – Proposed Capital Programme Funding Sources

	Proposed Funding 2018 £'000	Indicative Funding 2019 £'000	Indicative Funding 2020 £'000	Indicative Funding 2021 £'000
Departmental Capital Allocation	**43,233**	**32,975**	**55,000**	**55,000**
Funding Sources				
Consolidated Fund	(43,233)	(32,975)	(55,000)	(55,000)
Total Funding of Allocation	**(43,233)**	**(32,975)**	**(55,000)**	**(55,000)**

	Proposed Funding 2018 £'000	Indicative Funding 2019 £'000
Additional Capital Identified	**14,653**	**2,198**
Funding Sources		
Apply COCF to Prison Phase 6	(6,500)	-
Transfer from anticipated unspent Contingencies carried forward	(1,000)	-
Transfer of unspent capital	(4,158)	(1,598)
Transfer of revenue budgets	(2,995)	(600)
Total Additional Funding	**(14,653)**	**(2,198)**
TOTAL CAPITAL PROGRAMME FUNDING	**(57,886)**	**(35,173)**

Revenue Consequences of Capital Schemes

Section 9 of the Medium Term Financial Plan 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 Education and Community and Constitutional Affairs have requested funding for increased running costs for new premises and facilities. 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

Five 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. Of these projects, allocations for

the Les Quennevais School Rebuild, Liquid Waste Strategy and the Prison Phase 6 have been included in Budget 2018.
An update on each project and the funding proposals are:

Liquid Waste Strategy (Sewage Treatment Works – Upgrade) (Department for Infrastructure)

Total requirement £68.94 million - Existing allocations of £50.1 million 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.39/2012) was £75 million which was subsequently confirmed in the Budget 2014. Since then the Department for Infrastructure has been working on the detail of the proposals to refine the estimated total cost which is now £68.9 million.

FIGURE 31 – 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							**6,100**
Transfer from DfI Infrastructure Rolling Vote *			4,000	1,000	4,500	4,500	*7,000*	*4,000*	*8,288*	**33,288**
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**
										0
TOTAL FUNDING	**500**	**0**	**9,600**	**27,052**	**4,500**	**8,000**	***7,000***	***4,000***	***8,288***	**68,940**
Cumulative Funding		**500**	**10,100**	**37,152**	**41,652**	**49,652**	***56,652***	***60,652***	***68,940***	

** The 2020 capital programme is subject to review in advance of MTFP 2020 – 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 31 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 £3.5 million is being transferred from Central Contingencies in 2017. Further detail on this aspect of the project is shown below.

During 2015 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 early 2016, the early contractor involvement phase was concluded early 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, has been identified and agreed, and a comprehensive cost assessment has been carried out which has identified an estimated final outturn cost of £68.94 million.

Enabling works are underway which, following separate Planning Permissions, include excavation and stabilisation of adjacent hillsides to create space to construct the new works, and the construction of a 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.

There is currently Planning pressure to cover and odour control Primary Settlement Tanks on the new plant. If this is ultimately required, the estimated cost is £4.12 million which is not accounted for in the estimated outturn cost above.

The main STW works are currently out to tender with tenders due to be returned in mid-October 2017 and construction programmed to commence in April 2018.

Liquid Waste Strategy - Clinical Waste Incinerator Relocation (Department for Infrastructure) (included as part of the LWS STW - Upgrade budget of £68.94 million above)
£3.5 million – Impact of additional cost has been managed with a transfer from Central Contingencies in 2017

Currently, part of the proposed site for the new STW at Bellozanne is occupied by a clinical waste facility. This facility was commissioned in 1998 and is now at the end of its operational life. The plant has a number of operational and risk issues, including:

- weekly boiler cleaning;
- refractory lining failures;
- combustion control malfunctions;
- problems maintaining the furnace at a steady temperature; and,
- problems achieving the 1000°C temperature requirement under WID (Waste Incineration Directive).

In addition, the plant has experienced software failures that have shut down the plant for extended periods and there are doubts as to the remaining service life of the main refractory lining.

Initially, it was proposed that a new clinical waste incinerator be constructed in the atrium of the existing energy from waste plant (EFW) at La Collette at a cost of £7 million.

However, there were significant technical difficulties with this option and the proposal carried a high level of risk. Partly as a result of these difficulties and risk, it was decided as an alternative to apply for a Duly Reasoned Request (DRR) to export the hazardous and infectious elements of the waste to the UK, with the offensive waste elements being disposed of in the main EFW at La Collette. This option would have provided a much more economical option at £1.4 million.

The request to export was ultimately refused by the Environment Agency in the UK but in the intervening

period, an area of land had become available at La Collette which was suitable for the construction of a new stand-alone facility. Preliminary work determined that this option would be more cost effective and better operationally than trying to incorporate a facility within the EFW.

Based on recent tenders received for both the process equipment and building works, the estimated cost of this option is £4.45 million.

Funding for the Clinical Waste Incinerator works has been incorporated in the overall budget for the Liquid Waste Strategy (LWS) in the form of £1.0 million which had been allocated over 2013 and 2014 to maintain the existing plant. A reduced scope of these maintenance works enabled a sum of approximately £558,000 to be transferred to the LWS budget.

As a result of other funding pressures on the LWS budget, and the inability to export clinical waste, approval has been given to a Contingency request of £3.5 million to enable the construction of a new Clinical Waste facility to proceed. This reflects the estimate of the additional costs that will be incurred in constructing the new Clinical Waste facility at La Collette over and above the budget remaining from the refurbishment of the existing Clinical Waste Incinerator (approx. £558,000). This will leave any project contingencies to be found from the LWS.

Construction on site is now underway and the new plant is due to be fully commissioned in early 2018 which will allow the existing plant to be demolished to make way for the new STW.

Office Consolidation Project (Department for Infrastructure)

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.

There have already been isolated examples of moving towards this outcome with Economic Development, Tourism, Sport and Culture and Community and Constitutional Affairs now utilising floors within Cyril Le Marquand House. In addition, the Department for Infrastructure have consolidated the majority of their administration at Bellozanne.

However, there are still decisions to be made around the central administration building and whether that is a new build, utilising a refurbished existing States building or making use of other office accommodation that becomes available.

As resources currently concentrating on the Future Hospital project become available, further progress will be made to produce an Outline Business Case for the project. A decision as to how to proceed can then be made.

Future Hospital

In December 2017 the States will be asked to make the decision to invest in the new General Hospital based on the information provided in an Outline Business Case and they will be asked to decide how to fund it. These are the final decisions to be made.

The States were informed of the need as part of P.82/21012 “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 £466 million was also noted at this time.

A funding strategy was lodged in 2016, however, the Council of Ministers felt it was wise to withdraw

the proposed funding strategy until the Outline Business Case (OBC) for the hospital was complete and to bring the two proposals alongside each other to the States Assembly for a decision. This is still the plan and a significant amount of work has been on-going to inform the workforce assessments and plans, to develop a concept design, to develop the proposed procurement strategy and outline planning approach, to tender for a supply chain construction partner and commence the construction of relocation works as well as undertaking extensive stakeholder and clinical engagement throughout. This work has allowed more cost certainty on the construction costs as well and the detail within the OBC will provide Members sufficient information in order to make the decision to invest. The Funding Strategy will set out the preferred mechanism for that investment.

Projects Dealt With Outside of the Capital Programme

The following projects have also been identified as Council of Ministers priorities but the proposed funding route falls outside of the 2018/2019 capital programme.

Fort Regent Demolitions
£3.0 million – transfer from Central Contingencies
£800,000 – from carry forward of unspent 2016 department budgets
£750,000 – from previous capital programme allocation

At the request of the Economic Development, Tourism, Sport and Culture Department, Jersey Property Holdings has been liaising with external consultants and contractors to obtain indicative costings for the removal of the Snow Hill cable car building and swimming pool footbridge, both of which represent a real and immediate risk to young people who are frequenting them. The Council of Ministers, at their December 2016 meeting, approved actions to ensure their removal and indications are that planning, demolition and remediation work costs are likely to be in the region of £800,000 which has been funded through the carry forward of 2016 Department underspends.

Further, Jersey Property Holdings are seeking planning approval to demolish the swimming pool building which also represents a risk to the public due to the 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 £3.0 million. 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.

States Trading Operations

States Trading Operations comprise Jersey Car Parking and Jersey Fleet Management in the Department for Infrastructure.

The Budget 2018 requires the Assembly to approve each of the capital projects that are scheduled to start during 2018 in the recommended programme of capital projects for each States trading operation where funds are required to be drawn from the trading funds in 2018.

The proposed programme for 2018 and 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 Infrastructure 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 Infrastructure'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 32** and in **Summary Table E**.

FIGURE 32 – Proposed 2018 and Indicative 2019 Capital Programme for States Trading Operations

	Proposed Programme 2018 £'000	Indicative Programme 2019 £'000
Car Park Enhancement and Refurbishment	3,404	2,692
Sustainable Transport and Road Safety Schemes	300	300
Jersey Car Parking	**3,704**	**2,992**
Vehicle and Plant Replacement	2,169	1,556
Jersey Fleet Management	**2,169**	**1,556**

Jersey Car Parking

Car Park Enhancement and Refurbishment (£3,404,000)

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 Department 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.

Sustainable Transport and Road Safety Schemes (£300,000)

In 2016 and 2017 the Car Park Trading Fund provided the funding for Sustainable Transport and Road Safety Schemes delivered by the Department for Infrastructure through a capital head of expenditure, and a subsequent transfer of budget to the Department for Infrastructure.

In 2018 and 2019 it is proposed that the Financial Return made by the Car Park Trading Fund to the Department for Infrastructure is used to fund Sustainable Transport and Road Safety Schemes, as well as funding the Concessionary Travel Scheme for people with disabilities. Based on this, a capital contribution of £300,000 is required for Sustainable Transport and Road Safety Schemes, with the remainder of the funding coming from the Financial Return.

The funding will be used to fund additional road safety schemes and continue the funding for STP projects, specific projects anticipated to be undertaken in 2018 include works on Longueville Road, improvements to the road crossings on the Railway Walk, and improvements to the pedestrian and cyclist paths along St Aubin’s Bay.

Jersey Fleet Management

Vehicle and Plant Replacement (£2,169,000)

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 2018 reflects the expected replacement costs of vehicles and plant reaching the end of their useful economic lives during 2018.

PART E – FINANCIAL FORECASTS

11. Financial Forecasts 2017-2021

Summary of Financial Forecast Update for the draft Budget 2018

The draft Budget 2018 has been prepared on the basis of States income and expenditure forecasts as at September 2017. The forecasts of expenditure reflect the decisions taken by the States in approving the expenditure allocations in the MTFP Addition 2017-2019. For 2017, the latest financial monitoring reports were reviewed but showed no significant variations between the departments' current forecast and known likely spend from contingencies, compared to the existing expenditure allocations.

The update of the forecasts of States income take account of the latest in-year information on actuals for 2017 and incorporate the updated economic assumptions for August 2017 from the Fiscal Policy Panel(FPP). The update to the income forecast follows the full annual review undertaken in March/April 2017 and published as R66.2017. The update to the forecast and the associated **Appendices 1 to 5** in this report provide fuller information on the different income forecast areas. The next forecasts of States income will be the full annual review in March/April 2018, based on a further revision of the economic assumptions from the FPP and also informed by the provisional outturn for 2017.

Figure 33 – Summary of Financial Forecast Update for draft Budget 2018 (September 2017)

Outturn	Financial Forecast	Sept 2017 Forecast	Draft Budget 2018 Forecast	
2016 £'000		2017 £'000	2018 £'000	2019 £'000
	States Income			
487,965	Income Tax	483,000	510,000	530,000
84,798	Goods and Services Tax	87,428	87,828	88,494
58,410	Impôts Duty	58,420	58,777	58,600
30,305	Stamp Duty	29,055	29,641	30,241
12,141	Island Wide Rate	12,427	12,725	13,145
12,568	Other Income (Dividends)	12,332	9,127	15,034
22,760	Other Income (Non-Dividends)	15,726	11,224	12,521
27,856	Other Income (Return from Andium and Housing Trusts)	28,380	29,128	29,942
736,803	**States Income**	**726,768**	**748,450**	**777,977**
-	Proposed mechanism to offset States Payment of Rates	-	-	-
	Proposed Revenue Raising measures (draft Budget 2018)		2,900	10,200
736,803	**Total States Income**	**726,768**	**751,350**	**788,177**
	States Expenditure allocations			
698,454	Departmental Net Revenue Expenditure Allocations	700,637	697,627	686,100
-	Central Contingency Allocations	23,650	25,904	28,212
-	Central Growth Allocations	-	10,424	20,533
698,454	**Total Net Revenue Expenditure (excl: Depn)**	**724,287**	**733,955**	**734,845**
38,349	**Forecast Operating Surplus/(Deficit) for the year**	**2,481**	**17,395**	**53,332**
40,154	Departmental Depreciation	40,600	45,500	53,000
(1,805)	**Surplus/(Deficit) of General Revenue Expenditure over Income**	**(38,119)**	**(28,105)**	**332**

The update to the Financial Forecast (September 2017) shows a broadly balanced position for 2019 in line with the overall strategy for this MTFP of sustainable public finances.

There are still further important decisions to be taken regarding the additional revenue raising measures proposed in this Budget to fund growth largely in health spending and following the rejection of the health charge last year. Further revenue raising measures may be required in Budget 2019 depending on the position of States income.

It is proposed that the £2.1 million net shortfall in the Department for Infrastructure expenditure limit, as a result of the deferment of non-domestic liquid waste charges and the £0.9million saving following the majority of the Comité des Connétables not supporting either the principle of the States paying rates or the specific proposals from the Minister for Treasury and Resources.

The draft Budget also provides for the remaining £11 million of growth for 2019 to be held back until a States' decision on the non-domestic liquid and solid waste charges during 2018.

States Income Forecast Update 2017-2021

The forecast update for the draft Budget 2018 for all 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 to 4** of this Budget report.

Forecasts of other States income have also been prepared by officers and reviewed by Treasury and the detail is provided at **Appendix 5.** 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.

The forecast update for the draft Budget follows the full annual review in March/April 2017 which were published in the States in June as R66.2017.

The forecasts of States income are a critical component of the States medium and long term financial planning. They are also required as part of an annual Budget and MTFP, alongside forecasts of States expenditure, to assess the projected balance on the Consolidated Fund. This is a requirement of the Treasury and Resources Minister as part of the Public Finances (Jersey) Law. The income forecast covers the current year and four future years to maintain the four year-outlook between MTFP's, as required by the Financial Framework.

Summary

The forecast update of States income for the draft Budget 2018 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 short-term indicators are largely positive, there remains significant uncertainty in the medium-term, particularly regarding Brexit.

The FPP and IFG have both intimated that there are also business opportunities within these areas of uncertainty.

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

Personal income tax:

- uncertainty regarding the amount of shareholder income arising in any particular year;
- impact of unforeseen changes in interest rates on investment incomes; and
- variations in employment numbers/earnings both in level and distribution.

Corporate income tax:

- impact of unforeseen external 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 its potential effect on the City of London; and
- impact on the global economy of a loss of momentum in advanced economies, transition in China and risks to emerging economies and the effect on the market opportunities for Island 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 and anti-avoidance measures.

For this reason it is essential that appropriate flexibility is maintained in the draft Budget 2018, to recognise the potential range of outcomes and the risks for States income forecasts around the central scenario.

Movement in forecasts since March 2017

The updated forecast follows the full annual review of forecasts carried out in March/April 2017 and published in June 2017. Since that time further information is available:

- Updated FPP endorsed economic assumptions for 2017-2021 from the Panel's letter to the Treasury Minister, 2 August, which show a slight variation in the assumptions over the forecast period compared to those provided in March 2017.

- In year actual information for all States income to June or July 2017 which in general confirms the forecasts for 2017 developed in March 2017, with any variations explained in the detailed appendices of this Budget.

- Updated data on corporate and personal income tax for year of assessment 2016 from the Taxes Office and any other intelligence available within the Group in relation to future forecast compared to that available in March 2017.

- An update on Contributions data from the Social Security Department for 2017 to date.

- The income tax forecasting model has been updated to reflect the latest FPP endorsed economic assumptions and was also adapted to incorporate the recommendations from Oxera, which were accepted by the Group, following the external review of the personal income tax forecasting model.

Variation in In-Year position for 2017 compared to March 2017

- The personal income tax forecast for 2017 remains based on the forecast model at this time. Currently around 60% of personal tax assessments are complete which suggest the 2017 forecast is robust, but at this stage there is not sufficient certainty to increase the forecast. As further assessments are completed the 2017 forecast will be updated as part of the regular financial monitoring.
- Information requested from the major corporate tax payers has indicated that the reduction in 2017 revenues may be slightly less than forecast in March 2017, but otherwise the future forecasts, whilst subject to a high level of volatility, appear in line with previous assumptions.
- GST revenues to June 2017 show an increase against the March 2017 forecast and as a result the 2017 forecast has been increased. Some of this increase is expected to result in higher 2018 and future revenues.
- Alcohol and fuel duty income is slightly below 2017 forecasts but is partly offset by tobacco duty income. Overall a small reduction on 2017 forecast is recommended.
- Actual Stamp duty on over £2m properties and probate to June 2017 are slightly above the March 2017 forecast and the 2017 forecast has been increased. However, the volatility of over £2m property transactions is such that this increase is not yet applied to future forecasts.
- The in-year 2017 position on other income has improved as the investment returns for the Consolidated and Currency Funds have exceeded forecast to June 2017, and the Jersey Post proposed dividend for 2017 has also increased.

Variations in future forecasts 2018-2021 compared to March 2017

The revised forecast shows a slight worsening of the position in the 2018 – 2021 forecasts. The main forecast variations are described here but more detail is provided in the individual Appendices to this report:

Personal Income Tax

- The revised forecast includes a worsening position in each of the forecast years primarily as a result of lower employment income assumptions, which now includes financial services profits, translating to reduced forecast revenues when extrapolated through the updated personal tax model. The reductions range from £1m in 2017 to £4m by 2021.

Corporate Income Tax

- Information requested from the major corporate tax payers has indicated that the reduction in 2017 revenues may be slightly less than forecast in March 2017, but otherwise the future forecasts appear in line with previous assumptions

GST, ISE Fees and Import GST

- GST revenues to June 2017 show an increase against the March 2017 forecast and as a result the 2017 forecast has been increased. Some of this increase is expected to result in higher 2018 and future revenues.
- The Group concluded that the increase in gross receipts should be considered to increase the base for 2018 and future years.
- The FPP economic assumption for real economic growth in 2018 translates through the GST model to increase assumed revenues in 2018 and therefore the base for future years.
- ISE Fees appear in line with March forecasts and 2017 revenues should by now be complete.

Impôts Duties

- Alcohol and fuel duties are slightly below 2017 forecasts but are partly offset by tobacco duties. The June 2017 RPI is the basis for the draft Budget 2018 proposals and future FPP assumptions for RPI have reduced from March 2017, resulting in small reductions in the 2019-2021 Impôts duty forecasts.

Stamp Duty

- Stamp duty on over £2m properties, Land Transaction Tax (LTT) and probate to June 2017 are slightly above March 2017 forecast and the 2017 forecast has been increased.
- With the high level of volatility in over £2m property transactions in recent years, IFG has recommended that this increase is not applied to future forecasts at this time.
- The economic assumptions affecting stamp duty have not changed since March 2017.

Other Income

- The 2018-2021 forecast for other income are slightly down compared to those produced in March and is attributable to:
  - A reduction in the economic assumption for RPI affecting Island Wide Rate and Andium returns; and
  - A reduction in the economic assumption for interest rates affecting the returns of investment income from the Consolidated and Currency Funds

A summary of the variations against the previous forecasts prepared in March/April and presented as R66.2017 in June 2017 is shown in **Figure 34**

Figure 34 – Summary of Variations in September 2017 forecast v March 2017

Central Forecast from Range (September 2017)	Forecast	Draft Budget 2018 forecast (September 2017)			
	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000
States General Revenues Income					
- Income Tax	483,000	510,000	530,000	553,000	577,000
- GST	87,428	87,828	88,494	89,382	90,291
- Impôt Duties	58,420	58,777	58,600	58,811	59,043
- Stamp Duty	29,055	29,641	30,241	30,859	31,496
Income from Taxation and Duty (excl: Budget measures)	**657,903**	**686,246**	**707,335**	**732,052**	**757,830**
- Other Income	68,865	62,204	70,642	67,279	69,529
Total States Income (excl: Budget measures)	**726,768**	**748,450**	**777,977**	**799,331**	**827,359**
March 2017 Forecast	**722,763**	**747,457**	**779,621**	**802,342**	**830,836**
Variation to March 2017 Forecast	***4,005***	***993***	***(1,644)***	***(3,011)***	***(3,477)***

Variations to the additional revenue raising measures for 2018 and 2019

The MTFP 2016-2019 (October 2015) included forecasts for the introduction of a sustainable funding mechanism for the payment of rates from 2017 and for a health charge from 2018.

The proposals for a health charge were rejected in the MTFP Addition 2017-2019 and replaced in the Budget 2017 with proposals for additional revenue raising measures for 2018 and 2019 to be brought forward in the draft Budget 2018. Proposals for a mechanism to fund the States payment of Rates were not agreed in the Budget 2017.

This draft Budget 2018 proposes additional revenue raising measures of £2.9 million in 2018 and £10.2 million in 2019. These measures are proposed as part of the taxation and duty proposals and if approved by the States would result in a small shortfall against the original targets for the rejected health charge. However, the current position still results in broadly balanced budgets by 2019.

There remains further opportunity in the 2019 Budget to propose additional revenue raising measures for 2019, although any proposals for income tax at that time would not raise revenues until 2020.

Following the majority of the Comité des Connétables not supporting either the principle of the States paying rates or the specific proposals from the Minister for Treasury and Resources, there is a shortfall of £0.9 million in States income forecasts from 2018 onwards and also an equivalent saving of £0.9 million in the Department for Infrastructure net expenditure limits.

The combined effect of the variations in the States income forecasts, the current shortfall in additional revenue raising measures and no funding mechanism for States payment of rates is shown in **Figure 35**

Figure 35 – Variations in Total States Income Forecasts September 2017 v March 2017

Central Forecast from Range (September 2017)	Forecast	Draft Budget 2018 forecast (September 2017)			
	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000
States General Revenues Income					
- Income Tax	483,000	510,000	530,000	553,000	577,000
- GST	87,428	87,828	88,494	89,382	90,291
- Impôt Duties	58,420	58,777	58,600	58,811	59,043
- Stamp Duty	29,055	29,641	30,241	30,859	31,496
Income from Taxation and Duty	**657,903**	**686,246**	**707,335**	**732,052**	**757,830**
- Other Income	68,865	62,204	70,642	67,279	69,529
Total States Income - Central Scenario	**726,768**	**748,450**	**777,977**	**799,331**	**827,359**
- Proposed Mechanism to offset States Payment of Rates	-	-	-	-	-
- Proposed Revenue Raising measures (draft Budget 2018)	-	2,900	10,200	10,200	10,200
Total States Income (incl: Budget measures)	**726,768**	**751,350**	**788,177**	**809,531**	**837,559**
March 2017 Forecast	**722,763**	**755,857**	**795,521**	**818,242**	**846,736**
Variation to March 2017 Forecast	***4,005***	***(4,507)***	***(7,344)***	***(8,711)***	***(9,177)***

Overall range of forecasts 2017-2021

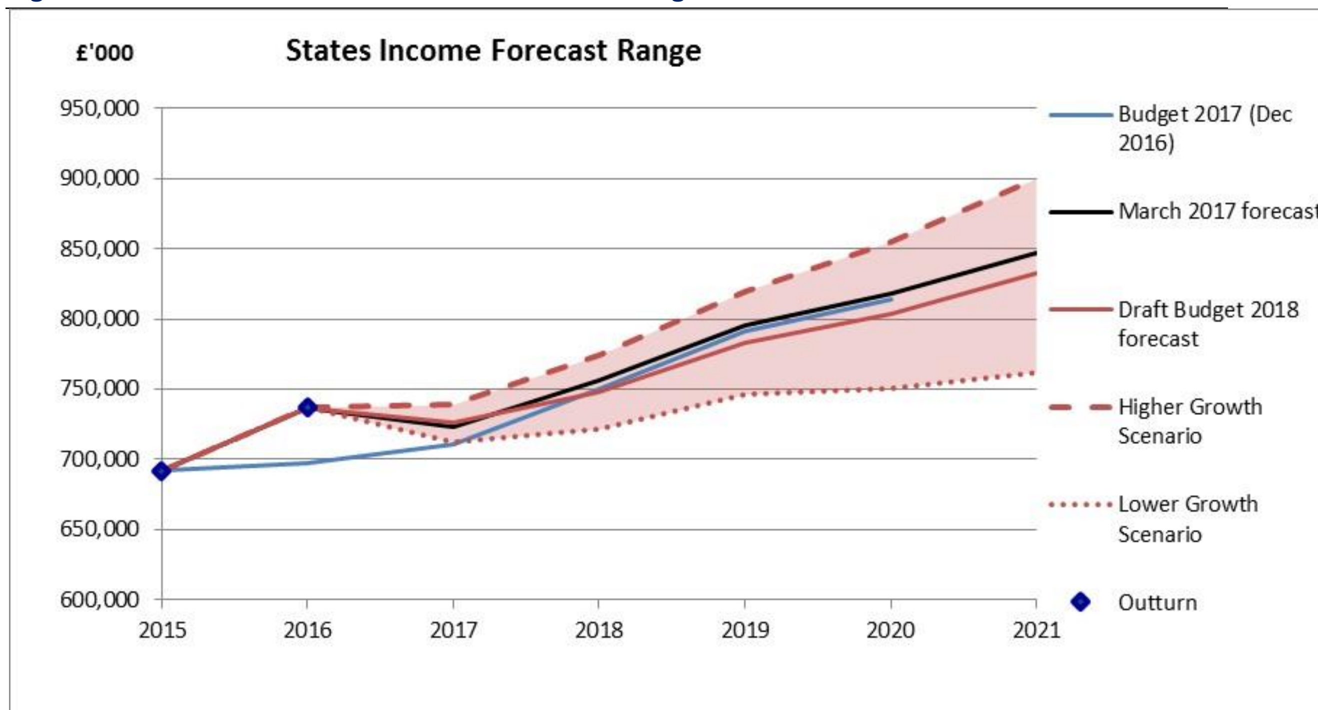
The updated FPP endorsed economic assumptions (August 2017) provide a range of higher, lower and central assumptions. These assumptions are used within the modelling of the different types of States income along with other modelling factors to provide an illustrative range of income forecasts. The range 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 2021 amounts **to almost £140 million** between the higher and lower scenarios.

Figure 36 - Forecast range for the draft States income forecasts

	Actual		Draft Budget 2018 forecast				
	2015	2016	2017	2018	2019	2020	2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Higher Growth Scenario	648,966	736,803	738,941	777,268	824,588	860,106	905,201
Lower Growth Scenario	648,966	736,803	712,338	724,587	751,281	755,798	767,279
Range	*0*	*0*	*26,603*	*52,680*	*73,306*	*104,308*	*137,922*
Range %			4%	7%	9%	13%	16%

Figure 37 – Movements in Forecast since the draft Budget 2017



Summary of Economic Assumptions for the draft Budget 2018

The economic assumptions have been updated and are endorsed by the FPP based on the latest local and international developments to August 2017.

The main variations to the economic assumptions used March 2017, are summarised below and in **Figure 39.** The central assumptions on which the September 2017 forecasts are based are shown at **Figure 38**.

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.

The updated economic assumptions (**Figure 38**) have been used in the tax model to update the income tax forecast. When compared to the previous (March 2017) assumptions, the main changes are:

1. **Outturn data** – there have been a number of new data:
   - Financial services profits for 2016 were significantly lower than forecast.
   - FTE Employment growth in 2016 was higher than forecast.
   - Finance sector compensation of employees grew by only ½ per cent (nominal) in 2016; leading to a lower expectation for compensation of employees overall.
2. **Financial services profit growth** – growth expected to be slower in 2017 and 2018.
3. **Non-finance profit growth** expected to be slower in 2017.
4. **Inflation** – expectations for 2018 are lower.
5. **Average earnings** – 2018 expected to be slightly lower (in nominal terms, due to lower inflation).
6. **Employment growth** – is now expected to be faster in 2017 and 2018.
7. **UK policy interest rates –** are now expected to be slightly lower throughout the forecast period.

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 2016 but a little higher in 2017 and 2018. The FPP has not made any change to forecasts for GVA growth in 2019-2020.

Figure 38 – FPP Updated Economic Assumptions (August 2017)

FPP central scenario August 2017

						Return to trend		
	2014	2015	2016	2017	2018	2019	2020	2021
Real GVA	4.9	2.2	0.2	1.2	0.6	0.0	0.0	0.0
RPI	1.6	0.6	1.7	2.8	2.4	3.3	3.3	3.3
RPIY	1.6	0.6	1.7	2.8	2.4	3.0	3.0	3.0
Nominal GVA	6.6	2.9	1.9	4.0	3.0	3.0	3.0	3.0
Company profits	12.3	-0.7	0.9	3.9	2.9	3.0	3.0	3.0
Financial services profits	19.4	-7.6	-0.6	4.0	2.4	3.0	3.0	3.0
Compensation of employees	2.1	5.9	2.8	4.0	3.0	3.0	3.0	3.0
Employment	2.3	1.9	2.0	1.0	0.5	0.0	0.0	0.0
Average earnings	2.6	1.8	2.1	3.0	2.5	3.0	3.0	3.0
Interest rates (%)	0.5	0.5	0.4	0.2	0.3	0.4	0.5	0.8
House prices	3.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0

Figure 39 – Variations between Economic Assumptions in August 2017 v March 2017

Variance August 2017 to March 2017						Return to trend		
	2014	2015	2016	2017	2018	2019	2020	2021
Real GVA	0.0	0.0	-1.3	0.2	0.6	0.0	0.0	0.0
RPI	0.0	0.0	0.0	0.1	-0.6	0.0	0.0	0.0
RPIY	0.0	0.0	0.0	0.1	-0.6	0.0	0.0	0.0
Nominal GVA	0.0	0.0	-1.3	0.3	0.0	0.0	0.0	0.0
Company profits	0.0	0.0	-1.9	0.2	-0.1	0.0	0.0	0.0
Financial services profits	0.0	0.0	-3.2	-0.4	-0.6	0.0	0.0	0.0
Compensation of employees(a)	0.0	0.0	-0.8	0.3	0.0	0.0	0.0	0.0
Employment	0.0	0.0	0.5	0.2	0.5	0.0	0.0	0.0
Average Earnings	0.0	0.0	0.0	0.1	-0.5	0.0	0.0	0.0
Interest rates (%)	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.3	-0.2
House prices	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OUTTURNS								
(a) Total Employment costs								

States Expenditure Forecasts 2017-2019

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. These are shown in **Figure 40.**

The States cannot exceed these total net expenditure limits without an amendment from the Council of Ministers being brought and agreed by the States. However, the allocations between heads of expenditure can be agreed by ministerial decision to allow the necessary transfers of functions between departments or between revenue and capital. The Minister for Treasury and Resources will present an Update to the MTFP Department Annex for 2018 to incorporate these changes and also to include the allocations of growth expenditure and capital projects for 2018 once agreed in the Budget 2018 debate.

Budget 2018 – Allocations of growth expenditure

The Council of Ministers is proposing that £2.1 million be prioritised and allocated to the Department for Infrastructure in 2018 to offset the net shortfall in the Department's expenditure limit as a result of the deferment of non-domestic liquid waste charges and the saving arising from the lack of support from the Comité for the proposals for the principle and proposals of the States payment of rates, as a priority from central growth allocations for 2018.

Expenditure Forecasts for 2017

The Council of Ministers has received forecasts of department expenditure to June 2017 which showed a forecast underspend by most departments and the most recent figure for August 2017 amounts to £21.8 million, including £6.8 million on Social Security benefits. On the basis of these forecasts, it is recommended that the shortfall in the Health and Social Services budget of £5 million in 2018 and in 2019, following the withdrawal of the planned transfers from the Health Insurance Fund, be funded from the anticipated underspends on Social Security benefits and associated AME contingency. However, sustainable measures of £5 million p.a. will need to be identified ahead of the next MTFP.

Taking the latest financial monitoring figures from departments for August 2017 and also projecting the level of expenditure likely from the various central contingency provisions the revised expenditure

forecast for 2017 is not significantly different from the current expenditure allocations, so these have been left unchanged in forecasting the States financial position for this draft Budget.

This forecast can only make assumptions about known expenditure pressures and also assumes that the level of forecast department underspend will not increase between now and the year end as it did in 2016.

The Treasury will continue to provide regular updates on financial monitoring for 2017 to the Corporate Management Board and Council of Ministers on the forecast position for both expenditure and income ahead of the Budget 2018 debate.

Figure 40 – Total States Net Expenditure Allocations for 2017-2019 from MTFP Addition

States Funded Bodies	MTFP Addition 2017 - 2019 (as amended)		
	Total Net Expenditure 2017 £'000	Total Net Expenditure 2018 £'000	Total Net Expenditure 2019 £'000
Ministerial Departments			
Chief Minister's	26,482.1	26,210.1	25,473.1
- Jersey Overseas Aid Commission	10,338.5	10,338.5	10,338.5
External Relations	1,746.3	1,746.3	1,746.3
Community and Constitutional Affairs	48,782.7	48,241.9	47,095.2
Economic Development, Tourism, Sport and Culture	19,182.6	18,339.0	17,795.9
Education	105,944.0	106,216.9	106,316.9
Department of Environment	5,856.1	5,393.4	4,675.9
Health and Social Services	207,908.3	210,787.0	210,481.1
Infrastructure	39,981.1	35,367.4	26,449.2
Social Security	186,225.7	187,551.3	189,331.4
Treasury and Resources	21,447.4	20,973.5	20,267.4
Ministerial Departments	673,894.8	671,165.3	659,970.9
Non Ministerial States Funded Bodies			
- Bailiff's Chamber	1,687.7	1,699.7	1,711.8
- Law Officers' Department	7,555.9	7,323.8	7,087.1
- Judicial Greffe	6,558.1	6,497.1	6,429.8
- Viscount's Department	1,341.2	1,349.9	1,345.5
- Official Analyst	600.2	601.3	571.5
- Office of the Lieutenant Governor	734.5	724.9	714.7
- Office of the Dean of Jersey	27.0	27.2	27.5
- Office of the Data Protection Commissioner	374.3	439.7	505.9
- Probation Department	2,013.8	2,017.6	2,021.7
- Comptroller and Auditor General	804.4	817.4	831.2
States Assembly and its Services	5,045.4	4,963.4	4,882.4
Non Ministerial Departments	26,742.5	26,462.0	26,129.1
Total Departmental Net Revenue Expenditure	**700,637.3**	**697,627.3**	**686,100.0**
Central Contingency Allocations	23,649.7	25,903.7	28,212.1
Central Growth Allocations	-	10,424.0	20,533.0
Total Net Revenue Expenditure	**724,287.0**	**733,955.0**	**734,845.0**
Net Capital Expenditure Allocation - Annual Programme	26,273	35,000	32,975
Net Capital Expenditure Allocation - Other Projects	39,000	8,233	-
Total States Net Capital Allocations	**65,273**	**43,233**	**32,975**
Total States Net Expenditure Allocations	**789,560**	**777,188**	**767,820**
For Information:			
Departmental Depreciation	*40,600*	*45,500*	*53,000*

Consolidated Fund Forecast 2017-2019

Article 10(8) of the Public Finances (Jersey) Law 2005 requires the Minister of Treasury and Resources to lodge a Budget where the Consolidated Fund is balanced. The latest update of the States income forecasts together with the measures proposed in this draft Budget for 2018 forecast a positive balance on the Consolidated Fund for each of the years 2017-2019.

The Consolidated Fund forecast is shown at **Summary Table F** and in detail in **Figure 41**, explaining the variations from the Budget 2017 position.

Figure 41 – Detailed Forecast of Consolidated Fund 2017-2019 (September 2017)

Draft Forecast Consolidated Fund Balance	Outturn 2016 £'000	Forecast Update for Draft Budget 2018 (September 2017)		
		2017 £'000	2018 £'000	2019 £'000
Opening Balance brought forward	**64,654**	**90,941**	**79,486**	**54,648**
Forecast Operating Surplus/(Deficit) - Budget 2017	**(43,016)**	**(13,601)**	**15,991**	**56,391**
Improved 2016 outturn position	36,303			
March 2017 Income Forecasts		12,077	5,911	4,285
September 2017 Draft Income Forecasts		4,005	993	(1,644)
Loss of Rates Income		-	(900)	(900)
Shortfall in £15m Revenue raising measures		-	(4,600)	(4,800)
Funding for Capital Programme	(26,691)	(65,209)	(43,233)	(32,975)
Additional In Year Capital Funding		-	(6,500)	-
Proposed Transfers from Strategic Reserve	56,691	55,273	16,000	-
Adjustment to proposed transfer from Strategic Reserve			(16,000)	
Proposed Transfers to Strategic Reserve		(5,000)	-	(20,000)
Proposed Asset Disposals	3,000	1,000	1,000	1,000
Original Proposed Transfer from COCF		-	8,233	-
Adjustment to Transfer from COCF - now in year 2018			(1,733)	
Forecast Closing Balance carried forward	**90,941**	**79,486**	**54,648**	**56,005**

Changes to the Consolidated Fund Forecast since Budget 2017 (December 2016)

- The balance on the Consolidated Fund at the end of 2016 and brought forward to 2017 has improved by £36.3 million which is primarily due to the improvement in the 2016 general revenues income against the Budget 2017 forecast. In addition there were a number of other small fund movements contributing to the remainder of the difference.
- The annual review of income forecasts in March/April 2017 also showed improvements in the forecast of States income against the Budget 2017 forecast and these are shown in total in **Figure 41**, and explained in detail in R66.2017 (June 2017).
- The latest update to the income forecasts for September 2017 show further variations to the March forecasts and these are shown in total in **Figure 41** and in detail in **Figure 34** and in the detailed **Appendices 1-5** of this report
- The Council of Ministers committed to bring forward proposals in the draft Budget 2018 for additional revenue raising measures to replace the rejected health charge. The draft proposals in this Budget are forecast to raise £2.9 million in 2018 increasing to £10.2 million in 2019. The

shortfall against the funding from original health charge are shown in **Figure 41**

- The revised capital expenditure proposals for 2018 comprise additional funding from the Consolidated Fund and a reduced transfer from the Criminal Offences Confiscation Fund (COCF) which are reflected in **Figure 41** and explained in detail in **Section 11** of this report
- As a result of the improvements in the 2016 outturn and in the income forecasts since the Budget 2017 the proposed drawdown from the Strategic Reserve in 2018 of £16 million is not now required.

The balance on the Consolidated Fund in 2019 is forecast to be £56 million which is higher than forecast in the Budget 2017 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.

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 P76/2015 (as amended) in October 2015. The MTFP Addition 2017-2019 presented an amended position for 2018 indicating that a potential drawdown of £16 million 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 £16 million in 2018.

The forecast of the Strategic Reserve balances at **Figure 42** reflects the net transfer to the Consolidated Fund in 2017 of £50.273 million agreed for 2017 and the proposed repayment of £20 million to the Strategic Reserve from the Consolidated Fund in 2019.

At this stage, awaiting the final proposals for the funding of the future hospital, no further transfers to or from the Strategic Reserve are assumed.

The proposed use of the Strategic Reserve in the early years of this MTFP is 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 provides 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 42 – Strategic Reserve Forecast Balances 2016-2021

Strategic Reserve - Estimated Balances	2016 Actual £'000	2017 Forecast £'000	2018 Forecast £'000	2019 Forecast £'000	2020 Forecast £'000	2021 Forecast £'000
Strategic Reserve - Protected Capital Value [1]	691,152	710,158	727,025	748,835	771,300	794,440
Strategic Reserve - Accumulated Excess Return [2]	128,432	98,083	116,577	156,946	179,770	204,185
Strategic Reserve - Estimated Fund balance	**819,584**	**808,241**	**843,602**	**905,781**	**951,070**	**998,625**

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

[2] The excess return is based on an assumed return of 2% in excess of RPI

PART F – THE ECONOMIC OUTLOOK

12. Economic Background and Outlook

International developments

The global economy has gained some momentum so far in 2017, with most of the world's major economies expected to grow more quickly than last year. The OECD expects global growth to be 3.5% this year, an acceleration from 3.1% in 2016. This has been boosted by growth in world trade and accommodative monetary and fiscal policy.

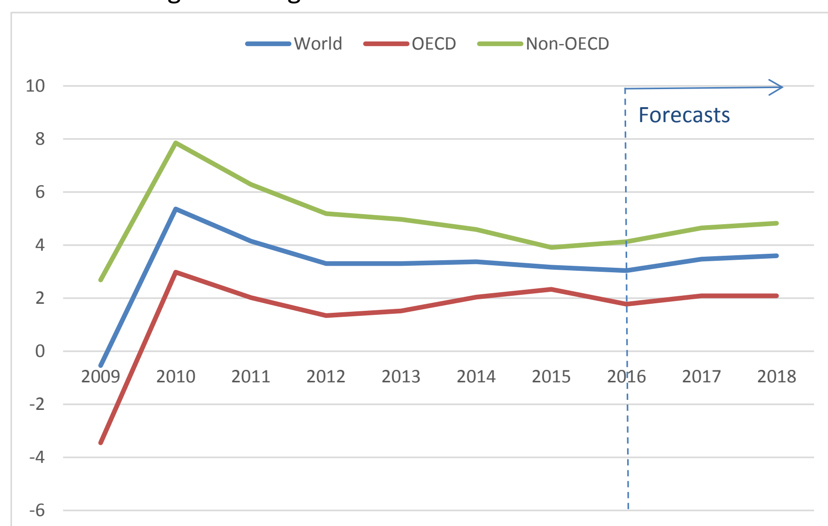
Among advanced economies, the United States, the Euro area and Japan have all shown signs of significant improvements in 2017, while the United Kingdom economy is forecast to continue its gradual slowdown through 2017 and into 2018. China is expected to maintain a similar growth rate, while strong growth in India will weaken somewhat and both Russia and Brazil will recover from contractions last year.

However, the OECD does point to some potential weaknesses in the global economy which could disrupt the current momentum:

- Private sector investment has not recovered in the current recovery to the same extent as in previous recoveries
- Inflation and wage growth remain low
- Emerging economy debt is high and further reforms are needed.

Figure 43: World economic growth

Annual average % change



Source: OECD Economic Outlook June 2017

The UK's vote to leave the EU has caused some uncertainty within the UK but this does not appear to have spread to other parts of Europe, or more widely. The impact on the UK is now expected to be more prolonged than previously anticipated, with a gradual slowdown over a number of years rather than any short, sharp recession. The longer-term implications are very much dependent on the outcome of ongoing negotiations with the EU, and on how businesses respond.

Jersey economy

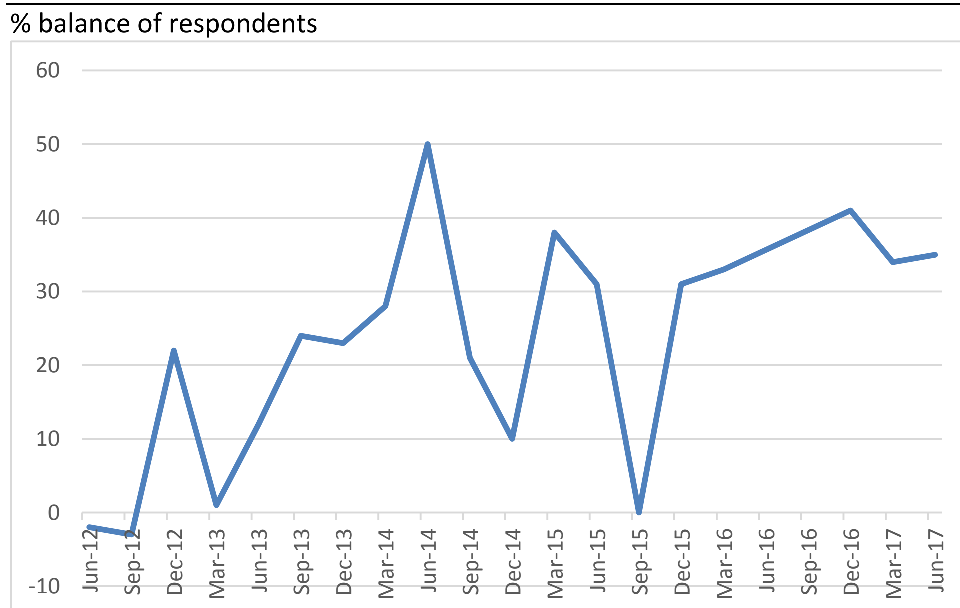
The Jersey economy grew by 1% in 2016, as measured by Gross Value Added (GVA). This was higher than expectations (0.2% growth), and the third successive year of growth. The GVA of the finance sector fell by 2%, driven by falls in the banking sector. The construction sector grew by 8%, hotels, restaurants and bars by 7% and other business activities by 6%. GVA fell for both public administration (by 4%) and wholesale and retail (3%).

The Business Tendency Survey (BTS) gives a more recent picture of the economy. The BTS has continued to paint a positive picture overall, with the headline business activity indicator having been positive since June 2014. The majority of the other indicators are positive or neutral, with the exception of input costs which is at its most negative level to date.

For the finance sector, the BTS has been consistently positive in recent rounds. Business activity is strongly positive, with a net balance of +35, indicating that that the proportion of businesses (weighted by employment) reporting an increase in activity was 35% higher than the proportion reporting a decrease. Expectations for future activity were also high, and business optimism has remained positive since 2013.

Figure 44: Finance business tendency results – business activity indicator

% balance of respondents

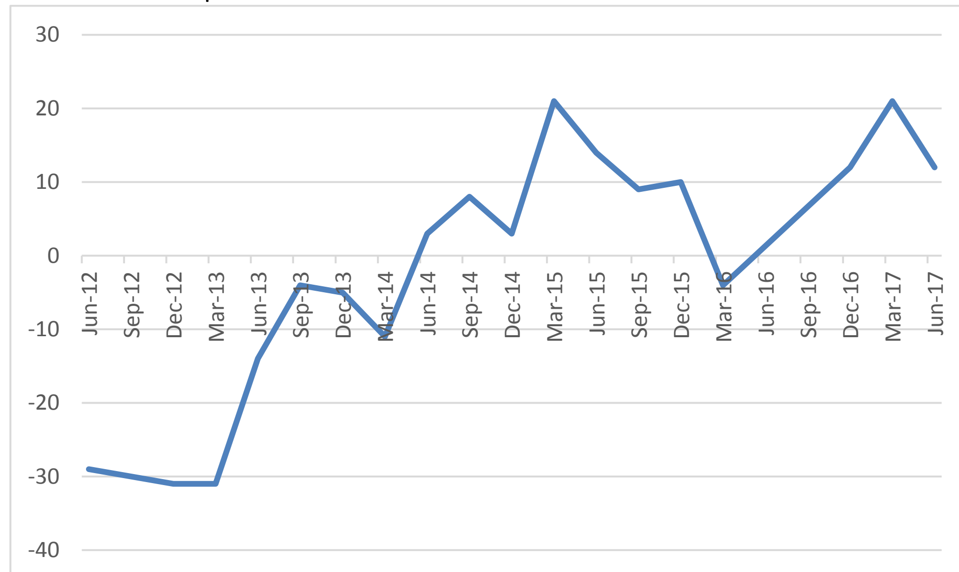


Source: States of Jersey Statistics Unit

Non-finance has been generally positive for the three most recent quarterly surveys, although profitability remains under pressure as input costs rise as a result of weaker sterling.

Figure 45: Non-finance business tendency results – business activity indicator

% balance of respondents



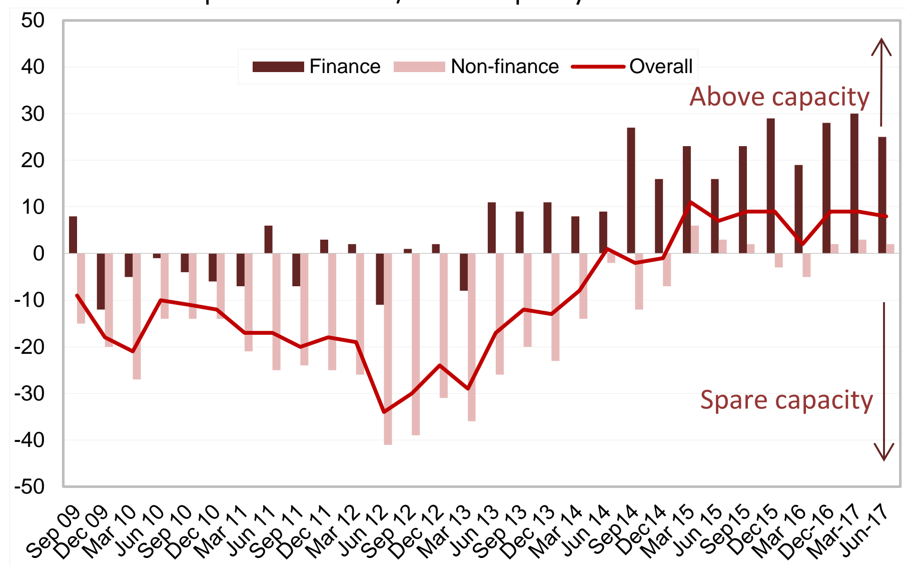
Source: States of Jersey Statistics Unit

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 growth, the competitiveness of financial services, trends in Jersey GVA, labour market trends and the ability of businesses to employ people locally.

Figure 46 shows that overall, a larger proportion of firms (weighted by employment) are operating above capacity than are working below capacity. However, while the responses from the finance sector suggest a large number of firms have been above capacity in recent years; for non-finance the net balance is relatively neutral.

Figure 46: Capacity utilisation

% balance of respondents above/below capacity

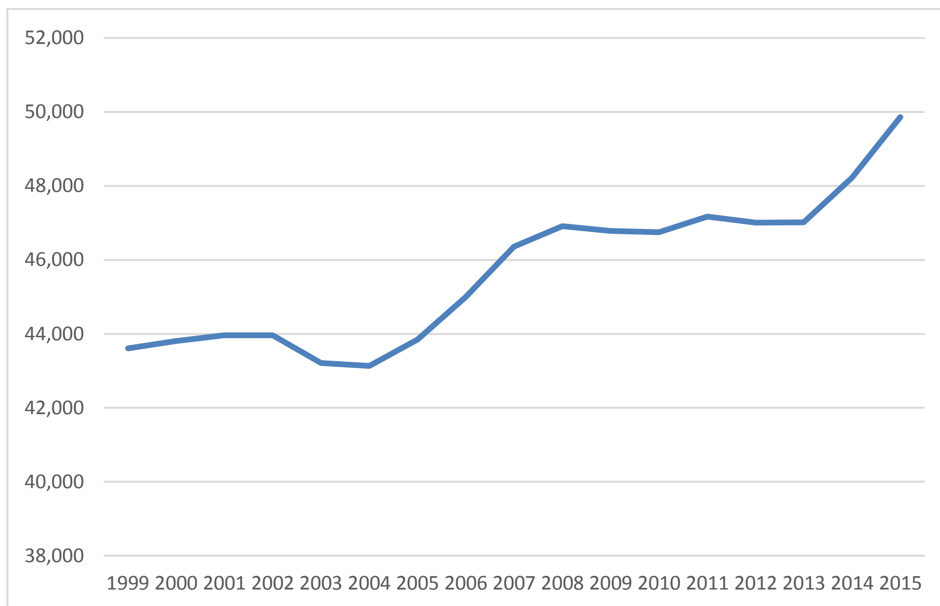


Source: States of Jersey Statistics Unit

Employment growth has also been strong, with 2016 seeing both the highest June number of people in employment to date and the highest December number to date. Numbers actively seeking work has been falling at the same time, with an annual reduction of almost 30% to June 2017.

Figure 47: Employment trends in Jersey

% change in private sector employment in December each year compared to a year ago

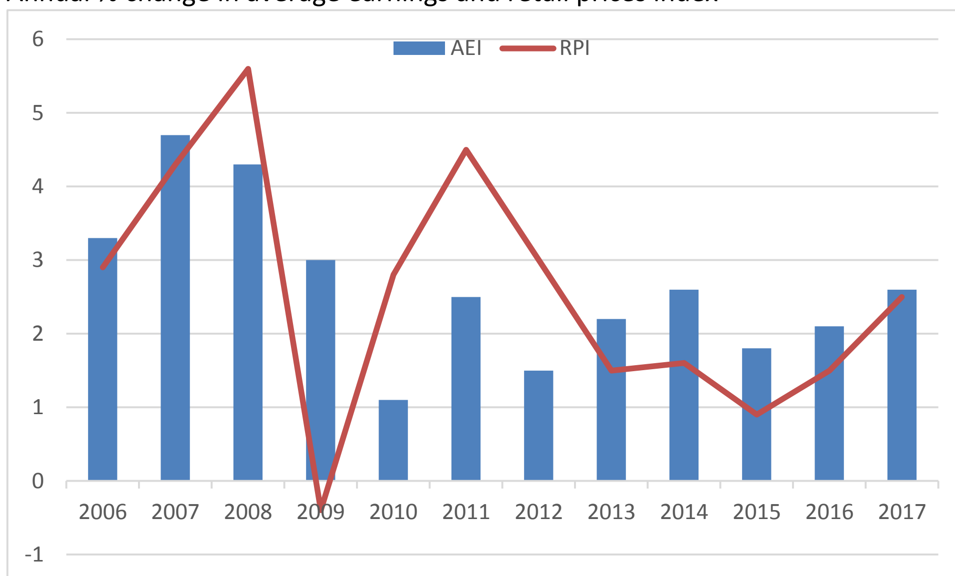


Source: States of Jersey Statistics Unit

Another positive indicator from the labour market is that average earnings have grown in real terms for five successive years. However, this follows a number of years of falling real earnings and in 2017 higher inflation means that earnings growth only exceeded inflation by 0.1%. Overall, average earnings have grown by only 0.1% in real terms over the last ten years.

Figure 48: Earnings growth and inflation

Annual % change in average earnings and retail prices index

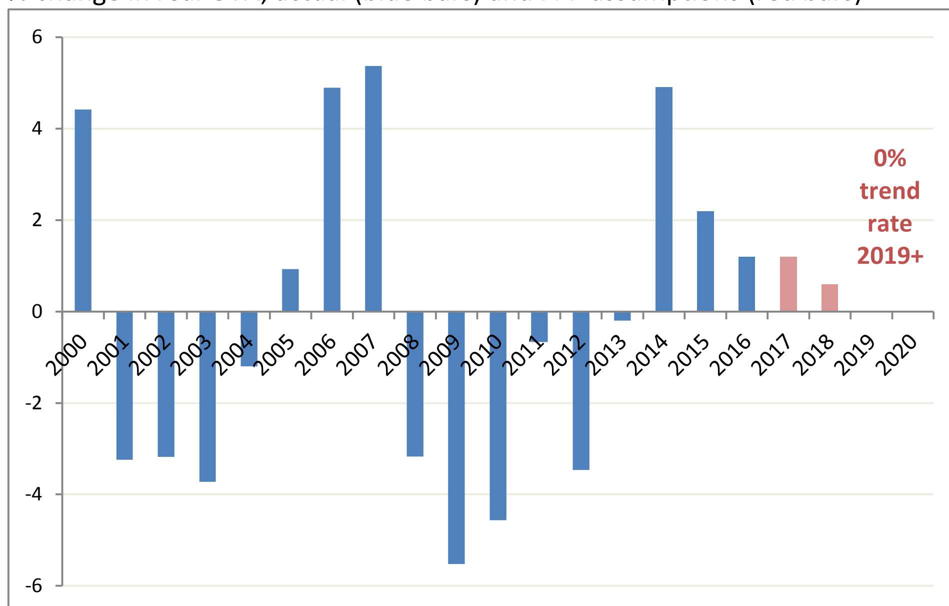


Source: States of Jersey Statistics Unit

The Fiscal Policy Panel last updated their economic assumptions in August 2017. Growth in 2017 was forecast at 1%, falling to 0.5% in 2018. However, the Panel have stated that considerable uncertainty remains regarding the likely short- and long-term economic implications of the UK's exit from the EU and around the performance of the finance sector.

Figure 49: GVA trends

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

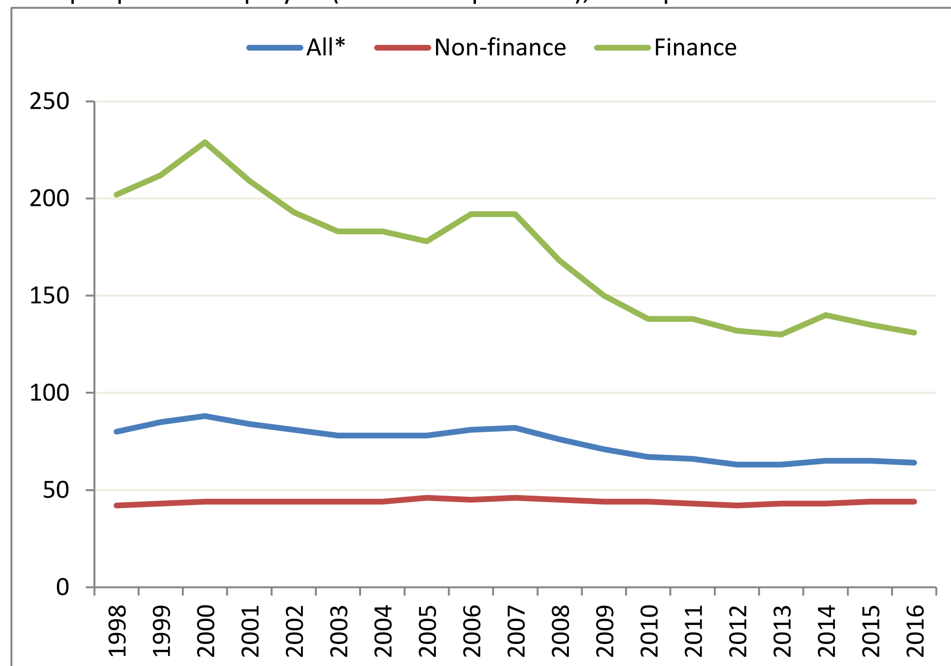


Source: Fiscal Policy Panel

The lack of productivity growth over previous economic cycles has been of particular concern and the most recent trends are not yet showing any real improvement. 2016 saw productivity (as measured by GVA per FTE) fall 2% in real terms. Productivity in the finance sector fell by 3%, primarily due to falling productivity in trust and company administration. Productivity for non-finance was flat, with increases in sectors including hotels, restaurants and bars, and construction, with falls in wholesale and retail and other business activities.

Figure 50: Productivity growth in Jersey

GVA per person employed (full-time equivalent), 2013 prices £000s



*All sectors and non-finance exclude rental

Source: States of Jersey Statistics Unit

The FPP emphasised in their 2016 Annual Report the importance of raising Jersey's productivity performance:

> *"Improving Jersey's underlying rate of productivity growth is vital to raising Jersey's economic performance and competitiveness, improving public finances and ultimately raising the standard of living particularly as the underlying demographic changes start to have more of an effect."*

The Council of Ministers remains committed to playing its part in trying to achieve this. The MTFP 2016-2019 sets out significant investment in health, education, St. Helier and the Island's infrastructure. This supports the approach set out in the Strategic Plan to improve productivity performance and optimise economic growth by:

- Supporting Digital Jersey to promote jobs and growth in the technology sector, with a focus on Fintech
- Enhancing the existing Financial Services Policy Framework
- Developing a new and challenging Enterprise Strategy
- Implementing the recommendations of the Tera Allas Review to establish a new Innovation Strategy
- Attracting more inward investment through the activities of Locate Jersey
- Reviewing and upgrading the existing skills strategy with support from the Economic and Productivity Growth Drawdown Provision
- Implementing the Oxera recommendations to develop a new competition framework.

Jersey's fiscal position

In their letter to the Treasury and Resources Minister in August 2017 the FPP also stated that in the light of the latest economic and fiscal developments:

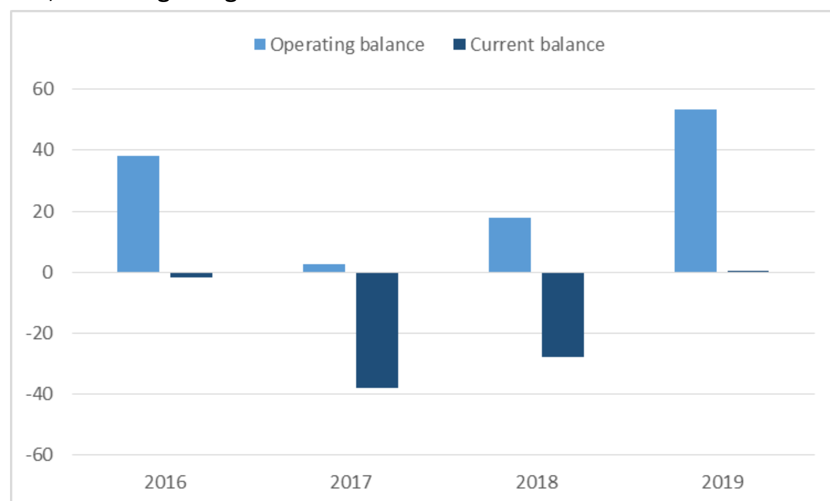
> *"It is therefore imperative that equivalent expenditure and/or revenue measures are put in place to deliver the same degree of fiscal balancing as previously planned in the MTFP Addition by 2018/19."*

The Council of Ministers has framed Budget 2018 to follow this advice and previous FPP recommendations to address any structural imbalance in States finances by 2018/19 whilst being careful about the impact on the economic recovery.

Figure 51 shows the latest financial forecast after the measures proposed in Budget 2018 are taken into account. By 2019 there is expected to be an operating surplus of just under £55m and after depreciation is taken into account this will mean that current budget is in balance. The current budget position by 2019 is therefore expected to be similar to that at the time of the MTFP Addition. This means that the current advice of the FPP will be met and that any underlying structural mismatch between revenue and expenditure should have been broadly addressed by 2019.

Figure 51: States operating and current budget position

£m, including Budget 2018 measures

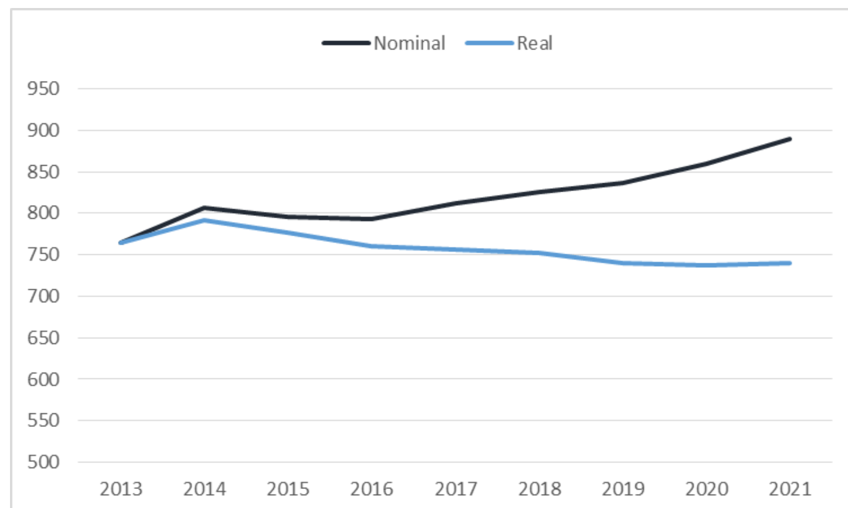


Source: Treasury and Resources Department

One of the factors contributing to the expected improvement in both the operating position and the current budget is that total Consolidated Fund revenue expenditure is not expected to increase in real terms and by 2019 will be about 2.5% below what it was in 2016 in real terms.

Figure 52: Trend in total Consolidated Fund revenue expenditure

£m, real in 2013 prices



Source: Treasury and Resources Department

This analysis of expenditure trends does not include capital expenditure. To get a better understanding of how the States' fiscal position - after capital spending - will impact on the economy in coming years it is possible to adjust the operating balance to take account of what will actually be spent on capital projects rather than what is allocated. It is also possible to include what the impact will be from the balance on other States funds such as the Social Security and Health Insurance Fund (HIF).

Figure 53 shows how this calculation can be built up. Firstly the initial operating balance is adjusted for the best estimate of the capital expenditure profile. There are large adjustments to account for the scale of capital expenditure on key projects such as social housing, sewage treatment works, a new secondary school, the new hospital and by the subsidiary companies SoJDC[14], Andium Homes and Ports of Jersey. A large part of this capital expenditure is not financed from tax or other revenue taken from the economy in the year that it is spent and therefore alters the position quite significantly. On this basis the net fiscal position moves from a broadly neutral position in 2016 to one where it is adding significant stimulus throughout the 2017-2021 period.

Figure 53: Adjusted fiscal position

£m	2013	2014	2015	2016	2017	2018	2019	2020	2021
Operating balance	1	-17	-5	38	2	17	53	55	55
Balance after cap x*	-43	-69	-87	-44	-211	-313	-234	-248	-235
Adj. for trading fund	-37	-69	-84	-32	-199	-314	-231	-241	-226
Adj. for Soc Sec/HIF	-31	-62	-70	2	-173	-302	-230	-225	-218

*includes future hospital

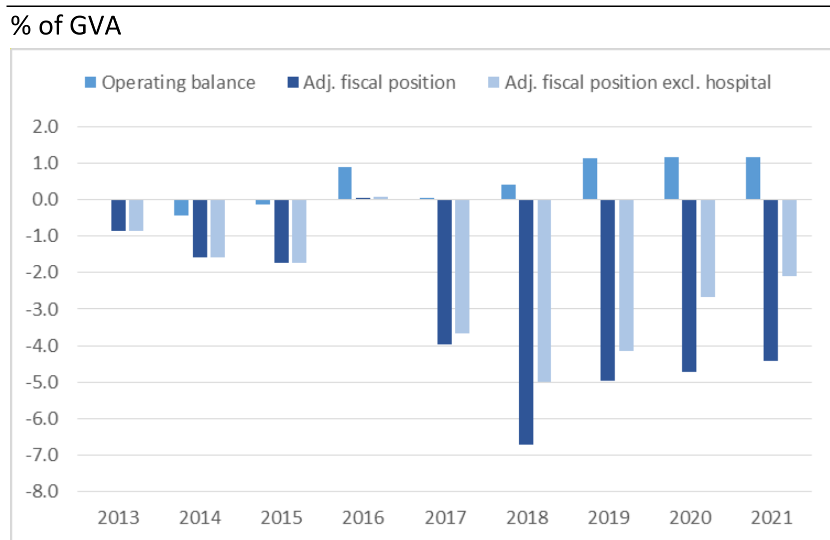
Source: Treasury and Resources Department

[14] States of Jersey Development Company

The chart below shows that the adjusted balance and extent of the stimulus to the economy is also large relative to the size of the economy in the 2017-2021 period. The adjusted fiscal position goes from near balance in 2016 to one where spending in the economy exceeds money withdrawn by between 4% and 7% of GVA over 2017-21. This does include the large impact of new hospital – which may be subject to project specific risks. If this project is excluded from the analysis the chart below also shows that the stimulus is still likely to be large and between 2% and 5% of GVA over the period. This is driven by the activity of Andium Homes and the SoJDC which add over £100m of capital expenditure each year over the period.

Figure 54: Operating balance and adjusted fiscal position

% of GVA



Source: Treasury and Resources Department

This does suggest that significant fiscal support will remain in place while the economy is expected to remain below capacity in the immediate years. However, the scale of fiscal support in the later years is also large and could take place at a time when the economy may be returning to capacity. This brings the risk that fiscal policy may not act in a counter cyclical way. There is of course much uncertainty about the exact performance of the economy in coming years, as highlighted by the FPP in their August letter to the Treasury and Resources Minister.

This is a high level assessment and it will be important to consider in practice how capital expenditure and construction related spend actually impact on the economy in any given year or with reference to particular projects. For example, whether there are large projects that spend a high proportion on imported capital equipment and/or a high proportion on employment in the Jersey economy. In addition, the timing of key projects could change which could significantly alter the profile of capital expenditure. It will be important to also consider what the level of activity is in the private sector both as whole or in similar sub-sectors to the States projects.

For these reasons the scale and impact on the local economy of the States capital programme will need to be monitored and kept under review. If necessary, adjustments or compensating measures will be considered if required in future years. If the economy is expected to be close to capacity at any point and the States capital programme combined with private sector activity risks a build-up of inflationary pressure then this will be carefully managed to limit the demands on local resources and ultimately the impact on the economy. The Council of Ministers will respond as required if FPP advice ahead of Budget 2018 or in future reports suggests steps need to be taken to limit the impact on the local economy of the important investment planned.

The risks around managing the impact of the States capital programme are only one set of uncertainties that the Island faces at the moment. The FPP stated in their August letter to the Treasury and Resources Minister regarding the uncertainties the Island faces:

> *"On assessing the situation in Jersey we have concluded that the significant levels of uncertainty that we identified in our 2016 Annual Report and reiterated in our letter to you in March this year remain. That is, considerable uncertainty regarding the likely short- and long-term economic implications of the UK's exit from the EU, and the impact on Jersey, and the on-island uncertainties around the financial sector's performance."*

The Council of Ministers has listened to this and previous FPP advice to ensure that fiscal plans can be flexible in the face of such uncertainties and can adapt to changing economic circumstances. The improved Consolidated Fund balance as result of the Budget 2018 plans are a key element of this flexibility. As highlighted earlier in this section, the latest economic indicators are generally positive and indicate the Jersey economy to be performing well despite these uncertainties.

Nonetheless, should economic conditions change the Council of Ministers retains this flexibility to alter its plans should future advice from the FPP indicate this is necessary. At this stage it is not clear that such a change is warranted and the current uncertainty should not act as a distraction from addressing any structural imbalance in States finances.

If the current economic uncertainty materialises into a deterioration in economic conditions then subject to FPP advice there are a number of options for offering further support to the local economy:

- Allow the automatic stabilisers (increased spending in areas such as benefits and/or lower revenues as economic activity slows) to adjust and help smooth any impacts on the economy.
- Funding could be placed in the Stabilisation Fund (from the Consolidated Fund, contingencies or reserves) and used to support discretionary policies that can support the economy in a timely, targeted and temporary manner.
- The Economic and Productivity Growth Drawdown Provision (EPGDP) is in place and can be used to support policies that can increase economic growth and mitigate the economic impacts of the UK's withdrawal from the EU.

Despite the economic uncertainties that the Island and the international economy currently face, if the measures set out in Budget 2018 are adopted then States finances remain on course to balance the current budget by 2019. This has been the consistent advice of the FPP and something the Council of Ministers has repeatedly set out to achieve in this MTFP period. FPP advice in future reports will be critical to determine whether this approach needs to change or whether any additional measures may be needed in the future. However, in the meantime the Council of Ministers plan through the measures proposed in Budget 2018 to keep finances on track with existing advice. The relatively strong performance of the economy into 2017 makes it a more conducive economic environment in which to achieve this.

PART G – SUMMARY TABLES

Summary Table A – States Income 2016-2021

Outturn	States Income	Sept 2017 Forecast	Draft Budget 2018 Forecast			
2016 £'000		2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000
	Income Tax					
398,153	Personal Income Tax	407,000	426,000	444,000	464,000	485,000
90,688	Companies	78,000	87,000	89,000	92,000	95,000
(876)	Provision for Bad Debt	(2,000)	(3,000)	(3,000)	(3,000)	(3,000)
	Proposed Budget Measures for information only			*7,500*	*7,500*	*7,500*
487,965		483,000	510,000	537,500	560,500	584,500
	Goods and Services Tax (GST)					
71,837	Goods and Services Tax (GST)	74,860	75,209	75,810	76,417	77,028
3,933	Import GST	4,168	4,419	4,684	4,965	5,263
9,028	ISE Fees	8,400	8,200	8,000	8,000	8,000
	Proposed Budget Measures for information only		*1,000*	*1,000*	*1,000*	*1,000*
84,798		87,428	88,828	89,494	90,382	91,291
	Impôts Duties					
5,326	Impôts Duties Spirits	5,300	5,330	5,348	5,414	5,481
8,225	Impôts Duties Wine	8,251	8,544	8,749	9,037	9,336
1,034	Impôts Duties Cider	1,003	1,105	1,143	1,192	1,244
5,766	Impôts Duties Beer	5,673	5,800	5,821	5,893	5,966
14,609	Impôts Duties Tobacco	15,049	14,532	14,137	13,873	13,614
21,855	Impôts Duties Fuel	21,623	22,015	22,015	22,015	22,015
177	Impôts Duties Goods (Customs)	145	145	145	145	145
1,418	Vehicle Emissions Duty (VED)	1,376	1,306	1,242	1,242	1,242
	Proposed Budget Measures for information only		*1,900*	*1,700*	*1,700*	*1,700*
58,410		58,420	60,677	60,300	60,511	60,743
	Stamp Duty					
24,942	Stamp Duty	24,417	25,736	26,285	26,850	27,433
1,934	Probate	2,757	2,200	2,200	2,200	2,200
3,429	Stamp Duty on Share Transfer (LTT)	1,881	1,705	1,756	1,809	1,863
30,305		29,055	29,641	30,241	30,859	31,496
661,478	**Total Taxation Revenue**	657,903	689,146	717,535	742,252	768,030
12,141	**Island Rate Income from Parishes**	12,427	12,725	13,145	13,579	14,027
12,568	**Other States Income - Dividends**	12,332	9,127	15,034	9,667	10,016
22,760	**Other States Income - Non Dividends**	15,726	11,224	12,521	13,056	13,437
27,856	**Other States Income - return from Housing Associations**	28,380	29,128	29,942	30,977	32,049
75,325	**Total Other States Income**	68,865	62,204	70,642	67,279	69,529
736,803	**Total States Income - including proposed Budget Measures**	**726,768**	**751,350**	**788,177**	**809,531**	**837,559**
	% increase on previous year		*3.4%*	*4.9%*	*2.7%*	*3.5%*

Summary Table B – Proposed Allocation of Growth Expenditure for 2018 and 2019

States Funded Bodies	2018 Gross Expenditure Allocation £'000	2018 Income Allocation £'000	2018 Net Expenditure Allocation £'000	2019 Gross Expenditure Allocation £'000	2019 Income Allocation £'000	2019 Net Expenditure Allocation £'000
Ministerial Departments						
Chief Minister			-			-
- Jersey Overseas Aid Commission			-			-
External Relations			-			-
Community and Constitutional Affairs			-			-
- Healthy Lifestyles	265		265	273		273
Economic Development, Tourism, Sport and Culture			-			-
- Revenue consequences of capital schemes - Jersey Archive	20		20	25		25
Education			-			-
- Revenue consequences of capital schemes - New schools	90		90	115		115
Department of Environment			-			-
Health and Social Services			-			-
- 2% Investment in Service Standards and Healthcare Inflation	4,714		4,714	4,714		4,714
- P82/2012 - Health Transformation Programme	3,235		3,235	4,273		4,273
Infrastructure			-			-
- Contribution towards net expenditure shortfall in 2018	2,100		2,100			-
Social Security			-			-
Treasury and Resources			-			-
Non Ministerial States Funded Bodies						
- Bailiff's Chambers						
- Law Officers' Department						
- Judicial Greffe						
- Viscount's Department						
- Official Analyst						
- Office of the Lieutenant Governor						
- Office of the Dean of Jersey						
- Office of the Data Protection Commissioner						
- Probation Department						
- Comptroller and Auditor General						
States Assembly and its services						
Allocation of Growth Expenditure	**10,424**	**-**	**10,424**	**9,400**	**-**	**9,400**

Note:

As a result of the deferral of non-domestic liquid waste charges of £3 million and the saving of £0.9 million from the majority of the Comité not supporting either the principle of States paying rates or the specific proposals developed by the Minister for Treasury and Resources,, DfI has a net expenditure shortfall of £2.1 million in 2018, which the Council of Ministers has prioritised from 2018 growth expenditure allocations.

At this time the Council of Ministers is recommending that the allocation of any new growth expenditure for 2019 should be deferred until the Budget 2019 and be subject to the prior approval of at least £11.85 million of non-domestic waste charges or equivalent expenditure measures to be consistent with the overall MTFP strategy and objective of broadly balanced budgets by 2019.

Summary Table C – Proposed Capital Programme for 2018 (funding sources)

	Proposed Funding 2018 £'000
Departmental Capital Allocation	**43,233**
Funding Sources	
Consolidated Fund	(43,233)
Total Funding of Allocation	**(43,233)**

Note:

The capital programme also includes projects for which funding is being provided from other existing resources but the approval of the capital head of expenditure is required in accordance with the Public Finances (Jersey) Law 2005. The table below summarises the funding for those elements of the total capital programme.

Additional Capital Identified	**14,653**
Funding Sources	
Apply COCF to Prison Phase 6	(6,500)
Transfer from anticipated unspent Contingencies carried forward	(1,000)
Transfer of unspent capital	(4,158)
Transfer of revenue budgets	(2,995)
Total Additional Funding	**(14,653)**
TOTAL CAPITAL PROGRAMME FUNDING	**(57,886)**

Summary Table D – Proposed Capital Programme for 2018

Capital Head of Expenditure	Proposed Programme (Gross) £'000 2018	** Other Transfers £'000	Transfers from Unspent Capital £'000	Transfers from Unspent Revenue £'000	Consolidated Fund Allocation (Net) £'000 2018
Chief Minister's					
Corporate Web Platform Refresh Cycle	326	-	-	-	326
Hardware Refresh	201	-	-	-	201
Open Data	53	-	-	-	53
Data Warehouse Platform	647	-	-	-	647
CRM Platform Renewal	396	-	-	-	396
Replacement Assets - CMD	200	-	-	-	200
Corporate Data Platforms Upgrade	500	-	-	-	500
Chief Minister's Total	**2,323**	**-**	**-**	**-**	**2,323**
Education					
Grainville Phase 5 *	8,458	-	(401)	-	8,057
St Mary's School *	6,500	(1,000)	-	-	5,500
Les Quennevais School *	5,600	-	-	(1,500)	4,100
Replacement Assets and Minor Capital - EDU	200	-	-	-	200
Education Total	**20,758**	**(1,000)**	**(401)**	**(1,500)**	**17,857**
Health & Social Services					
Replacement Assets (Various)	2,351	-	-	-	2,351
Barrier Washer Extractor	229	-	-	-	229
Ironer Line	420	-	-	-	420
Digital Care Strategy	*850*	-	-	(850)	-
*Autism Jersey Facility**	*1,000*	-	(1,000)	-	-
*Orchard House **	*2,000*	-	(2,000)	-	-
Health & Social Services Total	**6,850**	**-**	**(3,000)**	**(850)**	**3,000**
Department for Infrastructure					
Replacement Assets	2,250	-	-	-	2,250
Infrastructure Rolling Vote	14,003	-	-	-	14,003
La Collette Waste Site Development	2,500	-	-	-	2,500
DVS Systems	*550*	-	(300)	(250)	-
*Haute De La Garenne**	*50*	-	(50)	-	-
La Collette Fire Equipment	*200*	-	-	(200)	-
Department for Infrastructure Total	**19,553**	**-**	**(350)**	**(450)**	**18,753**
Department of the Environment					
Fisheries Vessels	125	-	(71)	-	54
Department of the Environment Total	**125**	**-**	**(71)**	**-**	**54**
Community and Constitutional Affairs					
Prison Phase 6 *	8,233	(6,500)	(336)	(195)	1,202
Community and Constitutional Affairs Total	**8,233**	**(6,500)**	**(336)**	**(195)**	**1,202**
Non Ministerial					
Replacement Assets - Non Mins	44	-	-	-	44
Non Ministerial Total	**44**	**-**	**-**	**-**	**44**
Total Capital Programme	**57,886**	**(7,500)**	**(4,158)**	**(2,995)**	**43,233**

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

** Other transfers comprises a £6.5 million transfer from the Criminal Offences Confiscation Fund to the Prison Phase 6 project and an up to £1.0 million transfer from anticipated unspent Central Contingencies carried forward to the St Mary's School project.

The highlighted projects above have been included in the capital programme to approve the necessary capital head of expenditure but they are being funded from within existing departmental resources.

States Members are being asked to approve the capital heads of expenditure for 2018 in Summary Table D above and the net Consolidated Fund allocation totalling £43,233,000.

Summary Table E – Proposed Capital Allocation to States Trading Operations for 2018

	Proposed Programme 2018 £'000
Car Park Enhancement and Refurbishment	3,404
Sustainable Transport and Road Safety Schemes	300
Jersey Car Parking	**3,704**
Vehicle and Plant Replacement	2,169
Jersey Fleet Management	**2,169**

Summary Table F – Consolidated Fund Forecast 2017-2019

Draft Forecast Consolidated Fund Balance	Forecast Update for Draft Budget 2018 (September 2017)		
	2017 £'000	2018 £'000	2019 £'000
Opening Balance brought forward	**90,941**	**79,486**	**54,648**
States Income Forecast Update (September 2017)	726,768	751,350	788,177
States Net Revenue Expenditure Allocations	(724,287)	(733,955)	(734,845)
Forecast Operating Surplus/(Deficit) - draft Budget 2017	**2,481**	**17,395**	**53,332**
Funding for Capital Programme			
Apply Funding for Annual Capital Programme	(26,209)	(43,233)	(32,975)
Other Funding proposals			
- Les Quennevais School	(39,000)		
Additional In Year Capital Funding		(6,500)	
Proposed Transfers from Strategic Reserve *			-
- Funding for Annual Capital Programme	16,273		
- Funding for Les Quennevais School	39,000		
Proposed Transfers to Strategic Reserve			
- Repayment for Economic and Productivity Growth Provision	(5,000)		
- Repayment for Redundancy Provision			(20,000)
Proposed Asset Disposals	1,000	1,000	1,000
Revised Transfer from Criminal Offences Confiscation Fund		6,500	
Forecast Closing Balance carried forward	**79,486**	**54,648**	**56,005**

** The Budget 2017 indicated that a further drawdown from the Strategic Reserve of £16 million in 2018 may have been necessary following the September 2016 income forecasts. The improvement in the 2016 outturn and subsequent income position means that this drawdown will no longer be required*

PART H – APPENDICES

Appendix 1 – IFG: Income Tax Forecasts Update 2017-2021

Introduction

This note provides provisional figures to update the IFG's previous income tax forecast from March 2017. The revised forecast is based on:

- Updated Fiscal Policy Panel economic assumptions for 2016-2018.
- Updated information from the Taxes Office on both personal and corporate tax.

In updating the forecast, the relationships between economic variables and tax revenues have not been re-estimated – as no new full year tax data is available since the March forecast. For similar reasons, no changes have been made to the assumptions for exemptions, reliefs and allowances - except where these are based on the economic assumptions.

The rest of the note is set out as follows:

a) the Fiscal Policy Panel's (FPP) revised economic assumptions that have been used to update the income tax forecast, and the reasons for any changes.
b) the updated information from the Taxes Office.
c) the updated provisional income tax forecast on the basis of new data and new economic assumptions.

a) FPP Revised economic assumptions

The FPP's updated economic assumptions **(Appendix 6)** have been used in the tax model to update the income tax forecast. The economic assumptions were published in August 2017. When compared to the previous (March 2017) assumptions, the main changes are:

1. **Outturn data** – there have been a number of new data:
    - Financial services profits for 2016 were significantly lower than forecast.
    - FTE Employment growth in 2016 was higher than forecast.
    - Finance sector compensation of employees grew by only ½ per cent (nominal) in 2016; leading to a lower expectation for compensation of employees overall.
2. **Financial services profit growth** – growth expected to be slower in 2017 and 2018.
3. **Non-finance profit growth** expected to be slower in 2017.
4. **Inflation** – expectations for 2018 are lower.
5. **Average earnings** – 2018 expected to be slightly lower (in nominal terms, due to lower inflation).
6. **Employment growth** – is now expected to be faster in 2017 and 2018.
7. **UK policy interest rates –** are now expected to be slightly lower throughout the forecast period.

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 2016 but a little higher in 2017 and 2018.

The FPP has not made any change to forecasts for GVA growth in 2019-2020.

b) Updated information from Taxes Office

Personal assessments completed to date

The Taxes Office has analysed the current position on YOA16 returns assessed to date. The proportion of assessments completed is less than 60% and on this basis no change has been made to the forecast to account for this.

ITIS data for 2016

ITIS data suggest employment income in 2016 grew by 3.9 per cent. This is in line with the expectation built into the IFG's previous forecast[15]. The Taxes Office are confident that the 2016 ITIS data are unlikely to change. ITIS income for the finance sector grew by around 2 per cent, and around 5 per cent for non-finance – both comfortably above their five-year average growth rates.

However, re-running the employment income equation using the new economic assumptions would suggest slower growth of 3.7 per cent in 2016. This is due to lower assumptions for both GVA and compensation of employees in the financial services sector (both derived from the Survey of Financial Institutions).

The new data from ITIS have been incorporated into the forecast as they are thought to provide a more accurate reflection of the growth in taxable employment income in 2016. If the economic assumptions for 2016 were used, this would reduce the forecast by £0.5m each year.

ITIS data for 2017

ITIS data are also now available for the first six months of 2016, which show growth of only 2.2 per cent in the first six months of the year; compared to the same period a year previous.

However, part-year ITIS figures are provisional and tend to underestimate the total income as not all returns are received on time.

The Taxes Office are confident that the January-March figures are less likely to be subject to change. This shows stronger growth of 3.3 per cent. However as this covers only a small part of the year, there is no indication that this trend will be continued over the entire year. Therefore the ITIS data for the first half of 2017 have not been incorporated into the forecast.

Data on corporate tax

Based on assessments completed to date, tax collectable is expected to fall by around £16m in YOA16 – largely in line with expectations at the time of the IFG's last forecast. The latest expectation is around £1m higher than the position in March.

75% of the tax assessed is rated amber, meaning the assessment is under appeal. 22 per cent of the assessments are rated green, with only 3 per cent rated red.

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[15] The IFG considered two alternative approaches to estimating employment income – one which used the existing method of estimating the relationship between compensation of employees and taxable income; and an alternative relationship developed by Oxera which looked at compensation of employees for finance and non-finance separately, in addition to finance sector profits. The 'existing approach' estimated employment income growth of 4.2 per cent; while the Oxera approach (which was used in the final forecast) estimated growth of 3.9 per cent.

The Taxes Office have not made any changes to their assessment of significant anticipated changes for individual corporate taxpayers, i.e. a significant proportion of the fall in tax in YOA16 is expected to be one-off falls and therefore the income is expected to return in YOA17.

The Taxes Office has also undertaken an exercise to identify potential future trends from large corporate taxpayers. While some information was made available on individual taxpayers, the impact on the forecast was not considered to be significant.

c) Updated income tax forecast

Personal tax

The new economic assumptions and the in-year information from ITIS have been used to update the income tax forecasting model. The forecast for personal income tax has fallen by £4m by 2021.

Figure 55: Updated personal tax forecast

	Outturn	Forecast				
	2016 outturn	2017	2018	2019	2020	2021
	£m	£m	£m	£m	£m	£m
Personal tax						
March 2017 forecast	**379**	**398**	**418**	**438**	**459**	**481**
New assumptions[1]		-2	-1	-2	-3	-4
ITIS data		+1	+1	+1	+1	+2
New yield calculation		-1	-1	-1	-2	-2
Tax collectable (excluding: CYB adjustment)	**379**	**397**	**418**	**436**	**456**	**477**

Some columns may not sum due to rounding

Notes:

[1]New assumptions includes new FPP economic assumptions, new earnings data and updated employment income regression.

New economic assumptions

A number of the changes in the economic assumptions have an impact on the personal tax forecast:

- The lower outturn for financial services profits in 2016 has reduced the forecast by approximately £2m throughout the forecast period. Financial services profits is one of the explanatory variables used to forecast taxable employment income.
- The lower outturn for financial services compensation of employees in 2016 has reduced the forecast by approximately £1m throughout the forecast period.
- Increases to the employment growth assumption is partially offset by lower expectations for earnings growth. The net impact is an increase of £1m-£2m.
- Lower assumptions for interest rates reduce the forecast by around £0.5m in 2019, increasing to £1m in 2020 and 2021. Lower interest rates reduces the forecast for unearned income.

Since the August economic assumptions were published, new earnings figures have been published for 2017. Incorporating these into the forecast results in a further £1m reduction to the forecast for 2018, increasing to £2m for 2019-2021.

The equation used to forecast employment income has been updated but this does not have a significant impact on the forecast. See attached updated paper from Oxera at **Appendix 12**.

ITIS data for 2016

Updated data from ITIS for 2016 suggests slightly higher growth in income from employment than that suggested by the model / updated assumptions. This results in an increase in the forecast of £1m in 2017, increasing to £2m by 2021.

Updated yield assumption

The yield calculation has fallen slightly, as a result of changes to the economic assumptions (for example the increase in employment growth will result in a larger increase in allowances) and a result of incorporating all the new information into the model.

Summary of CYB position

The Budget 2017 forecasts included a £7 million adjustment in each of the forecast years based on previous years' figures. However, the 2016 outturn showed a year-on-year increase of over £13 million.

Further analysis of the outturn and of previous trend back to the introduction of ITIS and the current year payment basis in 2006 shows a correlation between levels of CYB increase and the level of real GVA and migration trends.

On this basis a revised CYB adjustment of £10 million for 2017 but reducing to £8 million per annum for 2018 onwards was proposed and included in the March 2017 forecast. The CYB adjustments have been maintained for the current forecast.

Corporate tax

The forecast for corporate tax has increased slightly for this year but is otherwise largely unchanged since the IFG's March forecast.

Figure 56: Changes to corporate income tax forecast

	2016 outturn	2017	2018	2019	2020	2021
	£m	£m	£m	£m	£m	£m
Corporate tax						
March 2017 forecast	**94**	**77**	**87**	**89**	**92**	**94**
In-year data		+1	+1	+1	+1	+1
New FPP economic assumptions		0	0	-1	-1	-1
Tax collectable	**94**	**78**	**87**	**89**	**92**	**95**

Some columns may not sum due to rounding

New data

In-year data on YOA16 assessments suggests a slightly improved position, resulting in an increase in the forecast of around £1m throughout the forecast period.

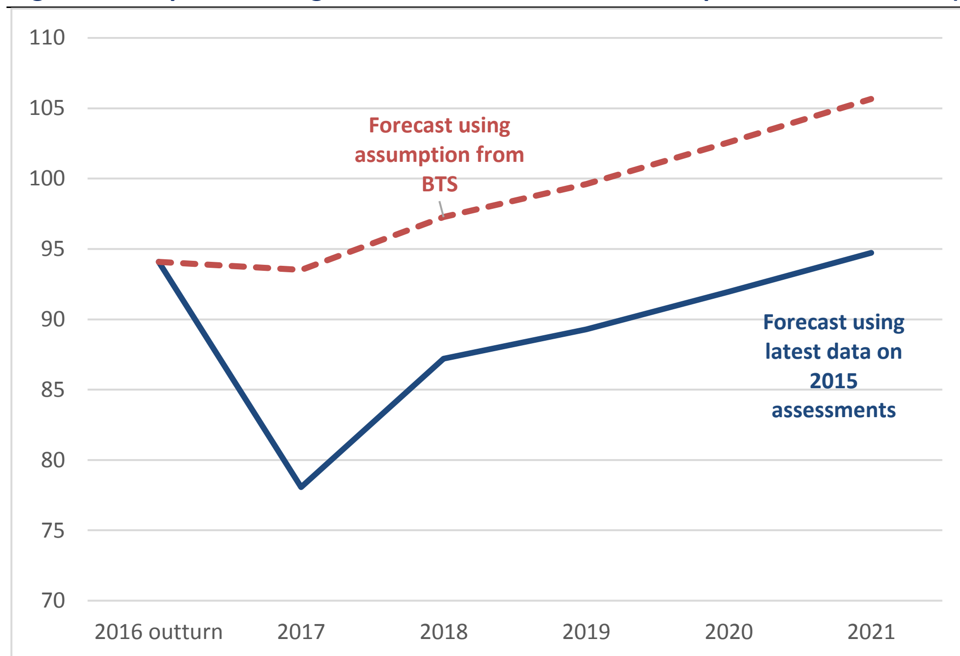
New assumptions

The new economic assumptions are for financial services profits to grow around ½ per cent more slowly in both 2017 and 2018. This results in slightly less tax in 2018, and approximately £1m less in 2019-2021.

The economic assumptions also saw a significant downgrade for financial services profits in 2016, due to the results of the Survey of Financial Institutions. However, the latest information from the Taxes Offices suggests a more prudent approach should be taken. **Figure 57** demonstrates that if the new economic assumption was used to forecast revenues from corporate tax in 2017, this would result in a significantly

higher forecast of £94m.

Figure 57: Impact of using latest data on YOA15 or 16 corporate assessments (£m)



The forecast has not yet been adjusted to take account of ongoing Taxes Office analysis into likely future performance of large corporate taxpayers.

Updated Income Tax Forecast 2017-2021

The new forecast suggests that income will be largely in line with the previous forecast this year. While the forecast for personal tax has fallen around £1m, primarily due to lower economic assumptions, the forecast for corporate tax has increased by £1m due to the latest in-year data. The impact of the reductions in economic assumptions will increase over the forecast period – with income tax now expected to be around £3m lower by the end of the forecast.

Figure 58 - Revised income tax forecast 2017-2021

Income Tax	Outturn	Draft Budget 2018 Forecast				
	2016	2017	2018	2019	2020	2021
	£'000	£'000	£'000	£'000	£'000	£'000
Personal tax						
March 2017 forecast	379	398	418	438	459	481
New assumptions[1]		-2	-1	-2	-3	-4
ITIS data		+1	+1	+1	+1	+2
New yield calculation		-1	-1	-1	-2	-2
CYB annual increase adjustment		+10	8	8	8	8
Tax collectable (incl: CYB Adjustment)	***379***	***407***	***426***	***444***	***464***	***485***
Corporate tax						
March 2017 forecast	94	77	87	89	92	94
In-year data		+1	+1	+1	+1	+1
New FPP economic assumptions		0	0	-1	-1	-1
Tax collectable	***94***	***78***	***87***	***89***	***92***	***95***
Bad debts	-2	-2	-3	-3	-3	-3
New forecast (incl: CYB Adjustment)	***471***	***483***	***510***	***530***	***553***	***577***
Old forecast (incl: CYB Adjustment)	*471*	483	510	532	556	580
Difference since March 2017 Forecast	+0	+0	+0	-2	-3	-3

Some columns may not sum due to rounding

Notes:

[1] New assumptions includes new FPP economic assumptions, new earnings data and updated employment income regression (from Oxera recommendations)

Forecast range

The IFG previously agreed a forecast range starting at +/-2% in the first year of the forecast, rising to +/-9% by the fifth and final year of the forecast. While the IFG feels that considerable uncertainty remains, this uncertainty was built into the previous range and therefore the decision was taken to use the same range for the revised forecast.

Figure 59: Revised Forecast range 2017-2021

Forecast Ranges (£M)	Draft Budget 2018 Forecast				
	2017	2018	2019	2020	2021
	£m	£m	£m	£m	£m
Upper	492	530	556	591	627
Tax collectable	**483**	**510**	**530**	**553**	**577**
Lower	473	490	504	514	525
Range as a % of central	**4%**	**8%**	**10%**	**14%**	**18%**

Appendix 2 – IFG: GST and ISE Fee Forecast Update 2017-2021

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 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 Group 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.

Income to August 2017 for GST purchases on Island shows a 2.16% increase against the same period in 2016. Using this as a reliable basis to extrapolate a full year forecast for 2017 shows that GST is expected to be £1.59 million higher than the March 2017 forecast. Therefore the Group has recommended to increase the GST forecast by £1.59 milion for 2017 only.

There remains some uncertainty with six months of returns still to be received, but the Taxes Office have provided sufficient evidence to support a £0.5 milion increase in the 2017 base to be rolled forward to 2018. The 2018 – 2021 forecast are also affected by a change in economic assumptions for economic growth. Previously 2018 was expected to see no growth but in the latest FPP economic assumptions GVA is expected to be 0.6% and therefore the 2018 GST forecast should be adjusted from 0.8% growth to 2.0% in line with the agreed modelling assumption. The impact on the GST forecast can be seen in **Figure 60**.

GST on imports

Import GST outturns have increased in recent years reflecting an increase in on-line purchases. However the yield is quite sporadic and there is not yet enough information to produce a solid trend.

Income to August 2017 for GST on imports is outperforming the previous two years, both for 'big ticket' items and volume of lower value items. However, there appears to be a seasonal variance, with more income being collected in the first half of the year, making simple extrapolation to the second half of the year to establish an accurate forecast questionable. Therefore no updates to the 2017 or medium term forecast is recommended at this time.

ISE Fees

ISE Fees have been a relatively stable income stream for the States and have consistently been around £9 million per annum.

However with almost all ISE Fees now collected for 2017, figures show that the reduction indicated in the March 2017 forecast to £8.4 million will be accurate. 2018 analysis shows a continuation of the small decline in entities and income but is also in line with the IFG forecast and it is therefore recommended that no adjustments are made at this time.

Summary of updated forecast

Figure 60 – Summary of GST for 2016 – 2021

GST	Outturn	Forecast (Sept 2017)	Draft Budget 2018 Forecast			
	2016	2017	2018	2019	2020	2021
	£'000	£'000	£'000	£'000	£'000	£'000
GST	*71,837*	*74,860*	*75,209*	*75,810*	*76,417*	*77,028*
Import GST	*3,933*	*4,168*	*4,419*	*4,684*	*4,965*	*5,263*
ISE Fees	*9,028*	*8,400*	*8,200*	*8,000*	*8,000*	*8,000*
Total GST	***84,798***	**87,428**	**87,828**	**88,494**	**89,382**	**90,291**
Annual Growth %		*3.1%*	*0.5%*	*0.8%*	*1.0%*	*1.0%*
March 2017 Forecast	*84,798*	*85,842*	*86,479*	*87,135*	*88,011*	*88,910*
Variation £	-	1,586	1,349	1,359	1,371	1,381

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 61**.

Figure 61 – Summary of GST forecast range for 2016 – 2021

GST	Outturn	Sept 2017 Forecast	Draft Budget 2018 Forecast			
	2016	2017	2018	2019	2020	2021
	£'000	£'000	£'000	£'000	£'000	£'000
Higher	*84,798*	*88,302*	*89,600*	*91,198*	*93,055*	*94,970*
Central	***84,798***	***87,428***	***87,828***	***88,494***	***89,382***	***90,291***
Lower	*84,798*	*86,555*	*86,055*	*85,790*	*85,708*	*85,612*
Range £'000	-	**1,748**	**3,545**	**5,409**	**7,347**	**9,358**
Range %	***0%***	**2%**	**4%**	**6%**	**8%**	**10%**

Appendix 3 – IFG: Impôts Duty Forecast Update 2017-2021

Introduction

Impôts duties are levied on a range of commodities imported to the Island. The duties on the various commodities, principally alcohol, tobacco and fuel, are reviewed at the annual Budget. The duty increases for alcohol and tobacco are influenced by the strategies for particular health improvements and reduction in consumption policies rather than a policy 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 the consumption of duty free tobacco goods but this is actively policed by the Customs and Immigration Service.

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. The Customs and Immigration Service 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.

Forecast increases in impôts duties rates

The IFG has recommended that it remains appropriate to assume that recent policies in annual Budgets would continue in the absence of any updates to the existing tobacco and alcohol and licensing strategies. 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 for alcohol and tobacco goods.

The current 2017 estimate is based on analysis of in-year importations to June 2017.

The updated forecast for 2017 shows there is a slight reduction in both alcohol and fuel importation. It is difficult to draw any meaningful conclusion regarding any significant change in trend. The same can be considered the case for the slight increase in tobacco importation. The net effect to the March 2017 forecast is a reduction of £522,000.

The future rates for 2018-2021 are based on the June 2017 RPI of 2.5% for 2018 and then the RPI figures provided by the Fiscal Policy Panel (FPP) in August 2017 for the years 2019-2021 i.e. the duty rates are calculated by applying the reduced RPI figures for the respective years. The impact on the 2017 to 2021 impôts duties forecast can be seen in **Figure 62.**

At the same time, the Customs and Immigration Service, together with other States departments, are currently engaged in operational workshops with the UK government including HMRC, HM Treasury and the Home Office regarding plans for Brexit.

It is proposed to extend the UK's membership of the World Trade Organisation (WTO) to Jersey (and Guernsey; it has already been extended to the Isle of Man). In this respect Jersey will form part of an

external UK tariff. The importance of the Island being able to set its own excise rates has been made explicitly clear during roundtable discussions, and advice received from external consultants has indicated that there is no reason this autonomy could not continue under such an extended framework.

Aside from revenue considerations, it has also been made clear that the ability for the Island to determine its own excise rates is crucial when forming policy around health and environmental issues which are bespoke to the Island.

Consequently it is thought that future income forecasts will be mostly unaffected pre- (from the present to 2019) and post-Brexit (after 2019).

There is a possibility that the Customs Duty collected on goods imported from outside the European Union may be affected by a new Customs agreement between the UK and the EU and indeed other trade agreements that the UK may form with other countries which Jersey might also be party to. However, as the amount currently involved is minimal compared to the overall revenue (approx. £145,000) the impact is not considered significant. However should business models change within the Island, such as more imports from outside the EU, which might happen if free trade agreements are reached with other countries, then this aspect may become more significant.

Given that 90% of goods imported into Jersey originate in the UK, the risk of significant revenue falls is currently considered low.

Regarding the movement of people there are likely to be changes in the way people move in and out of the Common Travel Area (CTA) to which Jersey belongs. It is possible that there could be a reduction in visitors to the Island which would affect consumption of excise goods, although there appears to be no desire to unduly restrict the movement of visitors in and out of the CTA by the UK government.

Figure 62: Summary of impôts duties for 2016 – 2021

Impôts	Outturn	Forecast (Sept 2017)	Draft Budget 2018 Forecast			
	2016	2017	2018	2019	2020	2021
	£'000	£'000	£'001	£'002	£'003	£'004
Impôts on Spirits	5,326	5,300	5,330	5,348	5,414	5,481
Impôts on Wine	8,225	8,251	8,544	8,749	9,037	9,336
Impôts on Cider	1,034	1,003	1,105	1,143	1,192	1,244
Impôts on Beer	5,766	5,673	5,800	5,821	5,893	5,966
Impôts on Tobacco	14,609	15,049	14,532	14,137	13,873	13,614
Impôts on Fuel	21,855	21,623	22,015	22,015	22,015	22,015
Impôts on Other Goods	177	145	145	145	145	145
Vehicle Emissions Duty	1,418	1,376	1,306	1,242	1,242	1,242
Total Impôts Duties	**58,410**	**58,420**	**58,777**	**58,600**	**58,811**	**59,043**
Annual Growth %		0.0%	0.6%	-0.3%	0.4%	0.4%
March 2017 Forecast	58,410	58,942	58,846	58,873	59,088	59,323
Variation £'000	-	(522)	(69)	(273)	(277)	(280)

Forecast range

The IFG 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 63.**

Figure 63: Summary of impôts duties forecast range for 2016 – 2021

Impôts	Outturn	Forecast (Sept 2017)	Draft Budget 2018 Forecast			
	2016	2017	2018	2019	2020	2021
	£'000	£'000	£'000	£'000	£'000	£'000
Higher	*58,410*	*59,005*	*59,859*	*60,798*	*62,175*	*63,604*
Central	***58,410***	***58,420***	***58,777***	***58,600***	***58,811***	***59,043***
Lower	*58,410*	*57,838*	*57,717*	*56,473*	*55,625*	*54,806*
Range £'000	-	**1,167**	**2,142**	**4,325**	**6,550**	**8,798**
Range %	***0%***	**2%**	**4%**	**7%**	**11%**	**15%**

Appendix 4 – IFG: Stamp Duty Forecast Update 2017-2021

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 probate and stamp duty on share transfer property transactions.

General Stamp Duty

The main component is duty on property. 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 £14 million in 2009 to £10.7 million in 2013, a reduction of 25%, and increasing to over £17 million in 2014 and £20 million in 2016. The 2016 outturn was again heavily influenced by a higher volume and value of transactions in property over £2 million, but also saw a generally buoyant year for other transactions.

The forecast for the MTFP 2016-2019 and Budget 2016 were based on a considerable analysis of the past years' data. This identified some key trends which informed the assumptions by the IFG for the MTFP Addition 2017-2019 forecast, in particular to identify an approach which separates the forecasts for properties under £2 million and those for higher value properties over £2 million. Budget 2017 and the forward forecasts are then produced in two parts for these two sets of data.

The IFG has focussed on property transactions over £2 million and agreed an average forecast for these transactions. The IFG has also concluded that these transactions are not directly influenced by the general trend in house prices and turnover but are more likely to reflect the number of high net worth entrants and the general availability of such properties.

The stamp duty forecast for the Draft Budget 2018 is based on the in-year to July 2017 figures and the specific stamp duty economic assumptions, which have not changed since the March 2017 forecast. The in-year income from stamp duty shows a small increase compared to the March 2017 forecast. This is mainly from property transactions over £2 million, partly offset by the underachievement in property transactions under £2 million and in relation to wills.

On the basis of only a small change in the in-year forecast for 2017 and the fact that the updated Fiscal Policy Panel FPP economic assumptions have not changed since March 2017, the forecasts for 2018-2021, will not be adjusted.

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 the LTT September 2017 forecast, based on the in–year to July 2017 figures and applying the updated FPP economic assumptions which have not changed since March 2017. The 2017 forecast shows an increase of £0.3 million, but 2018-2021 remain unchanged.

Probate duty

Probate duty is extremely difficult to forecast. It is duty payable from the 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, transactions remained fairly steady at around 2,000 per annum.

The 2013 Budget have 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 of the years since the introduction of cap.

Probate receipts to date during 2017 have been higher than the March 2017 forecast by almost £0.6 million and the in-year forecast has been adjusted accordingly.

The anomalies in income in 2017, to date have been due to one-off large transactions. As these are impossible to predict, no change to the forward forecast 2018 – 2021 is recommended.

Draft Budget 2018 forecast (September 2017)

The resulting draft Budget 2018 forecast in **Figure 64** shows an increase above the March 2017 forecast in 2017 only, reflecting the in-year position to July.

Figure 64 - Draft Budget 2017 forecast for Stamp Duty (September 2017)

Stamp Duty	Outturn	Forecast (Sept 2017)	Draft Budget 2018 Forecast			
	2016	2017	2018	2019	2020	2021
	£'000	£'000	£'000	£'000	£'000	£'000
Stamp Duty	24,942	24,417	25,736	26,285	26,850	27,433
Probate	1,934	2,757	2,200	2,200	2,200	2,200
Stamp Duty on Share Transfer (LTT)	3,429	1,881	1,705	1,756	1,809	1,863
Total Stamp Duty	***30,305***	**29,055**	**29,641**	**30,241**	**30,859**	**31,496**
Annual Growth %		*-4.1%*	*2.0%*	*2.0%*	*2.0%*	*2.1%*
March 2017 Forecast	*30,305*	*28,133*	*29,641*	*30,241*	*30,859*	*31,496*
Variation £'000	-	922	0	0	0	0

There is no change in the August 2017 FPP economic assumptions for market turnover and house prices compared to March 2017 and the volatile nature of stamp duty determines that adjustments to the future forecasts should only be made once the 2017 outturn is known.

Forecast range

The existing approach to preparing the forecast range for stamp duty has been maintained for the draft Budget 2018. This uses the standard variation around the economic assumptions on house prices. The forecasts range is shown in **Figure 65.**

Figure 65 – Stamp Duty draft forecast range (September 2017)

Stamp Duty	Outturn	Forecast (Sept 2017)	Draft Budget 2018 Forecast			
	2016	2017	2018	2019	2020	2021
	£'000	£'000	£'000	£'000	£'000	£'000
Higher	*30,305*	*30,177*	*32,328*	*33,599*	*34,947*	*36,375*
Central	***30,305***	***29,055***	***29,641***	***30,241***	***30,859***	***31,496***
Lower	*30,305*	*26,623*	*27,520*	*27,520*	*27,520*	*27,520*
Range £'000	**-**	**3,554**	**4,808**	**6,079**	**7,427**	**8,855**
Range %	***0%***	**12%**	**16%**	**20%**	**24%**	**28%**

Appendix 5 – IFG: Other Income Forecast Update 2017-2021

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 2018 and in general use the FPP endorsed economic assumptions from August 2017.

The areas included within 'Other Income' are summarised as:

- Island-Wide Rate
- Income from dividends and financial returns
- Income other than from Dividends and financial returns
- Returns from Andium Homes and Housing Trusts.

The forecasts of other States income were reviewed and updated in March 2017 and published as part of R66/2017. The forecasts have been fully reviewed to reflect the 2017 in-year position and to model the effect of the revised economic assumptions (August 2017).

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.

Year to date income from Island Wide Rate shows a small reduction of £42,000 on March 2017 forecast mainly affected by changes in numbers of households and variations in RPI.

The revised Budget 2018 forecast for 2018 – 2021 has been based on the actual rates received and shows on average a small reduction of £120,000 in each forecast year compared to March 2017 forecast influenced by a reduction in RPI in the latest FPP economic assumptions.

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 in-year 2017 position shows an increase of £202,000 on March 2017 forecast and is wholly affected by a higher than expected dividend paid by Jersey Post now that the financial position is clearer.

The revised forecast 2018 – 2021 shows no change compared to the March 2017 forecast.

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
- Investment returns from the 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 two funds and the holding balance available to be invested.

The forecast returns can be quite volatile to the extent they are invested in equities, but a proportion of the balances need to be held in cash on which returns are generally lower but more stable. Return on cash with interest rates at all-time lows will remain fairly small for some time and there are no significant changes in interest rates predicted in the near future.

The 2016 Outturn shows a significant increase of £13.1m compared to Budget 2017 forecast (September 2016):

- Investments returns from the Consolidated Fund exceeded forecast by £10.4m;
- Investment returns from the Currency Fund exceeded forecast by £2.1m, and
- The remaining positive variances were for tax penalties and JFSC fees.

Investment Returns from the Consolidated Fund

- A higher opening balance and average balance of the Consolidated Fund over the forecast period should allow the level of the investment portfolio to be maintained. The cash buffer of £75m should also been retained without needing to liquidate the investments.
- Returns from the Investment Portfolio have been higher than expected in the first half of 2017 but returns at the lower forecast rate have been prudently assumed for the remaining months of 2017. This still provides an increase in 2017 over the March 2017 forecast.
- The returns for the investment portfolio for future years are based on the assumptions of the States investment advisers and are largely unchanged from March 2017 forecast where the higher projected balances on the Consolidated Fund were incorporated.
- Although a higher balance of cash is held, cash, the largest component of the portfolio is affected by lower interest rates. Treasury have reviewed the likely return on cash invested comparing rates from the States investment advisers and the FPP interest rate forecasts to achieve an

average rate of return. This produces a slight reduction in the future forecasts for 2018-2021 compared to March 2017.

Return from the Currency Fund

- The balance of the Notes Fund remains broadly as projected in March, with the small proportion of Equity (20%) held in the portfolio generating much of the fund return. The formula for the returns on cash are consistent with those for the Consolidated Fund.

Summary

- The forecasts for 2017 have improved since March 2017 forecasts due to the in-year investment returns exceeding forecast.
- The updated 2018 – 2021 forecast of investment returns for September have reduced slightly from March 2017 due to slightly lower assumed returns projected from cash portfolio. In 2016, the lower cash returns were offset by higher performance on equity portfolio but at this stage it is unclear whether this can be maintained in 2017 due to the uncertainty in the market.

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 and the small variations in the latest FPP economic assumptions produce a small reduction in the forecasts compared to March 2017.

Agreements are almost complete 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.

Economic assumptions for Other States Income

The common economic assumptions endorsed by the FPP in September 2017 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.

Summary of Other Income Forecasts for 2017-2021

The resulting September 2017 forecasts update are shown in **Figure 66**. The main variances compared to the March 2017 forecasts are due as follows:

- Improvement in 2017 forecast due to positive investment returns on equity holdings in the first 6 months and a higher than expected dividend forecast for Jersey Post.
- Small reductions in Island Wide Rate and Andium forecast returns for 2017-2021 due to the slight reductions to the RPI assumptions.
- Slight reductions to investment returns 2018-2021 due to revised forecasts of investment assumptions.

Figure 66. Summary of Other Income for 2016 – 2021

Other Income	Outturn	Forecast (Sept 2017)	Draft Budget 2018 Forecast			
	2016	2017	2018	2019	2020	2021
	£'000	£'000	£'000	£'000	£'000	£'000
Island Wide Rate	12,141	12,427	12,725	13,145	13,579	14,027
Other Income - Dividends	12,568	12,332	9,127	15,034	9,667	10,016
Other Income - Non Dividends	22,760	15,726	11,224	12,521	13,056	13,437
Other Income - Returns from Andium and Housing trusts	27,856	28,380	29,128	29,942	30,977	32,049
Total Other Income	**75,325**	**68,865**	**62,204**	**70,642**	**67,279**	**69,529**
March 2017 Forecast	75,325	66,846	62,491	71,372	68,384	71,107
Variation	-	2,019	(287)	(730)	(1,105)	(1,578)

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 **Figure 67.**

Figure 67. Summary of Other Income range for 2016 – 2021

Other Income	Outturn	Forecast (Sept 2017)	Draft Budget 2018 Forecast			
	2016	2017	2018	2019	2020	2021
	£'000	£'000	£'000	£'000	£'000	£'000
Higher	75,325	69,457	63,281	73,892	70,829	74,152
Central	**75,325**	**68,865**	**62,204**	**70,642**	**67,279**	**69,529**
Lower	75,325	68,323	61,096	68,398	63,845	65,241
Range £'000	**-**	**1,134**	**2,185**	**5,494**	**6,984**	**8,911**
Range %	**0%**	**2%**	**4%**	**8%**	**10%**	**13%**

Appendix 6 – Economic Assumption (August 2017)

FPP central scenario August 2017

	2014	2015	2016	2017	2018	Return to trend 2019	2020	2021
Real GVA	4.9	2.2	0.2	1.2	0.6	0.0	0.0	0.0
RPI	1.6	0.6	1.7	2.8	2.4	3.3	3.3	3.3
RPIY	1.6	0.6	1.7	2.8	2.4	3.0	3.0	3.0
Nominal GVA	6.6	2.9	1.9	4.0	3.0	3.0	3.0	3.0
Company profits	12.3	-0.7	0.9	3.9	2.9	3.0	3.0	3.0
Financial services profits	19.4	-7.6	-0.6	4.0	2.4	3.0	3.0	3.0
Compensation of employees	2.1	5.9	2.8	4.0	3.0	3.0	3.0	3.0
Employment	2.3	1.9	2.0	1.0	0.5	0.0	0.0	0.0
Average earnings	2.6	1.8	2.1	3.0	2.5	3.0	3.0	3.0
Interest rates (%)	0.5	0.5	0.4	0.2	0.3	0.4	0.5	0.5
House prices	3.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0

FPP central scenario - upper range

	2014	2015	2016	2017	2018	Return to trend 2019	2020	2021
RPI	1.6	0.6	1.7	4.3	3.9	4.8	4.8	4.8
RPIY	1.6	0.6	1.7	3.8	3.4	4.0	4.0	4.0
Employment	2.3	2.0	2.0	2.5	2.0	1.5	1.5	1.5
Interest rates (%)	0.5	0.5	0.4	0.7	0.8	0.9	1.0	1.3
House prices	3.0	4.0	4.0	6.0	6.0	6.0	6.0	6.0

FPP central scenario - lower range

	2014	2015	2016	2017	2018	Return to trend 2019	2020	2021
RPI	1.6	0.6	1.7	1.3	0.9	1.8	1.8	1.8
RPIY	1.6	0.6	1.7	1.8	1.4	2.0	2.0	2.0
Employment	2.3	2.0	2.0	-0.5	-1.0	-1.5	-1.5	-1.5
Interest rates (%)	0.5	0.5	0.4	0.1	0.1	0.1	0.1	0.3
House prices	3.0	4.0	4.0	0.0	0.0	0.0	0.0	0.0

OUTTURNS								
(a) Total Employment costs								

Appendix 7 – Financial Forecast – Additional Considerations

The current update to the financial forecast of the States' financial position for 2016-2019 (September 2017) is presented at **Figure 33** in **Section 12**. The forecast presents the current operating surplus/(deficit) which is summarised in **Figure 68.**

Figure 68 - Summary of current operating surplus/deficit for 2016-2019 (September 2017)

Summary of Financial Forecast	Outturn 2016 £'000	Draft Budget 2018 Proposals (September 2017) 2017 £'000	2018 £'000	2019 £'000
Total States Income - incl: Additional revenue raising measures	736,803	726,768	751,350	788,177
Total Net Revenue Expenditure (excl: Depn)	698,454	724,287	733,955	734,845
Forecast Operating Surplus/(Deficit) for the year	**38,349**	**2,481**	**17,395**	**53,332**

Addressing any structural imbalance in States fiscal balance

The Council of Ministers has sought to address any structural imbalance in the financial position over the course of the MTFP recognising the advice of the FPP, but also to put the finances in a stronger position to address the challenges and fiscal implications of an ageing population.

Assessing the structural balance requires calculating the current operating position and includes a provision for depreciation, rather than any specific provision for capital expenditure in a year.

The position over the course of the MTFP 2016-2019 is illustrated in **Figure 69** and shows that the expenditure measures and proposed additional revenue raising measures would see the States move from a current deficit in 2016 to broadly balanced budgets by 2019. The proposals to achieve broadly balanced budgets have had to be varied over the course of the MTFP and the remaining budgets in 2018 and 2019 will consider additional measures in order to achieve this objective. The draft Budget 2018 proposes additional revenue raising measures to largely replace the funding lost with the rejection of the Health charge in the MTFP Addition debate in September 2016 and also propose the re-allocation of growth expenditure to compensate for the deferral of non-domestic liquid waste charges. The proposals in the Budget 2019 will need to be equally flexible to deliver the objective of balanced budgets.

The FPP's advice in its most recent correspondence (August 2017) expressed concern that certain measures had been rejected by the States and stressed it was imperative that equivalent measures are brought forward and agreed to address any structural imbalance by the end of this MTFP period. The position will however be kept under review and be subject to further economic advice in advance of the Budget 2018.

Figure 69 – Updated financial forecast of structural financial position 2016-2019 (September 2017)

Summary of Financial Forecast	Outturn 2016 £'000	Draft Budget 2018 Proposals (September 2017) 2017 £'000	2018 £'000	2019 £'000
Total States Income - incl: Additional revenue raising measures	736,803	726,768	751,350	788,177
Total Net Revenue Expenditure (excl: Depn)	698,454	724,287	733,955	734,845
Forecast Operating Surplus/(Deficit) for the year	**38,349**	**2,481**	**17,395**	**53,332**
Depreciation Forecast	40,154	40,600	45,500	53,000
Current financial position - Surplus/(Deficit)	**(1,805)**	**(38,119)**	**(28,105)**	**332**

Further adjustments to take account of cashflows

The Fiscal Framework requires each MTFP, or in the those years between MTFP's each Budget, to provide an analysis which gives a better indication of the economic impact of the proposals over the forecast period of at least 4 years. That is a better indication of when money will be withdrawn from the economy and when it will actually be spent i.e. actual cashflows. This was included for the first time in the 2015 Budget and is extended to 2021 in the following analysis.

The Economic Background and Outlook is discussed in **Section 13** and this provides an assessment of the adjusted fiscal position to give a better indication of the economic impact and a commentary summarising the considerations for the States over the MTFP period. The FPP will consider this analysis and their advice will be instrumental in determining whether adjustments or compensating measures are required in future years. The FPP's Annual Report for 2017 will be published in October 2017, ahead of the Budget 2018 debate.

The calculation of the adjusted fiscal position starts with the current operating position but then adjusts income and expenditure to reflect the actual timing of the impact. This is particularly relevant when considering the impact of capital. The Public Finances Law requires the full amount of funding for a capital budget to be set aside at the time a project is approved, whereas the actual impact of a capital project on the economy will be as the budget is actually spent over the course of time.

The estimate also provides an assessment of the impact of States Trading Operations and those States investments which make a significant capital contribution; SoJDC, Andium Homes and Ports of Jersey.

Further adjustments are also included to reflect the contribution from other States funds, particularly the Social Security Funds. Over the period of the analysis the SSF and HIF will reduce to close to breakeven on an annual basis where benefits paid will equal the contributions to the Fund. The Social Security Funds are currently the subject of an extensive review and consultation which will result proposals being brought forward, in line with the Fiscal Framework, to consider the options to address the medium to long-term sustainability of these funds.

The MTFP 2016-2019 agreed the total revenue and capital expenditure limits and the total States income targets for 2016 to 2019. The income forecasts for September 2017 are updated in this budget and while improved, are not significantly different to those published in the Budget 2017 last year.

This draft Budget 2018 proposes additional revenue raising measures to replace the funding that was to be delivered by the rejected Health charge and assuming these proposals are agreed and economic and financial conditions are maintained the States would deliver broadly balanced budgets by 2019.

Figure 70 provides the overall estimate of the adjusted fiscal position (September 2017) and this is summarised in Economic Background and Outlook is discussed in **Section 13**

Figure 70 – Adjusted fiscal position over the MTFP period (September 2017)

Calculation of Adjusted Fiscal Position	2013 Actual £m	2014 Actual £m	2015 Actual £m	2016 Actual £m	2017 Indicative £m	2018 Indicative £m	2019 Indicative £m	2020 Indicative £m	2021 Indicative £m
General Revenue Income	637	657	692	737	727	751	788	810	838
Department Income	128	133	99	94	88	92	102	105	109
Total Consolidated Fund Income	765	790	791	831	814	844	891	915	946
Gross Department Revenue Expenditure	764	807	796	793	788	790	788		
Fiscal Stimulus Revenue Expenditure									
Central Allocations					24	36	49		
Total Consolidated Fund Revenue Expenditure	764	807	796	793	812	826	837	860	891
Operating Surplus/(Deficit)	**1**	**(17)**	**(5)**	**38**	**2**	**17**	**53**	**55**	**55**
Net Capital Allocation Routine	13	2	4	41	26	43	33	55	55
Net Capital Allocation Major Programme				-	39	-	-		
Revised Surplus/(Deficit)	(12)	(19)	(9)	(3)	(63)	(26)	20	-	-
Timing Adjustments to Surplus/(Deficit):									
Add back: Capital Allocation	13	2	4	41	65	43	33	55	55
Expenditure Outturn forecast adj 2017									
Capital Expenditure Outturn	(41)	(52)	(82)	(82)					
Fiscal Stimulus Capital Expenditure	(3)								
Approved Capital Expenditure Profile					(200)	(252)	(249)	(206)	(176)
Forecast Major Project Expenditure Profile					(14)	(78)	(38)	(97)	(114)
Revised Surplus/(Deficit)	(43)	(69)	(87)	(44)	(211)	(313)	(234)	(248)	(235)
Trading Fund Capital Expenditure	(8)	(14)	(11)	(2)	(2)	(15)	(10)	(7)	(5)
Near cash surplus/(deficit) on Trading A/cs	14	14	14	14	14	14	14	14	14
Consolidated Fund - Adjusted fiscal position	(37)	(69)	(84)	(32)	(199)	(314)	(231)	(241)	(226)
Other Funds									
Currency Fund - Infrastructure Investment									
- Gigabyte Jersey £10m	(5)	-	-	-	-	-	-		
- Parish Loan £6m	(5)	(1)	-	-	-	-	-		
DHLF/AHP/AHP/HDF									
- Net (advances)/repayments	1	1	1	-	-	-	-		
Deposit Loan Scheme									
- Net (advances)/repayments	(2)	(1)	-	-	-	-	-		
Social Security Fund									
- Net Surplus/(Deficit)	11	14	18	14	14	8	(1)	4	(2)
Health Insurance Fund									
- Net Surplus/(Deficit)	6	(6)	(6)	11	6	4	3	3	4
Long Term Care Fund									
- Net Surplus/(Deficit)			1	9	5	0	(1)	8	7
Overall States - Adjusted fiscal position	**(31)**	**(62)**	**(70)**	**2**	**(173)**	**(302)**	**(230)**	**(225)**	**(218)**

Capital Cash Flows

The details of the estimated capital cash flows are provided in **Figure 71.** An adjustment is made to the financial forecast to remove the budget allocations for capital and this is replaced with an estimate of the capital cash flow.

Treasury continue to work closely with departments to improve the forecasting of the cash flows of individual capital projects. This information is now included in the quarterly capital monitoring process. The capital cash flows also include the projects planned by Andium Homes, SoJDC and Ports of Jersey.

Figure 71 – Projected Capital Cash Flows 2015-2021

Forecast Capital Cash Flows	Outturn Cashflow 2015 £'000	Outturn Cashflow 2016 £'000	Forecast Cashflow 2017 £'000	Forecast Cashflow 2018 £'000	Forecast Cashflow 2019 £'000	Forecast Cashflow 2020 £'000	Forecast Cashflow 2021 £'000
Current Allocations							
Departments	43,305	37,404	40,462	23,280	6,605	2,860	-
Traders	11,081	2,045	2,076	10,246	4,473	2,237	-
	54,386	39,449	42,538	33,525	11,079	5,096	-
Future Allocations							
Departments Excluding Major Projects				22,422	38,212	21,373	42,389
Traders				4,869	5,873	4,548	5,257
	-	-	-	27,291	44,085	25,921	47,646
Major Projects							
Sewage Treatment Works - Upgrade (LWS)	2,304	991	14,000	18,228	14,700	13,600	5,077
Les Quennevais School Rebuild		765	1,273	16,695	18,095	9,048	-
Prison Improvement Works - Phase 6		-		2,058	4,117	2,058	-
	2,304	1,756	15,273	36,982	36,912	24,706	5,077
Subsidiary Companies							
Andium Homes	28,700	10,500	87,675	91,929	98,654	110,520	74,644
Ports of Jersey	3,000	6,798	20,673	24,325	21,416	10,165	15,533
SOJDC	5,074	24,100	35,459	53,336	47,619	36,000	38,000
	36,774	41,398	143,807	169,590	167,689	156,685	128,177
Total Cashflow (excl: major projects)	**93,464**	**82,603**	**201,618**	**267,388**	**259,764**	**212,408**	**180,900**
Forecast Major Projects							
Future Hospital		1,696	13,878	78,127	38,183	97,224	114,368
		1,696	13,878	78,127	38,183	97,224	114,368
Total Cashflow (incl: future major projects)	**93,464**	**84,299**	**215,496**	**345,515**	**297,947**	**309,632**	**295,268**

Office Consolidation: There are decisions still to be made around the central administrative building which forms a major part of the project. As resources currently concentrating on the Future Hospital project become available, further progress will be made to produce an Outline Business Case for the project. A decision how to proceed can then be made.

The analysis of the adjusted fiscal position at **Figure 70** also includes information for the last 4 years to provide a trend for consideration. The MTFP 2016-2019 includes proposals for the other projects for the Sewage Treatment Works, Les Quennevais School and the Prison Improvement Phase 6.

The proposal for the Future Hospital are estimated at this stage and shown separately so that the potential economic impacts can be separately assessed until these are formally brought forward and approved by the States.

Additional information is also provided for consideration in relation to the major employee pension schemes PECRS, PEPS (new care scheme) and JTSF at **Figure 72.**

Figure 72 – Forecasts for PECRS and JTSF to 2021

	2014 £ million	2015 £ million	2016 £ million	2017 £ million	2018 £ million	2019 £ million	2020 £ million	2021 £ million
PECRS								
Pension payments to Jersey residents	58	61	66	69	73	76	80	84
minus employee contributions	(15)	(15)	(15)	(15)	(15)	(8)	(7)	(6)
	43	47	52	55	58	68	73	78
PEPS								
Pension payments to Jersey residents			0	0	0	0	0	0
minus employee contributions			(1)	(2)	(3)	(13)	(16)	(19)
	0	0	(1)	(2)	(3)	(13)	(16)	(19)
JTSF								
Pension payments to Jersey residents	15	15	16	17	18	19	20	21
minus employee contributions	(3)	(3)	(3)	(3)	(3)	(4)	(4)	(4)
	12	12	13	14	15	16	16	17
Total	**55**	**59**	**64**	**67**	**70**	**71**	**73**	**76**

Appendix 8 – Social Security Fund Forecast 2017-2021

Introduction

The Social Security Fund is administered by the Social Security Department and 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. Benefits have not risen as quickly as forecast in the MTFP, and it is now forecast that the fund will move from a net cash generating position into a net cash consuming position during the next MTFP.

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 run over the next four years 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

Net Revenue Expenditure - Service Analysis

2017 Forecast		2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
(65,300,000)	**States Grant to Social Security Fund**	**(65,300,000)**	**(65,300,000)**	**(79,878,299)**	**(82,274,648)**
(180,171,300)	**Social Security Contributions**	**(185,967,300)**	**(188,724,900)**	**(194,363,500)**	**(200,151,300)**
	Contributory Benefits				
179,249,500	Old Age Pensions	188,949,500	199,894,300	212,688,700	225,455,400
15,966,500	Long Term Incapacity Benefit	16,912,900	17,953,200	19,108,600	20,228,700
6,119,800	Invalidity Benefit	5,652,800	5,232,500	4,854,300	4,515,400
13,982,500	Short Term Incapacity Benefit	14,782,900	15,378,700	15,998,400	16,643,200
4,291,900	Survivors Benefit	4,451,700	4,628,200	4,772,000	4,920,300
2,703,600	Maternity Benefit	2,883,000	3,027,400	3,177,900	3,334,800
598,100	Maternity Grant	629,500	656,600	684,800	714,000
593,000	Death Grants	634,100	673,100	713,100	756,700
1,976,600	Home Carers Allowance	2,067,500	2,141,200	2,223,600	2,296,400
86,000	Redundancy Protection	250,000	250,000	250,000	250,000
225,567,500	**Contributory Benefits**	**237,213,900**	**249,835,200**	**264,471,400**	**279,114,900**
5,006,200	**Administration**	**5,197,700**	**4,971,400**	**4,947,500**	**5,054,200**
(14,897,600)	**Net Revenue Expenditure - Near Cash**	**(8,855,700)**	**781,700**	**(4,822,899)**	**1,743,152**
563,900	Depreciation	563,900	563,900	563,900	563,900
(14,333,700)	**Net Revenue Expenditure**	**(8,291,800)**	**1,345,600**	**(4,258,999)**	**2,307,052**

Social Security Fund

Statement of Comprehensive Net Expenditure

2017 Forecast £		2018 Forecast £	2019 Forecast £	2020 Forecast £	2021 Forecast
	Income				
(245,471,300)	Social Security Contributions	(251,267,300)	(254,024,900)	(274,241,799)	(282,425,948)
(40,700)	Sales of Goods and Services	(40,700)	(40,700)	(40,700)	(40,700)
(175,000)	Investment Income	(71,200)	(103,200)	(133,000)	(132,400)
-	Other Income	-	-	-	-
(245,687,000)	**Total Income**	**(251,379,200)**	**(254,168,800)**	**(274,415,499)**	**(282,599,048)**
	Expenditure				
225,567,500	Social Benefit Payments	237,213,900	249,835,200	264,471,400	279,114,900
	Staff Costs				
5,221,900	Supplies and Services	5,309,600	5,115,300	5,121,200	5,227,300
	Administrative Expenses				
	Premises and Maintenance				
	Other Operating Expenses				
	Grants and Subsidies Payments				
	Impairment of Receivables				
	Finance Costs				
	Foreign Exchange (Gain)/Loss				
	Contingency Expenses				
230,789,400	**Total Expenditure**	**242,523,500**	**254,950,500**	**269,592,600**	**284,342,200**
(14,897,600)	**Net Revenue Near Cash Expenditure**	**(8,855,700)**	**781,700**	**(4,822,899)**	**1,743,152**
563,900	Depreciation	563,900	563,900	563,900	563,900
(14,333,700)	**Total Net Revenue Expenditure**	**(8,291,800)**	**1,345,600**	**(4,258,999)**	**2,307,052**

Appendix 9 – Health Insurance Fund Forecast 2017-2021

Introduction

The Health Insurance Fund (HIF) is administered by the Social Security Department and 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 approximately break-even, and this position is expected to decline as benefits continue to increase at a faster rate than income. However, investment returns on the Fund's balance offset operational deficits in the earlier years of the MTFP, and so will limit the overall impact on the fund's balance.

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

2017 Forecast		2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
(32,979,800)	**Social Security Contributions**	(34,083,800)	(34,609,100)	(35,683,100)	(36,785,500)
(4,972,000)	**Net Investment Returns**	(3,314,800)	(2,787,600)	(3,118,400)	(3,571,500)
	Contributory Benefits				
8,177,800	Medical Benefit	8,175,400	8,281,600	8,389,700	8,499,700
20,056,400	Pharmacy Benefit	21,065,700	22,031,700	23,034,600	23,909,400
462,500	Gluten Free Vouchers	454,800	459,400	464,000	468,600
28,696,700	**Contributory Benefits**	29,695,900	30,772,700	31,888,300	32,877,700
1,586,500	**Jersey Quality Improvement Framework**	1,624,000	1,624,000	1,624,000	1,624,000
-	**Grant to Health and Social Services**	-	-	-	-
1,720,000	**Administration**	1,845,000	1,790,000	1,790,000	1,790,000
(5,948,600)	**Net Revenue Expenditure - Near Cash**	(4,233,700)	(3,210,000)	(3,499,200)	(4,065,300)
	Depreciation				
(5,948,600)	**Net Revenue Expenditure**	(4,233,700)	(3,210,000)	(3,499,200)	(4,065,300)

Statement of Comprehensive Net Expenditure

2017 Forecast		2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
	Income				
(32,979,800)	Social Security Contributions	(34,083,800)	(34,609,100)	(35,683,100)	(36,785,500)
	Sales of Goods and Services				
(5,000,000)	Investment Income	(3,342,800)	(2,815,600)	(3,146,400)	(3,599,500)
	Other Income				
(37,979,800)	**Total Income**	**(37,426,600)**	**(37,424,700)**	**(38,829,500)**	**(40,385,000)**
	Expenditure				
30,283,200	Social Benefit Payments	31,319,900	32,396,700	33,512,300	34,501,700
	Staff Costs				
1,747,600	Supplies and Services	1,873,000	1,818,000	1,818,000	1,818,000
	Administrative Expenses				
	Premises and Maintenance				
	Other Operating Expenses				
	Grants and Subsidies Payments				
	Impairment of Receivables				
	Finance Costs				
	Foreign Exchange (Gain)/Loss				
	Contingency Expenses				
32,030,800	**Total Expenditure**	**33,192,900**	**34,214,700**	**35,330,300**	**36,319,700**
(5,949,000)	**Net Revenue Near Cash Expenditure**	**(4,233,700)**	**(3,210,000)**	**(3,499,200)**	**(4,065,300)**
	Depreciation				
(5,949,000)	**Total Net Revenue Expenditure**	**(4,233,700)**	**(3,210,000)**	**(3,499,200)**	**(4,065,300)**

Appendix 10 – Long Term Care Fund Forecast 2017-2021

Introduction

The Long-Term Care Fund (LTCF) is a ring fenced Fund administered by the Social Security Department. This is funded by the new Long-Term Care (LTC) 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 LTCF consists of both a grant from the States, (which reflects budgets relating to LTC 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 LTC 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 in 2019. 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 LTC charge needed to ensure that it is sustainable in the longer term.

Long Term Care Fund

Net Revenue Expenditure - Service Analysis

2017 Forecast		2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
(28,535,200)	States Grant to Long-Term Care Fund	(28,706,400)	(28,878,600)	(29,831,600)	(30,816,000)
		-	-	-	
(22,126,200)	Long-Term Care Charge	(19,925,000)	(20,935,700)	(32,919,000)	(33,906,600)
43,904,300	Long-Term Care Benefit	47,151,800	49,714,700	53,311,700	56,818,500
1,330,000	Administration	1,431,200	1,096,000	1,110,500	1,177,200
(5,427,100)	**Net Revenue Expenditure - Near Cash**	**(48,400)**	**996,400**	**(8,328,400)**	**(6,726,900)**
32,000	Depreciation	32,000	32,000	32,000	32,000
(5,395,100)	**Net Revenue Expenditure**	**(16,400)**	**1,028,400**	**(8,296,400)**	**(6,694,900)**

Statement of Comprehensive Net Expenditure

2017 Forecast		2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
£		£	£	£	£
	Income				
(50,661,400)	Social Security Contributions	(48,631,400)	(49,814,300)	(62,750,600)	(64,722,600)
	Sales of Goods and Services				
(40,000)	Investment Income	(38,800)	(244,000)	(229,500)	(262,800)
	Other Income				
(50,701,400)	**Total Income**	**(48,670,200)**	**(50,058,300)**	**(62,980,100)**	**(64,985,400)**
	Expenditure				
43,904,300	Social Benefit Payments	47,151,800	49,714,700	53,311,700	56,818,500
	Staff Costs				
1,370,000	Supplies and Services	1,470,000	1,340,000	1,340,000	1,440,000
	Administrative Expenses				
	Premises and Maintenance				
	Other Operating Expenses				
	Grants and Subsidies Payments				
	Impairment of Receivables				
	Finance Costs				
	Foreign Exchange (Gain)/Loss				
	Contingency Expenses				
45,274,300	**Total Expenditure**	**48,621,800**	**51,054,700**	**54,651,700**	**58,258,500**
(5,427,100)	**Net Revenue Near Cash Expenditure**	**(48,400)**	**996,400**	**(8,328,400)**	**(6,726,900)**
32,000	Depreciation	32,000	32,000	32,000	32,000
(5,395,100)	**Total Net Revenue Expenditure**	**(16,400)**	**1,028,400**	**(8,296,400)**	**(6,694,900)**

Appendix 11 – Economic and distributional analysis of the proposed extension of corporate tax

Summary

The Economics Unit has undertaken high-level analysis to identify the economic and distributional impacts of extending corporate tax to two additional groups of firms:

1. Large retailers
2. Some additional firms in the financial services sector.

Large retailers

Economic impact

The proposed tax on large retailers is likely to create an incentive to avoid the tax where possible and it is important that Taxes Office build in some mechanisms to prevent this. If it is not possible to avoid the tax, retailers will try to pass the cost on to customers, employees and/or suppliers. The impact on prices could be limited for a number of reasons:

- The retailers subject to the tax will often be competing against smaller retailers and against off-island retailers, neither of whom will face the tax.
- Some of the retailers affected are likely to be branches of large UK corporate retailers with national pricing structures.
- Locally-owned large retailers will have less incentive to increase prices as local shareholders will be able to offset the corporate tax against any personal tax they would otherwise have paid on the distribution/dividend of those profits.
- Profits are generally a small part of the price of retail goods.

Retailers may not have significant potential to reduce wages (or forgo increases), given that this may make it difficult to recruit in a competitive labour market. It will be difficult for an efficient firm to cut costs elsewhere, including reducing staffing or hours, without a resulting reduction in activity (and therefore turnover and profits).

If firms are unable to pass the tax on in prices or by reducing other costs, they may need to absorb the tax increase through reduced profits. At the margin, this may affect investment decisions – but given the size of the tax as a percentage of the overall cost base it is unlikely in itself to lead to firms downsizing, closing down or relocating.

Distributional impact

In distributional terms, any increase in prices is likely to be mildly regressive (i.e. those with the lowest incomes pay more as a proportion of their income). However, this is not expected to represent a significant additional burden on any of the income quintiles. The distributional impact may vary from this if some items/sectors are more likely to see price rises than others, but this will depend on how competitive the market is for individual items, who the competitors are, and how sensitive demand might be to changes in prices of specific products.

Financial services

Economic impact

Similarly to the proposed tax on large retailers, financial services firms are likely to try to look to protect their levels of profit either by avoiding the tax, by passing on the costs to customers or by attempting to reduce other costs in their business.

There may be limited opportunity to avoid the tax without significantly changing the business itself, given that most of the activities require a licence/registration from the Jersey Financial Services Commission and the possession of this licence/registration will be used as the basis on which to decide whether the company is liable for the tax.

In order to avoid cutting profit margins, firms will attempt to pass on as much of the cost as they can without losing significant market share. However, this may be difficult for a number of the firms – particularly those which are competing globally or are competing with firms who are not facing the tax and therefore not seeing any change in their costs. As with the large retailers tax, there will generally be no net impact for local shareholders.

It may be difficult to reduce wages or forgo wage increases if it makes it difficult to recruit in the labour market and it could be difficult for firms to make cuts to staffing numbers or hours while still meeting the needs of customers. The exception may be if there are some productivity improvements /efficiencies to be achieved but firms who have identified potential efficiencies are likely to have implemented them either with or without the increased tax.

If post-tax profits fall due to the tax, this will result in a marginal reduction in the incentive to invest in Jersey. It is not clear to what extent this will result in any relocations or reductions in employment – but as the tax is relatively low by international standards and will only be levied on profitable companies, it is unlikely to be the only reason for such a response. It will form part of firms' usual investment decision process which will consider locations on the basis of not only taxation but also geographical location, regulatory environment, reputation, availability of skills, etc.

Distributional impact

In terms of distributional impact, there is not likely to be any significant impact on any of the income quintiles as none of the quintiles spend significant amounts on financial services in general, or on the specific companies affected. The limited impact that could be observed is likely to be closer to proportional – i.e. higher income households will pay a similar proportion of their income as those in lower income households.

While the average impact on each quintile is likely to be low, there may be larger impacts on individual households for whom expenditure on the sectors affected is more significant as a proportion of income.

Counterfactual

When considering the economic and distributional impacts of extending corporate tax in the manner proposed it is necessary to think about what the counterfactual might be. That is, what would be the impacts of alternative approaches that would have similar sized fiscal impacts – on the revenue and/or expenditure side of the budget. The choice is not between the impacts of the additional tax and doing nothing where there are no economic or distributional consequences. Most alternative approaches would have economic and distributional impacts and the real issue is what would have the least damaging economic consequences balanced with what is deemed the fairest approach.

1. Introduction

The Economics Unit has undertaken a high-level analysis to identify the economic and distributional impacts of extending corporate tax to two additional groups of firms:

1. Large retailers
2. Some additional firms in the financial services sector.

The assessment of the 'economic impact' will look at the types of companies likely to be affected, and consider what the high-level impact might be on the economy in terms of employment, salaries and wages, prices, productivity and total output (gross value added).

The 'distributional impact' will consider which sections of society are likely to ultimately pay for the increase in taxes – specifically considering how the incidence of the tax will occur across the income distribution.

The remainder of this report consists of four sections:

- **Section 2** covers the **background** to the report
- **Section 3** explains some of the **key concepts** and looks at **experience elsewhere**
- **Section 4** looks at the potential economic and distributional impacts of the proposal to extend a positive rate of corporate tax to **large retailers**
- **Section 5** looks at the potential economic and distributional impacts of the proposal to extend a positive rate of corporate tax to **additional financial services businesses**

2. Background

The Treasury and Resources Department is considering ways in which a positive rate of corporate tax can be extended to additional businesses - specifically considering the retail and financial services sectors. Corporate tax in Jersey is currently set at 0 per cent, but with the following exceptions:

1. Certain regulated financial services firms are taxed at 10 per cent of their taxable profits.
2. Utilities companies are taxed at 20 per cent of their taxable profits.
3. Property development and rental profits are taxed at 20 per cent.

The Treasury has undertaken a separate exercise to ensure that, despite these proposals to broaden the corporate tax base, the standard rate of corporate income tax will remain 0 per cent.

In relation to the retail sector, the proposal being considered is to introduce a 20 per cent rate of tax on the taxable profits of large retailers. It is proposed that the definition of 'large retailers' would be those with retail sales in excess of £2m in Jersey and with at least 60 per cent of their turnover being from retail. The tax would be levied at 20 per cent on firms whose profits exceed £500k per annum, but where the taxable profits are less than £750k a tapering provision will apply. The effect of the tapering provision for 'large retailers' with taxable profits of between £500k and £750k will be to reduce the *effective rate* of tax to a rate between 0 per cent and 20 per cent. While the Taxes Office has not historically collected information on the profits of non-taxable firms, they have estimated that 18 of the largest retailers by turnover (as determined from GST returns) could be subject to the tax and that just over £5.5m is likely to be collected per year.

The decision to extend a positive corporate rate of tax to large retailers was agreed in principle by the States Assembly as part of the 2017 Budget debate (P.109 Amd.(4)). This follows similar steps to introduce a 10 per cent rate of tax in the Isle of Man in 2013; and a 20 per cent rate in Guernsey in 2016. In relation to financial services, the proposal is for the existing 10 per cent rate of tax to be applied to some groups of firms who are not currently taxed, specifically:

a. General insurance mediation businesses;
b. Companies regulated as registrars
c. Insurance companies
d. Finance companies

The Taxes Office have estimated that this would deliver around £3m additional tax per year.

3. Key concepts and experience elsewhere

3.1. Key concepts - economic impact

The paper is composed of two separate analyses. The first aspect is to look at the economic impact, including the impact on firms, economic output, productivity and the labour market.

Corporate tax, like any other tax, may have unintended consequences as it will change the balance of incentives and therefore result in changes in behaviours. The economic impact will depend on what incentives the tax creates and how firms are able to respond, for example:

Impact on firms: While both taxes will be imposed directly onto individual firms, this may not necessarily result in an equal reduction to their post-tax profit as they could take steps to either avoid the tax or pass some of the cost to customers/suppliers/employees or through cutting other costs. This is known as the *incidence* of the tax (i.e. on whom does the burden ultimately fall).

Prices: Where the firm is able to pass the cost of the tax on to customers, this will take the form of an increase in prices for the goods and services sold by that firm. The ability to pass the cost on will depend on a number of factors, including the price elasticity of demand for the good (i.e. the extent to which price impacts on demand) and the position of the firm's competitors. For example, if demand is highly price elastic and the firm's competitors will not be facing the tax then it will be much more difficult to increase prices without losing market share.

Labour market: If firms are unable to pass the tax on in prices or through reducing other costs, they may choose to reduce hours, wages or employment levels – or employment may fall if some firms exit the market.

Economic output: This is the impact on gross value added (GVA), (i.e. the total value of all economic activity undertaken in Jersey). If the tax results in individual firms contracting without other firms in Jersey expanding to take this market share, then there will be a fall in economic output. However, the contracting firms will free up some resources which are then available for other activities which may result in GVA.

Productivity: Labour productivity in Jersey is measured by GVA per full-time equivalent employee (FTE). If behaviour of firms changes, or if there is an impact on economic output or the use of labour, the tax is likely to have some impact on productivity.

3.2. Key concepts - distributional impact

The distributional analysis undertaken in this report focuses on which households end up ultimately

benefiting or losing from the proposed tax changes. At a high level, it considers whether the incidence of the tax is on customers, on suppliers, on employees or on shareholders. At a more detailed level it looks at what the cost of the tax is likely to be on those at different points of the income distribution.

The distribution of household income is calculated in the Jersey income distribution survey. It divides households in Jersey into five equal sized groups ('quintiles') according to their income level – the first quintile being the 20 per cent of households with the lowest incomes, the second quintile being the next 20 per cent of households and so on, up to the fifth, or top, quintile being the 20 per cent of households with the highest incomes.

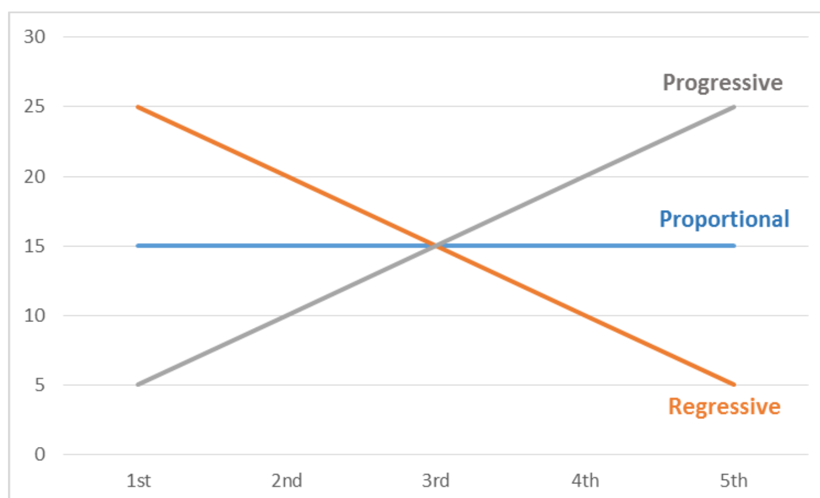
To get an understanding of how various fiscal measures impact on different parts of the income distribution it is possible to look at whether measures are:

Regressive: The average cost to the household falls as a share of income as income rises. This means that those with the lowest incomes pay more relative to their incomes (even though they may pay less in monetary terms).

Proportional: The average cost to the household is constant as a share of income as income rises. This could still mean that the lowest incomes pay less in cash terms, but it is the same proportion of their income.

Progressive: The average cost to the household increases as a share of income as income rises. This will mean that the better off pay more in monetary terms and as a share of income.
This is summarised in **Figure 73**.

FIGURE 73 – The cost impact as a proportion of income of progressive, proportional and regressive measures by income quintile



The distribution of income is not necessarily indicative of the distribution of wealth, and households may be at different levels of income at different points of their life – e.g. a retired household may have considerable savings but a low income in an individual year; whereas a young household at the beginning of their career may have relatively low income but also limited savings. Both example households may well have much higher incomes at different points in their lives.

The analysis does not consider how people at different points of the income distribution might change their behaviour to enhance their welfare in response to the changes. For example, those on lower incomes may have limited opportunity to reduce other areas of consumption without a significant impact on their overall welfare.

3.3. Experience elsewhere

This section looks specifically at the experience of other jurisdictions of a tax on large retailers.

Isle of Man
The Isle of Man applies a 10 per cent rate of tax to the profits of retailers with profits exceeding £500k. This raises approximately £2.5m per annum. No increase in prices has been observed as a result of the tax, which was introduced in 2013.

Northern Ireland
Northern Ireland launched a three year scheme in 2012 which saw an increase in rates on the largest and highest-value retail sites, which was designed to pay for a temporary reduction in rates for smaller businesses. The increase in rates was expected to affect around eighty properties and equate to around 0.19 per cent of store turnover.
The scheme finished in 2015 and did not result in any retailers closing operations in response to the increase (with any retail sites that did close doing so as part of UK-wide closures). No increases in price were observed as a result of the scheme, as prices continued to be set at a UK level.

Scotland
The Scottish government introduced the 'Public Health Supplement' in 2012. This was levied on retail premises in Scotland selling both alcohol and tobacco that had a rateable value of over £300,000. The aim was to address the health and social problems associated with alcohol and tobacco use while generating income for preventative spending. A report by CEBR, commissioned by Asda, estimated that the levy would result in a reduction in store profitability of around 10 per cent.
The scheme was discontinued in 2015. £95.9m was raised by the levy over three years.

Guernsey
In 2016 the Guernsey government introduced a 20 per cent tax on retailers with profits above £500k. This scheme raises around £1.5m per annum and impacts on around twelve businesses across a range of retail subsectors, with most of the businesses concentrated in the food/drink, garage and clothing sectors.
There is no information to suggest the cost is being reflected in retail prices or staff numbers/wages at this stage. While inflation has accelerated from mid-2016, this is generally understood to be the result of the depreciation in sterling following the UK referendum vote to leave the European Union.

4. Impact of proposed tax on large retailers

4.1. Economic impacts

The proposed tax on large retailers is likely to have two impacts in the first instance:

1. Create an incentive to avoid the tax.

Firms may change behaviour or reorganise their business in an attempt to reduce the burden of the tax. The ability of firms to move profits to other activities (say from retail to wholesale) will depend on both the way the business is set up and the way in which the new tax is administered. However, there may also be an incentive to move profits out of Jersey or reduce turnover/profits in order to come under the threshold, particularly for companies marginally above the threshold.

The Taxes Office is developing some mechanisms to mitigate the risk of firms taking steps to avoid the tax. If any firms do avoid the tax then this may potentially result in some distortions, so these mechanisms will be key.

2. Add an additional cost for large retailers, which in turn will impact on either prices, profits or efforts to reduce other costs.

Retailers will generally try to pass on the additional tax in prices, but companies in highly competitive markets (particularly where they compete with off-island/online retailers or smaller on-island retailers who will not face the increased tax[16]) may find it difficult to increase prices without an impact on their market share. This may result in reductions in other costs (potentially including reducing hours, lower wage increases or reducing staffing levels). Where some or all of the tax cannot be passed on in prices or offset with reductions in other costs, it may result in a reduction in profits.

The rest of this section considers the impact on prices, costs, total economic output (gross value added) and productivity.

Impact on prices

It is difficult to accurately quantify the likely firm response. While firms are likely to want to pass on the increased cost through prices, their ability to do so in this circumstance may be limited for the following four reasons:

1. The retailers subject to the tax will often be competing against smaller retailers and against off-island retailers (for example online retailers), neither of which will face the increased taxes. Therefore any increase in prices would be likely to result in a loss of market share.

2. Some of the retailers affected are likely to be branches of large UK corporate retailers. These firms will often have national pricing structures. This makes it less likely that prices can be increased in a simple or cost-free way and it may be harder to justify any increases above UK levels to customers – given that corporate tax is already levied on this sector in the UK.

3. Locally-owned large retailers will have less incentive to increase prices as local shareholders will be able to offset the corporate tax against any personal tax they would otherwise have paid on the distribution/dividend of those profits. This is in the form of a credit, equal to the amount of corporate tax paid, so the net position for local shareholders will be unchanged in respect of their total personal income after tax. Further, this may mean that non-locally-owned large retailers find it more difficult to increase prices if they are competing with locally-owned large retailers in addition to smaller retailers and off-island retailers as per point 1.

4. Profits are generally a small part of the price of retail goods. In Jersey, gross operating surplus (a measure of profit used in national accounts) is thought to be around 6-7 per cent of total turnover for the wholesale and retail sector. Therefore even if fully passed on in prices, a 20 per cent tax on profits would add only around 1-2 per cent to the cost of goods sold by the retailers affected.

[16] Locally-owned smaller retailers pay corporate tax at 0% but then the local shareholder will pay personal income tax on the amount distributed.

As a result of these factors, there are likely to be limited increases in prices at the retailers affected. However, this will depend on the specific circumstances of the retail subsectors affected. For example, if a specific sector was dominated by large UK-owned retailers with limited off-island competition and was selling products for which profit represented a large proportion of cost then there might be more of a price increase expected as the four points above may not necessarily hold for all retail subsectors. It is not clear that any of the retail subsectors affected meet all these conditions, but some sectors may meet some of the conditions.

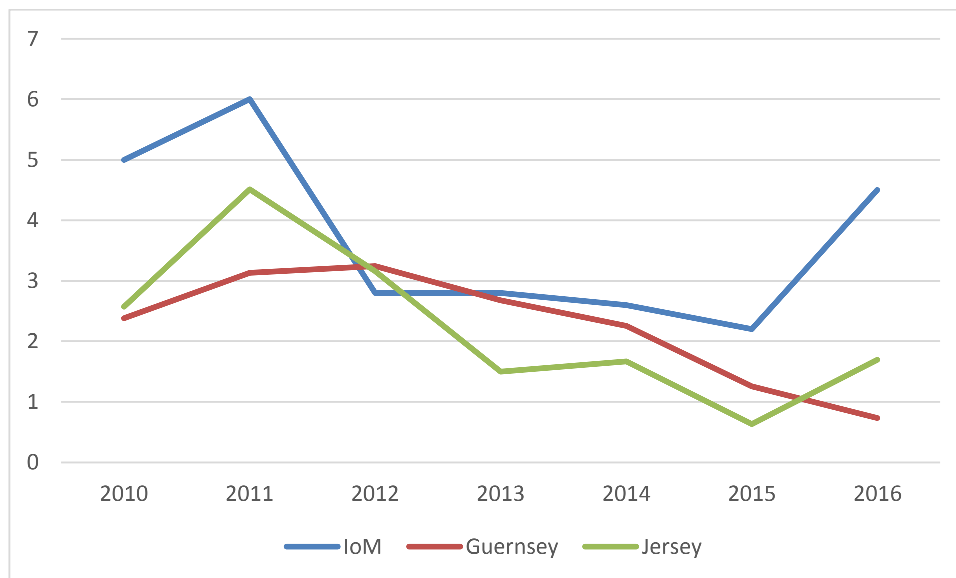
If there is an increase in prices, this will impact on the general rate of inflation in Jersey (as measured by changes in the Retail Prices Index - RPI). The companies affected make up around 50 per cent of sales by GST-registered businesses, and the subsectors involved impact less than half of the RPI calculation (the combined weighting of food, tobacco, household goods, clothing, motoring, and leisure goods). Therefore even if the tax resulted in a 1 per cent increase in prices in the retailers affected, this would likely translate into less than a ½ per cent increase in the overall price level. However, the actual impact may be much lower as affected retailers will have limited ability to pass on as much as a 1 per cent increase in prices, due to the reasons above.

Any increase in the price level is likely to be a one-off increase unless it leads to higher wage demands. The potential small scale of any change in the overall price level may make this less likely.

There is limited evidence of any significant price impact in other jurisdictions. Discussions with Northern Ireland indicate that there was no evidence that retailers deviated from prices set at a UK-wide level, however this risk may have been partially mitigated by the temporary nature of the scheme there (which was a three year increase in rates for large individual premises, rather than Corporation Tax). Similarly, no increase in prices was attributed to the introduction of a retail tax in Guernsey or the Isle of Man.

Inflation tends to follow broadly similar trends in Guernsey, Jersey and the Isle of Man; but can differ somewhat in individual years. No clear upward trend can be seen in **Figure 74** for the year in which the retail tax was introduced in either the Isle of Man (2013) or Guernsey (2016). It is, however, difficult to draw any conclusions from this data as there are different trends which might be impacting on inflation at different times in each of the Crown Dependencies, and there will be methodological differences in the way RPI is calculated – including differences in the 'basket' of goods and services for which prices are measured.

Figure 74 - RPI inflation in the Crown Dependencies (annual average % change in the RPI)



Source: Jersey Statistics Unit, Isle of Man Cabinet Office, States of Guernsey Data and Analysis

Impact on other costs

Given the potential costs involved in increasing prices, and the potential to lose market share, firms may look for other ways to reduce costs to maintain profit margins. There may not be significant potential to reduce wages or give lower increases, given that this may make it difficult to recruit in a competitive labour market. So the response could be to focus on reducing staff costs in other ways, either by reducing numbers of staff or by reducing hours worked. This will be difficult for efficient firms (that have little scope to improve productivity) to do without a resulting reduction in activity (and therefore turnover and profits) and therefore will not be consistent with maintaining profit levels.

An alternative might be to reduce labour costs through more automation. A recent report by PwC[17] estimated that the wholesale and retail sector in the UK is one of the sectors most at risk from job losses through automation in the next 10-15 years, so any increase in corporate taxes may cause firms to accelerate their efforts to automate if there are cost-saving benefits. However, the increase in corporate taxes does not affect the relative price of labour versus capital so it is not clear that it would significantly change the incentives to invest or the pace of automation.

Firms may also choose to consolidate their operations in an attempt to reduce cost to maintain profit levels. Though again the potential to do so might be limited – given that it would be in the firm's interests to have done this even in the absence of the proposed new tax.

Impact on firms / economic output

If firms are unable to pass the tax on in prices or by reducing other costs, they may need to absorb the tax increase through reduced profits. At the margin, this may affect investment decisions – but given the size of the tax as a percentage of the overall cost base it is unlikely to be the sole reason for firms closing down or relocating. For a firm with a 7 per cent profit margin (average for the sector), the tax would make up a maximum of 1½ per cent of total costs.

[17] PwC (2017) Will Robots Steal Our Jobs? http://www.pwc.co.uk/economic-services/ukeo/pwcukeo-section-4-automation-march-2017-v2.pdf

No tax will be collected on firms with taxable profits below £500k so any firm paying the tax will still be profitable, even after paying the tax, meaning that the tax itself will not make any existing operation untenable. A similar scheme in Northern Ireland (based on increasing rates for large retailers, rather than corporate tax which is based on profits) is not thought to have led to any store closures over and above those which were already planned, as part of UK-wide restructuring – though this risk have been partly mitigated in this case by the temporary nature of the increase.

While the scope to shut down operations may be limited – the tax could however give some incentives to firms to reduce their operations (or reduce margins) in order to reduce their profits or turnover below the threshold. This is particularly likely for those firms who are very close to the threshold. However, it is understood that none of the retailers identified have a turnover below £2.5m, so these firms may have limited opportunity/incentive to avoid the tax plus as the tax would only levied at the full 20 per cent rate on profits above £750k then this risk is further mitigated.

In the absence of information on how firms are likely to respond, it is not possible to estimate the overall impact on economic output (gross value added - GVA) or productivity. The wholesale and retail sector makes up around 7 per cent of the economy (£288m of GVA in 2015). However, given that only a proportion of the retail part of the sector is affected (and none of the primarily wholesale firms in the sector), there is not likely to be a significant impact on an economy-wide basis.

If there is some reduction in market share by large retailers who decide to scale back activity/employment, this will often be picked up by smaller retailers who are unaffected by the tax. This may have marginal impacts on productivity at the sector/economy-wide level but there is insufficient data to indicate whether the impact would be positive or negative. Evidence from the UK shows that in the broader '*services: distribution, hotels and restaurants*' sector, medium-sized businesses (50-249 employees) are the most productive, with micro-businesses (1 to 9 employees) being least productive:

Figure 75 – Output per worker in UK Distribution, Hotels and Restaurants Sector, average 2008-2014

Business size	Labour productivity (£)
Micro (1-9 employees)	25,700
Small (10-49 employees)	29,600
Medium (50-249 employees)	38,100
Large (250+ employees)	28,700

Source: UK Office of National Statistics
https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/adhocs/005325additionalanalysisofthedistributionofproductivitybyfirmsizeandindustry

If similar trends exist in Jersey, therefore, there may be a reduction in productivity if micro firms were to increase their market share and their level of employment, at the expense of small or medium firms. The majority of larger corporate retailers appear to be headquartered in the UK. Whether the tax on large corporate retailer is an absolute cost for these businesses will depend on the UK tax position of the direct parent company. The tax analysis applicable in the UK is complex and uncertain, as it depends on factors such as the size of the relevant UK company/group and whether it has made certain elections.

Normally the profits of Jersey permanent establishments of UK companies are taxable in the UK, with double tax relief available in the UK for any Jersey tax suffered to prevent the double taxation of profits. In this situation any additional Jersey tax payable as consequence of the proposed measure should not be a material overall cost to the business.

However UK tax law allows UK tax resident companies to elect for the profits of their non-UK permanent establishments to be exempt from corporation tax. This election is not available to all UK companies and some companies may simply choose not to make the election. To the extent that the profits of a Jersey permanent establishment are the subject of such an exemption election in the UK, any additional Jersey tax payable would be an additional absolute cost to the business.

Distributions paid from Jersey subsidiaries to their parent company in the UK will be exempt from UK corporation tax. This exemption does not apply in all cases and companies can elect for the exemption not to apply. To the extent that distributions from Jersey subsidiaries are exempt from tax in the UK, any additional Jersey tax payable would be an additional absolute cost to the business.

To the extent that the distribution from Jersey subsidiaries is taxable in the UK, the UK should give unilateral tax relief for the underlying corporate income tax paid by the subsidiary in Jersey. In this situation any additional Jersey tax payable should not be a material overall cost to the business.

For a Jersey-resident individual who owns shares in a large retailer which is subjected to tax, the effect will largely be an acceleration of tax (i.e. the tax will be collected from the company's profits but this will be given as a credit when calculating the individual's personal tax liability) such that the distribution is not also taxed. This could however impact on cash flow within businesses, e.g. where shareholders are not distributing profits as they are being retained within the business to fund growth. In this case, the company may not be able to invest as much in growth, unless external funding could be raised. This may have some economic impacts, though of course shareholders will have an incentive to invest additional cash to maintain cash flow and fund growth.

a. Distributional impact

This section looks at which groups of society are anticipated to pay for the proposed change. In the case of the tax on large retailers, it is possible to estimate which companies will likely pay in the first instance, but who ultimately ends up paying for the change will depend on how firms react to the increased tax. Based on analysis by the Taxes Office, the retailers likely to be subject to the tax will be in eight broad subsectors of retail:

Figure 76 - Retail subsectors likely to be affected

Motor vehicles, parts and accessories	Hardware, paints and glass
Flowers, plants, seeds, fertiliser and pet	Cosmetic and toilet articles
Food, beverages or tobacco	Jewellery
Clothing	Computers, peripheral units and software

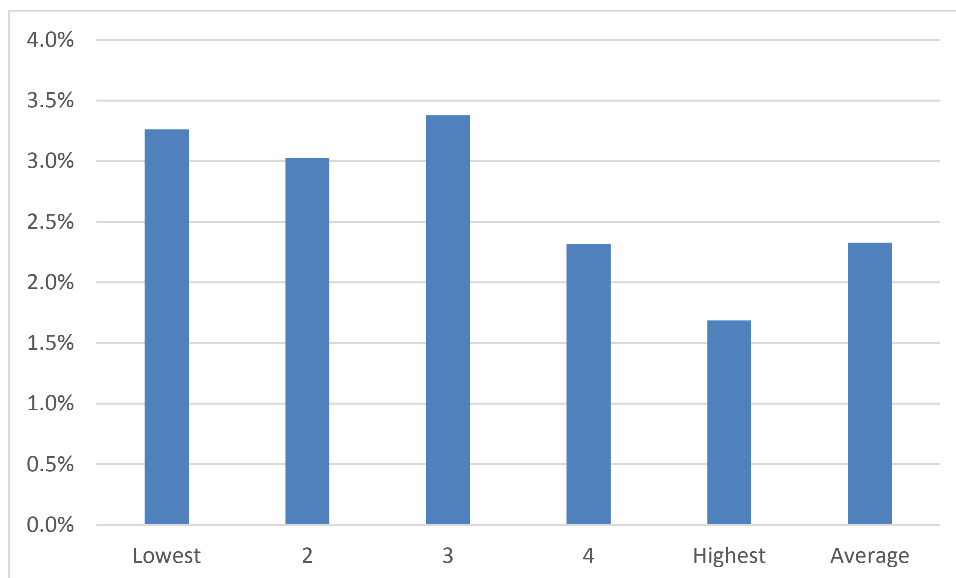
Source: Taxes Office

However, as outlined in section 4.1, firms will change their behaviour to respond to the tax. Depending on the response, this will cause the cost to ultimately fall to different groups of individuals.
If the firm decides to cut employment costs and reduce activity, this will have different distributional impacts depending on who the employees are and whether the same or different individuals are able to move into smaller retailers who may expand to take on some market share freed up by the larger retailers.

If the increased tax results in reductions in profits, this will then be passed on to shareholders either through reduced dividends or through a reduction in the value of the company. The impact of this will depend on who the shareholders are. A number of the retailers affected are headquartered in the UK, and are unlikely to have a significant proportion of their shareholders resident in Jersey.

To the extent that the increased taxes are passed on through prices, the impact will be on customers – though this will hit different groups of customers to different extents. Using the results from the Income and Expenditure Survey, it is possible to break down expenditure by different parts of the income distribution into categories. So for example, if clothing retailers (who are anticipated to pay around 12 per cent of the tax) were to increase prices; this would disproportionately affect those with low to medium income as the bottom three quintiles spend around 3.0-3.5 per cent of their income on clothing and footwear whereas the highest quintile spends less than 2 per cent. This is illustrated in **Figure 77.**

Figure 77 - Proportion of income spent on Clothing and Footwear, by income quintile



Source: Jersey Statistics Unit

For the purpose of this report, some assumptions have been made about what categories of expenditure (from the household spending survey) might be impacted by price increases in each of the retail subsectors expected to be subject to the tax. It is likely that there will be some other categories of expenditure which are spent in the sectors identified but for the purpose of illustration, the most likely categories have been chosen:

Figure 78 - AVERAGE household weekly spend on affected retail sub-sectors

Sub-sector	Expenditure category	Weekly spend (£)
Motor vehicles, parts and accessories	Purchase of vehicles[18]	33.20
Flowers, plants, seeds, fertiliser and pet	Tools & equipment for house & garden	3.10
	Horticultural goods[19]	3.20
Food, beverages or tobacco	Food & non-alcoholic drinks	85.80
	Alcoholic drinks and tobacco	15.8
Clothing	Clothing & footwear	24.50
Hardware, paints and glass	Household goods & hardware	2.00
	Materials for maintenance & repair of dwelling	1.50
Cosmetic and toilet articles	Pharmacy & other medical products	6.50
	Toiletries	4.10
	Hair product, cosmetics, related electrical appliances	6.30
Computers, peripheral units and software	Computers	4.10
Jewellery	Personal effects n.e.c.	4.30
Total		**194.40**

Using these assumptions, the average household in Jersey spends £194.40 per week on items within those categories (both online and in local stores), or approximately £10,000 per year. This represents approximately 18 per cent of the annual average equivalised income.

However, the amount spent varies widely across the income distribution, with the lowest quintile (i.e. those with incomes in the bottom 20 per cent) spending around £120/week and those in the highest quintile (with incomes in the top 20 per cent) spending around £323/week on those categories.

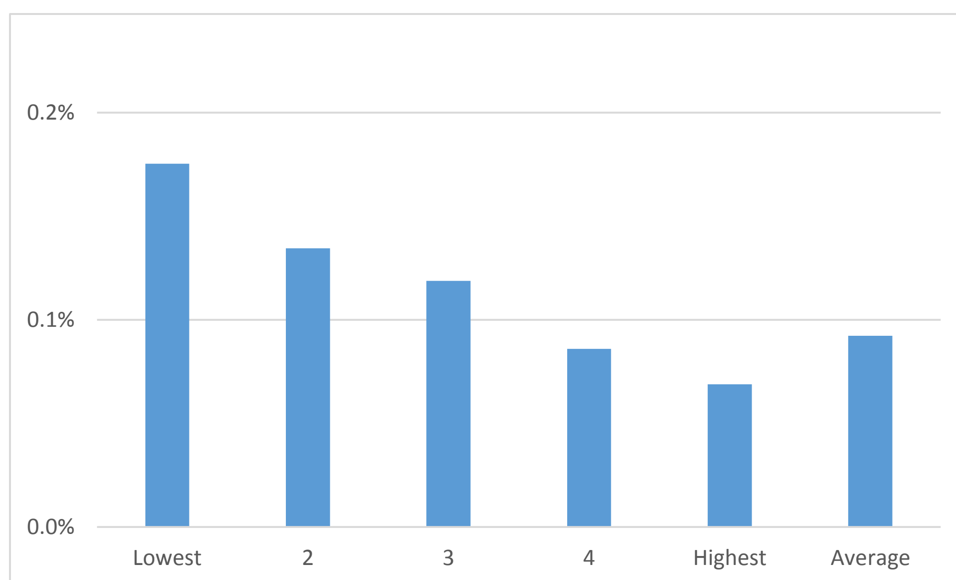
Figure 79 - amount spent on affected sub-sectors by income quintile

Income quintile	1 (lowest)	2	3	4	5 (highest)	**Average**
Average weekly spend (£)	120	154	195	203	323	**194**
Average annual income (£)	17,850	29,750	42,800	61,350	122,100	**54,770**
Spend as % of income	35%	27%	24%	17%	14%	**18%**

However, as set out in section 4.1, the impact on prices is likely to be very small. If prices as a whole were to rise by ½ per cent for the sectors identified then this would increase the weekly costs by £0.97 on average – ranging from around £0.60 for the lowest quintile to £1.62 for the highest quintile.

[18] It is understood there is some motor fuel sales included in this category, but it is not assumed to be a significantly large proportion of the overall motor fuel market.
[19] Expenditure on 'pets, pet food and vets' has not been included as it is likely that this category of retailer does not represent a significant proportion of the overall market for these goods and services.

Figure 80 - Impact of 0.5% increase in prices in the sectors affected, as a proportion of income, by income quintile



Source: Jersey Statistics Unit

While **Figure 80** indicates that such an increase in prices could be regressive, the amounts involved are relatively small as a proportion of income. However, this is illustrative only – there is no reason to think that prices will rise by a uniform ½ per cent across all the sectors involved. For example, the affected firms may be a relatively large proportion of, for example the car sales sector, which may make the tax more likely to be passed on in increased prices, but a small proportion of, for example the clothing sector which would mean that prices are harder to increase without losing market share. This will also depend on how sensitive demand is to changes in prices of individual products – with prices more likely to rise for products which are relatively price inelastic.

Similarly even within a single firm where price increases are put in place, they may not be equally on all products (or indeed the retailer may only operate within a small niche). For example, a retailer might choose to increase prices on items which are less in competition from the internet, or items for which price is less likely to significantly dampen demand. The specific products purchased will differ across the income distribution so, for example, if luxury high-priced cars are more likely to increase in price than lower-priced cars, this would make the impact of the tax more progressive.

Further, a price increase in computer supplies or car sales is likely to be much more proportional than an increase in food prices – as expenditure on computer supplies or car sales will rise more quickly as income increases than expenditure on food.

3. Impact of proposed extension of tax to additional financial services firms

a. Economic impact

Similarly to the proposed tax on large retailers, financial services firms are likely to try to look to protect their levels of profit either by avoiding the tax, by passing on the costs to customers or by attempting to reduce other costs in their business:

Avoidance

Affected firms may look for ways to change how their activities are classified in order to no longer be included in the subsectors to which the 10% rate is extended. However, there may be limited ability to do so without significantly changing the business itself, given that most of the activities require a licence/registration from the Jersey Financial Services Commission and the possession of this licence/registration will be used as the basis on which to decide whether the company is liable for the tax.

Increasing prices

In order to avoid cutting profit margins, firms will attempt to pass on as much of the cost as they can without losing significant market share. However, this may be difficult for a number of the firms – particularly those which are competing globally or are competing with firms who are not facing any change in their costs.

Analysis by the Taxes Office suggests that there are few of the registrars who supply to local clients, therefore any action by these firms will not impact on prices locally. Where prices are increased, this may affect the competitiveness of these firms internationally.

Similarly the finance companies involved will also be competing with banks, and may need to limit any price increase in order to remain competitive. However, the amount collected from these firms is a large proportion of the overall amount, and should they be able to pass some of this on to their customers, it could impact on affordability of funding available to local households and businesses. It is difficult to predict what impact this might have, but it would not be in the finance providers' interests to increase interest rates to such an extent that businesses no longer choose to raise finance in this way; or households struggled to repay.

One alternative to increasing interest rates charged to borrowers would be to reduce the returns passed on to investors – which may ultimately result in a reduction in the overall amount available for lending. However, either impact will be tempered by the fact that a number of the firms affected are locally-owned, so will only see an 'acceleration' in tax as explained in section 4.1, meaning that they may not have any incentive to increase prices or reduce returns to investors if the post-tax value of distributions is unchanged. If locally-owned firms did not raise prices, it would make it less likely that non-locally-owned firms would be able to increase prices without losing market share.

The insurance companies and insurance mediation businesses identified are thought to all serve local clients but they are subject to off-island competition so may find it hard to increase prices without losing some market share. Further, both sub-sectors are not expected to pay a large amount of tax under the proposals so the impact on overall inflation will not be significant. As with the finance providers, a significant number of the insurance mediation businesses are locally-owned and this may again limit the likelihood of price increases by either the locally-owned firms or their competitors as local shareholders will be able to offset the corporate tax paid to reduce their personal tax bill by the same amount and therefore will be subject to no additional tax on a net basis.

Overall then, it is likely that there will not be significant price increases for Jersey residents as the ability for firms to raise prices will be limited for many of the firms affected; and many of the firms are selling their services primarily off-island.

Cutting costs

If the additional tax cannot be avoided or passed on to customers, firms will look to cut other costs. As with the large retailers, this may include consideration of cutting staff numbers, reducing hours or forgoing wage increases for staff; or cutting other expenditure such as office rental or advertising etc. However, it will be difficult to cut wages in a competitive labour market and it will be difficult for firms to make cuts to staffing numbers or hours while still meeting the needs of customers. The exception may be if there are some productivity improvements/efficiencies to be achieved but firms that have identified potential efficiencies may have implemented them either with or without the increased tax.

Impact on firm/profits

Where firms are unable to protect existing levels of profits through the three approaches above, there may be some impact on profits. This will be passed on to shareholders, either through reductions in dividends or through a reduction in the value of the company. As with the large retailers, for a Jersey-resident individual who owns shares in one of the financial services companies which is brought into the 10 per cent tax, the effect will largely be an acceleration of tax (i.e. the tax will be collected from the company's profits but this will be given as a credit when calculating the individual's personal tax liability) such that the distribution is subject to less tax.

As explained in section 4.1, the position regarding financial services companies that are headquartered in the UK is complicated and the tax position will depend on the circumstances of the business and whether or not its profits or distributions are exempt from UK corporation tax.

If post-tax profits fall due to the tax, this will result in a marginal reduction in the incentive to invest in Jersey. It's not clear to what extent this will result in any relocations or reductions in employment – but as the tax is relatively low by international standards and will only be levied on profitable companies, it is unlikely by itself to lead to such a response. It will form part of firms' usual investment decision process which will consider locations on the basis of not only taxation but also geographical location, regulatory environment, reputation, availability of skills, etc.

As with the larger retailers tax, it is difficult to estimate what the net impact might be on economic output (as measured by GVA) or productivity. The total size of the sub-sectors affected is not significant so there is unlikely to be any significant change on a whole-economy basis. This may differ if, for example, there were significant linkages to other parts of the finance sector or the economy as a whole but there is no evidence this is the case.

b. Distributional impact

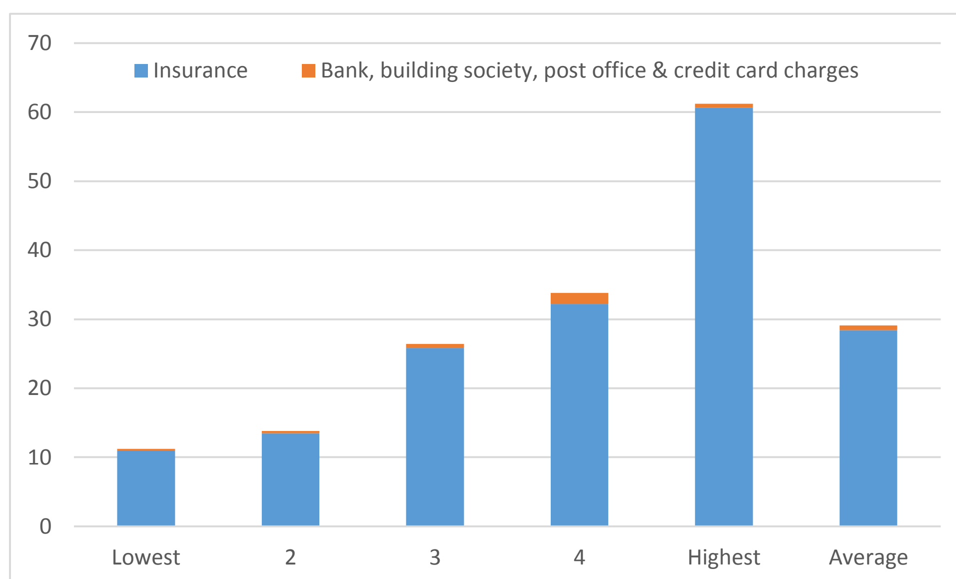
This section identifies which sections of society are likely to end up impacted if the 10% tax rate were extended to additional parts of the financial services sector. It is relatively easy to identify which firms are likely to pay the tax in the first instance, but as explained in section a, affected firms may try to pass this on to customers, or reduce costs or reduce distributions to shareholders, and this response will affect to whom the cost of the tax ultimately falls – i.e. the incidence of the tax.

If the firm decides to cut employment costs this will have different distributional impacts depending on who the employees are, and whether those individuals are able to find alternative employment opportunities to make up for the loss of income.

If the increased tax results in reductions in profits, this will then be passed on to shareholders either through reduced dividends or through a reduction in the value of the company. The impact of this will depend on who the shareholders are. A number of the firms affected are not locally owned and are unlikely to have a significant proportion of their shareholders resident in Jersey.

To the extent that the increased taxes are passed on through prices, the impact will be on customers – though this will hit different groups of customers to different extents.
While it is difficult to get any data on spending on the specific sectors affected, it is likely that a large proportion of this is from off-island customers – with a number of the businesses affected serving only off-island customers. That proportion of sales which are to on-island customers may see some prices increases which will result in additional costs for Jersey residents. However, as noted in section a, it is likely that there will not be significant prices increases as the ability for firms to raise prices will be limited for many of the firms affected.
It is possible from the income and expenditure survey to look at the amounts spent by Jersey households on insurance and on '*bank, building society, post office & credit card charges*'. **Figure 81** demonstrates that expenditure on insurance increases as income increases. Expenditure on bank, building society, post office and credit card charges is low for all quintiles but increases for the first four quintiles before falling again for the top quintile.

Figure 81 - Spending on insurance and on bank, building society, post office and credit card changes; by income quintile (£ per week)

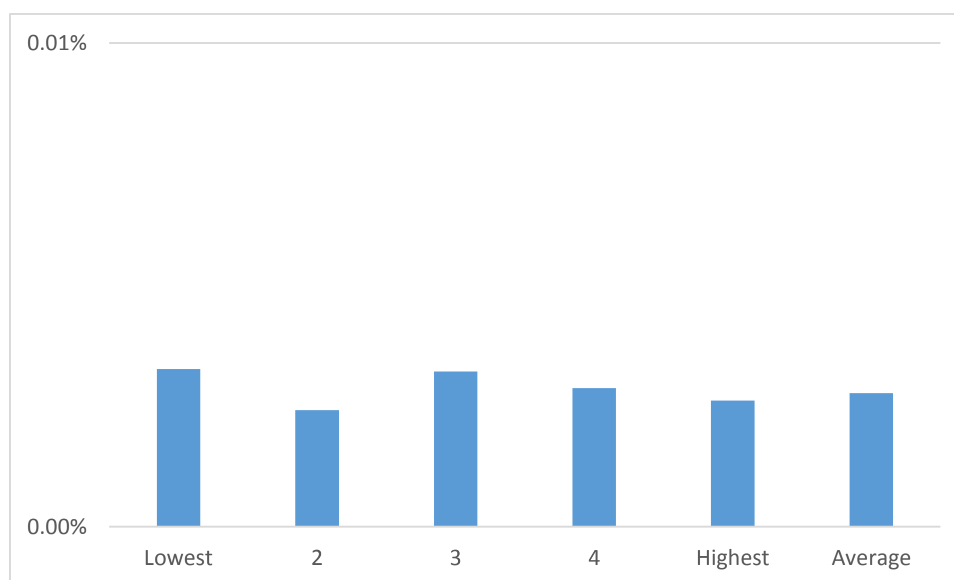


Source: Jersey Statistics Unit

As a proportion of income, however, the impact is more proportional than that seen in retail. The lowest and third quintiles spend the largest proportion of their income on these two categories (**see Figure 82**), but the proportion is relatively similar for all quintiles. The amount spent on these areas is very low – though in terms of the bank, building society, post office and credit card changes this covers only 'charges' and would not generally include interest charged on borrowing or paid on savings. Given the nature of the businesses involved, it is unlikely that a significant proportion of the tax will be passed on in cuts to interest paid to savers.

The businesses affected are only a small part of the finance sector and even if the tax was passed on through prices it would have very limited impact on prices charged to Islanders by the sector as a whole. If the price increase were 0.1 per cent for example, this would result in very little additional cost to any quintile as a proportion of their income.

Figure 82 - Impact of a 0.5% price rise in financial services and insurance, as a % of income by income quintile



While the average impact on each quintile is low, there may be larger impacts on individual households for whom expenditure on the sectors affected is more significant as a proportion of income.

As with retail, price rises may not be uniform across the sectors or across individual products within a sector or individual firm. For example, an insurance mediator may be more able to raise prices across a certain type of insurance (e.g. life insurance) if demand is relatively inelastic to price (i.e. if price rises are less likely to result in a reduction in demand) or if certain insurance sectors are less competitive – for example if certain Jersey-specific products are harder to obtain from off-island providers.

Overall, there is no evidence to suggest that the proposed extension of the 10 per cent rate of tax to additional financial services sector would result in a significant impact on any of the income quintiles as a whole – and any impact that is felt will be largely proportional across the income distribution.

4. Conclusion

The impact of both proposed extensions of corporate tax will depend on how firms are able to respond to the tax – specifically if they are able to pass the cost on to customers, suppliers or employees or whether shareholders are forced to absorb the cost through reduced dividends or a reduction in company valuation.

In both cases, there is little evidence to suggest that the tax will result in a significant increase in the overall price level (as measured by RPI), for a number of reasons:

1. A number of companies in both sectors are locally-owned and therefore the shareholders will receive a credit, reducing their personal tax bill by the amount of the tax. Therefore there will be no impact on the post-tax income of local shareholders.

2. Those firms which are not locally-owned may have limited opportunity to increase prices due to competing with firms who do not face an increase in tax – either because they sell in export markets / compete with off-island businesses or because they compete with firms who won’t face increased taxes (e.g. smaller retailers).

3. The tax proposals affect a small number of firms in limited subsectors of the economy – small price rises in these subsectors will not add significant inflationary pressure on an economy-wide basis.

There may also be limited opportunity for firms to cut other costs in response to the tax, without reducing activity and losing market share. This means that some of the cost is likely to be passed on to shareholders through reduced dividends or a reduction in the value of the company. This will not represent a net loss for local shareholders or for shareholders of firms who currently pay UK Corporation Tax on their Jersey profits.

If the loss to shareholders is significant, it may affect investment decisions. Firms may choose to invest elsewhere if post-tax profits are more attractive. However, the proposed tax rates are low by international standards and will represent only one of a number of factors including geographical location, customer base, regulatory environment, reputation, availability of skills, etc.

Where prices are passed on in the retail sector, these will be mildly regressive (i.e. those on lower incomes will pay a larger amount as a proportion of their income). Where prices are passed on in the financial services firms affected, this is likely to be more proportional – with those on higher incomes paying a similar amount of their income towards the tax.

However, any decision to increase taxes must take account of the counterfactual. If additional revenue is not raised through corporate tax, it must be raised through personal taxes, through charges or through cuts in expenditure. Each of these will have an impact on the economy and will each have differing distributional impacts. For example if the next best alternative choice were to cut expenditure equally across all departments this may have a strongly regressive impact as those on lower incomes tend to use a higher value of public services as a proportion of their income than those on higher incomes.

Appendix 12 – Oxera Review of Employment Income Forecast (restated)

Income tax forecasting phase one: review of employment income forecast

Note prepared for Government of Jersey
25 April 2017 (restated 15 September 2017)

1. Introduction

This note provides a review of the Government of Jersey's approach to forecasting short-term employment income, which is one of the main inputs into its income tax forecast. As noted in the Terms of Reference, Oxera was commissioned to provide a review of the Government of Jersey's approach to forecasting employment income, which represents about 80% of taxable income. As part of this review, Oxera has been asked to review the current forecasting approach used by the Government of Jersey and consider whether any amendments could be made that might enhance its forecasting performance.

We first outline the current approach to forecasting taxable employment income, including a review of its forecasting performance. The current approach is based on regression analysis. It uses forecasts of changes to compensation of employees (CoE[20]—a national accounts measure of total wages and salaries) to predict future changes in employment income. Our review of the current approach shows that while there is generally a correlation between movements in the two variables, in recent years the relationship has become weaker.

We consider an alternative approach and provide details of this (also based on regression analysis) and a review of its forecasting performance (compared to the current approach).
The alternative approach separates out forecasts of full-time-equivalent employees (FTEs) and average earnings. This is in contrast to using CoE forecasts (per the current approach), which draw on information on FTEs and average earnings.

We then refine the approach further by distinguishing between the financial and non-financial sectors, and show how this approach changes the forecast and the fit to the historical data.

We recommend that, in the short term, the Government of Jersey considers using a range of forecasts, which could include the current approach and the alternative forecasting approaches considered in this note. In particular, the decomposed alternative approach, could be considered given that this performs better (historically) than the other top-down approaches and generates more intuitive results.

[20] CoE is a national accounts measure of total employment earnings (i.e. it is an accounting measure of employment income). The forecast of CoE is based on future expected trends in earnings and employment.

2. Current approach to forecasting employment income

The current approach forecasts employment income as follows:

$$\Delta Employment\ income = \beta_1 + \beta_2 \Delta CoE$$

Where:

- $\Delta Employment\ income$ is the annual percentage change in total employment income;
- ΔCoE is the annual percentage change in CoE;
- β_1 is a constant term; and
- β_2 is a coefficient representing the effect that CoE has on employment income.

The current approach therefore uses forecasts of annual changes in CoE to predict annual changes in employment income. The analysis is based on a sample period 2001–15.

The specification of the current forecast formula, based on the results of the regression analysis, is detailed in Table 0.1.

Table 0.1 Current approach: regression results

	Coefficient
Change in CoE coefficient (β_2)	0.904***
Constant (β_1)	0.699
Number of observations	15
Adjusted R-squared	0.789

Note: Adjusted R-squared indicates how well observed outcomes are replicated by the regression analysis, while adjusting for the number of predictors so that it is not biased towards equations with more explanatory variables. It indicates the percentage of the variation in the change in total employment income that is explained by the forecast. These results are based on data which does not include updated CoE figures for 2001 and 2002.

* statistically significant at the 10% level, ** statistically significant at the 5% level, ***statistically significant at the 1% level.

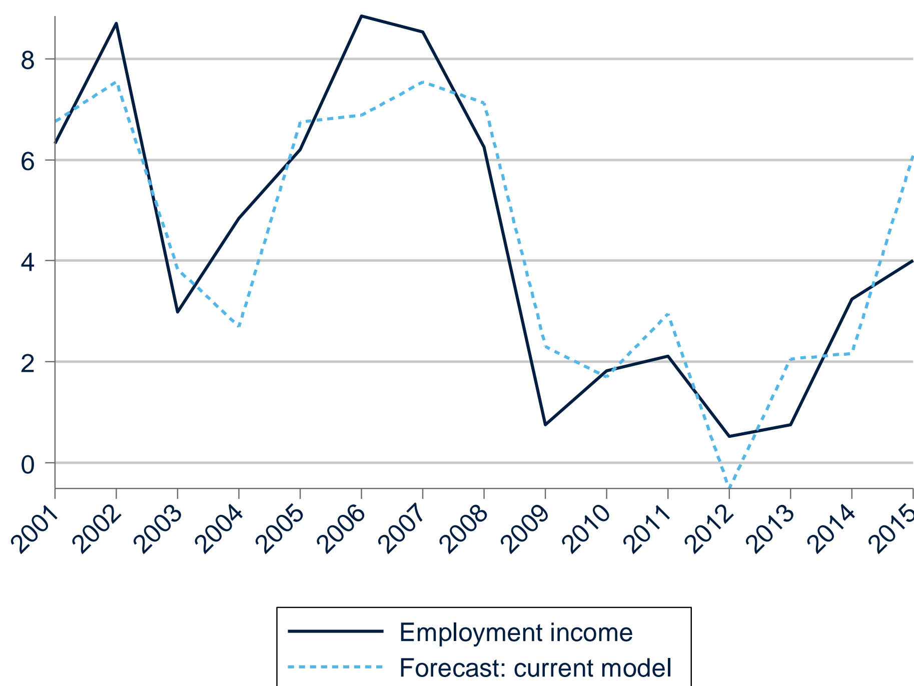
Source: Government of Jersey and Oxera analysis.

The above results show that changes to forecast CoE have almost a proportional impact on changes to employment income—specifically, a 10% increase in the forecast change in CoE will increase the forecast change in employment income by 9%. The adjusted R-squared measure is relatively high, indicating that the regression explains around 79% of the variation in employment income.

2.1. Historical forecast performance

Using actual observed data on changes to employment income and compensation of employees, we can evaluate how this forecast (as specified in Table 0.1) has performed historically. This is shown in Figure 0.1 below.

Figure 0.1 Forecast performance: current approach



Note: This graph is based on actual historical CoE and so does not illustrate how accurate this approach will be at predicting future earnings (or how good a forecast it provided in previous years), as this will also depend on the accuracy of the forecast of CoE used at the time.

Source: Oxera analysis.

Figure 0.1 shows that, in general, the current approach (with CoE as the only explanatory variable) provides a reasonably good fit to historical changes in employment income. Therefore, this approach will have forecast employment income reasonably well if the forecasts of CoE were accurate.

However, in 2015 the performance of the current forecast appears to have weakened, with the difference between the actual and the forecast exceeding 2 percentage points (in absolute terms), as shown in Table 0.2.

Table 0.2 Forecast performance (percentage change): current approach

Year	Forecast: current approach	Actual	Difference
2011	3.0	2.1	0.8
2012	–0.5	0.5	–1.0
2013	2.1	0.8	1.3
2014	2.2	3.2	–1.1
2015	6.1*	4.0	2.1
Average			**1.3**

Note: All units are percentage points. The average figure is based on absolute differences. * In 2016, the actual forecast used by the Income Forecasting Group for 2015 employment income growth was 3.6%—based on data available at the time. The 6.1% figure in the table is based on how the existing approach would have forecast, using the most up to date data.

Source: Oxera analysis.

Table 0.2 above indicates how good a fit the regression is to the actual historical data; it does not show what the actual forecasts were of changes to employment income in those years (because the regression we use in this review now benefits from additional data from recent years and actual figures for the independent variables in all years).

Given these differences, Oxera has conducted further regression analysis using a broader range of explanatory variables to identify an alternative formula for forecasting employment income, with the aim of increasing the predictive accuracy of the model. This is outlined in the next section.

3. Alternative approach

We tested specifications with several additional variables and separated CoE into its two components: FTE employment and average earnings. Doing so allows the econometric regression to determine how the two components in CoE directly affect employment income. Furthermore, given that future forecasts of CoE are based on forecasts of FTE employment and average earnings, these forecasts (FTE employment and average earnings) are available and can be used directly to predict future employment income.[21]

The alternative formula performs marginally better than the current one. However, to produce a forecast that provides a more accurate result than the existing forecast being used by the Government of Jersey, we believe further enhancements could be made, as described in section 4. In section 5 we present analysis using a similar approach but with the explanatory variables broken down into more detail (including by sector).

[21] In recent years, FTE employment and average earnings have not been good predictors of CoE, which is an additional reason for testing an equation based on FTE employment and average earnings directly.

3.1. Alternative forecast

Our alternative approach uses the formula below to forecast employment income. This is based on the economic intuition that the key drivers will be the number of people working (captured by FTE employment) and changes to wages/bonuses (captured by GVA). In addition, we tested other equations such as regressions including RPI, but found that the equation below generated the best fit to the data and provided the most intuitive results.

$$\Delta Employment\ income = \partial_1 + \partial_2 \Delta FTE + \partial_3 \Delta GVA + \partial_4 dummy09$$

Where:

- $\Delta Employment\ income$ is the annual percentage change in total employment income;
- ΔFTE is the annual percentage change in FTE employment;
- ΔGVA is the annual percentage change in nominal GVA;
- $dummy09$ is equal to 0 up to 2008 and equal to 1 from 2009 onwards—it is a dummy term used to control for a structural break in the data;[22]
- ∂_1 is a constant term;
- ∂_2 is a coefficient which represents the effect that changes to FTE employment have on employment income;
- ∂_3 is a coefficient which represents the effect that changes to nominal GVA have on employment income;
- ∂_4 is a coefficient which represents the effect of the structural break in the data on annual changes in employment income.[23]

We also tested a regression that included changes in average earnings; however, as the value of the coefficient was negative and close to zero, it was not included in the final formula. The fact that it was negative is likely to be because GVA is partly determined by earnings (and is likely to be correlated with it), and so this term is therefore likely to capture the effect of changes to earnings on employment income. We note that removing the average earnings variable also improved the fit of the forecast to the historical data (represented by a lower adjusted R-squared).

In addition, we tested a formula which included real GVA (no inflation) instead of nominal GVA. However, we found the adjusted R-squared was lower for the regression that included real GVA. This is likely to be because nominal GVA captures the impact of inflation, which will also affect changes to employment income.

[22] A structural break is when a time series abruptly changes at a point in time. In this particular data series, we find that there is a structural break in the nominal GVA variable in 2009. The addition of a dummy variable allows us to change the constant variable over time (so it equals one value before 2009 and another value from 2009 in this particular equation) and to account for a permanent change in the base level of total employment income growth. In the case of this regression, the dummy variable is a relatively large negative value that offsets the large coefficient on the constant term post-2009.

[23] This is because '$dummy09$' is a constant (0 pre-2009 and 1 post-2009). This coefficient is effectively an adjustment to the constant term (∂_1) after 2009.

Table 0.3 Alternative approach: regression results

	Coefficient (alternative formula)	Coefficient (current formula)
Change in CoE (β_2)		0.904***
Change in FTE employment (∂_2)	0.880**	
Change in GVA (nominal) (∂_3)	0.089	
Structural break dummy variable (2009) (∂_4)	-4.332***	
Constant (∂_1; β_1)	5.655***	0.699
Observations	15	15
Adjusted R-squared	0.836	0.789

Note: Adjusted R-squared indicates how well observed outcomes are replicated by the regression analysis, while adjusting for the number of predictors so it is not biased towards equations with more explanatory variables. It indicates the percentage of the variation in the change in total employment income that is explained by the forecast.

* statistically significant at the 10% level, ** statistically significant at the 5% level, ***statistically significant at the 1% level.

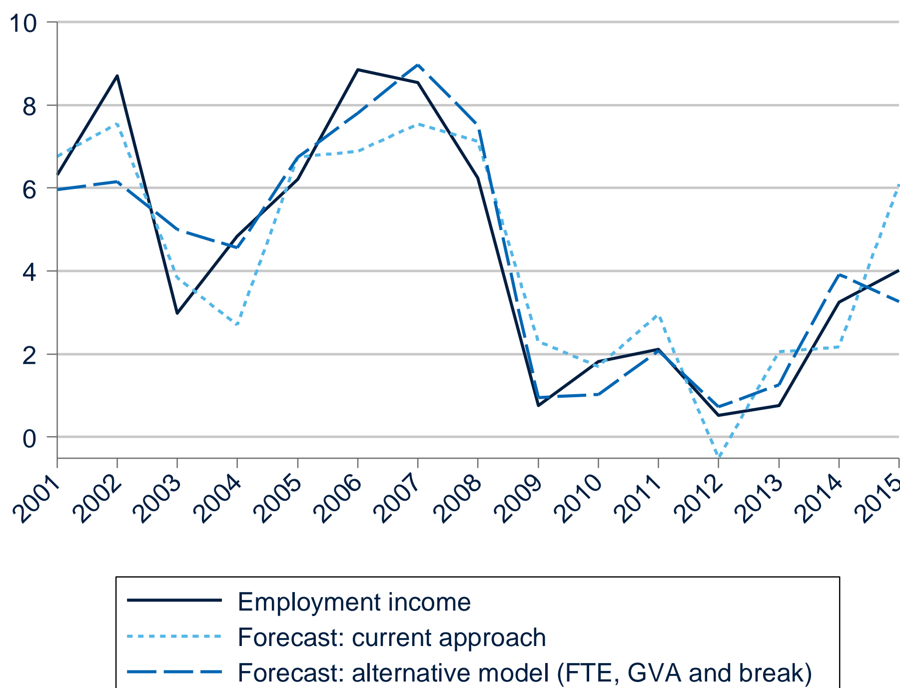
Source: Oxera analysis.

The results of the alternative regression above show that changes in FTE employment have a significant effect on changes in employment income (as shown by the large coefficient). Specifically, this formula predicts that a 10% increase in the change in FTE employment will increase the change in employment income by 8.8%. The adjusted R-squared measure is higher than for the current regression, indicating that changes in the explanatory variables in the alternative regression explain more of the variation in historical changes in employment income (around 84%).

3.2. Forecasting performance

Using actual observed data on changes to employment income and the explanatory variables in Table 0.3, we examine how the predictions of the alternative forecast compare with actual historical data, as illustrated in Figure 0.2.

Figure 0.2 Forecast performance: alternative approach



Source: Oxera analysis.

Figure 0.2 shows that the alternative forecast fits historical data reasonably well, including in 2015.

Table 0.4 Forecast performance: alternative approach

Year	Actual change	Forecast change	Difference (alternative approach)	Difference (current approach)
2011	2.1	2.1	0.0	0.8
2012	0.5	0.7	0.2	–1.0
2013	0.8	1.3	0.5	1.3
2014	3.2	3.9	0.7	–1.1
2015	4.0	3.3	–0.7	2.1
Average			**0.4**	**1.3**

Note: All units are percentage point annual growth. The average figure is based on absolute differences. The final column is drawn from Table 0.2 and is presented for ease of comparison.

Source: Oxera analysis.

As the table shows, the alternative approach predicts recent changes in employment income reasonably well—the average difference (based on absolute values) is 0.4 percentage points compared with 1.3 percentage points when the current forecasting approach is used.

However, we note that while the fit to the historical data is good, the model is not intuitive. In particular, the model predicts that in a scenario with no employment growth and inflation around 3%, real wages will fall, which could be unexpected given historical trends in real wages. We therefore refine the approach further to understand better the underlying relationships between the variables.

4. Refining the approach

Following discussion with the Government of Jersey, we have explored further a more disaggregated version of the alternative approach set out above.

4.1. Refining the top-down approach

The alternative forecast is based on using changes in two explanatory variables: FTE employment and nominal GVA. However, we considered that it may be possible to produce a more nuanced regression based on the factors that determine GVA in particular.

To test this, we have broken down the two main components of GVA: CoE and gross operating surplus (GOS). GOS captures the profits that firms makes. We also split these between the financial services sector and the non-financial services sector, as we expect the impact on employment income from changes in the financial sector to differ materially from changes in other sectors. We then build a regression based on the following equation:

$$\Delta Employment\ income = \partial_1 + \partial_2 \Delta CoE\ (FS) + \partial_3 \Delta GOS(FS) + \partial_4 \Delta CoE\ (non - FS) + \partial_5 dummy09$$

Where:

- $\Delta Employment\ income$ is the annual percentage change in total employment income;
- $\Delta CoE\ (FS)$ is the annual percentage change in the nominal CoE in the financial services sector;
- $\Delta GOS\ (FS)$ is the annual percentage change in the nominal GOS in the financial services sector;
- $\Delta CoE\ (non - FS)$ is the annual percentage change in the nominal CoE in the non-financial services sector;
- $dummy09$ is equal to 0 up to 2008 and equal to 1 from 2009 onwards—it is a dummy term used to control for a structural break in the data;
- ∂_1 is a constant term;
- ∂_2, ∂_3, and ∂_4 are coefficients.

We also tested regressions that included separate terms for FTE employment and earnings (where both variables were split by sector). However, the above formula—which included compensation of employees (split by sector)—performed better in terms of explaining the historical variation in changes to employment income.

Furthermore, GOS (non-financial sector) was not included because the variable had a negative coefficient. Furthermore, the motivation for including GOS (financial sector) is that it could be expected to be correlated with bonuses and might therefore affect employment income. While bonuses in the financial services sector may be a significant component of remuneration in that sector, we understand that this is not the case (on average) for other sectors.
The results of this decomposed alternative regression are presented in Table 0.5 below.

Table 0.5 Alternative approach (decomposed): regression results

	Coefficient
Change in CoE (FS) coefficient (∂_2)	0.095
Change in GOS (FS)coefficient (∂_3)	0. 058**
Change in CoE (non-FS) coefficient (∂_4)	0.746***
Structural break dummy variable (2009) (∂_5)	-1.154
Constant (∂_1)	1.870*
Number of observations	13
Adjusted R-squared	0.925

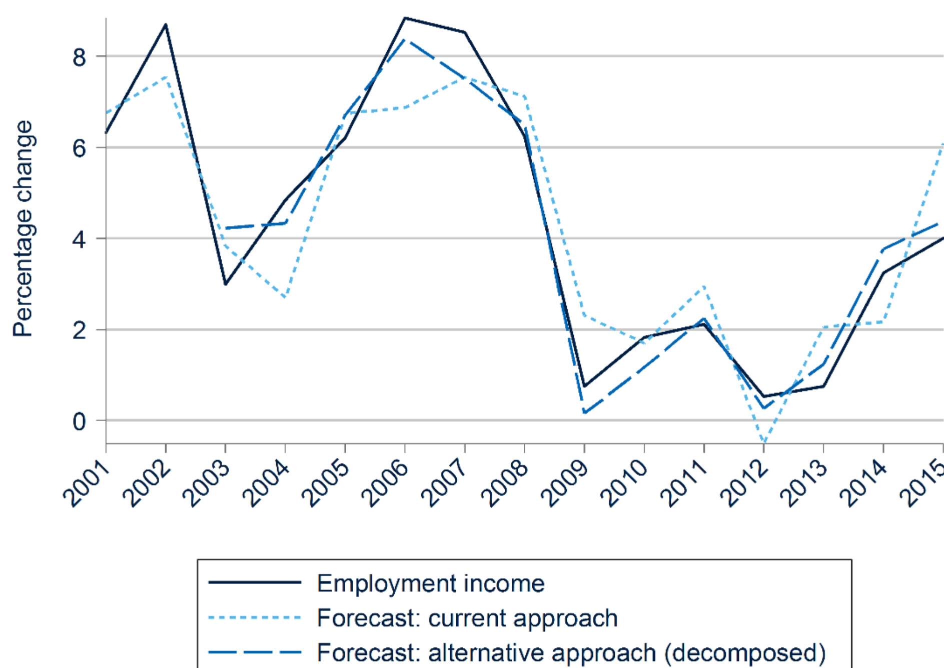
Note: Adjusted R-squared indicates how well observed outcomes are replicated by the regression analysis, while adjusting for the number of predictors so that it is not biased towards equations with more explanatory variables. It indicates the percentage of the variation in the change in total employment income that is explained by the forecast. The number of observations has reduced as there was no consistent data available for 2001 and 2002.

* statistically significant at the 10% level, ** statistically significant at the 5% level, ***statistically significant at the 1% level.

Source: Oxera analysis.

We find that this forecast fits the historical data well, and explains around 94% of the variation in changes in employment income, which is illustrated in Figure 0.3 below. However, whilst the adjusted R-squared is very high, it should be noted that there are additional challenges in forecasting the disaggregated economic fundamentals as they can be volatile.

Figure 0.3 Forecast performance: alternative approach (decomposed)



Note: Forecasts (alternative approach—decomposed) for 2001 and 2002 were not produced owing to data limitations.

Source: Oxera analysis.

As illustrated in the figure above, the alternative decomposed model provides a more accurate fit (to historical data) than the alternative Oxera approach or Jersey's current approach.

4.2. Bottom-up approach

In the longer term, we consider that exploring a more bottom-up approach could help to improve the accuracy of income tax forecasting.
Given the granularity of the newly available data on income at the individual level, using this information could lead to a more robust approach than using a top-down econometric methodology or allowing two approaches to be run in tandem to inform forecasting judgement. This approach would be likely to involve calculating employment income at a lower of level of aggregation—e.g. split by sector and age bands—based on individual or household data.

Forecasts at this more disaggregated level could then be used to estimate how employment income and income tax payable would be likely to change. One of the advantages of such an approach is that it would use tax yields at a lower level of aggregation (which may be easier to forecast forward) and distinguish between marginal and average tax rates. This could help improve the accuracy of the analysis because tax yields tend to differ according to aspects such as sector and age.

5. Conclusion

Oxera's review has identified that while the current approach adopted by the Government of Jersey has forecast reasonably well in the past, the underlying regression appears to have been weaker more recently.

The alternative forecast appears to fit the historical data better than that currently used. The alternative forecast uses a regression derived by testing alternative independent variables that included the determinants of CoE directly, alongside other macroeconomic variables. The further disaggregation of the model improved its performance further, and generated more intuitive results.

We recommend that, in the short term, the Government of Jersey considers using a range of forecasts, which could include the current approach and the alternative forecasting approaches considered in this note. In particular, the decomposed alternative approach, which splits the CoE variable by sector (financial services and non- financial services) could be considered given that this performs better (historically) than the other top-down approaches. In addition, we consider that a bottom-up approach could be investigated in the longer term.

However, the ability of this approach or alternatives to predict future employment income depends on the ability to forecast accurately the relevant explanatory variables. Prior to adopting any additional forecasting approach, it is therefore important to understand whether the explanatory variables can be forecast with a reasonable degree of accuracy in the short to medium term. For example, if the change in FTE employment is forecast to be 2% but in reality is 1%, this will lead to a prediction (all else equal) that the change in employment income will be 1.5%, when it would in fact be more like 0.75%. Therefore, the finding that any approach fits the historical data does not necessarily mean that, in practice, it has the ability to accurately forecast the future.