DRAFT BUDGET STATEMENT 2016

[Embargoed until 00.01am on Tuesday 20 October 2015]

Proposition

Draft Budget Statement 2016

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 2016 of £622,155,000 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, stamp duty, land transactions tax and vehicle emissions duty for 2016 as set out in the Budget Statement;

b) 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 2016 (other than States trading operations) as set out in the recommended programme of capital projects in Summary Table C totalling £26,691,000;

c) 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 2016 in the recommended programme of capital for each States trading operation, as set out in Summary Table D that require funds to be drawn from the trading funds in 2016.

Minister for Treasury and Resources

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PART A – INTRODUCTION

1. Foreword

The measures proposed in this draft Budget for 2016 form a package that is designed to secure longer term sustainable public finances while allowing investment in the health, education, social and environmental policies of the Council of Ministers.

In addition, the capital investment programme focuses on the delivery of IT and infrastructure laid out in the Medium Term Financial Plan (MTFP).

This Budget is focused on the longer term. It does not introduce sudden change but takes a phased and considered approach to the introduction of measures which will help us strengthen our structural financial position and our need for sustainable public finances.

It raises £1.8 million in 2016 above the income forecasts used for the MTFP and will provide us, later in this MTFP period, with greater flexibility on the levels of any additional public charges that will be needed, such as a health charge. In addition the amount we need to draw from our reserves will be reduced if current financial forecasts are maintained and Budget measures raise additional revenue.

We need to mitigate the impact of our ageing population and protect ourselves against the risk of lower levels of future income. This Budget aims to provide that flexibility in our contingency measures.

The approved MTFP means that departments now have to make savings, so we can deliver a Budget which protects taxpayers with relatively neutral measures while still enabling us to invest in health, education, environmental and social policies.

It aims to maintain our tax revenue, with modest growth, while outlining our direction and commitment to continue to support the economy in line with Fiscal Policy Panel (FPP) advice in the short-term and the long term approach we need to take to further secure Jersey's financial prosperity.

We are already investing and developing new policy in healthcare, education and a number of other priority areas, such as housing and sewage treatment works but we need to ensure that this can continue.

We do need to maintain the real value of our overall revenues and also to improve our collection of them – while keeping taxes low, broad, simple and fair to encourage investment and economic growth.

We have been clear throughout the formation of the new Strategic Plan and MTFP 2016-2019 that we will focus on delivering efficiencies in the public sector and remove unnecessary costs before introducing additional public charges. The working partnership between the Treasury, Social Security and Health and Social Services Departments will continue to play a vital role in making sure that our resources, taxation system, allowances and benefits processes are aligned so that we target affordable and sustainable support to help people according to their needs.

Economic outlook

Globally, the advanced economies have continued their recovery in 2015 while emerging economies have continued to slow down. The next few years are expected to see some improvement but there are risks to this outlook, particularly given developments in the Euro area and China.

Jersey's economy returned to growth in 2014, with gross value added (GVA) growing by 5% in 2014. The financial services sector grew by 9%, driven by a significant increase in banking profits, with non-finance recording 2% growth. Employment hit record levels in June 2015, while earnings grew in real terms for the third successive year. The headline indicator of the Business Tendency Survey has remained positive over the last year, although the latest survey points to business activity not increasing at the same rate in the second half of 2015. It is too early to draw firm conclusions from this survey.

Budget 2016 reinforces the approach taken in the MTFP to lay the foundations for future economic growth and raise Jersey's productivity performance. The States will continue to support the economy while global conditions remain fragile, as recommended by the FPP to ensure that recent economic growth can gain momentum. It maintains previous investment of £14 million from the first MTFP in areas such as Back to Work, financial services, the digital sector and skills. It also goes further in facilitating extra investment in education, health and infrastructure – all of which are supportive of future economic growth. In addition, the MTFP provides a new £20 million drawdown provision for economic growth and productivity policies that cannot be funded from existing resources and will make a significant contribution to raising our economic performance.

The Income Forecasting Group (IFG) have produced an update to our income forecasts using the latest economic assumptions from the FPP which shows that the outlook has not changed and that current income is broadly in line with earlier forecasts. For 2015 we are expecting a small increase on our recent MTFP forecasts and over the period of the plan a small improvement. This means we can continue to build on the foundations agreed in the MTFP 2016-2019 and return to balanced budgets by 2019.

Long term approach

The proposals in this Budget are set against the guiding principles of the Council of Ministers' fiscal framework which aim to balance the States' current budget over the economic cycle, keep the Social Security Funds on a sustainable medium-term footing, monitor the States' net asset position over the cycle and listen to FPP advice.

We have five clear principles that guide the development of the Island's long term tax policy and, in addition to achieving our current strategic priorities, the proposed taxation measures have also been considered within the framework of these principles, namely:

- Taxation must be justifiable, necessary and sustainable
- Taxes should be low, broad, simple and fair
- Everyone should make a contribution to the cost of services, while those on the lowest incomes are protected
- Taxes must be internationally competitive
- Taxation should support economic, environmental and social policy

In simplifying the processes we have, we will address inequities, such as the gender bias in child care allowances, that exist within the tax system and some of the measures in this Budget begin that process.

Exemptions and allowances

We all need to pay our fair share according to our means – that is the basis of our tax system. Currently, around 17,000 individuals and married couples and civil partnerships in Jersey pay no income tax at all. Our tax allowances mean that the 40% of lowest-earning people contribute just 3% of the £354 million of personal income tax raised in 2014 in order to fund Jersey's public services. 80% of taxpayers enjoy effective rates of tax ranging from 7% to 15%, well below the headline rate of 20%.

There are, however, inconsistencies in our current tax system which are not in keeping with our desire for a system which is low, broad, simple and fair and can no longer be justified given changes in demographics, improved health and life-expectancy.

I have, therefore, decided gradually to align the income tax exemption thresholds for people under 65 and people 65+, which currently deliver a tax benefit of £442 to single people aged 65+ and £858 to married couples/civil partnerships where at least one of the partners is aged 65+. These higher exemption thresholds currently cost the States approximately £4 million per annum.

To achieve this alignment gradually, I propose to maintain the exemption thresholds for people aged 65+ until such time as the standard exemption thresholds for people under 65 reaches the same value.

The income tax forecasts used in the MTFP assume that all income tax exemption thresholds will increase annually and by maintaining the exemption thresholds for people aged 65+ will save us approximately £200,000 in 2017.

This is a measure which aligns with broader policies to provide support to the members of our community who are most vulnerable. A range of measures, including the benefits that are available through the Long Term Care Scheme and our additional funding for the 65+ health scheme, which is open to older people on a low income, and our investment to provide greater healthcare in the community will ensure that our pensioners are properly supported as they live increasingly longer.

I further propose that Islanders who currently receive the enhanced exemption thresholds will continue to do so until such time as the alignment highlighted above is achieved, but that they will not be available to people who turn 65 from 2017 onwards, limiting the future cost of the enhancement. This step will save an additional £300,000 from 2019.

During the MTFP debate the Council of Ministers reiterated their commitment to the 20% standard rate of income tax. However there are ways of asking those with higher incomes to contribute more without changing the headline rate of tax. I therefore propose to continue the gradual removal of nearly all the remaining allowances from taxpayers who pay tax at the 20% rate.

In 2016 we will start phasing out the standard child allowance and the additional person allowance (which is primarily given to single parents); with both allowances removed from standard rate taxpayers by 2018.

This proposal will not impact low income households who will be protected by the availability of marginal relief. For example: a married couple with one child under 16 would need a joint income of £106,000 before they would be impacted by this measure. A single parent household would need an income of £78,000.

I have decided not to phase out the £6,000 allowance provided to standard rate taxpayers who are parents of students in higher education at this time and this will be maintained alongside the £9,000 allowance that we give to marginal rate taxpayers who have children in higher education.

A Ministerial oversight group will consider how we can assist Islanders with the cost of higher education and allow the Chief Minister to fulfil his commitment back to the States Assembly on this matter during the first quarter of 2016.

The education that our students receive is also supported by the funding that we have committed to providing for future infrastructure. Funding for the feasibility survey for Les Quennevais School is included in this Budget and over the period of the MTFP funding for the schools ICT strategy, £40 million for a new Les Quennevais School building and £15 million for improved facilities at St Mary's and Grainville Schools are being made available. These projects continue the commitment to improving our schools' infrastructure as seen this year with the opening of the new St Martin's School.

One of the priorities of this Council of Ministers is to make sure that Islanders have the support they need to access employment and reach their full potential. We are aware that the cost of child care is an important consideration for parents and still need to fully understand the barriers that it can create for working age parents.

While these matters are being explored, I have proposed an increase to the relief available on regulated child care for pre-school age children from £12,000 to £14,000. This measure will cost £100,000. In addition, we will maintain the maximum tax relief available on child care for older children at £6,150. About 1,600 marginal rate taxpayers claim relief to help with the cost of child care.

A reduction in the currently generous – and inequitable - £1,000 tax exemption given on benefits in kind to £250. As a result those in receipt of a small amount of benefits in kind will continue to receive them tax free; but those in receipt of more generous benefit packages will be asked to contribute a little bit more. I have also asked the Taxes Office, in conjunction with the Social Security Department, to complete a full review of the taxation of benefits in kind.

I am also proposing that non-residents relief is removed from 2016. This will result in non-resident individuals paying tax at 20% on any income they generate from Jersey properties.

Mortgage Interest Tax Relief

Research by the OECD[1] and work by PWC for the Property Tax Review has pointed out that Mortgage Interest Tax Relief (MITR) is inefficient and counterproductive. There seems to be little supporting evidence for such subsidies, not least because they do not appear to impact on home ownership rates, and many advanced countries have consequentially removed such reliefs.

[1] Housing Markets and Structural Policies in OECD Countries, OECD Economics Department Working Papers, No. 836 2011

MITR is likely to increase housing demand and – with no compensating increase in housing supply – is likely to be capitalised (at least partly) in higher house prices. It encourages higher mortgage debt and tends to be regressive in nature (although the distributional consequences are complex, particularly in Jersey where the relief is only available for marginal rate tax payers) and may be disadvantageous to first time buyers. In addition, such relief will distort households' investment and consumption choices, working against economic efficiency.

We will seek to phase out MITR slowly. Starting in 2017 the tax relief provided will gradually diminish over a 10-year period. By outlining clear plans for the future of the relief, existing mortgage holders and potential first time buyers will be able to plan accordingly. Furthermore, due to the gradual withdrawal proposed, this measure will only impact on a limited number of taxpayers during this MTFP period, raising modest amounts of additional revenue.

Significant moves have already been made by the Housing Minister to implement policy changes which are fair and sustainable for all sectors of the housing market. The recently published draft Housing Strategy aims to improve housing supply and standards and the launch of the tenancy deposit protection scheme ensures that we have a robust system for protecting people at all levels of the rental market.

To help all of those who are saving up for a new home, I am proposing a reduction in the Stamp Duty/Land Transactions Tax payable on the registration of mortgage debts. Anyone buying a home costing not more than £450,000 will now be able to benefit from reduced rates of duty/tax on the registration of their mortgage.

In 2014, the Treasury issued the Property Tax Review green paper. The aim of consultation was to look at all property-related taxes in Jersey. It asked Islanders for their opinion on principles which could be used to bring them into a coherent and fair system. There were 208 responses to the consultation and the results will be published prior to the Budget debate on 15 December 2015.

Impôts and VED

The proposed increases in impôts signal the ongoing commitment of the government to pursuing wider health, social and environmental policies.

	Combined impôts and GST additional cost in pence
Spirits – litre bottle at 40% ABV	90p
Wine – 75 cl bottle of table wine	2p
Strong beer – pint	3p
Strong cider – pint	3p
Standard beer – pint	1p
Standard cider – pint	1p
Tobacco – pack of 20 cigarettes	35p
Litre of unleaded petrol	1p

This Budget also contains measures to adjust the rates, bandings and discounts associated with Vehicle Emission Duty. The changes are designed to incentivise the purchase of less polluting vehicles; simplifying the duty while creating a longer term environmental benefit for the Island.

The proposals include adjustments to the rates and bandings, together with the removal of the discounts currently offered on older vehicles. These discounts currently create an incentive to purchase older vehicles which tend to be more polluting than new vehicles. I am also proposing to remove the discount given to hire car operators from 1 January 2017, giving them more than a year to adjust their fleet of cars accordingly. Taken together the changes to VED are expected to raise an additional £722,000 in 2016.

Preparing for Same-Sex Marriage and independent taxation

In September this year, the States Assembly made the historic decision to approve the preparation of legislation to allow same-sex marriage in Jersey. A programme of work has already commenced within the Taxes Office which will help us prepare the income tax system for the introduction of same-sex marriage in 2017, and a number of initial measures are proposed in this Budget. Further amendments will be required in next year's Budget to ensure that the income tax system is ready in time.

The States have supported the timeline for the introduction of same-sex marriage and the Taxes Office's are now focusing on making the necessary changes to the income tax system to meet that.

I have also requested that the Taxes Office bring forward an options paper alongside next year's Budget for the implementation of independent taxation. This will need to be clear on the potential costs associated with independent taxation and must reflect any decisions made regarding the preparation of the income tax system for same-sex marriage. The introduction of independent taxation must dovetail with the modernisation of the Taxes Office's administrative procedures to ensure that the procedure is efficient for both the Taxes Office and the taxpayer.

The initial steps included in this Budget involve changing Wife's Earned Income Allowance and Child Care Tax Relief from the 2016 year of assessment so that they are given in respect of the second earner in a married couple regardless of their gender. In addition, we will start the process of working towards introducing the concept into the tax law of joint and several liability for the tax debts of married couples/civil partnerships.

Business Taxes

Jersey knows the value of a healthy and growing business sector and seeks to maintain a tax structure which encourages investment, growth and creates significant job opportunities, particularly for our young people.

However I will take appropriate steps to address planning which reduces the amount of corporate income tax payable in the Island. From today, we will introduce changes which prevent the repayment of tax credits to companies taxable at the 0% rate. Furthermore, a small number of changes are proposed to the distribution rules in order to improve their operation while the Taxes Office will continue to work with the tax adviser community to determine whether significant simplification of the rules can be brought forward in next year's Budget.

Administration changes

If we are to keep taxes low it is important that we all pay what is due under the law – the right tax at the right time. Alongside a significant investment in modernising the Taxes Office computer systems, over the coming two years I will be proposing measures to simplify and strengthen the tax code to ensure that the Taxes Office is able to do the best job possible for Jersey and to ensure fairness of treatment for all taxpayers.

As a result of our participation in numerous international tax treaties, an increasing amount of data will be available to the Comptroller of Taxes from overseas tax authorities and financial institutions. I will propose similar measures to enable local financial institutions to provide equivalent data to the Comptroller. The Taxes Office will more easily be able to detect error and evasion and to correct it more quickly.

I will propose a Jersey Tax Disclosure Opportunity for 2017 which will enable people who believe they may have been getting their taxes wrong to set their affairs in order.

Developments through the eGov programme are central to public sector reform and the ease with which the public can engage with government. As a priority, the States will invest to enable personal taxpayers to make tax declarations online through a self-assessment process. We will also consider collecting other charges, for example social-security contributions, through this system.

Conclusion

This is a Budget that makes some hard choices to support the Medium Term Financial Plan [MTFP] recognising that longer term planning is essential to building sustainable Public Finances. It clearly recognises the financial challenges the Island faces in a rapidly changing and highly competitive global environment.

It seeks to balance the need for short term fiscal support to maintain the economic recovery with longer term policies to underpin economic growth, diversification and job creation.

It brings together our stated policies on health, on education, on housing and on reforming the public sector but also takes measures which will achieve our goal to develop our tax system so that it is simple and more equitable. This Budget begins to provide some of the much needed flexibility that will be required over the period of the MTFP. Flexibility that will be needed to manage the variations which may occur and enable us to protect the investment we intend to make in our priority services.

I commend this Budget to the States Assembly.

Senator Alan Maclean
Minister for Treasury and Resources

PART B – BUDGET STATEMENT 2016

2. 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 2016 were set out in the MTFP which was adopted in October 2015.

The tax proposals included in the 2016 Budget are based on the long term tax policy principles agreed by the States during the Strategic Plan debate in April 2015. Those long term tax policy principles are:

1. Taxation must be necessary, justifiable and sustainable.
2. Taxes should be low, broad, simple and fair.
3. Everyone should make an appropriate contribution to the cost of providing services, while those on the lowest incomes are protected.
4. Taxes must be internationally competitive.
5. Taxation should support economic, environmental and social policy.

In addition, the individual proposals have been informed by the Minister's aims for the Island's tax system during the course of this MTFP. These aims are:

- Achieving long-term sustainable public finances
- Simplification
- Stability
- Addressing inequalities and anti-avoidance
- Flexibility to adapt to changing circumstances
- Supporting economic growth
- Improved, efficient administration

Consistent with the aim of maintaining a stable tax system, creating the certainty that the Island's economy needs in order to be successful, no changes are proposed to the key elements of the tax system namely:

- the 20% standard rate of personal income tax;
- the corporate tax regime which delivers a tax neutral vehicle in a transparent and internationally acceptable manner; and
- a low, broad and simple GST, with low income households compensated through the benefits system where appropriate.

The Minister also considers administrative changes as part of the Budget to improve the efficiency and effectiveness of the tax system.

The following pages outline the changes proposed to the tax system.

3. Income Tax Proposals

Proposed personal income tax measures

Income tax exemption thresholds

The income tax exemption thresholds are the amount below which taxpayers have no liability to income tax.

The practice in recent years has been to increase the exemption thresholds by reference to the lower of the most recent RPI figure and the most recent annual increase in earnings figure available at the time the Draft Budget is lodged. In Budget 2014 the exemption thresholds were increased by 1.5% which was in line with the June 2013 RPI figure produced by the Statistics Unit. For Budget 2015 the exemption thresholds were increased by a further 1.7% based on the March 2014 RPI figure produced by the Statistics Unit (the most recent RPI figure available at the time that Budget 2015 was lodged).

Despite the challenges facing the States, highlighted in the MTFP, the Minister proposes to continue with this policy by proposing to increase the exemption thresholds for the 2016 year of assessment in line with the June 2015 RPI figure of 0.9%. This increase maintains the real value of the exemption thresholds in 2016.

Taxpayers aged 65+ at the start of a year of assessment are entitled to an age enhanced exemption threshold. The tax benefit of this enhancement is highlighted in the table below:

FIGURE [1] – Current tax benefit of age enhanced exemption thresholds

Type of taxpayer	Standard exemption threshold (2015)	Age enhanced exemption threshold (2015)	Differential	Tax benefit (@ 26%)
Single	£14,200	£15,900	£1,700	£442
Married couple/Civil partnership	£22,800	£26,100	£3,300	£858

Due to the ageing demographic the number of taxpayers eligible for the age enhanced exemption thresholds increases by approximately 700 taxpayers per annum. This increase in the cohort of eligible claimants costs other taxpayers approximately an additional £300,000 per annum. This over time is a significant challenge to the sustainability of the tax system, faced with expenditure increases also arising from an ageing population.

Consistent with the Strategic Priority of creating sustainable public finances, the Minister is proposing two measures to address the increasing cost of the age enhanced exemption thresholds. The first proposal is that the age enhanced exemption thresholds are maintained at the current level for the 2016 year of assessment, reducing the differential between the standard exemption thresholds and the age enhanced exemption thresholds.

Over time the Minister's intention is that the standard exemption threshold should be brought into parity with the age enhanced exemption thresholds, removing the differential and removing the current inequity between these groups of taxpayers. For the avoidance of doubt the Minister does not propose to reduce the age enhanced exemption thresholds currently being enjoyed by eligible taxpayers.

The second measure is that it is proposed that eligibility to the age enhanced exemption thresholds will be limited with effect from the 2018 year of assessment. Only those taxpayers who turn 65 years old before 1

January 2017 will continue to be eligible to the age enhanced income tax exemption thresholds in 2018 and later years. Those taxpayers who do turn 65 before 1 January 2017 will continue to benefit from the age enhanced exemption thresholds until such time as they are aligned with the standard exemption thresholds.

Raising the standard exemption thresholds by 0.9% represents a saving of £2.2m against the latest income forecasts presented as part of this Budget which assume a 2.0% increase in all exemption thresholds for the 2016 year of assessment (Budget Year 2017) and the remaining years of the MTFP.

As indicated above the saving from limiting future eligibility to the age enhanced exemption thresholds is estimated at £300,000 per annum from the 2018 year of assessment (Budget Year 2019). The effects of these proposals are outlined in **Figure 2**:

FIGURE [2] – Income tax exemption thresholds for 2015 and 2016

	2015 Actual	2016 Proposed
Single Person	£14,200	£14,350
Single Person (aged 65+)	£15,900	£15,900
Married Couple/Civil Partnership	£22,800	£23,000
Married Couple/Civil Partnership (aged 65+)	£26,100	£26,100

In 2016 those in receipt of age enhanced exemption thresholds, will continue to receive exemption thresholds in excess of the working age population:

FIGURE [3] – Proposed tax benefit of age enhanced exemption thresholds in 2016

Type of taxpayer	Proposed standard exemption threshold (2016)	Proposed age enhanced exemption threshold (2016)	Differential	Tax benefit (@ 26%)
Single	£14,350	£15,900	£1,550	£403
Married couple/Civil partnership	£23,000	£26,100	£3,100	£806

Phasing out tax allowances from standard rate taxpayers

Following the completion of the "20-means-20" policy initiative which aimed to phase out allowances from standard rate taxpayers during the 2007 – 2011 years of assessment, there are 3 allowances still available to **standard rate** taxpayers namely:

- £3,000 allowance in respect of each child under the age of 16 or over the age of 16 and still in full-time school (standard child allowance)
- £6,000 allowance in respect of each child who is over the age of 17 and in full time higher education (higher child allowance)
- £4,500 allowance to a single parent household which is entitled to one of the allowances listed above (additional personal allowance)

The Minister proposes that these allowances are phased out from standard rate taxpayers only over the period of the MTFP with the exception of the £6,000 higher child allowance. The intention is to maintain the higher child allowance, until firm proposals have been identified and approved to help Islanders with the costs of sending their children on to higher education.

It is proposed that the standard child allowance and the additional persons allowance will be phased out as shown in **Figure 4**:

FIGURE [4] – Proposed phasing-out of child allowances from standard rate taxpayers

Allowance	2015 YOA (current year)	2016 YOA	2017 YOA	2018 YOA
Standard child	£3,000	£2,000	£1,000	£0
Additional person	£4,500	£3,000	£1,500	£0

This proposal will not impact the vast majority of taxpayers that pay at the marginal rate who will still be entitled to the standard child allowance, the additional personal allowance and the enhanced higher child allowance (under which the higher child allowance is increased to £9,000). The Minister will not be proposing to phase out these allowances from marginal rate taxpayers.

Figure 5 provides an indication of the level of taxable income that a household will require in order to be impacted by the withdrawal of the allowances from standard rate taxpayers (i.e. households with lower income levels will not be impacted by the withdrawal of these allowances). Many will earn higher than this and will still not be impacted if their circumstances qualify them for other reliefs available to marginal rate taxpayers – such as Child Care Tax Relief:

FIGURE [5] – Household income required to be impacted by proposed phasing-out

Household description	Household Income required in 2016 YOA[2] to be impacted by proposed phasing-out
Married couple, one under 16 child, no other allowances	£106,000
Married couple, two under 16 children, no other allowances	£112,000
Married couple, three under 16 children, no other allowances	£118,000
Married couple, one under 16 child, one child in higher education, no other allowances	£125,000
Single parent household, one under 16 child, no other allowances	£78,000
Single parent household, two under 16 children, no other allowances	£84,000
Single parent household, one child in higher education, no other allowances	£91,000

It is estimated that this proposed measure will raise approximately £1.9m per annum once the standard child and additional personal allowances are fully phased out. This represents additional revenue of £645,000 per annum for each year during the phase out period:

- 2016 year of assessment (Budget Year 2017): £645,000
- 2017 year of assessment (Budget Year 2018): £1,290,000
- 2018 year of assessment (Budget Year 2019): £1,935,000

[2] Based on proposed 2016 year of assessment exemption thresholds.

Modernise wife's earned income allowance ("WEIA")

Jersey currently operates a system of joint taxation for married couples. Under this system of joint taxation, the husband is treated as "the taxpayer" and the wife's income is deemed to be his income for tax purposes. One of the allowances available to the husband is WEIA, an allowance which is available at the marginal rate provided his wife is in receipt of earnings. The financial value of the WEIA is £4,500 per annum (or the amount of her earnings if less than £4,500).

Due to the way in which the allowance is structured (i.e. given in respect of a wife who has earnings) households with similar income can pay differing amounts of tax.

Example

Each of the households below has a joint income of £45,000. Each household is only entitled to the income tax exemption threshold and WEIA (where applicable):

Household	Husband's earned income	Wife's earned income	Eligible for WEIA	Allowances available[3]	Tax liability
One	£40,000	£5,000	Yes	£27,300	£4,602
Two	£45,000	£nil	No	£22,800	£5,772
Three	£5,000	£40,000	Yes	£27,300	£4,602
Four	£nil	£45,000	Yes	£27,300	£4,602

In this example household four clearly has a tax advantage compared to household two; demonstrating that a household within which the husband does not to go out to work has a tax advantage over a household within which the wife does not to go out to work. **This is inequitable and unfair**.

As part of work to remove inequities from the personal income tax system, the Minister therefore proposes to change the WEIA so that, from the 2016 year of assessment, it is only available where both spouses are in receipt of earnings, with the amount of relief being determined by the lower earner in a married couple irrespective of their sex. Following this change, in the example above household four would be brought into parity with household two, removing the current inequity between these households.

This change is also required in order to prepare the income tax system for the introduction of same-sex marriage.

It is estimated that there are approximately 100 households which will be fully impacted by this proposed measure. The maximum additional income tax payable by a married couple as a result of this specific measure is £1,170 (£4,500 @ 26%). It is estimated that this proposed measure will raise approximately £100,000 per annum from the 2016 year of assessment (Budget Year 2017).

Modernise child care tax relief (CCTR)

Similar to the above analysis of WEIA, CCTR is given in respect of the earned income of the wife, resulting in discrepancies and inequalities between those households in which the husband does not go out to work and those households in which the wife does not go out to work. The Minister therefore proposes to make a change to CCTR to address this inequity and prepare the income tax system for same-sex marriage. As with

[3] Calculated using allowances and rates for the 2015 year of assessment: married couple income tax exemption threshold = £22,800; WEIA = £4,500; marginal rate of tax = 26%)

WEIA, CCTR will be given in respect of the lower earner in a married couple/civil partnership irrespective of their sex. No other changes to the availability of CCTR are proposed.

Taxes Office data indicates that a very small number of marginal rate married taxpayers claim CCTR where the husband does not have earnings and hence will see a full withdrawal of the CCTR that they are currently claiming as a result of this proposed measure. In light of the small number of impacted taxpayers, this specific measure is regarded as broadly revenue neutral.

Increased tax relief for child care costs

The Minister proposes that the maximum tax relief available to marginal rate taxpayers in respect of childcare costs incurred on child of pre-school age is increased from £12,000 to £14,000 per year, with effect from the 2016 year of assessment. This increase will help hard working families who incur professional childcare costs which enable the parents to work and contribute to the economy.

This proposal is anticipated to benefit about 175 current households and to cost approximately £100,000 from the 2016 year of assessment (Budget Year 2017).

Although a relatively minor amendment, this is just one part of a wider comprehensive policy that the Council of Minister is committed to developing.

Phasing out of mortgage interest tax relief (MITR)

MITR acts as a public subsidy for home ownership. The relief currently costs about £11m per annum. No equivalent to MITR exists for those who cannot afford to buy, or who are not allowed to buy, and who are therefore required to rent their homes. In effect, this means those on the lowest incomes and struggling the most to get on the housing ladder do not benefit in the same way as those who can afford a mortgage and to own their own home.

From an economic perspective, the existence of MITR merely acts to increase the price of properties, as it means that prospective buyers are in a position to afford to borrow more, as the additional interest payments will be met through tax relief. The unintended consequence of MITR is to push up property prices, which does not help people to buy homes.

The amount of tax relief given for mortgage interest in Jersey has been reduced over the last decade. In 2004 a cap was introduced on the total amount of borrowing in respect of which interest relief was available ("debt cap"). At the time, the limit of £300,000 represented the average price of a three-bedroom house and the introduction of the debt cap affected a relatively small number of taxpayers. However by the second quarter of 2015 the average price of a three-bedroom house had grown to £503,000 and in the 2013 year of assessment approximately 1,800 eligible claimants had their MITR restricted by the application of the debt cap.

Through the implementation of the "20-means-20" policy initiative (when allowances were phased out from standard rate taxpayers during the 2007 – 2011 years of assessment) MITR was gradually phased out for standard rate taxpayers, such that only marginal rate taxpayers are now able to benefit from MITR.

The 2015 Budget then introduced a £15,000 cap on the amount of interest that is available for relief annually ("interest cap").

Consistent with both this long-term trend to reduce the value of MITR and with the approach adopted in

Guernsey, the Minister proposes that MITR is phased out completely in a steady and structured manner over a 10 year period, commencing from the 2017 year of assessment and ultimately concluding in the 2026 year of assessment. By announcing the proposed phasing-out period the Minister intends to give existing mortgage holders and prospective first-time buyers a clear understanding of the MITR they will receive over the phasing-out period.

The Minister proposes that the phasing-out of MITR is achieved through the reduction of the interest cap as outlined in **Figure 6**:

FIGURE [6] – Proposed reduction in the interest cap 2016-2026

Year of Assessment	Applicable interest cap
2016	£15,000 (unchanged)
2017	£13,500
2018	£12,000
2019	£10,500
2020	£9,000
2021	£7,500
2022	£6,000
2023	£4,500
2024	£3,000
2025	£1,500
2026	Nil

Primarily due to the low interest rate environment, a relatively small population of taxpayers are currently claiming MITR in excess of £12,000 per annum; therefore the revenue implications of the phasing-out of MITR across the period of this MTFP are minor. Based on the latest available data from the 2013 year of assessment and assuming stable interest rates and a stable population of eligible claimants, it is estimated that the phasing-out will raise approximately £100,000 in the 2017 year of assessment (Budget Year 2018) and £200,000 in the 2018 year of assessment (Budget Year 2019).

Removal of non-residents relief

Most sources of Jersey income (e.g. bank interest, social security pension) are exempt from Jersey tax in the hands of non-resident individuals. However income from Jersey property and other forms of Jersey pension income remain taxable in Jersey when received by a non-resident individual. Non-resident individuals in receipt of these forms of taxable income are entitled to a proportion of the allowances and reliefs available to Jersey resident individuals (this proportion being determined through a detailed calculation).

The Minister proposes that from the 2016 year of assessment non-residents relief is withdrawn, with the effect that non-resident individuals will pay tax at an effective rate of 20% on their property and pension income (excluding social security pension income).

This proposed measure will impact less than 500 non-resident individuals in receipt of taxable Jersey source income and would raise approximately £500,000 per annum from the 2016 year of assessment (Budget Year 2017).

Reducing the benefit in kind (BIK) exemption

Currently all taxpayers in receipt of BIKs from their employer are entitled to deduct a maximum of £1,000 from the value of the BIKs received when calculating the amount that is subject to income tax. This deduction is inequitable, generous and provides the most relief to those in receipt of large amounts of BIKs. The Minister proposes to reduce the maximum deduction to £250. Maintaining a deduction ensures that those taxpayers in receipt of a small amount of BIKs continue not to pay any tax on those BIKs, whilst those in receipt of significant amounts of BIKs will pay slightly more tax on the benefits they received (the maximum additional tax payable by a taxpayer under this proposal is £195 per annum (£1,000 - £250) @ 26% = £195)).

Approximately 4,200 marginal and standard rate taxpayers are in receipt of taxable BIKs and it is estimated that this proposed measure will raise approximately £360,000 per annum from the 2016 year of assessment (Budget Year 2017).

Removal of remaining pension relief

Pension relief was a specific form of relief that granted standard rate taxpayers in receipt of pension income from certain overseas jurisdictions a 10% credit against their Jersey tax liability on that pension income provided they had paid some tax on the pension income in the jurisdiction from which the pension arose. The availability of pension relief was removed from the Income Tax Law in the 2004 year of assessment; however the relief was concessionally grandfathered by the Taxes Office for those individuals who were claiming the relief at that time.

The rationale for the continued grandfathering of pension relief has been weakened over time by the steady development of the Island's double tax treaty network, reducing the number of situations where a Jersey resident individual will pay tax on pension income in more than one jurisdiction.

The Minister has therefore requested that the Comptroller of Taxes ceases the grandfathering arrangement from the 2017 year of assessment, with no further relief being given in that year of assessment or any subsequent years.

The interval before the grandfathering arrangement ceases should provide impacted taxpayers with the opportunity to investigate and make any appropriate claim under a double tax treaty that may be advantageous in their personal circumstances.

It is estimated that approximately 80 taxpayers who pay income tax at the standard rate and have been given pension relief since 2004 will be impacted by this proposed measure. It is estimated that this proposed measure will raise approximately £350,000 per annum from the 2017 year of assessment (Budget Year 2018).

The Comptroller will contact the affected taxpayers early in 2016.

Minor amendment to pension rules

The 2015 Budget included a significant rewrite of the rules relating to pensions and pension schemes. Since the rule changes were implemented the Taxes Office has been working closely with the Island's pension industry to ensure that the rules are operating as intended and that they are clear and unambiguous. As a consequence of this process the Minister proposes that a small number of minor amendments are made to the pension rules. The proposed changes do not have any financial implications.

Changes to the distribution rules

The distribution rules were introduced in the 2013 Budget to ensure the appropriate taxation of distributions from Jersey companies to Jersey resident individual shareholders. During 2015 the Taxes Office has been working with the Island's tax adviser community to undertake a post-implementation review, with a clear focus on simplification of the rules. The tax adviser community has helpfully suggested a number of potentially significant amendments to the rules, particularly in the context of multi-layered structures, which the Taxes Office are continuing to examine. It is anticipated that a further discussion paper regarding these suggestions will be shared with the tax adviser community before the end of the year.

In the meantime the Minister has proposed a number of relatively minor amendments to the distribution rules in order to improve their operation. In particular the changes seek to ensure that the payment of a preference share dividend to a non-resident cannot result in a repayment of a tax credit to that non-resident. This change will apply to any preference share dividend received by a non-resident on or after the day that the Draft 2016 Budget is lodged, Furthermore, the amendment prevents the repayment of tax credits on preference share dividends to non-residents for earlier years of assessment) where a claim for repayment has not been lodged with the Comptroller of Taxes before the day that the Draft 2016 Budget is lodged. Although not common, this approach of changing the Law with effect from the date the Draft Budget is lodged has been used previously (for example when changing the exemption available to non-residents in the 2013 Budget).

The Minister emphasises that any claims made before the 20 October 2015 for the repayment of income tax due under the Income Tax Law will be determined, and permitted, in accordance with the Income Tax Law as it existed prior to that date. Any claims made on or after the 20 October 2015 will be dealt with under the Income Tax Law, as amended.

These proposed changes are not expected to have significant financial implications, except to prevent repayments of tax in unjustified circumstances.

Proposed corporate income tax measures

Non-payment of tax credits to companies taxable at 0%

Under the current rules an investment holding company is entitled to claim management expenses. Where an investment holding company is in receipt of a dividend from another Jersey company which carries a tax credit (i.e. a dividend which has been paid out of profits subject to the 10% or 20% tax rates) the investment holding company can set off the management expenses against the dividend and receive a repayment of the tax credit. This rule has been utilised by, amongst others, external investors to create acquisition structures which can result in significant amounts of corporate income tax being repaid.

To address this type of structuring the Minister proposes that no tax credits will be repaid in respect of any dividend received by a company taxable at 0% on or after the day that the Draft 2016 Budget is lodged. This immediate cut-off is required in order to prevent dividends being paid between the date that the Draft 2016 Budget is lodged and the date of the debate.

The Minister emphasises that any dividends received before 20 October 2015 will be treated in accordance with the Income Tax Law as it existed prior to that date. Any dividends received on or after 20 October 2015 will be dealt with under the Income Tax Law, as amended.

Furthermore under the current rules a financial services company receiving a dividend from which tax has been deducted by another Jersey company is entitled a tax credit. The Minister proposes that the calculation of the tax credit available to a financial services company in these circumstances is amended so as to limit the credit to the lower of the tax deducted from the dividend or the gross dividend at the rate of 10%.

Corporate residence tie-breaker test

Jersey's internationally renowned company law results in Jersey incorporated companies being utilised all over the globe, generating company fees and legal work for the Island's financial services sector. Under Jersey's domestic tax law, a company incorporated in Jersey is considered taxable in Jersey unless it is managed and controlled outside Jersey in a country or territory where the highest rate at which a company may be charged to tax on any of its income is 20% or higher.

In the UK's most recent budget the Chancellor of the Exchequer announced that the UK's headline corporation tax rate would be reduced from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. Without a change in Jersey's domestic tax law, this reduction in the UK's headline corporation tax rate could result in some Jersey incorporated companies, which are currently taxable in the UK, inadvertently also becoming taxable in Jersey, which may impact adversely on their overall tax position.

The Minister therefore proposes to change the corporate residence tie-breaker test in Jersey's domestic income tax law so that the "status quo" is maintained and these companies do not inadvertently become taxable in Jersey simply because of a change in the UK's headline corporation tax rate. As this proposed measure maintains the status quo it does not have any financial implications.

Proposed administrative measures

Minor administrative measures

The Minister also proposes the following, administrative measures within the income tax system:

- Removing the obligation on the Comptroller of Taxes to attend all Commissioners of Appeal hearings personally, allowing for other officers to attend instead.
- Changes to facilitate greater data sharing between the Taxes Office and certain members of the Income Forecasting Group in order to improve the income tax forecasting process (subject to appropriate safeguards).
- Formalising the submission deadline for the company income tax return as midnight on 31 December in the year following the relevant year of assessment.
- Revising the right for an employee to elect to make ITIS payments at an effective rate, or a combined effective rate, that exceeds the rate that would otherwise apply in his or her case.

4. 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 2016 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 and in particular the Ministers and Officers from Health and Social Services, Home Affairs, Transport and Technical services and Economic Development.

It is proposed that any increases in duty will take effect at midnight on 31 December 2015.

The Budget proposals are set out in detail below and will raise additional revenue as indicated below:

Alcohol

The Minister is proposing the following increases to alcohol duty rates.

FIGURE [7] – Proposed increases in alcohol impôts duty

	Impôts duty increase %	Impôts duty *plus* GST increase p
Spirits – litre bottle @ 40% ABV	6.6	90p
Wine – 75cl bottle of table wine	1.3	2p
Pint of Beer/Cider exceeding 4.9%abv (Strong)	4.9	3p
Pint of Beer/Cider exceeding 2.8%abv but not exceeding 4.9%abv (Standard)	2.8	1p

As a result of these Budget proposals, the forecast is that the annual duty collected on all alcohol will total £19,261,000 in 2016. This would be £245,000 more than the 2016 Budget forecast update.

In addition to the duty rate increases, the Minister also proposes some minor amendments to the Customs and Excise (Jersey) Law 1999 regarding the definitions of a "small independent cider maker" and a "small independent distiller of spirits". These definitions are important because where they are met the producer is able to benefits from reduced impôts duty. Although not limited to local producers it is anticipated that the proposed changes will primarily benefit local producers.

From 1 January 2016 the Minister proposes that the number of litres that a "small independent cider maker" will be able to produce annually will increase from 20,000 litres to 500,000 litres. Whilst a "small independent distiller of spirits" will be amended from a distiller who does not distil more than 2,000 litres of alcohol per year, to a distiller who has not distilled more than 10,000 litres in total during the preceding five years.

Based on 2014 production figures the cost to the Treasury will be approximately £5,000.

Tobacco

It is proposed that the policy of increasing 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 all tobacco products by 6.7%. After the GST effect of the raised price, this amounts to 35p on a packet of 20 cigarettes.

As a result of the Budget proposals, the forecast is that the annual duty collected on all tobacco will total £14,773,000 in 2016. This would be £649,000 more than the 2016 Budget forecast update.

Fuel

The Minister continues to consider all issues regarding the duty for 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 and having considered the fact that there have only been minimal increases in fuel duty in recent years, it is proposed to increase the duty on fuel to a level that will result in a 0.9 pence increase on a litre of unleaded petrol.

As a result of the budget proposals, the forecast is that the annual duty collected on all fuel will total £22,022,000 in 2016. This would be £452,000 more than the 2016 Budget forecast update.

Customs Duties

It is calculated that the duty collected on goods imported from outside the EU will total £145,000 in 2016. This is in line with the 2016 MTFP forecast.

Detailed Duty Increases for 2016

FIGURE [8] – Duty increases proposed for 2016

	2015 impôts duty	Proposed increase %	Proposed 2016 impôts duty
Litre Bottle of whisky at 40%	£12.97	6.6	£13.83
Bottle of table wine	£1.45	1.3	£1.47
Pint of Beer/Cider < 4.9%	£0.34	0.9	£0.35
Pint of Beer/Cider > 4.9%	£0.58	4.9	£0.61
20 King Size cigarettes	£4.99	6.7	£5.32
Litre of unleaded petrol	£0.45	2.1	£0.46

FIGURE [9] – Impôts duty increases plus GST

	Impôts duty increase p	GST on impôts duty increase p	Total additional tax cost for good p
Spirits – litre bottle @ 40% ABV	85.7p	4.3p	90.0p
Wine – 75cl bottle of table wine	1.9p	0.1p	2.0p
Pint of Beer/Cider exceeding 4.9%abv	4.8p	0.2p	3.0p
Pint of Beer/Cider exceeding 2.8%abv but not exceeding 4.9%abv	2.8p	0.1p	1.0p
Tobacco – pack of 20 cigarettes	33.3p	1.7p	35.0p
Litre of unleaded petrol	2.1p	0.1p	1.0p

FIGURE [10] – 2015 retail price margins – comparisons with the UK (June 2015)

	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	£20.88	£12.97	£0.99	£6.92	67%	£22.10	£11.06	£3.68	£7.35	67%
Pint of standard beer	£3.54	£0.34	£0.17	£3.03	14%	£2.96	£0.47	£0.49	£2.00	33%
20 King Size cigarettes	£7.64	£4.99	£0.36	£2.29	70%	£8.89	£5.23	£1.48	£2.18	75%
Litre of unleaded petrol	£1.12	£0.45	£0.05	£0.62	45%	£1.16	£0.58	£0.19	£0.39	67%

FIGURE [11] – Comparison of typical 2015 tax and duty levels for a range of commodities (June 2015)

	Jersey Duty	Jersey GST at 5%	Guernsey Duty	UK Duty	UK VAT at 20%
Litre of whisky at 40%	£12.97	£0.99	£11.71	£11.06	£3.68
Bottle of table wine	£1.45	£0.31	£1.63	£2.05	£1.67
Pint of beer/lager @ 4.5% abv	£0.34	£0.17	£0.40	£0.47	£0.49
20 King Size cigarettes	£4.99	£0.36	£3.92	£5.23	£1.48
Litre of unleaded petrol	£0.45	£0.05	£0.52	£0.58	£0.19
Litre of diesel	£0.45	£0.05	£0.52	£0.58	£0.20

Note: The figures above are before the impact of the 2016 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.

5. Vehicle Emissions Duty Proposals

Background

Vehicle Emissions Duty ("VED") is charged on motor vehicles when they are first registered in Jersey. The duty is structured with a range of bands according to the vehicle's emissions or engine size; whilst discounts are given for older vehicles and hire cars.

The duty is intended to incentivise the choice of less polluting vehicles, with the least polluting vehicles currently paying £0 in VED and the highest polluting vehicles being charged VED of £1,473.

The revenue received from VED has reduced from £894,000 in 2011 to £761,000 in 2014. Analysis of this reduction indicates that it has primarily been caused by a fall in the total number of new registrations and an increase in the importation of older vehicles, rather than a switch to less polluting vehicles.

Changes to the VED bands

The States Energy Pathway 2050 recognised that more punitive VED bands are likely to be required if the current bands are not effective in encouraging the use of low emissions vehicles. The threshold of the nil rate band is currently set at 120gmCO2/km. As technology advances and vehicles become more efficient, this emissions level is considered too high when looking at thresholds applied in other jurisdictions; furthermore it is inconsistent with Transport and Technical Service's eco-permits scheme which offers half-price parking for vehicles with emissions less than 100gmsCO2/km. The Minister therefore proposes to adjust the VED bands and rates in order to further encourage the purchase of less polluting vehicles. These adjustments will take place from 1 January 2016.

Under the current VED rules "cars" are banded by their CO2 emissions, whereas all other vehicles (notably commercial vehicles) are banded by their engine size. Almost all new vehicles, including commercial vehicles, have a CO2 emissions specification and therefore the Minister proposes that from 1 January 2016 CO2 emissions are used to band all vehicles for VED purposes, except where a CO2 emissions specification is not available. Under this approach most commercial vehicles should be charged less VED.

Removal of discounts and exemptions

VED discounts are currently given for older vehicles (35% discount for vehicles aged between 1 to 2 years and 50% discount for vehicles over 2 years old), with a full exemption given to vehicles more than 25 years old when first registered in Jersey. These discounts create an incentive for purchasers to opt for older vehicles, which tend to be more polluting than new vehicles.

The Minister therefore proposes that the discounts currently given for older vehicles are removed entirely with effect from 1 January 2016.

In addition an 85% discount is currently given on the registration of vehicles used by hire car operators. Most hire cars registered in 2014 fell within the nil rate band and hence did not benefit from this discount, this is due to the fact that hire car operators tend to utilise small, modern cars in their fleets (this discount cost the States less than £5,000 in 2014). Although the evidence indicates that hire car operators are already opting for less polluting vehicles, the Minister proposes that hire car operators should be incentivised in an identical way to the general public to opt for less polluting vehicles and hence the 85% discount should be removed. However to provide hire car operators with the opportunity to adjust their fleets accordingly, it is proposed that the 85% discount should not be removed until 1 January 2017.

Proposed VED bands and rates

FIGURE [12] – Proposed VED bands and rates from 1 January 2016

GmsCO2/KM	VED rate £
100g or less	0
101 – 125	50
126 – 150	150
151 – 175	250
176 – 200	400
201 – 225	750
226 – 250	1,250
Over 250g	1,800

In the absence of CO2 emissions specification use CC engine size	VED rate £
1,000cc or less	0
1,001 – 1.400	200
1,401 – 1,800	350
1,801 – 2,000	500
2,001 – 2,500	700
2,501 – 3,000	1,000
3,001 – 3,500	1,300
Over 3,500cc	1,800

6. Stamp Duty and Land Transactions Tax Proposals

The Minister proposes the following amendment to the Stamp Duties and Fees (Jersey) Law 1998 and the Taxation (Land Transactions) (Jersey) Law 2009:

Reduction of stamp duty/land transaction tax on mortgage debt

Where a mortgage is secured on a property in the Island there is ordinarily a stamp duty/land transaction tax ("LTT") charge payable on the registration of that mortgage calculated at 0.5% of the amount registered. This stamp duty/LTT is payable by the person requiring the mortgage.

In Budget 2015 a decision was taken to reduce the stamp duty/LTT payable on the registration of mortgage debts. In Budget 2016 it is proposed that a further step is taken to reduce the stamp duty/LTT payable on the registration of mortgage debts, reducing the stamp duty/LTT differential between cash buyers and those requiring a mortgage to buy property in the Island. The proposed measure is focused on those purchasing property worth not more than £450,000 (average house price), targeting the relief at those who need it most.

Under the proposed measure provided the purchaser is buying a property worth not more than £450,000 they will be entitled to a reduced rate of stamp duty/LTT on the mortgage debt registered. On the first £350,000 of mortgage debt there will be no stamp duty/LTT, whilst on the next £100,000 of mortgage debt stamp duty/LTT will be payable at the reduce rate of 0.25%.

The impact on taxpayers is highlighted in the table below:

FIGURE [13] – SD/LTT saving compared to standard 0.5% SD/LTT on mortgage debt

House value	Mortgage debt (90% of house value)	Standard 0.5% SD/LTT on mortgage debt	Proposed 2016 SD/LTT on mortgage debt	Saving
£300,000	£270,000	£1,350	Nil	£1,350
£325,000	£292,500	£1,463	Nil	£1,463
£350,000	£315,000	£1,575	Nil	£1,575
£375,000	£337,500	£1,688	Nil	£1,688
£400,000	£360,000	£1,800	£25	£1,775
£425,000	£382,500	£1,913	£81	£1,832
£450,000	£405,000	£2,025	£138	£1,887
£475,000	£427,500	£2,138	£2,138	Nil

FIGURE [14] – SD/LTT saving compared to current reduced rate on mortgage debt applicable in 2015

House value	Mortgage debt (90% of house value)	2015 reduced rate SD/LTT on mortgage debt	Proposed 2016 SD/LTT on mortgage debt	Saving
£300,000	£270,000	Nil	Nil	Nil
£325,000	£292,500	Nil	Nil	Nil
£350,000	£315,000	£38	Nil	£38
£375,000	£337,500	£94	Nil	£94
£400,000	£360,000	£150	£25	£125
£425,000	£382,500	£1,913	£81	£1,832
£450,000	£405,000	£2,025	£138	£1,887
£475,000	£427,500	£2,138	£2,138	Nil

Based on historical trends in the housing market it is estimated that this proposed measure will reduce tax revenues by approximately £220,000 per annum from Budget Year 2016.

7. On-going and Future Reviews

This section of the Budget Statement provides a high level indication of a number of work streams that will be undertaken by the Taxes Office over the near future to improve the operation of the Island's tax system:

High value residents

The previous Minister for Treasury and Resources was committed to reviewing the High Value Residents (HVR) regime every 3 years to ensure that the annual tax contribution made by those individuals that came to Jersey under a 2(1)(e) license, (previously referred to as a 1(1)(K)), is set at the appropriate level.

This commitment will be met and in addition, the review will also consider the wider contribution that those individuals have brought to the Island. The tax rules were amended in July 2011 to specifically encourage more inward investment to the Island by incoming HVRs creating new employment and investment opportunities, and thereby further encouraging economic growth.

This review will cover the three complete tax years (2012-2014). The relevant tax information will be available in the first half of 2016, hence the timing of the review.

The interim review that was published by the Tax Policy Unit in 2013[4] indicated that the new regime was working well and that there was a perception that Jersey is 'open for business' therefore encouraging more economically active applicants into the HVR regime than had been the case previously.

This report will be published in 2016.

Same-sex marriage

On 22 September 2015 the States Assembly approved the proposition to introduce Same-Sex Marriage to Jersey in 2017. In order for the current joint system of taxation to work effectively, the Tax Policy Unit will perform a review of the Income Tax legislation to ensure that the tax law will work for same-sex couples in the same way as it does for different-sex couples.

There are some proposed measures in the 2016 Budget which have been introduced to equalise the tax treatment of men and women within the tax system; these relate to the availability of the wife's earned income allowance and child care tax relief.

In addition, a commitment has been made to ensure that the tax system recognises both spouses in a married couple through the introduction of joint and several liability of the couple's tax bill. Under the current law a married man is personally assessed to tax on his wife's income and is liable to pay that tax. Therefore if the wife left the Island, the husband would be required to continue to pay tax

4 http://www.gov.je/SiteCollectionDocuments/Tax%20and%20your%20money/R%20HNWI%2020131007%20JMB.pdf

on her income. Whereas in the reverse scenario, the wife would only be required to pay tax in respect of her own income. Also a married woman currently needs the permission of her husband in order to discuss her own taxation affairs with the Taxes Office. Each of these factors is outdated and inconsistent with the modern tax system that the Minister is seeking to develop.

The concept of joint and several liability for married couples will be advanced during 2016, together with the other legislative amendments required in order to facilitate the introduction of same-sex marriage.

Independent taxation

The introduction of independent taxation would facilitate same-sex marriage within the income tax system. However a full system of independent taxation cannot be introduced by 2017; the timeline for same-sex marriage committed to by the States. Furthermore introducing independent taxation in advance of the significant administrative changes identified for the personal income tax system (online tax returns, self-assessment of liability, risk based assessing) would result in the Taxes Office having to issue and assess an additional 18,000 returns.

Therefore alongside the 2017 Budget an options paper for independent taxation will be published, together with an updated indicative timetable for its introduction which aligns with the planned administrative changes.

Review of taxation of benefits in kind

The Taxes Office will work with the Social Security Department to complete a review of the taxation of the benefits in kind provided by employers to their staff, with the aim of producing a single set of rules that are consistent across both departments.

Current year payment basis

The current year payment basis is beneficial for both the Taxes Office (reduced risk of arrears) and for taxpayers (no latent tax liability which crystallises on retirement, redundancy, career break, etc.). Therefore the Taxes Office will complete a review looking at the options for moving cohorts of taxpayers who currently pay tax on a prior year basis on to the current year payment basis. As part of this review, and aligning with the administrative changes proposed within the Taxes Office, consideration will also be given to the tax payment dates applying to all taxpayers (e.g. companies, individuals who pay on account rather than through ITIS).

Simplification of the distribution rules

During 2015 the Taxes Office worked with the tax agent community to review the application of the distribution rules. As part of this review a number of ideas for significant simplification of the distribution rules were proposed. The Taxes Office are currently working through these ideas and intend to release an issues paper later this year in order to obtain further feedback from the tax agent community. Any changes ultimately arising out of this review will be included in the 2017 Budget.

8. Financial and Manpower Implications

Estimated financial implications of 2016 Budget proposals

FIGURE [15] – Estimated financial implications of 2016 Budget proposals on 2016

Measure	Estimated impact on 2016 Taxation Revenue (£)
Impôts Duty:[5]	
- Alcohol duty increases	245,000
- Tobacco duty increases	649,000
- Fuel duty increases	452,000
- VED duty increases	722,000
Impôts Duty sub-total	**2,068,000**
Stamp Duty/Land Transactions Tax	**(220,000)**
Total Financial Implications	**1,848,000**

The income tax measures relate to year of assessment 2016. These will impact on the tax revenues to the States in 2017. However, most current year basis taxpayers under ITIS will see the benefit of these measures during 2016. This is because the measures will impact on the calculation of their provisional ITIS effective rate.

[5] These figures represent the increased/decreased revenue compared to the 2016 Budget income forecast update and not the total increased revenue that will be collected on these by the Customs and Immigration Service in 2016 compared to 2015

FIGURE [16] – Estimated financial implications of 2016 Budget proposals on 2017-2019

Measure	Estimated impact on 2017 taxation revenue (£)	Estimated impact on 2018 taxation revenue (£)	Estimated impact on 2019 taxation revenue (£)
Income Tax			
- Increase standard income tax exemption thresholds by 0.9% (June 2015 RPI) and maintain age enhanced exemption thresholds	2,200,000	2,200,000	2,200,000
- Grandfather entitlement to age enhanced exemption thresholds	-	-	300,000
- Phasing out standard child allowance and APA from standard rate taxpayers	645,000	1,290,000	1,935,000
- Modernise WEIA and CCTR	100,000	100,000	100,000
- Phase out mortgage interest tax relief	-	100,000	200,000
- Removal of non-residents relief	500,000	500,000	500,000
- Reduction of benefit in kind exemption	360,000	360,000	360,000
- Removal of remaining pension relief	-	350,000	350,000
- Additional Child Care Tax Relief	(100,000)	(100,000)	(100,000)
Income Tax sub-total	3,705,000	4,800,000	5,845,000
Impôts Duty:			
- Alcohol duty increases	249,000	248,000	251,000
- Tobacco duty increases	627,000	608,000	593,000
- Fuel duty increases	452,000	452,000	452,000
- VED duty increases	648,000	577,000	510,000
Impôts Duty sub-total	1,976,000	1,885,000	1,806,000
Stamp Duty/Land Transactions Tax	**(220,000)**	**(220,000)**	**(220,000)**
Total Financial Implications	5,461,000	6,465,000	7,431,000

Manpower Implications

The proposals within the Budget Statement 2016 will be implemented without any increase to current approved staffing levels.

PART C – PROGRAMME OF CAPITAL PROJECTS

9. Proposed/Indicative Capital Programme 2016 - 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 allows for adequate sight of the requirements to enable effective financial and operation planning to manage affordability and the impact on the local economy. The LTCP forms the basis for the MTFP capital programme. The MTFP set out the indicative capital programme for each of the years 2016 - 2019 and the debate on the MTFP approved the capital programme, in total, for each of these years. The 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 2016.

The MTFP approved a total allocation in 2016 of £26,691,000. The 2016 programme includes funding for essential IT investment in e-government, HR systems and Taxes Office systems, all of which support the aims of the Public Sector Reform project to deliver a more innovative, efficient and lower cost government. There are also allocations to maintain essential equipment in accordance with replacement schedules to ensure all services are delivered safely, efficiently and effectively. Further funding is also provided to maintain the Island’s road, sewer and sea defence networks including the next stages of funding required for the replacement of the ageing and inefficient sewage treatment works at Bellozanne.

It is important to stress that this excludes the funding requirements for the Future Hospital and the Office Consolidation project – options for which are under separate consideration and will require a subsequent approval, to include the source of funding.

FIGURE [17] – Proposed/indicative capital programme 2016-2019

	Proposed Programme 2016 £'000	Indicative Programme 2017 £'000	Indicative Programme 2018 £'000	Indicative Programme 2019 £'000
Chief Minister's				
Desktop Upgrades	737	-	-	1,000
Income/Payment Management System	379	-	-	-
Corporate Web Platform Refresh	300	300	326	500
Web Search Engine Upgrade	105	-	-	100
Content Management System Refresh (SharePoint Upgrades)	105	-	-	
Hardware Refresh	200	200	201	281
Citizen Database Upgrade	-	-	316	325
Business Database Creation	-	-	211	217
Open Data Platform Refresh	-	-	53	77
Data Warehouse Platform Refresh	-	-	-	487
CRM Platform Refresh	-	-	316	-
Talentlink Replacement	-	-	474	-
Finance System - JD Edwards Upgrade	-	-	474	-
Taxes Office System Renewal	579	3,408	2,463	2,507
E Government (Previous Rephasing)	2,200	-	-	-
T&R JDE System (HRIS) (Previous Rephasing)	1,238	-	-	-
Replacement Assets - CMD	-	-	451	430
Chief Minister's Total	**5,843**	**3,908**	**5,285**	**5,924**
Community and Constitutional Affairs				
Minor Capital	300	381	169	505
Fire and Rescue HQ Colocation with Ambulance *	-	500	-	-
Community and Constitutional Affairs Total	**300**	**881**	**169**	**505**
Education, Sport and Culture				
Grainville Phase 5 (Inclusive of provision for Music Service) *	-	8,234	1,995	-
St Marys School Refurbishment *	-	-	5,500	-
Replacement Assets and Minor Capital - ESC	200	200	200	250
Jersey Heritage Trust - Archive Store Extension *	3,500	-	-	-
Education, Sport and Culture Total	**3,700**	**8,434**	**7,695**	**250**
Department of the Environment				
Equipment, Maintenance and Minor Capital	-	12	-	12
Fisheries Vessels	-	-	54	-
Met Radar Refurbishment / Upgrade	372	-	-	-
Department of the Environment Total	**372**	**12**	**54**	**12**

** Signifies projects where the budget will be allocated to Jersey Property Holdings to deliver.*

FIGURE [17] – Proposed/indicative capital programme 2016-2019 (continued)

	Proposed Programme 2016 £'000	Indicative Programme 2017 £'000	Indicative Programme 2018 £'000	Indicative Programme 2019 £'000
Health & Social Services				
Replacement Assets (Various)	2,510	3,100	3,000	3,500
Replacement Assets RIS / PACS IT assets	-	-	-	1,900
Refurbishment of Sandybrook (Previous rephasing)	1,699	-	-	-
Health & Social Services Total	**4,209**	**3,100**	**3,000**	**5,400**
Transport and Technical Services				
Replacement Assets	1,661	1,637	4,089	5,102
Infrastructure Rolling Vote	8,373	8,165	14,164	12,688
Waste: La Collette Cell Construction	-	-	500	1,148
Backlog Infrastructure Works	-	-	-	1,750
Transport and Technical Services Total	**10,034**	**9,802**	**18,753**	**20,688**
Treasury and Resources				
Replacement Assets - T&R	-	86	-	17
Treasury and Resources Total	**-**	**86**	**-**	**17**
Non Ministerial				
Replacement Assets - Non Mins	33	50	44	179
Non Ministerial Total	**33**	**50**	**44**	**179**
Vehicle Replacement (additional from consolidated fund)	**1,200**	**-**	**-**	**-**
Total Projects	**25,691**	**26,273**	**35,000**	**32,975**
Major Projects Excluded Above				
Sewage Treatment Works – Upgrade	**-**	**-**	**-**	**-**
Future Hospital*	-	-	-	-
Office Consolidation Project*	-	-	-	-
Les Quennevais School Rebuild*	1,000	39,000	-	-
Prison Improvement Works – Phase 6	-	-	8,233	-
Total Major Projects	**1,000**	**39,000**	**8,233**	**-**
TOTAL CAPITAL PROGRAMME	**26,691**	**65,273**	**43,233**	**32,975**

** Signifies projects where the budget will be allocated to Jersey Property Holdings to deliver.*

Major projects have been identified separately as they require specific funding arrangements to manage the higher levels of upfront allocations to enable them to proceed. The transfer of £1 million from the Strategic Reserve to fund the initial planning, design and site acquisition for Les Quennevais was approved by the States in the MTFP 2016 – 2019 debate.

Details of the Major Projects identified above can be found later on in this section after the general programme projects narratives.

Chief Minister's Department

Desktop Upgrades (£737,000)

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

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

Estimated Completion Date: Late 2016

Income/Payment management System (£379,000)

This project is focused on delivering a simplified set of payment processes that are efficient for States departments, and easy for citizens to use.

This project aims to deliver a framework for payment collection types that can be selected for government services. With hundreds of these services, the States needs a method of easily categorising and selecting the most efficient and effective payment processing method for the service provided.

Since most e-payment processes to date have created a variety of design solutions, there is a need to standardise and create payment collection processes that are repeatable, reliable and secure.

The e-payments project also includes traditional direct debit and direct credit functionality as well as card payments and developing technologies in electronic wallets.

Estimated Completion Date: Late 2016

Corporate Web Platform Refresh (£300,000)

This capital project is to fund an ongoing refresh of the technology behind the core gov.je website. With 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

Estimated Completion Date: 2016

Web Search Engine Upgrade (£105,000)

This project is to update and replace the current search engine platform used by government sites.

The current search engine platform, FAST ESP, has now reached the end of its life. All manufacturer support for this software ends on 16 July 2018. ISD has started the process of removing the web site's dependency on FAST and replacing it with the native search functionality of SharePoint 2013. Most of the smaller sites were dealt with as part of site upgrade projects during 2014. Two of the remaining large sites – www.gov.je and www.jerseylaw.je – will cease to use FAST in Q2 2015. The remaining sites are www.statesassembly.gov.je, www.scrutiny.gov.je and the ministerial decisions pages of www.gov.je.

Estimated Completion Date: 2016

Content Management System Refresh (SharePoint Upgrades) (£105,000)

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

The web content management system that powers www.gov.je, www.jersey.com, www.parishes.gov.je, www.portofjersey.je, www.statesassembly.gov.je, www.scrutiny.gov.je and www.andiumhomes.je is Microsoft SharePoint. A new release – SharePoint 2016 – will become available at the end of 2015 and this project will upgrade to this during 2016. Further versions are expected every 2-3 years and are expected to be simpler to implement than the last one due to changes in the way Microsoft is releasing software updates in the future.

Estimated Completion Date: 2016

Hardware Refresh (£200,000)

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.

Estimated Completion Date: Late 2016

Taxes Office System Renewal (Phase 1) (£579,000)

This project relates to the computer software and hardware required to support the business processes and functions of the Taxes Office on behalf of the States of Jersey.

The systems of the Taxes Office process approximately 80% of all income received by the States of Jersey, equating to approximately £520m in 2014, or £1.4m per day, through direct and indirect taxation. The systems also collect some Social Security contribution information.

Should the systems become unavailable for a protracted period, lose their integrity or be compromised in any way, the impact to the States of Jersey will be significant, and could lead to loss of income, reputational damage, considerable inconvenience to the general public and require extensive funding to remedy in an unplanned scenario.

Consequently, it is essential given the critical nature of the Taxes Office systems that regular capital investment is made (based on a seven to ten year lifecycle) in order to enable the Taxes Office, as well as the rest of the States of Jersey who rely on the income processed, to function and provide services to citizens and businesses.

This project provides the opportunity to re-engineer business processes in the Taxes Office, whilst providing digital channels for customers, and increase the efficiency and effectiveness of the service.

Estimated Completion Date: 2016

E-Government (Previous Rephasing) (£2,200,000)

Public Sector Reform will create a more innovative, efficient and lower cost government. A key strand to the reform programme is the creation of an effective and efficient e-Government model to deliver services to its customers. e-Government will provide the capabilities and platform the States needs to achieve its strategic goals by:

- providing the mechanisms to make it easier for customers, businesses and partners to interact with the States;
- delivering a more efficient public sector by transforming services and increasing the use of digital channels, creating value for money for taxpayers; and
- becoming a catalyst for the development of a Digital sector in Jersey, consistent with the Digital Jersey Business Plan.

The purpose of this programme therefore is to create the capabilities to transform services, including the necessary technology, to achieve an efficient and effective e-Government model for the States of Jersey.

Estimated completion date: 2016

T&R JDE System (HRIS) (Previous Rephasing) (£1,238,000)

This funding was previously allocated to the department but to realign funding allocations with the timing of the project and to balance 2015 funding commitments, the funding approval was temporarily withdrawn and is requested again in the 2016 capital programme. This is a technical adjustment and not a further allocation of funds.

The 2016 re-phased capital is required to combine with 2015 remaining budget to deliver the total purchase and project costs for the duration of the initial 5 year proposed contract. The project will replace end of life solutions for both HR & Payroll, by providing a combined system which gives the organisation the flexibility to deliver on the reform agenda.

Estimated Completion Date: 2017

Community and Constitutional Affairs

Minor Capital (£300,000)

Funding is required for asset replacement, minor capital projects and the purchase of specialist equipment, these include Investigation Management Software, Personal Information Management Software, Forgery Equipment and various other equipment for the Prison and Fire Service. Funds from prior year's allocations will also be carried forward to support the shortfall between allocation and estimated costs. Funds will be prioritised based on the Department's asset replacement programme and service needs.

Anticipated Spend in 2016: £300,000

Education Sport & Culture

Replacement Assets and Minor Capital – ESC (£200,000)

This annual allocation will enable the department to meet a variety of needs related to teaching and learning, including minor building alterations, improvements to external areas, and the acquisition of land for school playing fields and other external facilities.

Examples of the type of projects that would be funded include the following:

<u>Improvements to school external areas:</u> such as the installation of artificial playing surfaces to enhance school facilities. An example would be the southern part of Field 263A, Grouville (next to Grouville School) which was acquired on behalf of the public earlier this year, and which ESC intends to convert for use as a ball court for the school.

<u>Land acquisition costs:</u> for school playing fields and other facilities. Sites under discussion include agricultural land adjacent or close to two primary schools. The acquisition of this land and conversion to playing fields (subject to planning permission) would make a significant difference to these schools, both of which currently have to travel some distance to access playing field facilities, and they will help to bring the school external spaces up to the minimum areas recommended in the Department of Education guidelines for primary schools.

Minor building alterations: These could include the installation of canopies to extend outdoor learning areas, the installation of internal partitions to meet changing curriculum requirements, and other minor internal alterations.

Asset replacement: the replacement of assets where alternative sources of funding are otherwise unavailable. Examples include: Youth Service RIB replacement and school playground structures.

Anticipated spend in 2016: £200,000

Jersey Heritage Trust - Archive Store Extension (£3,500,000)

The Archive has operated successfully since 2000, but the adoption of the Public Records (Jersey) Law in 2002 and the additional demand which the Freedom of Information Law has created means the demands on the storage space are such that the available space will be filled by 2019. The extension to the existing building will enable the Archive to continue to hold historically valuable documents and to allow them to be accessed by the public upon request.

The Jersey Archive plays a key role in fulfilling the legal requirements of the Public Records and Freedom of Information Laws: it provides a service to receive, catalogue and store records, and to make them accessible to the public or for official purposes. The Archive building combines a storage facility with an appropriate environment in which to consult records.

It should also be noted that the relationship between the States and the Archive means that individual States departments do not have to pay for the storage and management of their own documents once they are transferred from those departments to the central repository.

Apart from its relevance to the reform agenda and to FoI legislation, the Archive makes an important contribution to Jersey's cultural life. It gives members of the public and historians access to materials about our shared past and this, in turn, leads to a range of positive outcomes including helping foster an understanding of our heritage, supporting educational projects and helping develop positive cultural links with other jurisdictions.

It is envisaged the building project will be complete by the end of 2017, and this allows a reasonable margin for manoeuvre in the event of any delays to the project and/or increase in the rate of accessions to the archival collections.

Estimated Completion Date: 2017

Department of the Environment

Met Radar Refurbishment / Upgrade (£372,000)

The project to refurbish and replace the main components of the Met Radar began in 2015 and includes works on the radar dome, mechanical and electrical components and IT systems. The upgrade is timed to coincide with the UK Met Office roll out of its Radar Upgrade programme and is required in order to extend the longevity of the asset and ensure compatibility with UK and European systems. The budget allocated for 2016 will complete the project and ensure that the systems can continue to be supported until the next major upgrade works in 10-15 years' time.

Estimated Completion Date: 2016

Health and Social Services

Replacement Assets (Various) (£2,510,000)

The Health and Social Services Department (HSSD), 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. Examples of equipment likely to be purchased in 2016 include:

- An ophthalmic surgical system
- Operating tables
- Haemodialysis machines
- Ventilators for the Critical Care Unit
- Sterilisers and washer disinfectors for surgical equipment

Anticipated Spend in 2016: £2,510,000

Refurbishment of Sandybrook (Previous rephasing) (£1,699,000)

Sandybrook is a 28 bed facility next to Sandybrook Day Centre. It was built in 1999 and has not been refurbished since. Sandybrook provides nursing care for older people who have been assessed as needing continuing care. It was originally built as a residential home but now provides nursing care to meet a high level of care need. The environment is outdated and not suited to the current highly dependent residents.

The aim of the project is to:

- Update the facilities to modern care standards and adapt them for the current care needs,
- Replace and update equipment such as a specialist bathroom and infection control measures, and
- Install a backup generator.

This funding was previously allocated to the department in 2014 as part of the Budget 2014. To realign funding allocations with the timing of the project and to balance other 2015 funding commitments, the funding approval was temporarily withdrawn and it is now proposed that it is reallocated in the 2016 capital programme. This is a technical adjustment and not a further allocation of funds.

Scoping works for the project are ongoing and it is expected that work will commence in 2016 and be completed within a year of commencement.

Estimated Completion Date: 2017

Transport and Technical Services

Replacement Assets (£1,661,000)

Included within the total is £1,261,000 in respect of Energy from Waste plant replacement assets, required to maintain the plant in accordance with expected maintenance schedules.

The remaining budget is split between IT projects such as the planned replacement of the driver licensing and registration system and the pumping station replacement assets project, which aims to replace pumps and control panels in the Island's network of 116 pumping stations on a rolling basis in order to reduce electricity consumption and the risk of breakdown and subsequent flooding / spillage.

Anticipated Spend in 2016: £1,661,000

Infrastructure Rolling Vote (£8,373,000)

It is planned to allocate £4.5 million of this budget to the main Sewage Treatment Works replacement project in 2016.

Of the remaining budget of £3,873,000, £3 million will be allocated to the Highways and Infrastructure resurfacing and maintenance programme, which will include the third phase of the Trinity to Gorey resurfacing scheme, La Grande Route de St Laurent resurfacing works, design works for future years' programmes and smaller projects such as St James Street, road panels and further microasphalt schemes following the recent trial scheme at Mont Mado in St John.

The Infrastructure Rolling Vote supports a number of areas in addition to the highways network, including sea defences, surface water infiltration remediation and foul and surface water improvements. Due to the requirement to fund the STW replacement, the budgets for these areas have had to be significantly reduced for 2016.

Anticipated Spend in 2016: £3,873,000

Non-Ministerial Departments

Official Analyst – (£33,000)

Laboratory Equipment

Replacement assets within the Official Analyst Department consist of Laboratory equipment that is coming to the end of its useful life and needs to be replaced.

Estimated Completion Date: 2016

Other Capital

Vehicle Replacement (£1,200,000).

This funding is to support the work of Jersey Fleet Management in the purchase of vehicles on behalf of departments. This is the final tranche of the funding established in the 2012 Business Plan to enable the initial purchase of vehicles. The Trading Fund will be expected to create sufficient returns to fund these vehicles going forward.

Anticipated Spend in 2016: £1,200,000

Proposed Capital Programme for 2016 – Funding Sources

The proposed 2016 capital programme has been fully funded from the consolidated fund after transfers from the strategic reserve.

FIGURE [18] – Proposed Capital Programme Funding Sources

	Proposed Funding 2016 £'000	Indicative Programme 2017 £'000	Indicative Programme 2018 £'000	Indicative Programme 2019 £'000
Departmental Capital Programme	**26,691**	**65,273**	**43,233**	**32,975**
Funding Sources				
Consolidated Fund (after transfer from strategic reserve)	(25,691)	(26,273)	(35,000)	(32,975)
Criminal Offences Confiscation Fund (Prison Phase 6 only)			(8,233)	
Strategic Reserve – Les Quennevais School (to be repaid from asset disposal)	(1,000)	(39,000)	-	-
Funding Available	**(26,691)**	**(65,273)**	**(43,233)**	**(32,975)**
TOTAL FUNDING	**26,691**	**65,273**	**43,233**	**32,975**

Revenue Consequences of Capital Schemes

Section 10 of the Medium Term Financial Plan 2016 - 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. For example both Education Sport and Culture 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.

Major Projects Update

Four major projects have been identified as requiring funding during 2016 - 2019. All of these projects require specific funding sources in order for the allocation to be proposed as part of the Budget process in each year. The only project included in the Budget 2016 Capital Programme is the Les Quennevais School Rebuild for which funding will be provided from the Strategic Reserve. The four projects and their funding proposals are:

Sewage Treatment Works – Upgrade (Transport and Technical Services)

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.

Funding of £10.1 million was awarded to Transport and Technical Services in 2014 and £25.5 million in 2015 to undertake the first phases of this work. During 2015 TTS 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 seeks to identify the most efficient and effective way of replacing and upgrading the works whilst maintaining operations on site at Bellozanne. This "Early Contractor Involvement" (ECI) stage also seeks to identify cost savings and value engineering solutions to ensure that the project can be delivered within the limited budget envelope available.

Funding: Paragraph d) of the Budget 2015 Proposition (as amended) (P.129/2014), agreed to request the Council of Ministers and the Minister for Treasury and Resources to take the necessary steps to bring forward for approval further capital allocations up to the maximum of £75 million.

It is proposed that the remaining funding required to cover the allocation requirements for the project over the 2016 – 2019 period will be funded from the TTS Infrastructure Rolling Vote, for 2016 the sum to be allocated to the STW project from Infrastructure will be £4.5 million.

Future Hospital (JPH on behalf of Health and Social Services)

The current General Hospital has not received a significant investment since the Parade wing in the 1980's and as a result is in poor condition and is increasingly unsuitable for providing modern safe, sustainable and affordable hospital services.

Recognising that doing nothing was not an option, the States Assembly, in their Act of 23rd October 2012, charged the Council of Ministers to bring forward proposals for the priorities for investment in hospital services and detailed plans for a new hospital (either on a new site or a rebuilt and refurbished hospital on the current site), by the end of 2014.

In approving Budget 2014 and Budget 2015, the States Assembly granted £10,200,000 and £22,700,000 to enable the development of a feasibility study which the previous Council of Ministers agreed should be based upon a Dual Site option of developing out-patients at the current Overdale hospital site and Acute Services at the current General Hospital Site.

In December 2014, Ministers required a Site Options Appraisal be undertaken to enable the States Assembly to confirm on a like-for-like basis and considering whole life costs whether the previously preferred Dual Site remained the preferred option.

Expenditure incurred as of the end of September 2015 on the Project totals £4,038,001 with a further £1,036,120 committed. This includes £229,243 of pre-feasibility studies, £1,713,248 of technical advice in developing site options, feasibility studies and acute service planning for the future hospital,

£1,306,614 of relocation works from failed buildings at the Overdale site and a £787,500 commitment to upgrading Samares Ward for six new acute bedrooms. Other costs relate to client team costs, legal, financial and other advisor costs and costs for dual site feasibility studies.

Ministers are currently considering the outcome of the Site Options Appraisal and intend in due course to request States Assembly approval for a preferred site option upon which subsequent feasibility work would be undertaken.

Previous unspent capital allocations are likely to be sufficient to support any forthcoming feasibility work required in 2016.

Funding: Future amendments to the MTFP and appropriate legislation as necessary will be brought forward for approval to facilitate the funding for a new hospital either on a new site or a rebuilt and refurbished hospital on the current site.

Les Quennevais School Rebuild (JPH on behalf of Education, Sport and Culture)

Construction of a new Les Quennevais School is needed to replace the existing school which is reaching the end of its useful life. A consultation process is currently underway to confirm the most appropriate site. Once the preferred site is identified, a full feasibility study will be undertaken prior to developing detailed design for a planning application to be lodged. Procurement of the construction will commence when all necessary approvals are in place, including confirmation of the funding source.

Funding: It is proposed that funding for this project is provided from a draw down from the Strategic Reserve with the sum to be returned to the Strategic Reserve from the future proceeds achieved from the sale of States of Jersey assets. The drawdown sum will be from within the excess returns in the fund over and above those needed to maintain the value of the 'Strategic Reserve, in real terms, as approved in P.76 Strategic Reserve Fund: Funding For Independent Jersey Care Inquiry And Transfers From And To The Consolidated Fund'.

Office Consolidation Project

The implementation phase of the Office Consolidation Project aims to reduce the number of office buildings and associated operating costs, deliver a fit for purpose and flexible portfolio which will support future reform, improve customer service, increase the utilisation of buildings and enable greater collaboration, productivity and reduced operating costs across departments.

The project team is currently considering a number of opportunities and locations to deliver the proposed rationalisation.

During 2016, outline proposals for the relocation and consolidation of a large number of States office functions will be developed into an outline business case and feasibility study in order that development on site is able to commence in 2017.

Funding: As with the funding of the Future Hospital Project, it is proposed that future amendments to the Medium Term Financial Plan and appropriate legislation as necessary will be brought forward for approval to facilitate the funding for the gross capital allocation requirements for this project.

Early work developing the operating model for the project has identified the potential option to introduce a mechanism to repay any required borrowing based on applying a consistent rental charge across departments to recognise the cost of occupying office space. In parallel with the work on the outline business case in 2016, consideration will be given to a suitable means of repayment to service either the opportunity cost of utilizing funds within the States of Jersey or the external cost associated with external debt.

Update on Existing Capital Projects

Police Relocation (JPH on behalf of Community and Constitutional Affairs. Allocated 2005 - 2014)

The construction of the Island's first purpose-built Police HQ, which replaces the existing dispersed, ageing and inappropriate collection of facilities. On completion of the project, the States of Jersey Police will be co-located in an efficient, contemporary building designed to support the demands of modern day policing. Construction, which is being undertaken by a local contractor, began in October 2014 and the building is expected to be completed by the end of 2016.

Estimated Completion Date: Late 2016

Adult Care Homes (JPH on behalf of Health and Social Services. Allocated in 2013)

The Adult Care Homes project has successfully provided new housing for clients with learning disabilities in a joint project with Andium Homes. In addition, work continues to develop further housing for clients with learning disabilities and autism, and discussions are underway with Autism Jersey on a joint project to provide a new Autism Centre for the Island. Work has commenced to identify options for the re-provision of the adult mental health in-patient assessment and treatment service currently based in Orchard House.

Main Theatre Upgrade (JPH on behalf of Health and Social Services. Allocated 2011 - 2014)

The theatre expansion and refurbishment project provides two new operating theatres to current technical specifications, constructed in a new building in the Gloucester Street car park, complete with all ventilation systems, electrical supplies, back-up generator etc. plus the replacement of the ventilation systems to 4 existing theatres. The construction of the two new theatres is currently underway with an expected completion date of Quarter 1 2016 with the further work on the ventilation systems expected to finish in Quarter 4 2016.

Estimated Completion Date: Late 2016

States Trading Operations

States Trading Operations comprise Jersey Car Parking and Jersey Fleet Management in the Transport and Technical Services Department.

Jersey Airport and Jersey Harbours were incorporated as Ports of Jersey Limited on 1st October 2015. On that basis, they have been removed from the Capital Programme.

A summary of the capital expenditure proposals for the States Trading operation is shown below:

FIGURE [19] – Indicative capital programme for States Trading Operations

	Proposed Programme 2016 £'000	Indicative Programme 2017 £'000	Indicative Programme 2018 £'000	Indicative Programme 2019 £'000
Car Park Maintenance and Refurbishment	1,488	2,334	2,204	1,492
Sustainable Transport and Road Safety Schemes	1,000	1,250	1,500	1,500
Jersey Car Parking	**2,488**	**3,584**	**3,704**	**2,992**
Vehicle and Plant Replacement	1,344	1,285	2,169	1,556
Jersey Fleet Management	**1,344**	**1,285**	**2,169**	**1,556**

PART D – ALLOCATION OF GROWTH FOR 2016

10. Allocation of Growth for 2016

The MTFP 2016-2019 (P72/2015) included proposed allocations for Growth funding for each of the years 2016 to 2019 as shown in **Figure 20**.

The additional funding identified as a Growth allocation for 2016 was proposed by the Council of Ministers as part of the Department Net Expenditure limits for each department and as part of Total States Net Expenditure for 2016. The States approved the expenditure proposals in the MTFP and consequently there are no further Growth allocations to be proposed in the draft Budget for 2016.

FIGURE [20] – Additional funding agreed for 2016 and indicative growth proposals for 2017-2019

Dept	Proposals	Category	2016 Approved £'000	2017 Indicative £'000	2018 Indicative £'000	2019 Indicative £'000	2019 FTE
HSS	2% Investment in Service Standards and Healthcare Inflation	Press	4,175	8,790	13,754	19,007	66.0
HSS	P82/2012 - Health Transformation (White Paper)						
HSS	Early Intervention Programmes - Services for Children	New	1,870	2,415	3,192	3,589	
HSS	Healthy Lifestyles Programmes	New	-	-	416	432	
HSS	Mental Health Services	New	-	416	1,532	1,774	119.0
HSS	Out of Hospital Provision	New	304	1,848	5,513	7,471	
HSS	Acute Services Provision	New	1,598	3,771	7,147	7,262	
HSS	**Total Growth Proposed for Health**		**7,947**	**17,240**	**31,554**	**39,535**	**185.0**
ESC	Primary School Demographics	Dem	745	1,053	1,434	1,744	20.6
ESC	Secondary School Demographics	Dem	1,313	1,575	1,755	2,100	35.0
ESC	Nursery Education Fund	Dem	376	295	274	303	-
ESC	Revenue consequences of capital scheme - ICT skills strategy	Com	750	769	788	808	-
ESC	Revenue consequences of capital schemes - New schools	Com	100	125	485	525	-
ESC	Raising Achievement Funding - (UK Pupil Premium Equivalent)	New	837	1,801	2,077	2,365	8.0
ESC	Provision of a Data Team	New	120	122	125	127	1.0
ESC	Extending Professional Partnering	New	288	294	300	306	2.0
ESC	Early Years	New	278	284	289	295	7.0
ESC	**Total Growth Proposed for Education**		**4,807**	**6,318**	**7,527**	**8,573**	**73.6**
CMD	Financial Services / McKinsey Implementation	Com	523	533	544	555	-
CMD	Freedom of Information - Central Unit	Com	100	100	100	100	2.0
CMD	Joint Safeguarding	Com	125	128	131	133	-
CMD	Information Services Dept - increased revenue budget for support/licences	New	355	486	490	547	-
DPC	FOI - Office of the Data Protection Commissioner	Com	60	60	60	60	-
HA	Revenue consequences of capital scheme - new Police Station & Prison Ph 6	Com	95	377	385	423	-
LOD	Law Officers Revised Pay and Rewards Structure	Com	209	216	226	237	-
LtG	Lt Governor's Office - Cadet and Military Support Officer	Com	42	43	44	45	-
SA	States Members' Pensions	New	-	-	58	100	-
SSD	Child Personal Care Benefit level 2 & 3	Com	477	487	496	506	-
TTS	Energy From Waste - Shortfall in Income (JEC/waste volumes)	Press	1,121	1,169	1,218	1,267	-
TTS	Energy From Waste - No Guernsey Waste Income	Press	1,530	1,561	1,591	1,624	-
TTS	Tipping Fees Shortfall	Press	-	-	340	346	-
TTS	Bus Contract - Main Contract and School Bus Service shortfall	New	278	288	300	311	-
TTS	Revenue consequences of capital schemes - new Sewage Treatment Works	New	-	-	-	1,700	-
T&R	Additional Property Maintenance - HSSD Properties	New	4,000	4,000	4,000	4,000	-
T&R	Asset Valuation	New	-	250	-	-	-
T&R	Strengthening the Shareholder Relationship Resources	New	200	200	200	200	
T&R	Payment of Rates on States Properties	New		1,000	1,000	1,000	-
Other	**Total Proposed for Other Departments**		**9,115**	**10,898**	**11,183**	**13,154**	**2.0**
	TOTAL		**21,869**	**34,456**	**50,264**	**61,262**	**260.6**

PART E – FINANCIAL FORECASTS

11. Financial Forecasts – 2015 Position

The MTFP 2016-2019 provided an updated financial forecast which suggested that a shortfall of £66 million was predicted for 2015, before measures previously identified as shown in **Figure 21**.

FIGURE [21] – 2015 financial forecast included in the draft MTFP 2016-2019

Outturn 2014 £'000	Financial Forecast	Forecast (June 2015) 2015 £'000
	States Income	
436,665	Income Tax	438,000
80,226	Goods and Services Tax	81,740
54,103	Impôts Duty	55,323
25,977	Stamp Duty	26,890
40,100	Other Income	50,668
11,896	Island Rate	11,967
648,967	**States Income**	**664,588**
	States Expenditure	
674,163	Departmental Net Revenue Expenditure	687,146
	Central Allocations	33,483
	Proposed Allocation for Committee of Inquiry	10,000
674,163	**Total Net Revenue Expenditure (excl: Depreciation)**	**730,629**
(25,196)	**Forecast Operating Surplus/(Deficit) for the year**	**(66,041)**

Proposed measures in 2015 Budget and MTFP 2016-2019

The draft MTFP 2016-2019 forecast not only showed how the actual Outturn for 2014 differed from the balance predicted back in the Budget 2015 but also how the 2015 balance was now predicted to be lower. Budget 2015 already proposed measures to manage the Consolidated Fund position but after the forecast position above showed a deterioration of approximately £26 million, further potential measures were considered and agreed by the Council of Ministers, as part of the MTFP 2016-2019, including further savings and use of underspends.

Change in Accounting Policy

In addition to these measures, the Treasury & Resources Department, as part of its regular review of the States of Jersey's Accounting Policies to ensure compliance with updates to IFRS and to ensure that the financial statements provide the most reliable and relevant information, has identified a change in accounting policy for the 2015 Jersey Financial Reporting Manual around revenue recognition, particularly for income tax.

In order to reflect the now significant proportion of income tax revenue collected from Current Year Basis (CYB) taxpayers and given the demonstrable accuracy of estimates of their eventual tax liability, it was decided that the accounting policy was updated to recognise CYB tax revenues in the current year. This amendment will have a minimal recurring impact on the financial statements and a one off prior year restatement in the 2015 Financial Report and Accounts of approximately £60 million.

As a result of the measures and the accounting policy change, the forecast balance on the Consolidated Fund at the end of 2015 was estimated at approximately £45 million in the draft MTFP 2016-2019.

Current Position for 2015 (October 2015)

Of those measures described in Budget 2015 and the draft MTFP 2016-2019, most have been delivered, or plan to be delivered before the end of 2015, as described but there have been some that required adjustment or delay.

As part of the Budget Statement 2015 the States approved part l of the Proposition which stated:

> *To request the Minister for Treasury and Resources to request for The Jersey New Waterworks Company limited, a public company limited by shares, incorporated in 1882 and operating under the Companies (Jersey) Law 1991, to ask the shareholders of the company to pass a special resolution for the following –*
>
> *i.* *To alter its Memorandum of Association by special resolution, to reduce its share capital – by removing the Fifth Preference Share, class of share capital;*
>
> *ii.* *To repay the States of Jersey, the sole shareholder of all the Fifth Preference Shares, a fair market value for the shares (estimated at £7.4 million) during 2015 (the shareholding representing 900,000 issued and fully paid 10% cumulative fifth preference shares of £5 with a par value of £4.5 million).*

Whilst this proposal will be kept under review, given the change in accounting policy explained above this measure is not currently required and considering the high return of 9% on the shares, at this point the Minister is not proposing to proceed.

In the 2016 Budget forecast update it has been assumed that the preference shares will not be redeemed and that the dividend due on these shares of £450,000 will continue to be received by the States for the forecast period. This is included in the latest income forecast update shown in **Section 12**.

The amount of unspent Capital contingency amounts has been reduced by just over £313,000. This is a result of various under spends returned across departments.

Jersey Property Holdings has produced a revised forecast of the anticipated receipts for the MTFP 2016-2019 period. This shows that certain receipts previously anticipated for 2015 are now forecast for 2016.

An Amendment to the draft MTFP 2016-2019 from the Council of Ministers was approved which brings forward the funding for a Redundancy Provision in Central Contingencies by reducing States expenditure by £10 million in 2017 and increasing States expenditure by £4 million in 2015 and by £6 million in 2016. A consequential Amendment to the proposed Strategic Reserve transfers was also agreed which matches the revised profile of redundancy funding and offsets the effect on the Consolidated Fund.

Since the draft MTFP 2016-2019 was presented a further income forecast update has been produced to support the draft Budget 2016. This update forecasts an increase in income for 2015 of £8.7 million see **Section 12.** The effect on the Consolidated Fund of the updated forecast and adjustments to the measures previously proposed can be seen in **Figure 22**:

FIGURE [22] – Update on 2015 closing balance of the Consolidated Fund

Summary of the updated 2015 position of the Consolidated Fund	£'000s
Balance as per MTFP 2016 – 2019 (page 148)	45,742
Deferral of redemption of the Jersey Water preference shares	(6,800)
Adjustment to unspent capital contingency amounts	(313)
Reduction in anticipated capital receipts from Jersey Property Holdings in 2015	(4,500)
MTFP Amendment to increase the Redundancy Funding in 2015	(4,000)
Amendment to increase the transfers from the Strategic Reserve in 2015 (redundancy provision)	4,000
Improvement in 2015 income forecast update for the draft Budget 2016	8,700
Jersey Post Special Dividend in 2015 (Included in Financial Forecast Update)	(2,000)
Updated forecast of 2015 closing balance of the Consolidated Fund	**40,829**

A summary of the Consolidated Fund forecast update for the draft Budget 2016 is shown at **Figure 28**.

12. Financial Forecasts – 2015-2019

Summary of Financial Forecast Update for the draft Budget 2016

The draft Budget 2016 is proposed on the basis of States income and expenditure forecasts as at October 2015. The forecasts of expenditure reflect the decisions taken by the States in approving the MTFP 2016-2019, including the effect of agreed amendments. The expenditure forecasts also take account of the latest position on the proposals to address the shortfall in 2015, summarised in **Section 11**.

The forecast update of States income takes account of the latest economic assumptions endorsed by the Fiscal Policy Panel ("FPP") in its Annual Report of September 2015 and the latest in-year information for 2015 actuals from the different income areas.

The next forecasts of States income will be a full review by the Income Forecasting Group ("IFG") in March 2016, based on a further revision of economic assumptions by the FPP and informed by the provisional outturn figures for 2015. This full review of the forecasts will provide the basis for the production of the MTFP Addition for 2017-2019 to be lodged by 30 June 2016.

Figure 23 summarises the forecast position for 2015 to 2019 and maintains the proposal for balanced budgets by 2019, including depreciation.

FIGURE [23] – Summary of Financial Forecast Update for draft Budget 2016

Outturn 2014 £'000	Financial Forecast	Forecast October 2015 2015 £'000	Forecast Update for Draft Budget 2016 October 2015 2016 £'000	2017 £'000	2018 £'000	2019 £'000
	States Income					
436,665	Income Tax	443,000	455,000	475,000	499,000	519,000
80,226	Goods and Services Tax	83,757	83,334	84,968	85,779	86,609
54,103	Impôts Duty	55,942	55,616	55,649	55,812	56,006
25,977	Stamp Duty	26,946	26,357	28,802	30,946	31,800
11,896	Island Wide Rate	12,031	12,248	12,554	12,930	13,318
8,283	Other Income (Dividends)	13,260	11,527	8,871	15,034	9,801
18,236	Other Income (Non-Dividends)	10,846	9,698	10,939	12,337	12,176
13,581	Other Income (Return from Andium and Housing Trusts)	27,506	27,821	28,459	29,352	30,350
	Proposed Budget Measures		1,848	5,461	6,465	7,431
648,967	**States Income**	**673,288**	**683,449**	**710,703**	**747,655**	**766,491**
-	Proposed mechanism to offset States Payment of Rates	-	-	1,000	1,000	1,000
-	Proposed sustainable funding mechanism for Health	-	-	-	15,000	35,000
648,967	**Total States Income - incl: Proposed Health Charge**	**673,288**	**683,449**	**711,703**	**763,655**	**802,491**
	States Expenditure (per MTFP as amended)					
674,163	Departmental Net Revenue Expenditure	687,146	697,377			
	Central Allocations	37,483	42,940			
	Proposed Allocation for Committee of Inquiry	10,000				
674,163	**Total Net Revenue Expenditure (excl: Depn)**	**734,629**	**740,317**	**724,287**	**733,955**	**734,845**
(25,196)	**Forecast Operating Surplus/(Deficit) for the year**	**(61,341)**	**(56,868)**	**(12,584)**	**29,700**	**67,646**
56,901	Departmental Depreciation	50,098	44,800	44,000	49,200	54,600
(82,097)	**Surplus/(Deficit) of General Revenue Expenditure over Income**	**(111,439)**	**(101,668)**	**(56,584)**	**(19,500)**	**13,046**

States Income Forecast Update 2015-2019

Background

The forecast update for the draft Budget 2016 for all States income derived from taxation and duty have been reviewed and agreed by the IFG. The IFG forecasts are summarised here but the detail provided to Council of Ministers is published in **Appendices 1 to 5** of this Budget report.

The States income forecasts were subject to a comprehensive review in preparation for the MTFP 2016-2019. The final forecasts were presented to the Council of Ministers in June 2015, based on economic assumptions as at April 2015 and endorsed by the Fiscal Policy Panel ("FPP"), together with further in-year information available from the first quarter for 2015.

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.

Summary

The forecast update of States income is presented as a forecast range and it is important that the Council recognises that there remains significant uncertainty in the economic outlook. This uncertainty has been emphasised by the IFG in its current report and by the FPP in its Annual Report in September 2015.

The uncertainty in the forecasts reflects a high level of uncertainty in general terms and in particular the outlook around prospects for the global economy given the situation in the Eurozone, China and the Emerging Countries and highlighted by the most recent International Monitory Fund [IMF] forecasts. There are also certain factors which are documented in the IFG detailed Income Tax Update report (see **Appendix 1**) relating to:

- uncertainty of income tax from shareholder income,
- uncertainty regarding the impact of public sector reform,
- the impact of the UK banking reforms,
- uncertainty of the outcome for Jersey of any referendum on the UK's future relationship with the EU; and
- uncertainty around the impact of international tax developments.

For this reason it is essential that the Council must continue to maintain appropriate flexibility, in the draft Budget 2016 and in the preparation of the MTFP Addition for 2017-2019, to recognise the potential range of outcomes and the risks for States income forecasts around the downside of the central scenario.

There are however, benefits which could offset these downside influences arising out of the general recovery of the economy supported by the jobs and growth policy.

Movements in forecasts since MTFP 2016-2019

The forecast updates for the draft Budget 2016 reflect the latest in-year data for 2015 and have been remodelled where appropriate to show the impact of the latest economic assumptions endorsed by the FPP in its Annual Report (September 2015).

Further information is also available which has been taken into account in re-modelling the income tax forecasts, this relates to:

- New information from the Taxes Office on in-year estimates from the tax returns submitted for year of assessment 2014 for personal and corporate tax.
- Latest analysis from the Taxes Office for significant changes in relation to corporate taxpayers and from 2015 ITIS data on employment income.

In summary, the forecast update shows a number of small variations compared to the MTFP 2016-2019 position which generally reflects an improvement in the 2015 position, a reduction in 2016 and small net changes in the position over the remaining forecast years.

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

- Improvements in corporate income tax based on 2015 in-year information which after examination is expected by the Taxes Office to continue in future years (i.e. is not one-off in nature).
- A reduction to personal income tax forecasts from 2016 onwards reflecting latest trends from ITIS in-year data, suggesting slightly lower year-on year-increases for the first half of 2015 in respect of employment income.
- Improvements in the GST and impôts duty forecasts for 2015, which are likely to include the impact of the Island Games. These have therefore been treated cautiously as one-offs and not built into future forecasts until further analysis is undertaken.
- Movements in investment returns and the changes in the balances available to invest on the Consolidated Fund and Currency Fund have resulted in variances to the projected return over the period of the forecast. The additional dividend from Jersey Post proposed in Budget 2015 is now confirmed to be received in 2015.
- A range of smaller variations resulting from the remodelling of income forecasts using the revised economic assumptions from the FPP Annual Report (September 2015).

Draft Budget 2016 proposals

The States income forecast update does not include the impact of any measures to be proposed in the draft Budget 2016 by the Minister for Treasury and Resources. These are separately presented in the income forecasts see **Figure 23**. The forecast update only includes the base assumptions for income tax and impôts duty agreed by the IFG.

Sustainable Funding Measures included in the MTFP 2016-2019

The States income figures agreed in the MTFP 2016-2019 included forecasts for the introduction of a sustainable funding mechanisms for the payment of rates from 2017 and for a health charge from 2018. These forecasts are included in the forecast update for the draft Budget 2016 and in the updated income forecast range.

Overall range of forecasts

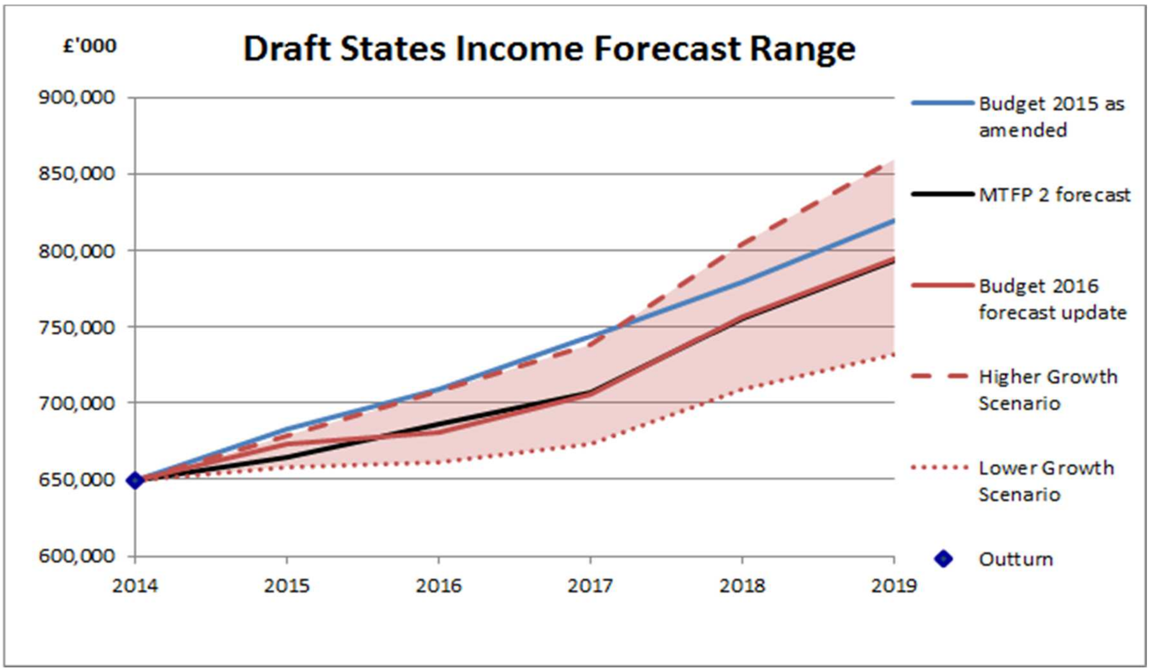
The latest economic assumptions (September 2015) provide a range of assumptions higher, lower and central. These assumptions are used within the modelling of the different types of States income along with some other factors to provide an illustrative range of income forecasts.

The forecast range has not changed significantly from the MTFP 2016-2019 forecasts but has been updated for the forecasts modelled to reflect the revised range of economic assumptions.

The central scenario is broadly the mid-point of the range. The range in the forecasts by 2019 is over £120 million between the higher and lower scenarios.

Figure 24 shows the forecast range for the draft States income forecast update and indicates the movement since the MTFP 2016-2019 and Budget 2015 forecasts.

FIGURE [24] – Draft Budget 2016 forecast update range for States income for 2014-2019



The graph in **Figure 24** includes the proposed sustainable funding mechanisms for States payment of rates and for Health.

FIGURE [25] – Draft Budget 2016 forecast update for States income 2015-2019

Central Forecast from Range (October 2015)	Draft Budget 2016 Forecast Update				
	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000
States General Revenues Income					
- Income Tax	443,000	455,000	475,000	499,000	519,000
- GST	83,757	83,334	84,968	85,779	86,609
- Impôt Duties	55,942	55,616	55,649	55,812	56,006
- Stamp Duty	26,946	26,357	28,802	30,946	31,800
Income from Taxation and Duty	**609,645**	**620,307**	**644,419**	**671,537**	**693,415**
- Other Income	63,643	61,294	60,823	69,653	65,645
- Proposed Mechanism to offset States Payment of Rates	-	-	1,000	1,000	1,000
- Proposed Sustainable Funding Mechanism for Health	-	-	-	15,000	35,000
Total States Income - Central Scenario	**673,288**	**681,601**	**706,242**	**757,190**	**795,060**
MTFP 2016-2019 Forecast	664,588	685,830	706,491	755,295	793,076
Variation to MTFP 2016-2019 Forecast	8,700	(4,229)	(249)	1,895	1,984

The detailed income figures from the forecast update are shown in **Summary Table A** and the detailed reports, provided to Council of Ministers, for taxation and duty and other income are included as **Appendices 1 to 5** of this Budget report.

Summary of Economic Assumptions for the draft Budget 2016

The economic assumptions, endorsed by the FPP, have been updated and the latest local and international developments on which they are based are detailed in the FPP's Annual Report of September 2015.

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. An adjustment has been modelled and included in the forecast updates to reflect the latest in-year ITIS data for increases in employment income for 2015 which only affects the income tax forecasts.

Changes in assumptions from MTFP 2016-2019 to Draft Budget 2016 FPP Annual Report (September)

The main features of the economic assumptions when compared to the MTFP 2016-2019 are:

- Strong growth (22%) in financial services profit growth in 2014, which in turn meant that overall growth in company profits and nominal GVA was higher than previously expected. As a result real GVA growth was estimated to be 4% higher than previously thought, which turned out to be correct with the recent release of the Statistics Unit data indicating real GVA growth in 2014 was 5%.
- The FPP stated that the strong growth in nominal and real GVA in 2014 "is largely due to the increase in financial services profits (a volatile component of GVA) driven by largely one-off factors" and also that "the implications of this for the wider economy and tax revenue are unclear". Future assumptions for financial services growth in profits have not therefore been affected by the trends in 2014 and they remain the same as for the previous forecast.
- The June 2015 average earnings growth has turned out slightly lower than previously forecast (1.8% vs. 2.5%), reflecting lower than expected inflation. However, employment growth in 2014

has turned out higher than expected and this is likely to lead to higher employment growth in 2015 than previously assumed.

- Lower inflation in 2015 so far means that inflation is estimated to be lower in 2015 and 2016 before reverting back closer to trend thereafter.
- The factors above have led to slightly higher real GVA growth assumptions for 2015 and 2016. However, nominal GVA trends remain largely unchanged and this is more relevant for income tax forecasts (which are undertaken in nominal terms).
- The latest market expectations for interest rates (as published by the Bank of England) were slightly lower in 2016 and 2017, although this has not impacted on the key economic assumptions.

FIGURE [26] – Economic assumptions for draft Budget 2016 (September 2015)

FPP central scenario - September 2015

					Return to trend	
	2014	2015	2016	2017	2018	2019
Real GVA	5.6	2.0	1.8	1.5	0.0	0.0
RPI	1.6	1.1	2.0	3.0	3.3	3.3
RPIY	1.6	1.1	1.8	2.5	3.0	3.0
Nominal GVA	7.2	3.0	3.6	4.0	3.0	3.0
Company profits	11.2	2.1	3.0	3.7	3.0	3.0
Financial services profits	22.0	1.1	3.1	3.3	3.0	3.0
Compensation of employees(a)	4.1	3.8	4.0	4.3	3.0	3.0
Employment	1.5	2.0	0.5	0.5	0.0	0.0
Average earnings	2.6	1.8	3.0	4.0	3.0	3.0
Interest rates (%)	0.5	0.5	0.8	1.3	2.0	2.5
House prices	3.0	2.9	4.0	5.0	3.0	3.0

Figures in boxes are Outturn, Compensation of Employees is a combination of Average Earnings and Employment indices

The FPP provided an upper and lower range of assumptions which are shown at Appendix 6. The range of assumptions has been used to inform the planning in terms of level of risk and need for flexibility in this draft Budget 2016 and in the preparation of the MTFP Addition 2017-2019 next June.

States Expenditure Forecasts from the MTFP 2016-2019 (as amended)

The draft MTFP 2016-2019 was debated in the States Assembly at the States sitting of 5 October 2015. The States approved five amendments to the proposed expenditure limits:

- An Amendment from the Council of Ministers to bring forward the funding for a Redundancy Provision in Central Contingencies by reducing States expenditure by £10 million in 2017 and increasing States expenditure by £4 million in 2015 and by £6 million in 2016.
- An Amendment from the Council of Ministers to remove the Revenue and Capital Expenditure approvals for Jersey Airport and Jersey Harbours to reflect the decision of the States [P81/2015] to incorporate the Ports of Jersey from 1 October 2015.
- An Amendment from the Council of Ministers to defer the funding provision for States Members' Pensions from 2016 until 1 May 2018, reducing States expenditure by £100,000 in 2016 and 2017 and by £41,700 in 2018.
- An Amendment from Deputy Martin to transfer funding from the Chief Minister and the Treasury and Resources Departments to the Social Security Department to reduce Ministerial Support budgets and maintain the current benefit for free TV licences. This affects the expenditure of the individual departments for 2016 but does not affect the overall States expenditure.
- An Amendment from the Education and Home Affairs Scrutiny Panel to reduce Central Contingencies and increase the funding for the Education, Sport and Culture Department by £263,200 in 2016. This affects the expenditure of the Education, Sport and Culture Department and Central Contingency but does not affect the overall States expenditure.

The MTFP also approved the total States net expenditure totals for 2017-2019 which are included in the financial forecast update at **Figure 23**. The States also agreed the total States net capital expenditure for 2016 and the proposed allocation of capital expenditure to individual projects is presented in **Section 9** and **Summary Table C** of this budget report.

The total States net expenditure limits for 2016-2019 (as amended) are shown in **Figure 27**

The revised MTFP Department Annex for 2016 will shortly be available with the Amendments agreed in the MTFP 2016-2019 presented at a detail level for each of the affected departments.

The Council of Ministers will continue to develop the proposals for 2017 to 2019 at a detailed level for inclusion in the MTFP Addition next June.

FIGURE [27] – Total States net expenditure (as amended) for 2016-2019

States Funded Bodies	MTFP 2016-2019 (as amended) Total Net Expenditure 2016 £'000	Total Net Expenditure 2017 £'000	Total Net Expenditure 2018 £'000	Total Net Expenditure 2019 £'000
Ministerial Departments				
Chief Minister	22,550			
- Jersey Overseas Aid Commission	10,337			
Community and Constitutional Affairs[1]	49,270			
Economic Development	17,196			
Education, Sport and Culture	111,658			
Department of the Environment	5,205			
Health and Social Services	203,776			
Social Security	189,479			
Transport and Technical Services	28,618			
Treasury and Resources	32,495			
	670,588			
Non Ministerial States Funded Bodies				
- Bailiff's Chambers	1,563			
- Law Officers' Department	7,797			
- Judicial Greffe	6,616			
- Viscount's Department	1,320			
- Official Analyst	604			
- Office of the Lieutenant Governor	738			
- Office of the Dean of Jersey	25			
- Data Protection Commissioner	267			
- Probation Department	1,990			
- Comptroller and Auditor General	777			
States Assembly and its services	5,086			
	26,788			
Total Departmental Net Revenue Expenditure	**697,377**	**-**	**-**	**-**
Central Allocations	42,939			
Total Net Revenue Expenditure	**740,317**	**724,287**	**733,955**	**734,845**
Net Capital Expenditure Allocation - Annual Programme	25,691	26,273	35,000	32,975
Net Capital Expenditure Allocation - Other Projects	1,000	39,000	8,233	
Total States Net Capital Allocations	**26,691**	**65,273**	**43,233**	**32,975**
Total States Net Expenditure Allocations	**767,008**	**789,560**	**777,188**	**767,820**
For Information:				
Departmental Depreciation	44,800	44,000	49,200	54,600

Note 1:"In April 2015, it was announced that the social, justice and constitutional policy responsibilities of the Chief Minister, the policy responsibilities of the Ministers for Housing and Home Affairs, and the public services of the Home Affairs Department, would be supported by a newly-merged department. This will deliver greater efficiency, flexibility, and alignment between complementary policy areas. The newly-merged Department is named “Community and Constitutional Affairs”, reflecting the broad range of its responsibilities outlined in more detail in the Annex to the Medium Term Financial Plan"

Financial Forecast Update and the Consolidated fund for 2016

Article 10(8) of the Public Finances (Jersey) Law 2005 requires the Minister for Treasury and Resources to lodge a Budget where the Consolidated Fund is balanced. **Section 11** of this Budget report provides an update of the forecast Consolidated Fund position for 2015 and the forecast update and measures proposed in this draft Budget for 2016 forecast a positive balance on the Consolidated Fund for each of the years 2015-2019.

The Consolidated Fund Forecast is shown in detail at **Summary Table E and in summary at Figure 28.**

FIGURE [28] – Summary forecast of Consolidated Fund 2015-2019

Summary Forecast Consolidated Fund Balance (including Budget Measures)	Draft Budget 2016 Forecast (October 2015)				
	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000
Opening Balance brought forward (unallocated)	**4,707**	**40,829**	**16,961**	**24,377**	**34,077**
Forecast Operating Surplus/(Deficit)	(61,341)	(56,868)	(12,584)	29,700	67,646
Measures to manage 2015 Shortfall	39,773				
Change in Accounting Policy - Income Tax	60,000				
Funding for Capital Programme	(64,504)	(26,691)	(65,273)	(43,233)	(32,975)
Proposed Transfers from Strategic Reserve	36,700	56,691	70,273	-	-
Proposed Transfers to Strategic Reserve	-	-	(20,000)	-	(50,000)
Currency Fund Infrastructure Investment	25,494				
Proposed Asset Disposals	-	3,000	20,000	-	20,000
Proposed Transfers from Health Insurance Fund (HIF)			15,000	15,000	
Proposed Transfer from Criminal Offences Confiscation Fund				8,233	
Forecast Closing Balance carried forward (unallocated)	**40,829**	**16,961**	**24,377**	**34,077**	**38,748**

Proposed Budget Measures and Balanced Budget by 2019

The MTFP 2016-2019 proposed a financial forecast to deliver balanced budgets by 2019, after depreciation. After the proposed measures in the draft Budget 2016 the surplus by 2019 is forecast to increase from £3.631 million to £13.046 million. At the same time the effect on the forecast Consolidated Fund balance is to maintain a balance of at least £20 million in each of the forecast years with a forecast balance in 2019 which has increased from £20.054 million to £38.748 million.

The improvements in this draft Budget 2016 forecast is an important part of the flexibility that the Council of Ministers is looking to maintain throughout the period of the MTFP 2016-2019 to address the inevitable variations to the current plan and wherever possible to main the planned investment in strategic priorities and essential infrastructure.

If the current income forecasts remain robust through the period of the Plan and the balance on the Consolidated Fund continues to improve the Council of Ministers will initially have the opportunity to reduce the planned withdrawals from the Strategic Reserve or the Health Insurance Fund. This will of course also depend on the assessment of the economy because if the economy is judged to have improved and returned to balance more quickly, then the FPP are likely to advise that balanced budgets should also be achieved sooner than 2019. These assessments will be made initially alongside the preparation of the MTFP Addition and then at each annual Budget over the MTFP period.

In the event that income performs as forecast by 2019, unless economic advice changes, additional tax raised could enable additional repayments to the strategic reserve, and/or reduce the need to increase the full amount of a Health Charge from the level currently proposed.

PART F – THE ECONOMIC CONTEXT

13. The Economic Context

Global economy

The global economy slowed down in the first half of 2015, and the International Monetary Fund has downgraded its forecast for the year as a whole, representing a slight slowdown when compared to 2014. Advanced economies are expected to continue their recovery, while emerging economies are expected to continue the slowdown they have experienced in recent years.

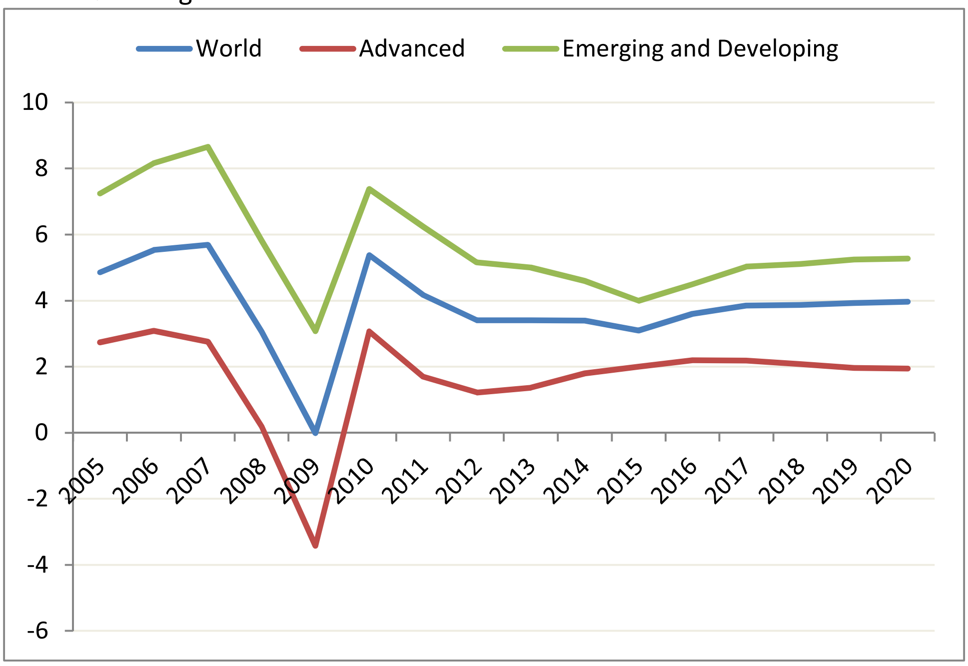
Growth in the United States remains strong and while the first half of this year was weaker than expected; growth is expected to improve throughout 2015 and into 2016. The UK has also continued its strong growth, while modest growth continues in the euro area. Japan continues to struggle, but is expected to see a gradual pickup in 2015 and 2016. Overall, the advanced economies are expected to benefit from the fall in oil prices and continuing accommodative monetary policy.

China is expected to continue to slow, but avoid a hard landing. While a number of the larger emerging economies such as Brazil and Russia continue to struggle in 2015, they are expected to improve somewhat in 2016 – more than offsetting the slowdown in China.

While the IMF anticipates global growth to increase over its forecast period, downside risks have increased – particularly for emerging and developing economies as a result of declining commodity prices, reduced capital flows, pressure on currencies, and increasing financial market volatility.

FIGURE [29] – World economic growth

Annual % change in real GDP



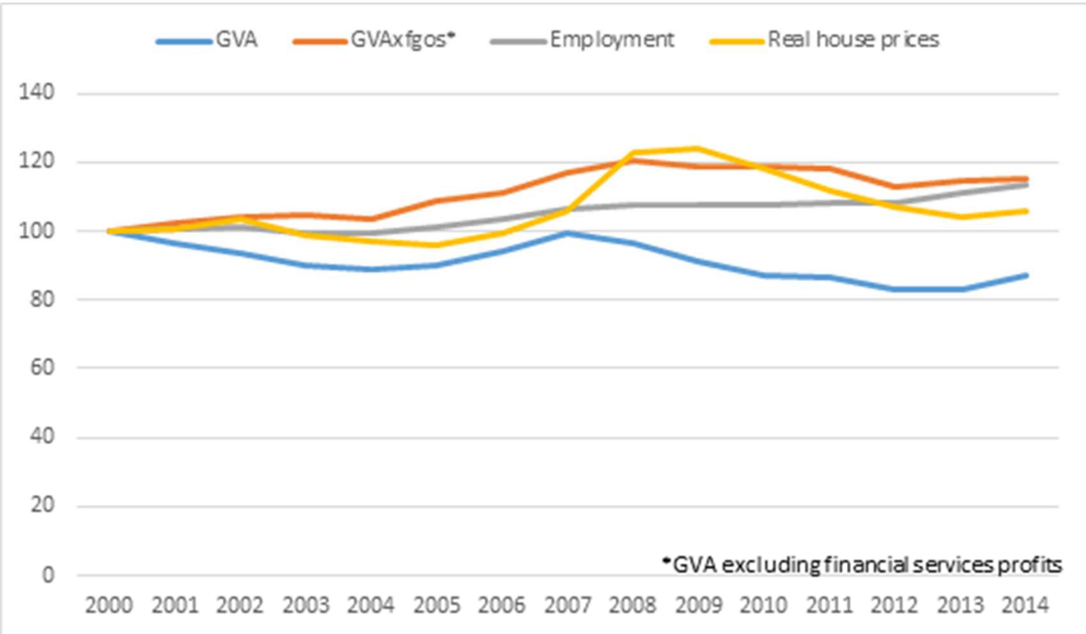
Source: IMF World Economic Outlook October 2015

Jersey Economy

Gross value added (GVA), a measure of the output of Jersey's economy, grew by 5% in 2014, the first annual growth since before the onset of the global financial crisis. The financial services sector grew by 9%, driven by a significant increase in banking profits. There was also strong growth in the hotels, restaurants and bars sector and in the construction sector. Non-finance sectors as a whole recorded 2% growth, the second successive year of real growth.

Despite the strong growth in 2014, GVA remains significantly below the 2007 peak. However, GVA is strongly influenced by profits of the financial services sector, which can be very volatile particularly in banking. GVA excluding financial services profits fell over 2009-2012, but by much less than GVA overall. This measure of underlying GVA began to grow again in 2013 and the position in 2014 is above that at the start of the period, not far below the peak, which for this measure was 2008. These trends are also more consistent with those shown for employment and real house prices.

FIGURE [30] – Trends in real GVA, employment and real house prices (index 2000 = 100)



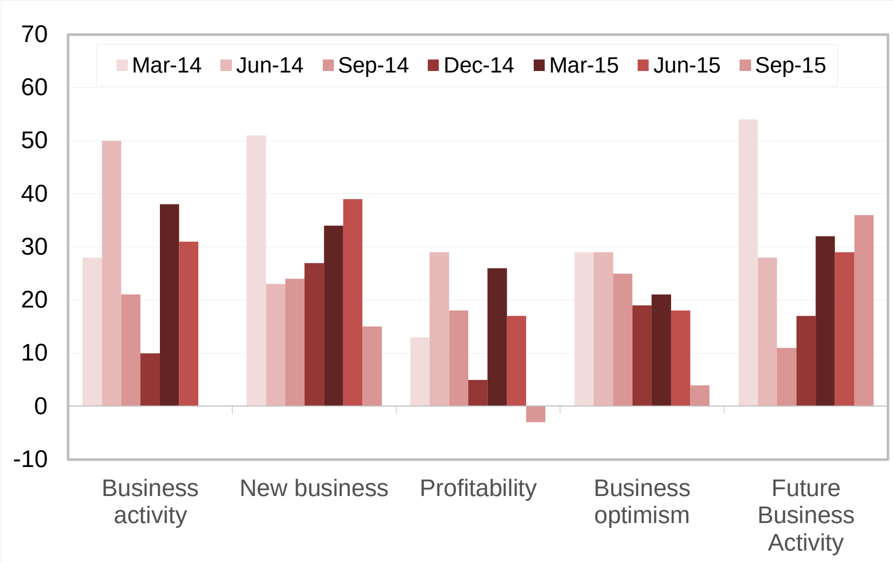
Source: States of Jersey Statistics Unit; Economics Unit calculations

After two quarters of strongly positive sentiment, the business activity indicator of the Business Tendency Survey has fallen back to the levels previously seen in December 2014. However, the indicator remained positive overall, as have seven of the other eight indicators. Profitability has fallen from a largely neutral net weighted balance to a mildly negative level.

For the finance sector, business activity has fallen quite sharply in the most recent survey, dropping back to a neutral level after remaining positive throughout 2014 and early 2015. While six of the ten indicators fell in September 2015, some remain positive – particularly expectations for future business activity which have increased to their highest since March 2014. The employment indicator has improved and future employment remains positive.

FIGURE [31] – Finance business tendency results

% weighted net balance of respondents

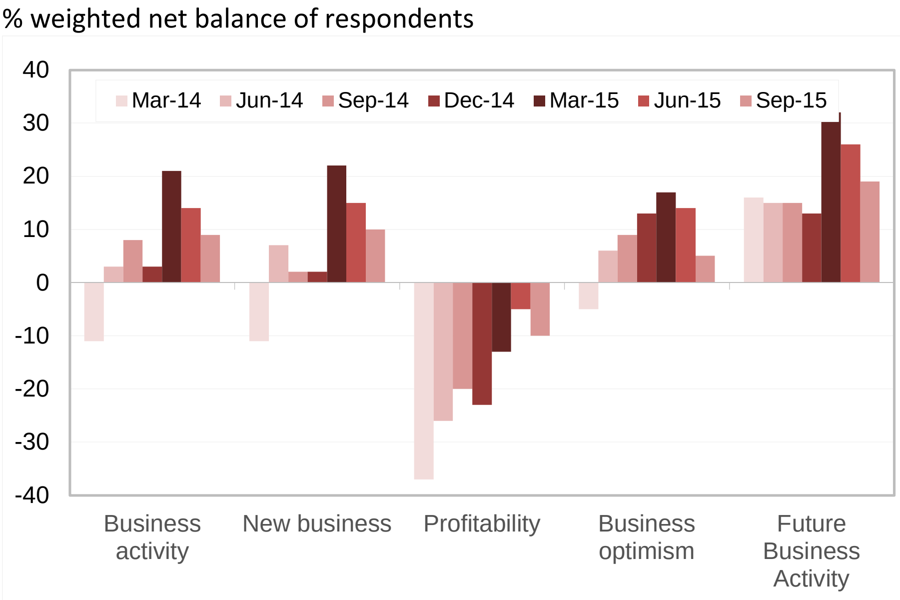


Source: States of Jersey Statistics Unit

The 2014 Survey of Financial Institutions shows a significant improvement in profits, with profits for the sector as a whole growing by 25%. This includes significant growth in net profit for banking (28% higher), trusts (14% higher) and the legal sector 23% higher. The results also showed a strong increase in spending on goods and services in the local economy.

For the non-finance sectors, the Business Tendency Survey remains positive in 2015, having improved significantly over the course of 2014. The headline business activity indicator fell slightly in the September 2015 survey, but remains positive following two quarters in which it was high relative to the previous five years. All but two of the indicators remain positive, and the employment indicator is positive for only the second time since the survey began in 2009. The construction sector has become strongly positive on a number of indicators, particularly relating to future business activity, but remains negative on profitability. The retail and wholesale sector has seen falls in six of the indicators, but future business activity and future employment have improved.

FIGURE [32] – Non-finance business tendency results



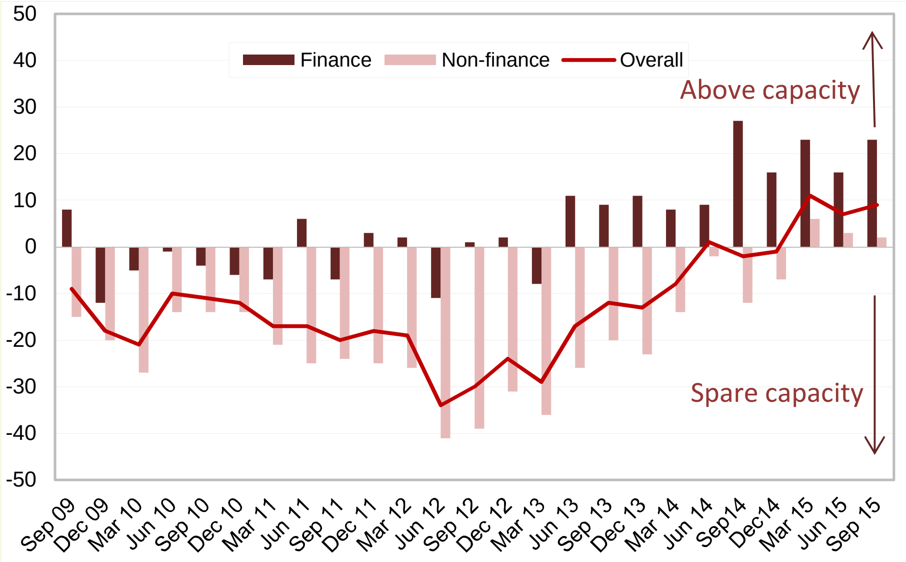
Source: States of Jersey Statistics Unit

The Business Tendency Survey also includes an indicator relating to the extent to which businesses in Jersey are working above and below capacity. In their 2015 Annual Report, the FPP indicated that while financial services profits have increased significantly, they do not believe this has significantly affected the level of spare capacity. The Panel therefore recommended that the States continue to plan on the basis that that Jersey's output is currently about 5% below its potential level and that spare capacity will be used up between 2017 and 2019, though the chances have increased that spare capacity will be used up earlier in the 2017-2019 period. **Figure 33** shows that the BTS indicator has been significantly positive for the finance sector since the second half of 2014, and has moved positive in the non-finance sector in the first three quarters of 2015 and the aggregate indicator suggests that firms are now working slightly above capacity for the first time since the survey began (it has been positive once before in June 2014 but the indicator was still broadly neutral).

The BTS is only one of a number of indicators to include when looking at the level of spare capacity. Further, the BTS has only been in existence since the onset of the financial crisis so caution is required in interpreting the responses. The FPP have committed to monitoring the level of spare capacity in the economy, and have recommended that the States maintain flexibility in order to ensure fiscal policy remains counter-cyclical, if spare capacity is used more quickly or more slowly than anticipated. This will involve consideration of global economic conditions, the competitiveness of financial services sector, trends in Jersey GVA, labour market conditions and the ability of businesses to employ people locally.

FIGURE [33] – Capacity utilisation

% balance of respondents above/below capacity

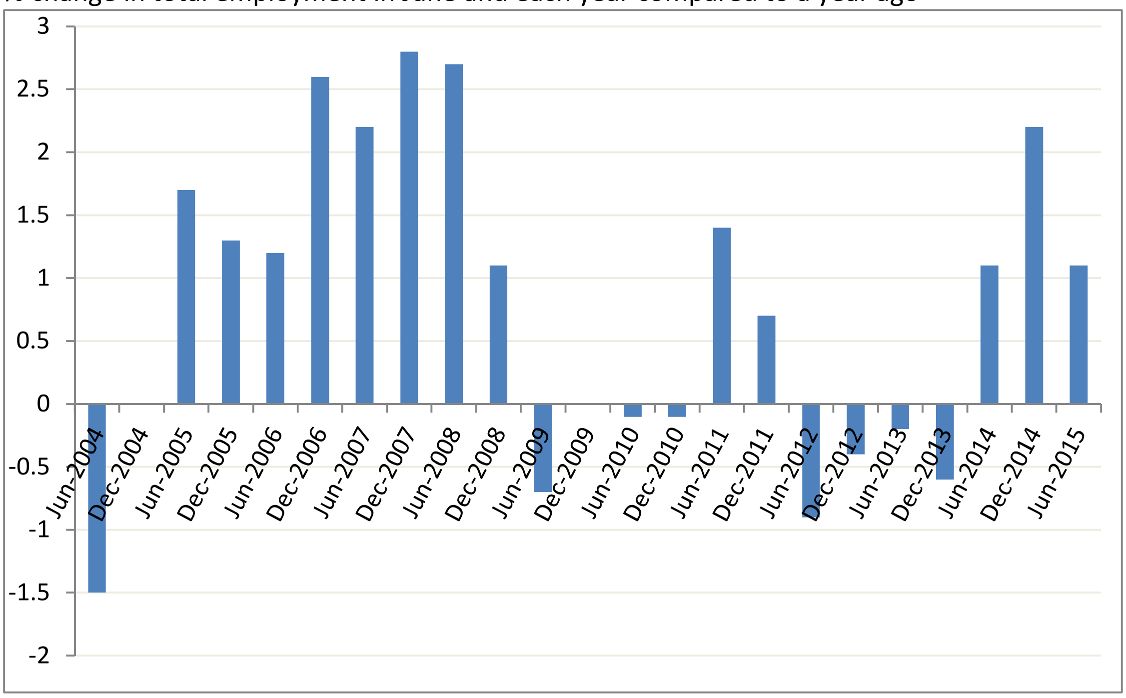


Source: States of Jersey Statistics Unit

The number of people Actively Seeking Work peaked in 2013 and has fallen significantly over the last two years. **Figure 34** shows that in June 2015 total employment was 650 or 1.1% higher than a year earlier. Private sector employment was at its highest recorded levels, with significant increases in private sector service industries (up 530), construction (up 300) and financial services (up 250).

FIGURE [34] – Employment trends in Jersey

% change in total employment in June and each year compared to a year ago

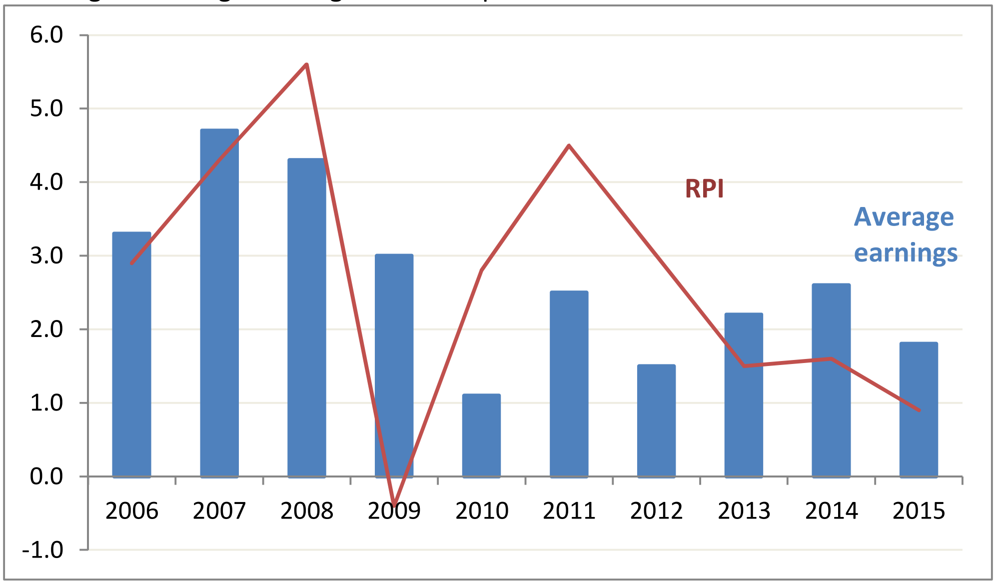


Source: States of Jersey Statistics Unit

Average earnings grew by 1.8% from June 2014 to June 2015, the third successive year that earnings grew more quickly than inflation. Private sector earnings grew by 2.2%, with public sector earnings flat. This partly offsets the squeeze in real earnings since 2010. **Figure 35** shows that prior to the last three years of real growth, earnings were lower than inflation for four of the previous five years.

FIGURE [35] – Earnings growth and inflation

% change in average earnings and retail prices index

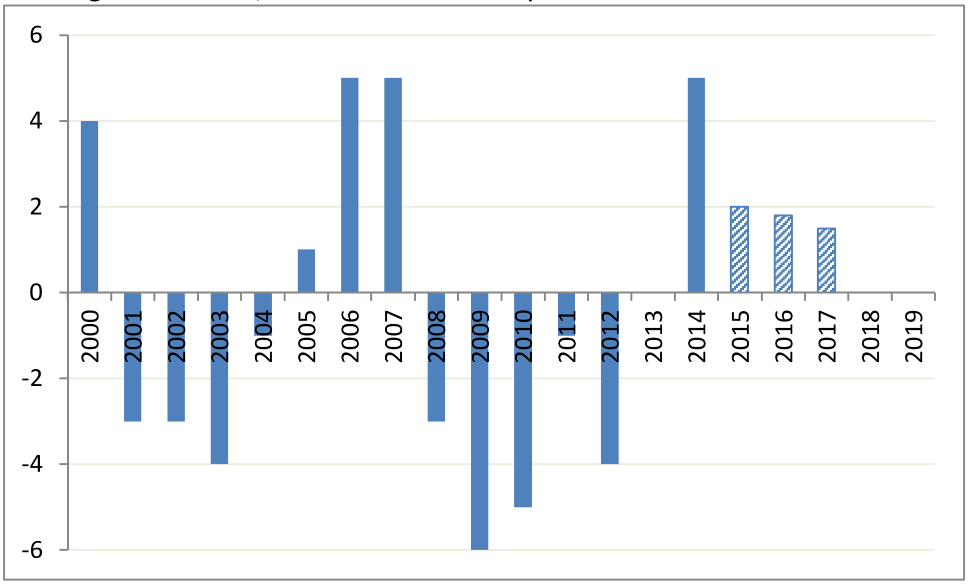


Source: States of Jersey Statistics Unit

Economic growth in 2014 was in line with the FPP's estimate of between 4.5% and 6.5%. The FPP have forecast that if external conditions remain favourable and fiscal policy provides support, Jersey could expect growth to be positive in the near term, as the economy catches up with potential (estimated to happen by around 2019, or earlier). Further the FPP continues to advise that future fiscal trends should be tested against a trend rate of real economic growth of 0% a year.

FIGURE [36] – GVA trends

% change in real GVA, actual and FPP assumptions



Source: Statistics Unit, Fiscal Policy Panel forecasts

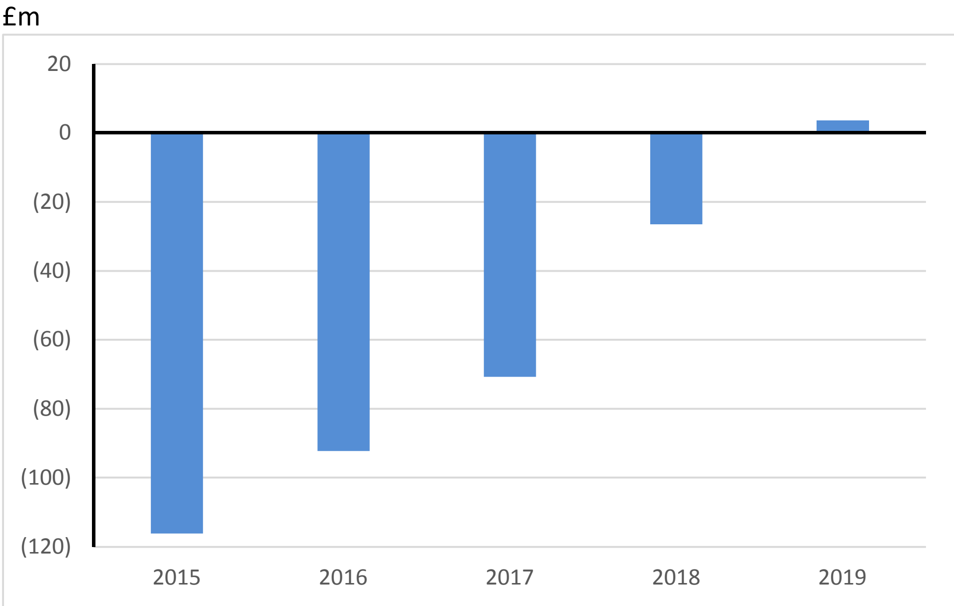
Jersey's fiscal position

In their Pre-MTFP report, the FPP advised what the overall approach should be on fiscal policy over the life of the MTFP:

> *The States should develop a plan that will address any structural deficit by 2018 and 2019. Care should be taken to ensure that the range and timing of the measures minimises the risk to the economic recovery, which, in the early stages, may involve using the States' reserves.*
>
> *Once Jersey is on a sound path to structural fiscal balance, the States should aim to balance its tax revenues and current expenditure over the economic cycle, including an appropriate allowance for depreciation.*

Figure 37 shows that after all the measures proposed in the MTFP the current budget (including depreciation) will move from a deficit of £116m (3% of GVA) to being in slight surplus by 2019. This therefore suggests that on the basis of the FPP advice any underlying structural mismatch between revenue and expenditure will be addressed by 2019.

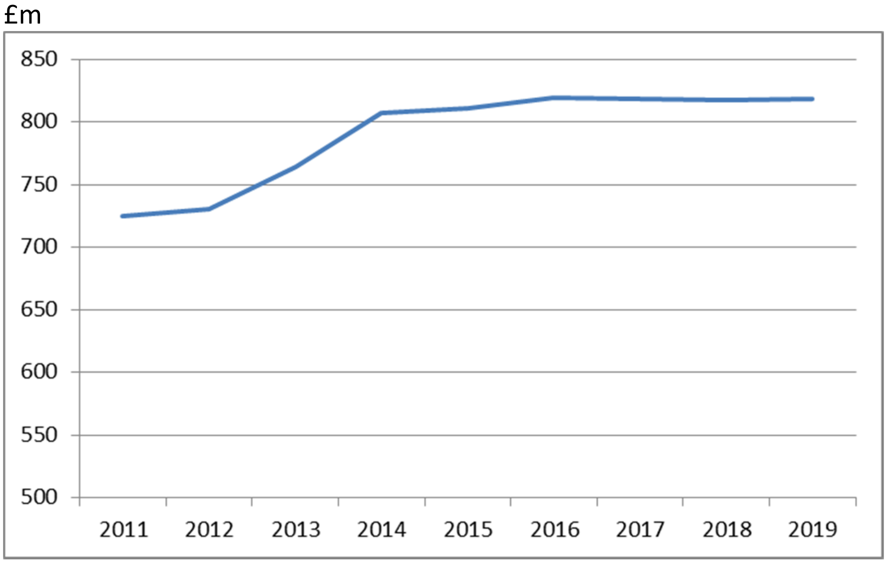
FIGURE [37] – States current budget position



Source: Treasury and Resources Department

Total Consolidated fund revenue expenditure grew by 12% over the 2011-2015 period, but is anticipated to remain relatively flat over the 2015-19 period (not adjusted to include Budget 2016 proposals).

FIGURE [38] – Trend in total Consolidated Fund revenue expenditure



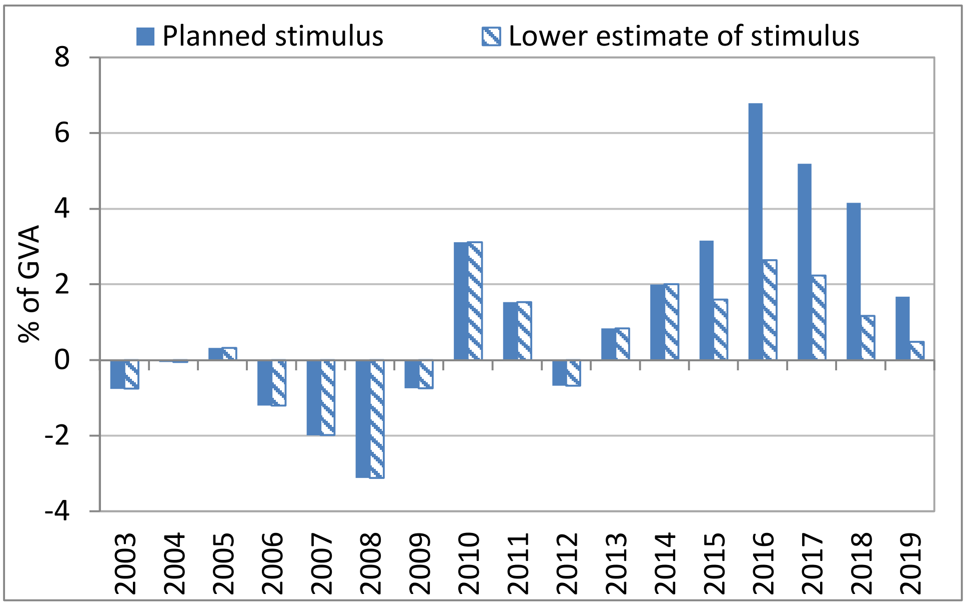
Source: Treasury and Resources Department

The FPP 2015 Annual Report assessed the economic impact of the proposals over the life of the MTFP. This was done by adjusting the current budget position to include all the States funds and the timing of capital spending in cash flow terms, rather than the depreciation estimate. This gives an indication of whether the States as a whole is planning to spend more in the Jersey economy than it takes out by raising revenue. This shows that the States (including traders, Andium and the States of Jersey Development Company (SOJDC)) is planning to put a lot more into the economy than it is planning to take out, particularly in 2016 (£280 million – the equivalent of 7% of the size of the economy) although this is highly dependent on how much of the planned capital expenditure over the next few years takes place on the intended timeframe.

As result of the uncertainty, the FPP also calculated an alternative scenario where capital expenditure continues at 2014 levels, i.e. £75m of capital expenditure in each year of the 2015-2019 period. Under this scenario, the States would still put more money into the economy than they take out, though this would peak at less than 3% in 2016. The amount of stimulus provided is dependent on the extent to which the capital plan is delivered during the MTFP period.

FIGURE [39] – Adjusted fiscal position

% of GVA



Source: Fiscal Policy Panel; Economics Unit calculations

Revised Fiscal Position – draft Budget 2016

The revised forecast for the draft Budget 2016 **Figure 23** now shows a slightly improved position in 2015 of £111 million deficit compared to £116 million in the MTFP. The surplus by 2019 is also forecast to improve to £13 million, after the proposed Budget measures, compared to £4 million in the MTFP.

The assessment of the economic impact after these budget proposals has not changed significantly since the draft MTFP and the FPP Annual Report were published. On this basis the economic assessment (Appendix 8, P.72/2015) has not been reworked at this time but a full analysis will be produced to inform the MTFP Addition next June.

In a typical annual Budget the Treasury would also expect to reproduce the analysis of the movements and balances on the main States Funds, Reserves and Balance Sheet as part of the requirements of the Fiscal Framework [R.107/2015]. However, as these have also not changed significantly since the MTFP 2016-2019 was produced (Section 16, P.72/2015) they have not been repeated in this Budget. This analysis will also be produced in full and improved as recommended by the FPP to inform the MTFP Addition next June.

Fiscal Policy Panel Recommendations – Annual Report [September 2015]

After assessing the economic and fiscal position as set out above, the FPP made eight recommendations in their 2015 Annual Report:

1. The analysis of the States' overall fiscal position (including all funds) needs to continue to develop and the 2016 MTFP Addition will be a good opportunity to expand this analysis further.

2. The States should plan how it will deliver capital projects to reduce the risk of a build-up of inflationary pressure in Jersey's economy. To avoid the need to change the timing of important projects or make adjustments to other spending or income, the States should consider whether resources could be imported cost-effectively from outside the island to reduce any bottlenecks within the local economy.

3. The States should also maintain other flexibilities, such as the timing of tax changes or other States expenditure, which could be used to ensure fiscal policy remains counter-cyclical.

4. The draft MTFP and 2016 MTFP Addition should be clearer about how much of the £90 million savings will be due to improving efficiency.

5. As details of the proposed package of measures for the 2016 MTFP Addition are developed attention should be given to ensure that they are sustainable, including their potential distributional impacts.

6. Given the risks to delivering the scale of savings required, the planning around flexibility to address the overall structural position must continue. The States should ensure these measures can be implemented in practice if necessary, and also take care that any short-term flexibility measures carried out do not compromise long-term sustainability or efficiency.

7. A strategy for managing the fiscal consequences of an ageing population should be progressed and take a whole-of-government view, considering the long term sustainability of all States' income, expenditure and their supporting Funds together.

8. The Panel welcomes the additional funding for the economic and productivity growth provision but stresses that strong governance measures should be put in place to control how the £20 million is allocated.

The Minister for Treasury and Resources has published a full formal response (R.110/2015) welcoming the FPP’s recommendations and outlining how these will be taken forward in the Draft 2016 Budget and to form the preparation of the MTFP Addition next June 2016.

Budget 2016

Budget 2016 shows Council of Minister’s commitment to developing a long term approach which is needed to further secure Jersey’s financial prosperity. The revenue-raising measures which are proposed would support the Strategic Plan commitments to investment in healthcare and education, to modernising our public services and to fostering economic growth. The measures will also help provide fiscal flexibility within the life of the MTFP. This is in line with the FPP recommendation to develop a plan that will address any structural deficit by 2018 and 2019 while taking care to ensure that range and timing of the measures minimises the risk of the economic recovery.

PART G – SUMMARY TABLES

Summary Table A – States Income 2016

Outturn 2014 £'000	States Income	Forecast Update for draft Budget 2016 (October 2015) 2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000
	Income Tax					
354,180	Personal Income Tax	358,000	368,000	389,000	411,000	428,000
83,429	Companies	86,000	89,000	88,000	91,000	94,000
(944)	Provision for Bad Debt	(1,000)	(2,000)	(2,000)	(3,000)	(3,000)
	Proposed Budget Measures			3,705	4,800	5,845
436,665	**Total Income Tax**	**443,000**	**455,000**	**478,705**	**503,800**	**524,845**
	Goods and Services Tax (GST)					
67,903	Goods and Services Tax (GST)	70,688	70,647	72,060	72,637	73,218
3,281	Import GST	3,840	3,687	3,908	4,142	4,391
9,042	ISE Fees	9,229	9,000	9,000	9,000	9,000
80,226	**Total Goods and Services Tax (GST)**	**83,757**	**83,334**	**84,968**	**85,779**	**86,609**
	Impôts Duties					
4,801	Impôts Duties Spirits	4,621	4,619	4,662	4,720	4,778
7,615	Impôts Duties Wine	7,610	7,839	8,154	8,508	8,877
988	Impôts Duties Cider	1,130	1,186	1,259	1,340	1,425
5,285	Impôts Duties Beer	5,375	5,372	5,423	5,489	5,557
13,788	Impôts Duties Tobacco	14,730	14,124	13,675	13,279	12,893
20,704	Impôts Duties Fuel	21,570	21,570	21,570	21,570	21,570
161	Impôts Duties Goods (Customs)	145	145	145	145	145
761	Vehicle Emissions Duty (VED)	761	761	761	761	761
	Proposed Budget Measures		2,068	1,976	1,885	1,806
54,103	**Total Impôts Duties**	**55,942**	**57,684**	**57,625**	**57,697**	**57,812**
	Stamp Duty					
21,988	Stamp Duty	23,486	22,376	24,669	26,680	27,481
2,735	Probate	2,098	2,500	2,500	2,500	2,500
1,254	Stamp Duty on Share Transfer (LTT)	1,362	1,481	1,633	1,766	1,819
	Proposed Budget Measures		(220)	(220)	(220)	(220)
25,977	**Total Stamp Duty**	**26,946**	**26,137**	**28,582**	**30,726**	**31,580**
596,971	**Total Taxation Revenue**	**609,645**	**622,155**	**649,880**	**678,002**	**700,846**
11,896	Island Rate Income from Parishes	12,031	12,248	12,554	12,930	13,318
8,283	Other States Income - Dividends	13,260	11,527	8,871	15,034	9,801
18,236	Other States Income - Non Dividends	10,846	9,698	10,939	12,337	12,176
13,581	Other States Income - return from Andium Homes	27,506	27,821	28,459	29,352	30,350
51,996	**Total Other States Income**	**63,643**	**61,294**	**60,823**	**69,653**	**65,645**
648,967	**Total States Income**	**673,288**	**683,449**	**710,703**	**747,655**	**766,491**
	% increase on previous year	*3.7%*	*1.5%*	*4.0%*	*5.2%*	*2.5%*
-	Proposed Mechanism to offset States Payment of Rates	-	-	1,000	1,000	1,000
-	Proposed Sustainable Funding Mechanism for Health [1]	-	-	-	15,000	35,000
648,967	**Total States Income - including additional proposals**	**673,288**	**683,449**	**711,703**	**763,655**	**802,491**

Note:1 It is the Council of Ministers intention to bring forward the proposals for a Sustainable Funding Mechanism for Health at the earliest opportunity. If it is possible to introduce a new Health charge in 2017 then this could be offset against the proposed contributions to Health funding from the Health Insurance Fund (HIF)

Summary Table B – Proposed Capital Programme for 2016 (funding sources)

	Proposed Funding 2016 £'000
Departmental Capital Programme	**26,691**
Funding Sources	
Consolidated Fund (after transfer from strategic reserve)	(25,691)
Strategic Reserve – Les Quennevais School (to be repaid from asset disposal)	(1,000)
Funding Available	**(26,691)**
TOTAL FUNDING	**26,691**

Summary Table C – Proposed Capital Programme for 2016

	2016 Budget £'000
Chief Minister's	
Desktop Upgrades	737
Income/Payment Management System	379
Corporate Web Platform Refresh	300
Web Search Engine Upgrade	105
Content Management System Refresh (SharePoint Upgrades)	105
Hardware Refresh	200
Taxes Office System Renewal	579
E Government (Previous Rephasing)	2,200
T&R JDE System (HRIS) (Previous Rephasing)	1,238
Chief Minister's Total	**5,843**
Community and Constitutional Affairs	
Minor Capital	300
Community and Constitutional Affairs Total	**300**
Education, Sport and Culture	
Replacement Assets and Minor Capital - ESC	200
Jersey Heritage Trust - Archive Store Extension *	3,500
Les Quennevais School Rebuild *	1,000
Education, Sport and Culture Total	**4,700**
Department of the Environment	
Met Radar Refurbishment / Upgrade	372
Department of the Environment Total	**372**
Health & Social Services	
Replacement Assets (Various)	2,510
Refurbishment of Sandybrook (Previous rephasing) *	1,699
Health & Social Services Total	**4,209**
Transport and Technical Services	
Replacement Assets	1,661
Infrastructure Rolling Vote	8,373
Transport and Technical Services Total	**10,034**
Non Ministerial	
Replacement Assets - Non Mins	33
Non Ministerial Total	**33**
Vehicle Replacement (additional from consolidated fund)	**1,200**
TOTAL CAPITAL PROGRAMME	**26,691**

** Signifies projects where the budget will be allocated to Jersey Property Holdings to deliver.*

Summary Table D – Proposed Capital Allocation to States Trading Operations for 2016

	Proposed Programme 2016 £'000
Car Park Maintenance and Refurbishment	1,488
Sustainable Transport and Road Safety Schemes	1,000
Jersey Car Parking	**2,488**
Vehicle and Plant Replacement	1,344
Jersey Fleet Management	**1,344**

Summary Table E – Consolidated Fund Forecast for 2016

Forecast Consolidated Fund Balance (including Budget Measures)	Draft Budget 2016 Forecast (October 2015)				
	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000
Opening Balance brought forward	**4,707**	**40,829**	**16,961**	**24,377**	**34,077**
Forecast Operating Surplus/(Deficit)	(61,341)	(56,868)	(12,584)	29,700	67,646
Measures to manage 2015 Shortfall	39,773				
Change in Accounting Policy - Income Tax	60,000				
Funding for Capital Programme					
Apply Funding for Annual Capital Programme	(4,090)	(25,691)	(26,273)	(35,000)	(32,975)
Additional Funding for Annual Capital Programme	(6,800)				
Funding from Budget 2015 measures					
- Adjustments from MTFP 2013-2015	(2,285)				
- Funding from JCP increased return	(1,135)				
- Funding from Jersey Post Special Dividend	(2,000)				
- Funding for Hospital Replacement Project Phase 2	(22,700)				
- Funding for Sewage Treatment works	(25,494)				
- Les Quennevais School		(1,000)	(39,000)		
- Prison Improvement Phase 6				(8,233)	
Proposed Transfers from Strategic Reserve					
- Proposed Funding for Committee of Inquiry (CoI)	10,000	4,000			
- Funding for Annual Capital Programme		25,691	26,273		
- Funding for Hospital Replacement Project Phase 2	22,700				
- Funding for Les Quennevais School		1,000	39,000		
- Funding for Economic and Productivity Growth Provision		5,000	5,000		
- Funding for Redundancy Provision		10,000	10,000		
- Rephasing of funding for Redundancy Provision (P.75/2015)	4,000	6,000	(10,000)		
- Funding for Working Balance on Consolidated Fund		5,000			
Proposed Transfers to Strategic Reserve					
- Repayment for Economic and Productivity Growth Provision					(10,000)
- Repayment for Redundancy Provision					(20,000)
- Transfer of Proceeds from asset Disposals			(20,000)		(20,000)
Currency Fund Infrastructure Investment					
- Funding for Sewage Treatment Works	25,494				
Proposed Asset Disposals			20,000		20,000
Jersey Property Holdings capital receipts slipped from 2015		3,000			
Proposed Transfers from Health Insurance Fund (HIF)			15,000	15,000	
Proposed Transfer from Criminal Offences Confiscation Fund				8,233	
Forecast Closing Balance carried forward	**40,829**	**16,961**	**24,377**	**34,077**	**38,748**

PART H – APPENDICES

Appendix 1 – IFG: Income Tax Forecast Update 2015-2019

Introduction

This note provides provisional estimates to update the MTFP 2016-2019 income tax forecast which was agreed by the Income Forecasting Group (IFG) in June 2015. Given the Group's broad assessment of the overall impact of emerging data, a full forecast has not been run, however new information has been used to update the MTFP 2016-2019 forecast.

The new provisional estimates have taken into account three new pieces of information:

1. **Updated Fiscal Policy Panel economic assumptions** for 2015-2017. The FPP published their 2015 Annual Report in September that provided new economic assumptions reflecting recent trends in the global and local economies.
2. **New In-Year information from the Taxes Office** on in-year estimates from the tax returns submitted in respect of 2014 year of assessment for personal and corporate tax.
3. **Latest analysis from the Taxes Office** for significant changes to corporate taxpayers and from 2015 year of assessment ITIS data on employment income.

These three developments are considered in turn below.

1. FPP economic assumptions

Figure 44 shows the FPP's latest economic assumptions, the ones used previously for the June 2015 forecast and the difference between them. The key differences are:

- Strong growth (22%) in financial services profit growth in 2014, which in turn meant that overall growth in company profits and nominal GVA was higher than previously expected. As a result real GVA growth was estimated to be 4% higher than previously thought, which turned out to be correct with the recent release of the Statistics Unit data indicating real GVA growth in 2014 was 5%.
- The FPP stated that the strong growth in nominal and real GVA in 2014 "is largely due to the increase in financial services profits (a volatile component of GVA) driven by largely one-off factors" and also that "the implications of this for the wider economy and tax revenue are unclear". Future assumptions for financial services profits have not therefore been affected by the trends in 2014 and they remain the same as for the previous forecast.
- The June 2015, average earnings growth has turned out slightly lower than previously forecast (1.8% vs. 2.5%), reflecting lower than expected inflation. However, employment growth in 2014 has turned out higher than expected and this is likely to lead to higher employment growth in 2015 than previously assumed.
- Lower inflation in 2015 so far means that inflation is estimated to be lower in 2015 and 2016 before reverting back closer to trend thereafter.
- The factors above have led to slightly higher real GVA growth assumptions for 2015 and 2016. However, nominal GVA trends remain largely unchanged and this is more relevant for income tax forecasts (which are undertaken in nominal terms).
- The latest market expectations for interest rates (as published by the Bank of England) were slightly lower in 2016 and 2017, although this has not impacted on the key economic assumptions.

The overall impact on the MTFP 2016-2019 forecast of these changes in economic assumptions is slightly lower growth in personal tax (£2m in 2016 and £1m thereafter). As the strong growth in corporate profits in 2014 is excluded from the forecast (because in year estimates are not showing such trends in tax revenue - see **Figure 44** for a note regarding the differential between 2014 year of assessment growth in corporate tax revenues from companies taxable at 10% and 2014 growth in financial services sector net profit per the Survey of Financial Institutions) and subsequent assumptions are unchanged, the corporate tax forecast is unchanged as a consequence of the updated economic assumptions see **Figure 44**.

2. New In-Year information from the Taxes Office

The Taxes Office has updated their in-year tax revenue estimates for 2015. This information takes into account data available for the January to August period. There are three differences between these estimates and the ones used for the MTFP 2016-2019 June forecast:

- Personal tax is estimated at £358m for the full year in 2015, which is £1m lower than the forecast in the MTFP 2016-2019 and this has been assumed for future years.
- Corporate tax is £4m higher than the previous forecast and there appears to be no one-off factors influencing this so the additional £4m has been added to the base forecast for corporate tax.
- The estimated amount of bad debts in 2015 is £1.3m which is £1.7m less than assumed in the MTFP 2016-2019 forecast.

The combined impact of all these changes are that personal tax is £1m lower each year, corporate tax £4m higher and bad debts £1.7m lower in 2015 only see **Figure 43**.

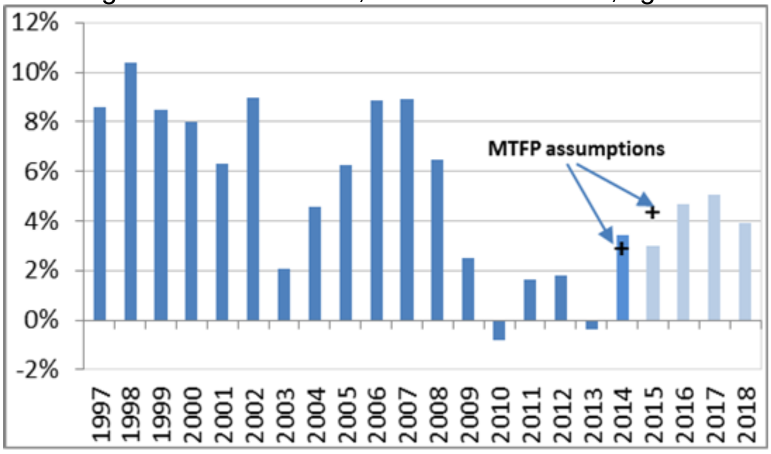
3. Latest information from ITIS/on corporate tax

The Taxes Office has been able to assess the latest information from the ITIS database to determine what it shows about trends in employment income – the key driver of personal tax. This has provided a latest estimate for 2014 Year of Assessment (YOA) and 2015 YOA.

Information for the 2014 YOA suggests that employment income grew at a slightly faster rate than assumed in the MTFP 2016-2019 forecast. While information for the 2015 YOA indicates that employment income in the first half of 2015 has grown at a lower rate than assumed in the MTFP 2016-2019 forecast and predicted by the modelling. There has been a tendency in recent years for employment income growth shown by ITIS in the first half of the year to be a slight underestimate for the year as a whole but the IFG has decided to adjust the forecast for employment income to include this latest information as an adjustment to the economic assumption from the FPP.

FIGURE [40] – Trends in employment income in nominal terms

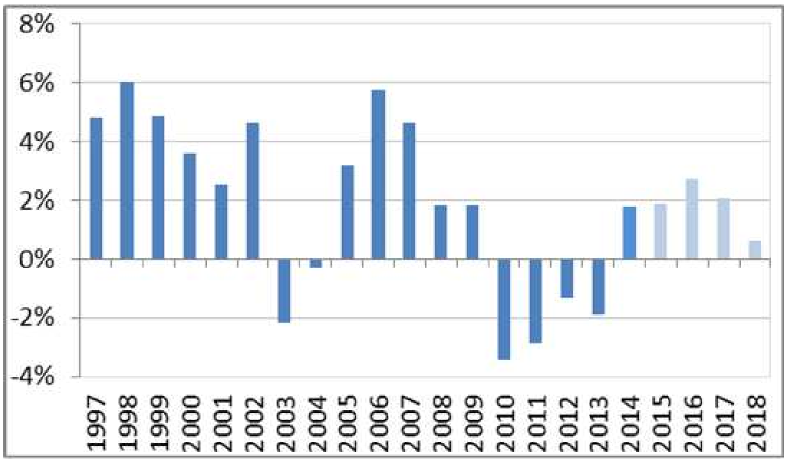
% change in nominal terms, dark bars outturns, light bars forecasts



The future growth in employment income is driven by inflation and real growth in key economic variables such as earnings and employment. **Figure 41** shows trends in employment income after inflation and that real terms growth is much lower. In both real and nominal terms the trends are that growth will be above that in recent years as a result of the improved outlook for the economy (particularly earnings and employment) but below that seen in previous periods of economic growth.

FIGURE [41] – Trends in employment income in real terms

% change in real terms, dark bars outturns, light bars forecasts



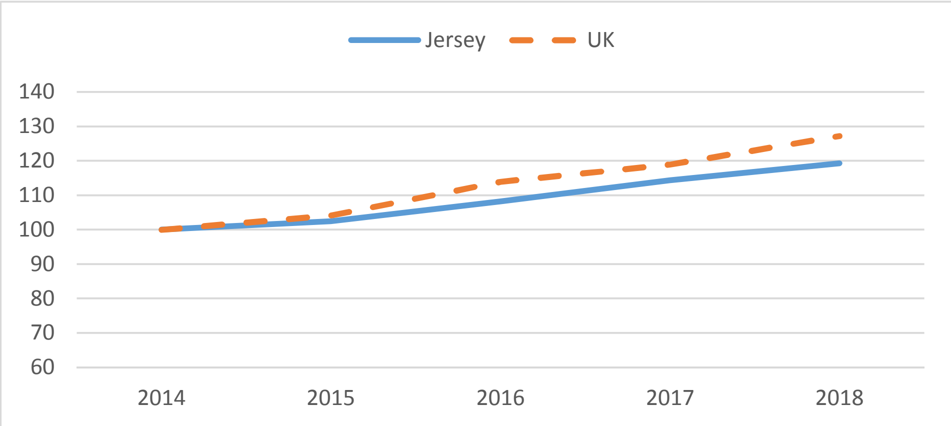
As set out in its previous forecast, the IFG continues to highlight the risks around future growth in employment income. The model used to forecast employment income has tended to overestimate growth in recent years but this has to be balanced against the tendency for the model to overestimate employment income growth when Jersey's economy is performing poorly and underestimate employment income growth in the upward phase of the economic cycle.

Although there is a risk that the model continues to overestimate actual employment income growth, as it has done since 2008, there is also the risk that the model starts to underestimate employment income growth as it would have tended to do before when Jersey's economy performed more strongly.

Employment income growth is a key driver of trends in personal income and the tax that comes from it. The profile going forward for personal tax growth is for it to increase as the economy continues to grow in real terms but the chart below shows that the updated forecast still has personal tax growing at a much slower rate than the OBR's forecast for UK personal tax.

FIGURE [42] – Forecast Trends in Personal Tax

Index 2014=100, nominal terms (Jersey YOA, UK financial years)



The latest information from the Taxes Office on corporate tax developments suggests that the previous downward adjustment of £5m from 2017 for changes in an individual corporate tax payers circumstances is an overestimate and also that there may be another slight reduction in tax from a corporate tax payer that will no longer operate in the island. The combined impact of these two adjustments is to add a net £2 million to the MTFP 2016-2019 corporate tax forecast for 2017 onwards.

Draft Budget 2016 proposed measures

The income tax forecast update does not include the impact of any measures to be proposed in the draft Budget 2016 by the Minister for Treasury and Resources. These will be separately presented in the income forecasts for the draft Budget 2016 Statement.

Combined changes to the tax forecasts

The overall combined impact of the changes in economic assumptions and in-year estimates from the Taxes Office are to make income tax revenue £5m higher in 2015, £3m lower in 2016 and unchanged in subsequent years, compared to the MTFP 2016-2019 forecasts. see **Figure 43**.

Risks

The IFG took care in its previous report for the MTFP 2016-2019 forecast to highlight the uncertainties and risks to the central forecast. These risks remain the same and balanced on the downside and are summarised below as uncertainty regarding:

- Changes in tax-payer behaviour as a result of the change to the taxation of 0% company profits only on distribution.
- The impact on the Jersey banking sector of UK banking sector reform.
- The combined impact of future changes in fiscal policy such as public sector reform and future capital expenditure.
- The impact on business decisions of the UK referendum on its future relationship with the EU.
- High level of uncertainty in general terms and in particular around prospects for the global economy given the situation in the Eurozone, China and the Emerging Countries and highlighted by the most recent IMF forecasts.
- Uncertainty around the impact of international-tax developments (such as the OECD's work on Base Erosion and Profits Shifting.)

The IFG continues to emphasise the need to include flexibility within future financial planning given the risks above and reflecting the range around the income tax forecast.

There are however, potential benefits which could offset these downside influences arising out of the general recovery of the economy supported by the jobs and growth policy.

FIGURE [43] – Combined impact of changes to the MTFP 2016-2019 income tax forecast

Budget Year	2015	2016	2017	2018	2019
Personal tax					
MTFP 2016-2019	359	375	395	417	434
New economic assumptions	0	-2	-1	-1	-1
Adj. for in year forecast from Taxes Office (TO)	-1	-1	-1	-1	-1
Adj. for 2015 ITIS half year information		-4	-4	-4	-4
Updated total personal	358	368	389	411	428
Corporate tax					
MTFP 2016-2019	82	85	82	85	88
New economic assumptions	0*	0	0	0	0
Adj. for in year forecast from TO	4	4	4	4	4
Adj. for tax payer developments**			2	2	2
Updated total company tax	86	89	88	91	94
Bad debts***	-1.3	-2	-2	-3	-3
Updated total income tax forecast	**443**	**455**	**475**	**499**	**519**
MTFP 2016-2019 forecast	438	458	475	499	519
Difference Provisional - MTFP	*5*	*-3*	*0*	*0*	*0*

* No adjustment has been made in 2015 for higher financial services profit growth in 2014 GVA

** New information regarding significant changes for individual corporate tax payers

*** Includes 2015 Taxes Office in-year estimate for 2015

FIGURE [44] – Comparison of economic assumptions from FPP Annual Report (September 2015) and MTFP 2016-2019 (June 2015)

Central scenario - September 2015

	2014	2015	2016	2017	Return to trend 2018	2019
Real GVA	5.6	2.0	1.8	1.5	0.0	0.0
RPI	1.6	1.1	2.0	3.0	3.3	3.3
RPIY	1.6	1.1	1.8	2.5	3.0	3.0
Nominal GVA	7.2	3.0	3.6	4.0	3.0	3.0
Company profits	11.2	2.1	3.0	3.7	3.0	3.0
Financial services profits	22.0	1.1	3.1	3.3	3.0	3.0
Compensation of employees(a)	4.1	3.8	4.0	4.3	3.0	3.0
Employment	1.5	2.0	0.5	0.5	0.0	0.0
Average earnings	2.6	1.8	3.0	4.0	3.0	3.0
Interest rates (%)	0.5	0.5	0.8	1.3	2.0	2.5
House prices	3.0	2.9	4.0	5.0	3.0	3.0

OUTTURNS

(a) Total employment costs

Central scenario - June 2015

	2014	2015	2016	2017	Return to trend 2018	2019
Real GVA	1.6	1.2	1.1	1.4	0.0	0.0
RPI	1.6	1.6	3.1	3.1	3.3	3.3
RPIY	1.6	1.8	2.6	2.6	3.0	3.0
Nominal GVA	3.2	3.0	3.7	4.0	3.0	3.0
Company profits	2.5	2.4	3.3	3.7	3.0	3.0
Financial services profits	1.8	1.1	3.1	3.3	3.0	3.0
Compensation of employees(a)	3.7	3.5	4.0	4.3	3.0	3.0
Employment	1.0	1.0	0.5	0.5	0.0	0.0
Average Earnings	2.6	2.5	3.0	4.0	3.0	3.0
Interest rates (%)	0.5	0.5	1.1	1.6	2.0	2.5
House prices	3.3	3.0	4.0	5.0	3.0	3.0

Difference

	2014	2015	2016	2017	Return to trend 2018	2019
Real GVA	4.0	0.8	0.7	0.1	0.0	0.0
RPI	0.0	-0.6	-1.1	-0.1	0.0	0.0
RPIY	0.0	-0.7	-0.8	-0.1	0.0	0.0
Nominal GVA	4.0	0.0	-0.1	0.0	0.0	0.0
Company profits	8.7	-0.3	-0.3	0.0	0.0	0.0
Financial services profits	20.2	0.0	0.0	0.0	0.0	0.0
Compensation of employees(a)	0.4	0.3	0.0	0.0	0.0	0.0
Employment	0.5	1.0	0.0	0.0	0.0	0.0
Average Earnings	0.0	-0.7	0.0	0.0	0.0	0.0
Interest rates (%)	0.0	0.0	-0.3	-0.3	0.0	0.0
House prices	-0.3	-0.1	-0.0	0.0	0.0	0.0

Figure 44a) - Note on differential between 2014 growth in corporate tax revenues from 10% companies and 2014 growth in financial services sector net profit

The results from the 2014 Survey of Financial Institutions were released by the Statistics Unit on 1 July2015(see: http://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20Financial%20Institutions%20Report%202014%2020150630%20SU.pdf). These results indicated that during 2014 the net profit of the financial services sector increased by £290m, representing 25% growth on the same figure for 2013. The main constituent part of this growth was a £262m uplift in the net profit reported by the banking sector (representing 28% growth on 2013).

Although the final corporate income tax figures for the 2014 year of assessment are not yet available – and will not be available until quarter two 2016 (companies are not required to submit their 2014 corporate income tax returns until 31 December 2015) – based on the information received to date it appears very likely that the total corporate income tax reported by financial services companies taxable at 10% will not increase by the same percentage.

On the basis that the final corporate income tax figures are not yet available, it is not possible to be certain of the reasons for the divergence between the growth in net profit reported in the 2014 Survey of Financial Institutions ("the Survey") and the early indications of the growth in corporate income tax for the 2014 year of assessment; however some likely factors are outlined below:

1. The Survey compiles data purely relating to the 2014 calendar year (i.e. it looks at the performance of the financial institutions in 2014 without consideration for what has happened in previous years); this differs from the tax position which does take account of previous performance (e.g. if a financial institution has been loss making previously it will have losses available to deduct from its 2014 net profits reducing its taxable profits and hence the corporate income tax it pays). This availability of losses to shelter profits in this way is likely to be the most significant factor in explaining the discrepancy between the growth in net profit and the early indications of the growth in corporate income tax.

2. The net profit figure compiled by the Statistics Unit is largely based on the accounting profits reported by financial institutions. When calculating its taxable profits a financial institution will make a number of adjustments (other than an adjustment for losses) to its accounting profits, these adjustments can result in the taxable profits of the financial institution being higher than, or lower than, the accounting profits. With the general move towards fair value accounting there is now a greater likelihood of a material discrepancy between accounting profits and taxable profits.

3. The Survey compiles data relating to the 2014 calendar year, therefore where financial institutions have an accounting year-end other than 31 December they make some form of pro-rata adjustment to estimate the net profit relating to the calendar year. For tax purposes the profit is recognised in the tax year in which the accounting year-end falls (i.e. if a financial institution has a year end of 31 March 2015, all of the taxable profits are recognised in the 2015 tax year irrespective of the fact that 9 months of that year actually fall within the 2014 calendar year). This mismatch may result in some of the growth in corporate income tax being deferred into the 2015 year of assessment.

4. The financial services sector covered by the Survey includes accountancy and legal

firms. Where these firms are structured as companies they are subject to tax at 0% because they do not fall within the definition of a “financial services company” for income tax purposes. However these firms are often structured as partnerships rather than companies. Where they are structured as partnerships the income tax is recorded as personal income tax, paid by the partners, rather corporate income tax and hence has no impact on the total corporate income tax recorded.

Taking account of the factors outlined above and based on the information received to date, it appears that the growth in corporate income tax reported by financial services companies taxable at 10% for 2014 will be somewhere between 5% and 10%, which is consistent with the levels of growth of financial services sector net profit reported by the Statistics Unit when applying a number of tax criteria. The actual growth in corporate income tax revenues for Year of Assessment 2014 will be confirmed in quarter two 2016.

Appendix 2 – IFG : GST and ISE Fee Forecast Update 2015-2019

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 which are entitled to claim ISE status and choose to do so.

GST on purchases on Island

Good and Services Tax (GST) is a broad based consumption tax which was introduced in 2008 and is collected by the Taxes Office. Initially introduced at 3% the GST rate was increased to 5% in 2011.

The Group considered as part of its draft MTFP 2016-2019 forecasts the forecast modelling of GST. The previous assumptions to increase GST forecasts by RPI have been replaced by assumptions reflecting information on general trends in GST relative to the overall economic situation.

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

The draft Budget 2016 forecast update has been prepared using the Group's assumptions from the MTFP 2016-2019 and therefore do not draw directly from the FPP's economic assumptions.

The revised 2015 forecast, reflecting the improved in-year position to June, shows a £1.4 million increase in 2015 compared to the forecast for the MTFP 2016-2019. The Group considered that a proportion of the increase is likely to be as a result of the impact of the Island Games and has therefore not proposed that future forecasts be increased at this time.

GST on imports

Import GST has increased gradually in recent years. Over the last 3 years it has increased by an average 6% per annum reflecting an increase in on-line sales. The MTFP 2016-2019 forecast was developed based on this trend growth. The 2015 in-year forecast has increased beyond the MTFP 2016-2019 forecast, but the Group is not at this stage recommending any revision to the forward forecasts.

ISE Fees

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

The 2014 outturn was £9.04 million in line with the November 2014 provisional forecast and the Budget 2015. The MTFP 2016-2019 forecast assumed £9 million of ISE fees per annum and the 2015 in-year forecast has increased slightly to £9.2 million but not sufficiently to suggest any revision to the forward forecasts.

Summary of Variations between draft MTFP 2016-2019 and draft Budget 2016 forecasts

The draft Budget 2016 forecast update has been prepared on the same basis as the draft MTFP 2016-2019 forecast and the only variations proposed are to forecasts for 2015 to reflect the improvement in the in-year forecasts.

The Group considers that at this stage it is too early to assume that the improvements will necessarily correlate to an improvement in the base going forward. However, the full review of the forecasts in March 2016 will enable an assessment of any improvements in 2015 based on final outturn figures rather than on the part year figures that are available at this time. This will enable a more complete analysis with the trends from previous years.

FIGURE [45] – Summary GST draft Budget 2016 forecasts 2015-2019 (September 2015)

Budget Year	Actual 2014 £'000	2015 £'000	Draft Budget 2016 Forecast Update 2016 £'000	2017 £'000	2018 £'000	2019 £'000
GST	67,903	70,688	70,647	72,060	72,637	73,218
Import GST	3,281	3,840	3,687	3,908	4,142	4,391
ISE Fees	9,042	9,229	9,000	9,000	9,000	9,000
Total GST	80,226	83,757	83,334	84,968	85,779	86,609
Annual Growth %		4.4%	-0.5%	2.0%	1.0%	1.0%
MTFP 2016-2019 forecast	80,226	81,740	83,334	84,968	85,779	86,609
Variation £'000	-	2,017	-	-	-	-

Forecast Range

With the latest forecast updates not varying from the MTFP 2016-2019, except in 2015, the forecast range is also 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 MTFP 2016-2019 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 are 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 46**.

FIGURE [46] – GST draft Budget 2016 forecast update range (September 2015)

Budget Year	Actual	Draft Budget 2016 Forecast Update				
	2014	2015	2016	2017	2018	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Higher	80,226	84,566	84,911	87,379	88,897	90,460
Central	80,226	83,757	83,334	84,968	85,779	86,609
Lower	80,226	82,994	81,818	82,652	82,800	82,953
Range £'000	-	1,572	3,093	4,727	6,097	7,507
Range %	0%	2%	4%	6%	7%	9%

Appendix 3 – IFG: Impôts Duty Forecast Update 2015-2019

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 improvement 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 evidence to suggest an increase in duty free consumption but this is actively policed by Customs.

The basis of the Impôts duty forecasts is to take the 2014 outturn and to apply past importation figures to forecast the future duty rates. Customs maintain records going back a number of years and on statistical advice, use a 10 year average of importation trends to forecast future levels.

Increases in Impôts duty rates

As part of the preparation of the draft MTFP 2016-2019 forecasts the Group discussed the appropriate uprating of Impôts duty rates and requested information from Customs on the impact of above and below RPI increases in duty on the following year's importation. The information showed that there was no real correlation and the Customs Director confirmed that this had been looked at previously with a similar outcome.

The Group therefore concluded that it was appropriate to assume that recent policies in annual Budgets would continue, particularly as updates to both the tobacco and alcohol and licensing strategies were not due ahead of the MTFP 2016-2019. Analysis of recent budgets showed that broadly RPI increases for tobacco and alcohol were common and that increases to fuel and other commodities were less likely.

The forecasts use the agreed rates for 2015 and assume an RPI increase for 2016 to 2019 for alcohol and tobacco only.

Draft Budget proposals for 2016

The Council of Ministers and Minister for Treasury and Resources are currently considering the proposed increases in duty for the Budget 2016.

The forecasts presented to IFG include only the RPI increases in alcohol and tobacco duty according to the general forecasting assumptions from the FPP.

As decisions are finalised for any additional increases in duty for 2016, ahead of the Budget 2016, these will be reflected separately in the forward forecasts.

FIGURE [47] – Draft Budget 2016 forecast update (pre-Budget proposals) impôts duties (September 2015)

Budget Year	Actual 2014 £'000	2015 £'000	Draft Budget 2016 Forecast Update 2016 £'000	2017 £'000	2018 £'000	2019 £'000
Impôts on Spirits	4,801	4,621	4,619	4,662	4,720	4,778
Impôts on Wine	7,615	7,610	7,839	8,154	8,508	8,877
Impôts on Cider	988	1,130	1,186	1,259	1,340	1,425
Impôts on Beer	5,285	5,375	5,372	5,423	5,489	5,557
Impôts on Tobacco	13,788	14,730	14,124	13,675	13,279	12,893
Impôts on Fuel	20,704	21,570	21,570	21,570	21,570	21,570
Impôts on Other Goods	161	145	145	145	145	145
Vehicle Emissions Duty	761	761	761	761	761	761
Total Impôts Duties	54,103	55,942	55,616	55,649	55,812	56,006
Annual Growth %		3.4%	-0.6%	0.1%	0.3%	0.3%
MTFP 2016-2019 forecast	54,103	55,323	55,367	55,444	55,615	55,820
Variation £'000	-	619	249	205	197	186

Variation from draft MTFP 2016-2019 to Budget 2016

The forecast update has been revised to reflect the in-year information for actuals for 2015 and also the variation in RPI assumptions from the FPP for September 2015. The impact of the revised forecast update is shown in **Figure 47** which shows a small increase in each of the years compared to the MTFP 2016-2019 forecasts.

Forecast range

The Group agreed as part of the draft MTFP 2016-2019 forecasts 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 48**.

FIGURE [48] – Impots forecast range for draft Budget 2016 (September 2015)

Budget Year	Actual 2014 £'000	Draft Budget 2016 Forecast Update 2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000
Higher	54,103	56,495	57,228	58,339	59,615	60,963
Central	54,103	55,942	55,616	55,649	55,812	56,006
Lower	54,103	55,366	54,014	53,045	52,217	51,432
Range £'000	-	1,129	3,214	5,294	7,398	9,531
Range %	0%	2%	6%	10%	13%	17%

Appendix 4 – IFG: Stamp Duty Forecast Update 2015-2019

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 and in addition the forecasts allow for a relatively fixed forecast of stamp duty on Obligations and Wills. The duty on property transactions has been particularly volatile over the last five years, falling from over £14 million in 2009 to £10.7 million in 2013, a fall of 25%, and then increasing to over £17 million in 2014, an increase of 64%.

The forecast for the MTFP 2016-2019 was based on a considerable analysis of the past years' data. This identified some key trends which informed the assumptions by the Group for the forward 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. The forward forecasts are then produced in two parts for these two sets of data.

The specific stamp duty economic assumptions for the draft Budget 2016, for house prices and housing market turnover, are unchanged from the draft MTFP 2016-2019 forecasts. However, the 2015 in-year forecasts have been adjusted to reflect the current in-year position but no change to the forward forecasts are proposed at this stage.

Stamp Duty on Share Transfer – Land Transactions 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 draft MTFP 2016-2019 forecasts were based on an adjusted 2014 outturn and the same economic assumptions have been applied as for general stamp duty. The 2015 in-year forecasts have been adjusted marginally to reflect the current in-year position but no change to the forward forecasts are proposed.

Probate duty

Probate duty is extremely difficult to forecast. It is the result of duty payable from individuals who die and are domiciled in Jersey, or where the individual is not so domiciled but have Jersey moveable property. Between 2009 and 2014 however, transactions have remained steady at around 2,000. Anomalies in income were seen in 2009 and 2012 due to one-off large transactions, but changes in the 2013 Budget have capped probate duty to £100,000 per estate as a competition measure to attract greater investment in the Island, so these anomalies will not be seen in future.

There are no economic assumptions applied to this forecast and a flat £2.5 million forecast is assumed based on the long term trend. There are minor changes to the 2015 in-year forecasts to reflect the current in-year position but no change to the forward forecasts are proposed.

Draft Budget 2016 Forecast update for 2015-2019 (September 2015)

The resulting draft Budget 2016 forecast update in **Figure 49** show a slight improvement in 2015 but those changes have not identified trends which at this stage suggest that the forward forecasts should be changed from those proposed in the MTFP forecasts for 2016-2019.

FIGURE [49] – Draft Budget 2016 forecast update for Stamp Duty (September 2015)

Budget Year	Actual 2014 £'000	Draft Budget 2016 Forecast Update 2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000
Stamp Duty	21,988	23,486	22,376	24,669	26,680	27,481
Probate	2,735	2,098	2,500	2,500	2,500	2,500
Stamp Duty on Share Transfer (LTT)	1,254	1,362	1,481	1,633	1,766	1,819
Total Stamp Duty	**25,977**	**26,946**	**26,357**	**28,802**	**30,946**	**31,800**
Annual Growth %		3.7%	-2.2%	9.3%	7.4%	2.8%
MTFP 2016-2019 forecast	25,977	26,890	26,357	28,802	30,946	31,800
Variation £'000	-	56	-	-	-	-

The 2014 actual and 2015 stamp duty in-year forecast reflect a high volume of >£2 million property transactions, as a result this skews the forecast profile of growth in stamp duty in the years to 2016. In 2017 to 2019 the annual growth in stamp duty, excluding probate duty, reflects the economic assumptions for the increase in market turnover and house prices for these years.

Forecast range

The Group has maintained the approach to providing a range around the Stamp Duty forecast which was agreed for the MTFP 2016-2019. This uses the variation around the economic assumptions on house prices. The impact on the central forecasts is shown in **Figure 50**.

FIGURE [50] – Stamp Duty draft forecast update range (September 2015)

Budget Year	Actual 2014 £'000	Draft Budget 2016 Forecast Update 2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000
Higher	25,977	27,133	27,760	31,146	34,382	36,295
Central	25,977	26,946	26,357	28,802	30,946	31,800
Lower	25,977	26,700	24,994	26,591	27,796	27,796
Range £'000	-	433	2,766	4,555	6,586	8,499
Range %	0%	2%	10%	16%	21%	27%

Appendix 5 – Other Income Forecast Update 2015-2019

Introduction

There are a number of other areas of States income for which forecasts are prepared, of which the majority of the income arises from agreed formula for 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.

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

- Island-wide rate,
- Income from Dividends and financial returns (now including Ports of Jersey)
- Income other than from Dividends and financial returns,
- Returns from Andium Homes and Housing Trusts

The forecasts of other States income were reviewed fully for the MTFP 2016-2019 and have been updated to reflect the updated economic assumptions and any further in-year information, as appropriate.

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.

There are small variations in the forecast income collected based on the collection rate, changes in numbers of households and variations in RPI to forecast. The past trends have shown that forecasts which simply incorporate RPI increases are sufficiently accurate. The forward forecast update for the 2016 Budget has reduced slightly since the MTFP 2016-2019 due to lower RPI assumptions in future years.

Income from Dividends and returns

The principal contributions to this area of income arise from the dividends paid by those utility and other companies in which the States has a shareholding interest:

- 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 i.e. Gigabit Jersey at Jersey

Telecom.

The current forecast update reflects the latest business models and compared to the forecasts prepared in May 2014 for the 2015 Budget, the forecast dividends for Jersey Telecom have reduced quite significantly. This is mainly due to the evolving business with consideration given to changes in market conditions, regulatory impacts, commercial impacts on working capital movements, capital expenditure and debt servicing requirements. The Gigabit capital project continues to impact dividend free cash flow forecasts in the early years of the forecast period.

One of the 2015 budget measures was to redeem shares in JNWWC but this is now unlikely to be needed in 2015 and as a result the dividend in 2015 will increase over the MTFP 2016-2019 forecast.

In addition to the regular dividends, it was agreed in the 2015 Budget that special dividends would be sought from Jersey Telecom and Jersey Post. The MTFP 2016-2019 forecasts excluded the Jersey Post special dividend because of issues with certain pension liabilities on the balance sheet, however these have been resolved and the special dividend of £2 million is included in the draft Budget 2016 forecast update.

In the Budget 2015, a fairly regular return was forecast from SoJDC based on the anticipated returns from the progress and completion of a number of developments or phases. The MTFP 2016-2019 forecast was updated for the latest programme of development and forecast returns are only provided in the years where particular developments are due to complete. This programme has not changed for the draft Budget 2016.

Proposed Return from Ports Incorporation

The strategic business plan for Ports Incorporation is unchanged from the forecasts included in the MTFP 2016-2019. The new strategic business plan, following Ports Incorporation, is expected to be complete in order to inform the next full revision of income forecasts in March 2016. The return from Ports of Jersey is now included in Other Income from Dividends and Returns.

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 and more volatile streams of income arise from:

- Investment returns from the Consolidated Fund
- Investment returns from the Currency Fund

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 MTFP 2016-2019 forecasts reflected reductions in returns on the Consolidated Fund balances as a result of the proposed change in allocation of capital monies and the reduced income forecasts compared to the Budget 2015. The Incorporation of Ports of Jersey has reduced the available Consolidated Fund balance following the transfer of the trading fund balances and with further reductions in the investment assumptions the income forecast update for Budget 2016 has reduced compared to the MTFP 2016-2019.

The revised investment return and interest rate forecast have contributed to smaller reductions in the income forecasts of the Currency Fund since the MTFP 2016-2019 forecast.

Other income non-dividends also include returns expected from Jersey Financial Services Commission and the Car Parks Trading Fund which have not changed from the MTFP 2016-2019 forecasts.

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. The new company 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 rate of transfer of tenants to the 90% of market rent over a period of years. Agreements are also being put in place with Housing Trusts to deliver a return tracking each Trust's proposed transition to the 90% market rent levels.

This income stream is intended to broadly offset the increases that would be required to the housing component of income support for those claimants in Andium or Housing Trust properties.

Since the initial proposals for the Andium return which were included in the May 2014 forecasts for Budget 2015 the forecasts of RPI have been quite significantly reduced and the initial 2014 return figures and formula for future returns have been set in the transfer agreement.

There is a small variation between the Budget 2016 forecast update and the MTFP 2016-2019 forecast due to changes in RPI assumptions.

Economic assumptions

The common economic assumptions published by the FPP in its Annual Report in September 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.

Other Income Forecast Update for 2015-2019

The resulting draft Budget 2016 forecast update is shown in **Figure 51** which shows that compared to the MTFP 2016-2019 forecasts there are fairly minor variations in each year of the forecasts.

FIGURE [51] – Draft Budget 2016 forecast update for other income

	Actual	Draft Budget 2016 Forecast Update				
	2014	2015	2016	2017	2018	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Island Wide Rate	11,896	12,031	12,248	12,554	12,930	13,318
Other Income - Dividends	8,283	13,260	11,527	8,871	15,034	9,801
Other Income - Non Dividends	18,236	10,846	9,698	10,939	12,337	12,176
Other Income - Returns from Andium and Housing trusts	13,581	27,506	27,821	28,459	29,352	30,350
Total Other Income	51,996	63,643	61,294	60,823	69,653	65,645
MTFP 2016-2019 forecast	51,996	62,635	62,772	61,277	67,955	63,847
Variation £'000	-	1,008	(1,478)	(454)	1,698	1,798

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 52**.

FIGURE [52] – Draft Budget 2016 forecast update for other income

Budget Year	Actual	Draft Budget 2016 Forecast Update				
	2014	2015	2016	2017	2018	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Higher	51,996	63,893	62,044	61,959	71,316	68,265
Central	51,996	63,643	61,294	60,823	69,653	65,645
Lower	51,996	63,443	58,791	57,736	65,903	61,119
Range £'000	-	450	3,253	4,223	5,412	7,145
Range %	0%	1%	5%	7%	8%	11%

Appendix 6 – Economic Assumptions (September 2015)

FPP central scenario

	2014	2015	2016	2017	Return to trend 2018	2019
Real GVA	5.6	2.0	1.8	1.5	0.0	0.0
RPI	1.6	1.1	2.0	3.0	3.3	3.3
RPIY	1.6	1.1	1.8	2.5	3.0	3.0
Nominal GVA	7.2	3.0	3.6	4.0	3.0	3.0
Company profits	11.2	2.1	3.0	3.7	3.0	3.0
Financial services profits	22.0	1.1	3.1	3.3	3.0	3.0
Compensation of employees(a)	4.1	3.8	4.0	4.3	3.0	3.0
Employment	1.5	2.0	0.5	0.5	0.0	0.0
Average earnings	2.6	1.8	3.0	4.0	3.0	3.0
Interest rates (%)	0.5	0.5	0.8	1.3	2.0	2.5
House prices	3.0	2.9	4.0	5.0	3.0	3.0

FPP central scenario - upper range

	2014	2015	2016	2017	Return to trend 2018	2019
Real GVA	6.6	3.5	3.3	3.0	1.5	1.5
RPI	1.6	2.6	3.5	4.5	4.8	4.8
RPIY	1.6	2.1	2.8	3.5	4.0	4.0
Nominal GVA	8.2	5.5	6.1	6.5	5.5	5.5
Company profits	12.0	3.5	4.5	5.1	4.0	4.0
Financial services profits	25.0	4.1	6.1	6.3	4.0	4.0
Compensation of employees(a)	5.7	7.4	7.1	8.1	6.6	6.6
Employment	3.0	3.5	2.0	2.0	1.5	1.5
Average Earnings	2.6	3.8	5.0	6.0	5.0	5.0
Interest rates (%)	0.5	1.2	1.5	2.0	2.7	3.2
House prices	3.0	5.9	7.0	8.0	6.0	6.0

FPP central scenario - lower range

	2014	2015	2016	2017	Return to trend 2018	2019
Real GVA	4.6	0.5	0.3	0.0	-1.5	-1.5
RPI	1.6	-0.5	0.5	1.5	1.8	1.8
RPIY	1.6	0.1	0.8	1.5	2.0	2.0
Nominal GVA	6.2	0.5	1.1	1.5	0.5	0.5
Company profits	9.9	0.7	1.7	2.3	1.5	1.5
Financial services profits	19.0	-1.9	0.1	0.3	1.5	1.5
Compensation of employees(a)	2.6	0.3	0.0	1.0	-0.5	-0.5
Employment	0.0	0.5	-1.0	-1.0	-1.5	-1.5
Average Earnings	2.6	-0.2	1.0	2.0	1.0	1.0
Interest rates (%)	0.5	0.5	0.5	0.6	1.3	1.8
House prices	3.0	-0.1	1.0	2.0	0.0	0.0

OUTTURNS

(a) Total employment costs