DRAFT
MEDIUM TERM FINANCIAL PLAN
2016-2019

Council of Ministers

I.J. Gorst	Senator	Chief Minister
A.J.H. Maclean	Senator	Treasury and Resources
L.J. Farnham	Senator	Economic Development
R.G. Bryans	Deputy	Education, Sport and Culture
Sir P.M. Bailhache	Senator	External Relations
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S.G. Luce	Deputy	Planning and Environment
S.J. Pinel	Deputy	Social Security
E.J. Noel	Deputy	Transport and Technical Services
P.F.C. Ozouf	Senator	Assistant Chief Minister
P.F. Routier M.B.E.	Senator	Assistant Chief Minister
J.D. Richardson	Chief Executive	
R.W. Bell	Treasurer of the States	

Proposition

Medium Term Financial Plan 2016-2019

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

to receive the draft Medium Term Financial Plan 2016-2019 and, in accordance with the provisions of Article 8 and 8A of the Public Finances (Jersey) Law 2005 –

(a) to approve –

(i) the intended total amount of States income for each of the financial years 2016 to 2019, as set out in Summary Table A and being the central forecast of the States income forecast range for 2016-2019 as shown in Figure 18,

(ii) the total amount of States net expenditure for each of the financial years 2016 to 2019, being the total net revenue expenditure and the total net capital allocations, as set out in Summary Table B

in order to deliver a balanced budget by 2019.

(b) to approve the following amounts (not exceeding in the aggregate the total amount set out in paragraph (a)(ii) above) –

(i) the appropriation of an amount to a revenue head of expenditure for each States funded body (other than the States trading operations) being the body's total revenue expenditure less its estimated income for the financial year 2016 as set out in Summary Table C,

(ii) the amount to be allocated for Contingency for the financial year 2016 as set out in Summary Table D,

(iii) the total amounts set out in Summary Table F that in a Budget for the financial years 2016 – 2019 may be appropriated to capital heads of expenditure, being an amount that is net of any proposed capital receipts, noting that the sum of up to £1 million of the 2016 allocation, up to £39 million of the 2017 allocation and up to £8,233,000 of the 2018 allocation will be subject to the States approval of the intended transfer of funds from the Strategic Reserve Fund detailed in paragraph (f), and the use of funding from the Criminal Offences Confiscation Fund subject to the requirements of the Proceeds of Crime (Jersey) Law 1999, and noting 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 office consolidation project and a future hospital provision.

(c) to approve the total estimated non-cash net revenue expenditure for depreciation for States funded bodies (other than the States trading operations) for the financial year 2016 as set out in Summary Table C ,

(d) to approve the following, as set out in Summary Table G, in respect of each States trading operation for the financial year 2016 –

(i) its estimated income;
(ii) its estimated expenditure;
(iii) its estimated minimum contribution to be made to the Consolidated Fund, if any.

(e) to approve, in respect of each States trading operation, the total cost of the capital projects that each is scheduled to start during the financial years 2016-2019 as set out in Summary Table H.

(f) to agree, in principle, that the use of the Strategic Reserve Fund income, over and above that required to maintain the real value of the Fund (namely, in accordance with their Act dated 23rd September 2014, its value at 31st December, 2012 uprated in line with increases in Jersey RPI(Y)), to be available to transfer to the Consolidated fund and to be allocated for the measures identified in Summary Table J and that withdrawals should be made from the consolidated fund in 2017 and 2019 to replenish the Strategic Reserve Fund and to request the Minister for Treasury and Resources to bring forward for approval the necessary report and proposition to enable the use of the aforesaid additional income of the Strategic Reserve Fund and the intended funds transfers.

COUNCIL OF MINISTERS

A separate Proposition to withdraw the Committee of Inquiry funding (£14m) and any other funding for "short-term" measures from the Strategic Reserve Fund will be lodged by the Minister for Treasury and Resources in time to be debated alongside the draft MTFP 2016-2019 in October, 2015.

A proposition to amend the formula for the States Grant to the Social Security Fund to cap the grant at 2015 levels for the period of this MTFP will be required from the Minister for Social Security to be debated alongside the draft MTFP 2016-2019 in October, 2015.

Legislation changes will be brought forward to allow the Health Insurance Fund to make a contribution to Health expenditure of £15 million in 2017 and £15 million in 2018, in advance of the full implementation of the proposed Health charge and proposals will be required from the Minister for Social Security to be debated alongside the draft MTFP Addition for 2017-2019 in September 2016. 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).

The Minister for Social Security will also need to bring forward legislative amendments to the Income Support (Jersey) Law 2007, the Christmas Bonus (Jersey) Law 2011 and the Social Security (Television Licence Benefit)(Jersey) Law 2006 in order to achieve savings of £10 million in the Social Security budget by 2019.

Contents

Page

REFERENCES

As an Addendum to the MTFP – Department Annex to the MTFP 2016-2019
As an Addendum to the MTFP – Fiscal Framework to be presented in advance of the MTFP debate
As an Addendum to the MTFP – IFG Detailed Income Tax Update (June 2015)
P27/2015 – Strategic Plan 2015
P27/2015 Add – Resources Statement to the Strategic Plan – Update of Public Finances
R133/2014 – Long Term Tax Policy
R136/2014 – Long Term Revenue Planning Review – Update – September 2014
P69/2012 Medium Term Financial Plan 2013-2015
FPP – Pre MTFP Report

1. Council of Ministers’ Foreword

Jersey is successful today because in the past it has planned for its future. This Medium Term Financial Plan continues in that tradition by creating a future governed by choice, not chance. The plan includes a clear strategy to balance budgets by 2019, as advised by the Fiscal Policy Panel. It focuses on the priorities agreed in the Strategic Plan: improving the lives of current and future generations by prioritising improvements in health, social services, education, and regenerating St Helier. It recognises the need to boost economic growth and diversification, essential for creating the jobs and income we need to pay for our public services.

This is a two stage plan, giving us time to ensure our reform programme is changing the way we deliver our services and that our savings proposals are making permanent reductions to base budgets. This is the first stage. It outlines total annual income and spending from 2016 - 2019 and departmental spending for 2016. The second stage will propose detailed departmental spending for 2017-2019, once we are satisfied that savings are being delivered. It will be published by the end of June 2016.

Making the right long term decisions is not easy. We need to prioritise health and social care as our society ages, support those with mental health issues more effectively, and help vulnerable children and families to reach their full potential. This plan will ensure that Jersey remains special. We are investing in education and developing the skills our children need to achieve fulfilling careers. We are improving our town, preserving our outstanding natural environment, and investing in our infrastructure.

The global downturn has had a longer and deeper impact than first anticipated, and while our income is still rising, it is rising at a slower rate than in the past. During the years of recession we invested in incentive and training schemes to help islanders into work and used more than £150 million from the Stabilisation Fund to support the economy, spending £29 million on capital projects.

We are transforming our government. We are simplifying processes and using technology to reduce bureaucracy and interact with people more efficiently. These changes will enable us to redirect money from current budgets to invest in our strategic priorities.

We will continue to support our economic recovery while global conditions remain fragile and we will invest in increasing productivity and economic growth. We will support new and established businesses, encourage innovation and inward investment. This will create rewarding jobs, increase living standards and raise the revenue we need to maintain high quality public services.

Senator I.J. Gorst

Chief Minister

2. Council of Ministers' Executive Summary

Our Plan

Jersey's government is determined to prioritise effectively and deliver efficiently for the whole community. We set our priorities in the Strategic Plan and we are now explaining how we will achieve them, highlighting the issues that we believe are most important to Islanders and providing long term solutions to the challenges we face.

Jersey provides a good quality of life, a unique environment, and our economy is improving. Our public finances are based on a strong balance sheet and a tradition of fiscal prudence. We have not been immune to the impact of the global financial crisis and have had to invest to support our economy through this challenging period.

Taking into account our latest income forecasts and our planned programme of investment in priority areas, we need to find a total of £145 million per year by 2019. This plan outlines how we will make these investments yet still balance our budgets by 2019.

Once we are satisfied that these savings are being delivered, we will introduce a new funding mechanism for health and social services, raising up to £35 million per year. We are also looking at user pays charges for services like liquid and solid waste, as is done elsewhere, raising up to £10 million to pay for services, improve environmental outcomes and manage demand.

We are also setting aside up to £20 million for targeted measures that can demonstrate they will improve economic growth, productivity, skills and job opportunities. The allocation of this funding to specific projects will be controlled by a strict governance structure.

Like previous generations, we have the foresight to change, adapt and pursue our goals. We are taking positive action to make our Island better. This is what this Medium Term Financial Plan does – focusing on the things we need to achieve, responding positively, confidently and directly to the challenges we face.

The headline figures

- We are living longer and we all want to remain healthy throughout our lives. That is why we are allocating up to **£40 million** of additional annual funding for health and social services by 2019.

- Jersey needs to remain globally competitive with a highly skilled workforce. We are focusing on raising educational standards to ensure every child reaches their full potential. We are preparing for demographic changes by extending some of our schools, and ensuring our young people are ready for the jobs that a modern island economy can deliver. To achieve this, we are providing up to **£9 million** of additional annual funding for education by 2019.

- The fallout from the global economic crisis means that we have seen income fall short of expenditure over the last few years. We had a **£50 million** shortfall forecast in the 2015 Budget, which was managed in 2015 by various short term measures. This gap will be closed permanently by 2019.

- In order to invest in our priority areas and improve our infrastructure we are bringing forward a package of measures to identify up to **£145 million** by 2019: we are finding staff and non-staff savings of **£90 million**; holding benefit spending at 2015 levels to save **£10 million**; raising up to **£35 million** per year through a new health charge; and introducing user pays charges for liquid and solid waste to raise **£10 million** per year. In this way, we will balance our budgets by 2019. We are starting the process of delivering savings and efficiencies before introducing any new charges.

- The transformation of the public sector must be planned and effectively implemented. To balance our budget over the life of this plan, and to ease the impact on Islanders, we will use some of our reserves to cover short term spending requirements. We will withdraw **£70 million** from the Strategic Reserve to fund items like our capital spending programme. We will withdraw **£30 million** from the Health Insurance Fund for extra investment in health over the next four years. The taxpayer contribution made to the Social Security Fund to support the pension costs of lower earners will be fixed at £65 million in each year of the plan, saving a total of **£20 million**.

- We will re-allocate this money to increase spending in our priority areas and to fund other one-off items, including **£20 million** for redundancies and **£7 million** each year for e-Government to reduce costs and reform the public sector; **£168 million** for capital projects, including more than **£55 million** for Les Quennevais, Grainville and St Mary's Schools; and up **£20 million** to invest in projects that promote productivity, skills, jobs and economic growth.

Improving health and well-being

By 2035, there will be seventy per cent more people over the age of 65 than there are today, and twice as many people over 85. We need to fund expensive new health technology, drugs and treatments, and we want Islanders to remain healthy throughout their lives.

This means we need to spend more on treatments, more on helping people to stay well, and more on the early years of life which are so important to lifelong health and well-being. We want to invest more in mental health services, as we recognise that a person's quality of life is about more than their physical health.

We intend to allocate up to £40 million of additional annual funding for health and social services by 2019, including £19 million to meet increased demand, more than £3 million on early interventions to support vulnerable families, £2 million more for mental health services. We will also invest an extra £4 million each year to maintain Health and Social Services' properties. This spending will be supported by the introduction of a new health charge.

We are continuing to develop options for our hospital, and these proposals will be brought forward separately to the Assembly.

Improving education

We want to ensure all our children reach their full potential. Over the last ten years, Jersey's academic performance has plateaued, so we are giving head teachers the autonomy to lead and we are building strong links between schools and businesses, so young people can leave school ready for the world of employment. We will cater for a growing number of pupils; invest more in IT; raise standards by supporting pupils whose attainment may be low; and invest in nursery education.

We intend to allocate up to £9 million of additional annual funding for education by 2019, including £3 million per year for IT education and for students who need extra support. We are also continuing to invest in our school infrastructure, more than £55 million for Les Quennevais, Grainville, and St Mary's Schools.

Economic growth

The OECD believes global growth will strengthen in 2015 and 2016, although significant risks remain, not least in the Eurozone. The outlook for Jersey is also increasingly positive. Businesses are reporting increased confidence, earnings are rising faster than inflation, employment is growing at record levels across most sectors and financial services growth is outstripping expectations. We do, however, have more to do. As the Fiscal Policy Panel has said:

> *'The challenges of the ageing society and the risks about the future trend rates of economic growth require action now to develop a clear strategy for raising productivity (in both the public and private sectors) and competitiveness in the Jersey economy in the medium-term.'*

We will support established and emerging industries, like the tech sector, continue to implement our financial services framework, support "Visit Jersey" and "Digital Jersey", and develop a new rural economy strategy.

We will work to ensure that legislation supports our reputation as a financial services jurisdiction with high standards, while striking the right balance between encouraging economic growth and furthering our social objectives. We will pursue inward investment opportunities and promote Jersey overseas; and we will support competition and innovation.

The economic improvements we are seeing follow a period when Jersey households experienced a squeeze in incomes as inflation outstripped earnings and unemployment rose. These trends are reversing, and as they do so, it is important to ensure the benefits are felt by all sections of our community.

This means continuing to ensure that work pays and that Islanders have the skills they need to succeed in the workplace – so we will maintain the £14 million annual investment introduced in 2012 to help people into work. We will also achieve economic growth and diversification by supporting migration that delivers the greatest economic and social value. This means working smarter not longer, investing in technology, capital and skills. This means businesses making more profit and workers being paid more as a result.

To support this, up to £20 million will be set aside for targeted measures that can demonstrate they will improve economic growth, productivity, skills and job opportunities.

Improving St Helier

St Helier is the engine of our economy, where most people work and most businesses operate. We intend to improve our town environment to ensure it is a great place to live, work, and spend time.

We will build much needed homes for Islanders, continuing to invest the £250 million bond issued to refurbish and build social housing. We will ensure that new developments help us to regenerate our town.

We will also fulfil our other strategic plan commitments, including providing more public space, improving transport around town and working closely with the Parish to improve services. This will include paying rates on States properties to provide them with more revenue.

Sustainable public finances

This Plan includes a package of savings totalling £90 million per year by 2019. Achieving this will require:

- simpler processes
- investment in e-Government
- restructured and merged departments
- removal of unnecessary regulations
- focus on priority services
- providing services more efficiently and cost effectively
- maintaining pay restraint – pay is being frozen in 2015 and will need to be constrained over the life of the plan to enable investment elsewhere

To support this, £20 million has been allocated to pay for staff redundancies and severance during the period of the plan. Our emphasis is on voluntary programmes, treating staff with respect and consideration, and using the 6% staff turnover rate to manage vacancies and reduce headcount naturally as staff leave. We have also allocated £7 million each year to support restructuring, enabling us to invest in e-Government and to complete the reform and modernisation of the public sector.

A further £10 million reduction in spending will be achieved by 2019 by making changes to benefits to hold the overall benefit spend at its 2015 level. These changes are aimed at promoting financial independence and ensuring public money is well targeted. Their effects on individuals will be minimised by spreading their impact across larger groups of claimants. For instance:

- most elements of income support will be held at 2015 levels during 2016, although increases are planned for rental and childcare
- phased changes will see lone parents treated in the same way as other adults in income support households
- the treatment of pension and maintenance income will be brought into line with earned income and all other income will be fully included in Income Support calculations
- jobseekers under the age of 25 will be treated in the same way as students of the same age
- more income support one-off payments will be made as loans

To help to meet the demographic pressures of an ageing population, we are also proposing changes to two benefits predominantly claimed by older people.

The Christmas bonus is paid to all local pensioners and is not means tested or targeted. From 2016 this bonus will no longer be paid.

The free television licence scheme for some pensioners aged 75+ will close to new entrants. People who already receive a free TV licence will continue to be eligible.

Some of the money saved through these measures will be used to improve the existing 65+ Health Scheme. This scheme is well targeted. It is aimed at pensioners whose income is too low for them to pay tax, and it helps older people to stay healthy and remain independent for longer, by contributing to dental, optical and chiropody costs.

We are confident that the Medium Term Financial Plan is flexible enough to deal with unforeseen events:

- we have improved the income forecasting process by formally constituting a broad based Income Forecasting Group (IFG).
- we will re-establish the working balance in the Consolidated Fund, our current account, at £20 million, providing more flexibility if circumstances change
- we have allocated contingency funds of £7 million each year

Investing in our assets

We will continue to invest in public infrastructure and are planning to spend £168 million on capital projects in the next four years. The largest expenditure over the period will be:

- Transport and Technical Services have £43 million allocated for infrastructure and will use most of this on a new sewage works
- More than £55 million for Les Quennevais, Grainville and St Mary's Schools;
- £21 million to replace essential IT systems
- £8 million for the next phase of the prison improvement (when sufficient resources are available in the Criminal Offences Confiscation Fund)

We will also bring forward plans for the future hospital; consolidation of government offices to reduce running costs; and the redevelopment of Fort Regent.

Conclusion

Jersey is facing similar issues to many advanced economies – an ageing society, intensifying global competition, rapid technological and environmental change. We must continue to plan, adapt and react if we are to remain successful.

This government is prioritising available resources for the benefit of all Islanders and this plan explains how we will achieve our strategic goals of prioritising health, education, economic growth and St Helier while delivering balanced budgets by 2019. It highlights the issues that we believe are most important to Islanders and provides workable solutions to the challenges we face.

This Plan strikes a balance. We are investing our available resources, including some of our reserves, in important priority areas and we are supporting the economic recovery, raising productivity and modernising our public sector.

We are clear about the choices we face. We have built solid foundations and by coming together as a community that recognises its challenges, we can continue to build a future that is as successful as our past.

Senator A.J.H. Maclean

Minister for Treasury and Resources

3. Strategic and Resource Planning

Our Purpose

The Council of Ministers, as the leaders of government of Jersey, serves and represents the best interests of the Island and its citizens. In order to do this, it must:

- Provide strong, fair and trusted leadership for the Island and its people.
- Deliver positive, sustainable economic, social and environmental outcomes for Jersey.
- Ensure effective, efficient and sustainable management and use of public funds.
- Ensure the provision of modern and highly valued services for the public.

Our Strategic Goals

The Council has a collective responsibility to deliver better lives for Islanders and a better future for Jersey by working to deliver a range of social, environmental and economic Strategic Goals:

SG1	Maintain a safe and just society.
SG2	Promote health and social wellbeing for the whole community, providing prompt services for all and protecting the interests of the frail and the vulnerable.
SG3	Help people in Jersey achieve and maintain financial independence and safeguard the most vulnerable in our community.
SG4	Champion a proper supply of housing of all types, promote affordability, improve housing standards and build strong communities.
SG5	Provide a first class education service, supporting the development of skills, creativity and lifelong learning.
SG6	Increase the performance of the local economy, encourage economic diversification and improve job opportunities for local people.
SG7	Promote sporting, leisure and cultural activities that enrich Islanders' lives.
SG8	Promote Jersey's positive international identity.
SG9	Protect and enhance the Island's natural and built environment.
SG10	Provide attractive and well maintained public spaces, protect the environment from the impact of waste products and develop public transport, road and cycle networks that meet the needs of the community.
SG11	Look after Jersey's finances and assets, ensuring responsible use of public funds.

Government's performance in delivering against these Strategic Goals helps determine quality of life in Jersey. The community therefore expects the Council of Ministers to ensure the provision of quality services and infrastructure in support of the Goals.

The Strategic Plan process

Each new Council publishes a Strategic Plan for its term of office which –

- identifies the Council's key priorities for its term of office, focusing on the key areas where significant change will make the biggest difference to Jersey's future;
- sets the strategic direction for detailed delivery plans.

This process requires the Council to review Jersey's progress against the Strategic Goals and identify where priority focus is required in response to key pressures or opportunities. The 2015 Strategic Plan identified five Priorities where the Council believes such focus is required –

- Sustainable Public Finances
- Improve Health and Wellbeing
- Improve Education
- Optimise Economic Growth
- Improve St Helier

Prioritisation does not automatically mean additional funding. In some areas, targeted growth has been agreed to invest in new initiatives or respond to increasing demand but prioritisation is also about transforming the way we develop services, processes - and even strategy. Focusing people on what is expected helps create the incentive to innovate, collaborate and find new ways of working with existing resources.

The Medium Term Financial Plan process

This Medium Term Financial Plan (MTFP) sets out the States' overall tax and spending envelope for the next four years and departmental expenditure limits for 2016. This is the first stage of the current MTFP proposals with an MTFP Addition to be presented in June 2016 which will propose the detail of department spending limits for 2017-2019.

In developing the MTFP, the Council has taken decisive action to place Jersey on a path to fiscal balance and address any structural deficit by 2019 in line with the 'Sustainable Public Finances' priority. This has required difficult decisions to balance funding for the services and infrastructure that underpin government's broader Strategic Goals with the investment required to progress its key Priorities.

Additional funding for existing services or new growth amounts to nearly £22 million for 2016. This investment has been achieved whilst containing departmental revenue expenditure to an increase of just 1.6% compared to 2015, by challenging existing expenditure in the context of the strategic priorities.

The Medium Term Financial Plan is split into two parts:

- The formal lodged report providing the background to the financial and economic position, the revenue and capital expenditure proposals and details of the measures that are proposed to maintain a balance on the Consolidated Fund, proposals to actively manage the balance sheet over the next four years and deliver balanced budget by 2019.
    - In this MTFP , the proposals will be presented in two stages with the total States income targets and expenditure limits, together with the detailed allocations for 2016 proposed in this report for debate in October 2015; and
    - An MTFP Addition will be presented by the end of June 2016, which will propose the detailed allocations for 2017-2019 within the total expenditure limits agreed.

- A detailed Annex which provides summary information for each department, describing the department's purpose and responsibilities and the major change initiatives planned in 2016 to support the Council's Priorities and government's broader Strategic Goals. The Annex also provides detailed financial information at a department level to support the proposals in the formal report, including:
  - detail of how the proposed department expenditure limits will be allocated to services for 2016;
  - a summary service analysis for the department for 2016, including manpower levels;
  - a Statement of Comprehensive Net Expenditure for each department for 2016; and
  - a reconciliation of the changes in expenditure allocations since 2015.

Strategic Planning and Population Policy

Like many other jurisdictions, Jersey is facing demographic challenges in the years ahead. More people are reaching retirement age, people are living longer.

In 2014, there were more pensioners living in Jersey than ever before and the total number of deaths in the Island was the lowest since 1952. This is something to celebrate, but we must also plan and prepare. The population projections produced by the Statistics Unit highlight that:

- We could have as many as 28,000 people aged over 65 by 2035, compared to 14,000 in 2010;
- We will also see the number of people aged over 85 increase from 2,000 to 5,000.

This will cost us more. This is why the size of our workforce is so important. Currently, for each person in Jersey receiving a pension, there are about four working age people paying contributions to fund that pension. With net nil migration, there would only be two working age people for each pensioner by 2035. This is because as we age, our workforce is also shrinking.

Figure 1: Jersey population under different net migration scenarios (nearest 1000):[1]

	Aged 0-15		Age 16-64		Age 65+		Total	
	2010	2035	2010	2035	2010	2035	2010	2035
Nil	16,000	**15,000**	67,000	**59,000**	14,000	**28,000**	97,000	**102,000**
325	16,000	**17,000**	67,000	**66,000**	14,000	**28,000**	97,000	**111,000**
500	16,000	**18,000**	67,000	**69,000**	14,000	**28,000**	97,000	**116,000**

These projections show that if we have net nil migration, we will also have over 7,000 fewer workers by 2035, which would equate to £400 million of economic value. This is not sustainable, leaving us unable to maintain our standard of living or services, possibly leaving Jersey as a place where employers cannot recruit, where young people seek opportunities elsewhere. This has happened in other places.

Jersey must resolutely respond to this challenge by taking action to maintain an adequate, appropriately skilled workforce. In doing this, we cannot do as other places have done and encourage high levels of net migration to fund our ageing society. In Jersey, this would require net inward migration averaging 3,000 people a year to maintain a dependency ratio – the ratio of workers to pensioners – at the current levels. This is unacceptable to the Council of Ministers and most Islanders.

So, while inward migration must have a part to play in ensuring we rise to the challenges, this is only part of a coherent package of policy measures to deliver a sustainable future.

[1] P.10/2014, Interim Population Policy, page 10

This is why the Strategic Plan 2015-18 prioritised sustainable public finances, improving health and well-being, improving education, optimising economic growth, and improving St Helier.[2] For example, it contains priorities designed to:

- Improve outcomes for Islanders - investing in early intervention to avoid future costs, whether that be supporting vulnerable families to improve the outcomes of children in later life, or helping people lead healthier lifestyles;
- Generate greater efficiency and effectiveness in our public sector, reducing our costs and enabling us to re-prioritise spending to support our ageing society;
- Deliver more income - supporting productivity improvements, increasing participation in the workforce, investing in education and skills that businesses need, so that we generate more economic output with the resources we already have to fund services;
- Improve the town of St Helier – ensuring our town is a better place to work, live and visit, enabling us to preserve and protect our countryside for everyone's enjoyment.

Collectively, these Priorities promote the most efficient use of Jersey's resources and support a more sustainable future. The Medium Term Financial Plan supports these strategic priorities.
At the same time, we need to acknowledge that net inward migration must form part of the solution to the challenges we face.

Our economy is increasing sophisticated, operating in a globalised and complex world driven by technological and regulatory change. In this world, all our needs cannot be sourced locally.

Employers must be able to access staff with the skills, market knowledge and experience they require if we are to stimulate growth and create job opportunities for established Islanders, including children leaving education.
We also need to be realistic about the extent to which government can exercise control over the size of our population and migration. We cannot control who is born, who dies, or whether established Islanders leave Jersey, or return to Jersey in later life, often with a family.

What we can do is to identify different future population scenarios, understand their potential impact on services and infrastructure, and plan for our future.

We can then use our legislation to limit the availability of work and to manage migration in support of these plans. Most people who move to Jersey do so in order to work, with over 90% of all new migrants working.

We have had in place a planning assumption for net migration of +150 households per year, equating to net migration of +325 people per year. We pursued this level of migration for a number of years. It was most recently affirmed in the Interim Population Policy for 2014 – 2015 in April 2014. This outlined that the Control of Housing and Work (Jersey) Law 2012 should be used to support this planning assumption, setting a direction consistent with a stable working age population in the future, and granting permissions for workers who deliver the greatest economic and social contribution to Jersey.

In the last six years, the Island's population has increased by an estimated 5,400 people. Of this number, about 70% (3,830) was due to natural growth or net migration in line with the planning assumption of +150/+325.

In practise, demographic change over the last six years has meant that Jersey's population has reached its current level of 100,800 about 12 months ahead of modelling projections based on net migration of +350 a year.[3] Within

[2] States of Jersey Strategic Plan 2015-18, pages 20-21

the timescale of the MTFP 2016-19, this faster rate of increase has no significant implications for services, infrastructure or funding. It does, however, mean that the capacity of services and infrastructure to accommodate long term growth in Jersey's population is being eroded faster than intended.

As the same time, sensitivity to demographic change depends on a range of factors, not just population size - consumer behaviour and technology all have a significant bearing on demand. Water consumption provides a practical example: In the last six years, the Island's population increased by approximately 6%, but water consumption actually reduced. The widespread introduction of metering and improvements to the distribution network absorbed the impact of rising population. In the longer term, more costly solutions to ensure an adequate water supply will become more pressing, but the point remains that demand management can be effective, and this needs to be considered alongside population issues to provide a sustainable, planned future.

An important aspect of sustainability is the need to avoid taking decisions that focus just on the short-term. Transforming health and education, regenerating St Helier and improving productivity in our economy are long term changes whose impact cannot be neatly aligned to the political election cycle. We need to set a long term, shared vision of what we want Jersey to be like in the future and how different policy interventions will support these ambitions. Then we can properly monitor progress over time. That is why the Council has committed to the development of a new, rolling, long term plan which will set a planning horizon 15-20 years ahead. The new planning process will provide for better insight into the impact of demographic change, informed appraisal of migration planning assumptions and proper evaluation of the long term progress in key areas such as education and skills, health, economic participation, productivity, urban living and quality of life.

[3] Jersey Population Projections 2013 Release, States Statistics Unit, September 2013

4. Resource Principles and Fiscal Framework

Sustainable Public Finances

The States agreed to make sustainable public finances a priority as part of the Strategic Plan in April 2015. Simply put, if the finances of this Island do not continue to be sustainable, then it will not be possible to fund the other strategic priorities.

The ambition of the Strategic Plan is to place Jersey on a sound path to structural fiscal balance and aim to balance States income and current expenditure (including depreciation) over the economic cycle. The Council of Ministers aim to achieve this by 2019, in line with the advice of the Fiscal Policy Panel (FPP).

Resource Principles for Spending and Taxation

The Medium Term Financial Plan has been developed in line with the Resource and Taxation Principles reviewed and agreed as part of the Strategic Plan (April 2015). The Medium Term Financial Plan aligns resources to priorities, maintains core services and meets government's statutory responsibilities. It will be supported by a new Fiscal Framework which will set out a clear and transparent decision making process. It will assist in making fiscal decisions that support the Island's economic objectives as set out in the Strategic Plan and underpins medium-term fiscal sustainability.

The Resource Principles agreed in the Strategic Plan are:

Spending
- Be prudent, taking account of the uncertain economic and financial outlook and build flexibility into future plans.
- Identify and implement all possible savings and efficiencies.
- Challenge existing expenditure in the context of strategic objectives.
- Optimise service delivery, to improve service delivery and value for money.
- No additional spend unless matched by savings or income.
- Support the economy in line with advice from the Fiscal Policy Panel.
- Undertake a comprehensive programme of zero-based budget reviews including a consideration of whether there is an obligation to provide the service.
- Maintain balanced budgets over the economic cycle.
- Actively manage our assets by maximising investment returns within agreed levels of risk.
- Plan expenditure on capital and infrastructure over the longer-term and consider carefully the appropriate sources of funding for other projects, including borrowing.

Taxation
- Taxation must be necessary, justifiable and sustainable.
- Taxes should be low, broad, simple and fair.
- Everyone should make an appropriate contribution to the cost of providing services, while those on the lowest incomes are protected.
- Taxes must be internationally competitive.
- Taxation should support economic, environmental and social policy.
- We shall develop a new Fiscal Policy framework and look at ways to promote financial stability.

Jersey's Fiscal Framework for MTFP 2016-19 and beyond

In advance of the debate on the Medium Term Financial Plan, the Minister for Treasury and Resources will publish a paper which follows up the report 'Updating Jersey's Fiscal Framework' published as R.102/2014, building on its recommendations and setting out the framework that will cover decisions taken over the course of the Medium Term Financial Plan 2016-19 and beyond.

It will build on the experience in Jersey in recent years, draws on international best practice and sets out a clear and transparent decision making process. It will assist in making fiscal decisions that support the Island's economic objectives as set out in the Strategic Plan and underpins medium-term fiscal sustainability.

The fiscal framework is a key pillar of Jersey's macroeconomic framework but it is critical that wider policy also focuses on improving productivity and competitiveness. The supply side of the economy is essential for aligning short-term objectives (e.g. the need for discretionary policy to support the economy) and longer-term fiscal objectives (e.g. medium-term sustainability of public finances) when interest rates cannot be used as a macroeconomic policy instrument.

The key components of the fiscal framework are summarised below and will be set out in more detail in the paper published before the debate. Experience internationally with setting and maintaining fiscal rules has been mixed and for these reasons the framework will use fiscal guidelines that are overseen by the FPP rather than strict fiscal rules.

Fiscal guidelines

1. Aim to balance the States' current budget (which excludes capital expenditure but includes depreciation) over the economic cycle.
2. The Social Security Funds (including the Health Insurance and Long-term Care Funds) should be kept on sustainable medium-term footing through Government Actuary Department (GAD) reviews and well planned policy changes.
3. Monitor the States' net asset position over the economic cycle and relative to size of the economy.
4. The FPP will advise on progress in keeping to the above guidelines through their normal reporting structure and with continued focus on medium-term sustainability.

There are a number of other rules effectively in place as a result of the Public Finances Law that limit the amount the States can lend or borrow it is not suggested they are changed or removed from the law at this stage. However, they should be kept under review to make sure they do not constrain fiscal policy decisions that are in keeping with the fiscal guidelines and FPP advice.

Rules for the key funds

The rules for the key funds (set out below) will remain as already agreed by the States, although the operation of the funds will need to be consistent with the new fiscal guidelines.

a) The Strategic Reserve
b) The Stabilisation Fund
c) The Housing Development Fund
d) Consolidated Fund

The Fiscal Policy Panel

The role and responsibilities of the FPP are now on a statutory basis in the Public Finances Law and the FPP's Annual Report will remain the cornerstone of fiscal framework. With the formation of the new Income Forecasting Group (IFG) the FPP have agreed to endorse the economic assumptions used for financial forecasts which will help improve the transparency and credibility of that part of the forecasting process.

The Annual and Medium-Term budgetary framework

Jersey has made significant steps forward in establishing its medium-term planning framework in recent years. Building on these positive developments the new framework follows the FPP's advice (similar recommendations have been made by the Comptroller and Auditor General (C&AG) and Corporate Services Scrutiny Panel) that MTFP and Budget Reports will include new information that can help inform decision making.

Further development

Fiscal frameworks should evolve over time and learn from experience and best practice elsewhere. An integral part of the previous framework and this one is that it is kept under review and that there is a continuous process of improvement. However, any changes to the framework should be explicit and transparent and in context of the existing framework and its future evolution.

5. Development of the Medium Term Financial Plan

The First Medium Term Financial Plan 2013-2015

The Medium Term Financial Planning framework, whereby overall States income targets and maximum annual spending limits are set for a period of years, equivalent to the term of a Council of Ministers, was established by Amendments to the Public Finances (Jersey) Law, the 'Finance Law', in 2011.

The overarching objective of the process was to provide greater control of States spending, funding certainty for departments over a set period of time (with the setting of minimum departmental spending limits) whilst still retaining sufficient flexibility to manage emerging pressures and changes in priorities within overall spending limits through the annual growth allocation and the allocation of an annual central contingency supported by annual end-year flexibility for departments.

The first Medium Term Financial Plan enabled total expenditure to be controlled to the limits proposed in 2012. The difficulties experienced within the medium term planning framework resulted from significant reductions in income forecasts and insufficient flexibility being retained within the plan to adapt to the extent of these changes. The significant reduction of income forecasts and available funding seen from 2012-2015 has not been a familiar trend in Jersey, except where the reduction in income was planned over a period of time as part of the move to the 0/10 corporate tax strategy and where we anticipated the initial phase of the global financial crisis, resulting in the increase in GST from 3% to 5%.

Improvements to the Medium Term Financial Plan

The variations in income and economic forecasts over the period of the first Medium Term Financial Plan has emphasised the need to provide sufficient flexibility within the income and expenditure forecasts over the four year period of this Plan to accommodate such changes. The Council of Ministers is proposing contingency plans within the range of income forecasts provided by the Income Forecasting Group.

The draft proposals for the presentation of Medium Term Financial Plan 2016-2019 seek to address the recommendations and comments of the Fiscal Policy Panel (FPP), Corporate Services Scrutiny Panel (CSSP) and the Comptroller and Auditor General (C&AG) in various reports.

<u>Flexibility and Contingency Plans</u>

The MTFP includes a number of proposals at **Section 13** to provide a contingency against variations in income and the Council of Ministers will continue to identify further opportunities in advance of the presentation of an MTFP Addition for 2017-2019 by the end of June 2016 and in annual Budgets over the course of the MTFP.

The presentation of the expenditure proposals in two stages provides more time for detailed plans to be developed for the period 2017-2019 and these will be brought forward in the MTFP Addition. The Council of Ministers is only proposing that one year's growth be allocated in 2016 and that future growth be dependent on the achievement of income levels and the delivery of the required savings and funding measures.

The Council of Ministers is maintaining central contingency allocations to provide for the areas of expenditure which are most volatile (income support and other benefits) and also for unforeseen and unavoidable funding issues to provide time for departments to reallocate existing budgets to accommodate them.

Contingency plans also need to be considered for variations which result in an improvement in the States financial position. In the short-term this would involve reducing the drawdown from the Strategic Reserve, considering any re-phasing of savings and in the longer-term any surpluses that arise should be used to replenish the Stabilisation Fund. However, by agreeing total expenditure limits for all four years of the MTFP any improvements in States income cannot be spent without amending the MTFP, this remains an important constraint.

Rolling Approval and Rolling Forecasts

The new Income Forecasting Group (IFG) has been established on a formal basis with a clear timetable for the preparation of income forecasts and which will always provide a four-year rolling forecast. The IFG reports will be published and summarised in each annual Budget or MTFP.

The forecasts in the MTFP Addition and each annual Budget will include income and expenditure forecasts on a rolling four year basis. The expenditure and income levels will only be approved for the period of the current MTFP but this more detailed information will provide a clear framework and basis from which future year's proposals can be developed.

Central Growth Allocation

The Council of Ministers is proposing that the growth funding for 2016 is included in department's cash limits but that future years growth funding is held centrally. This is in line with the Corporate Services Scrutiny Panel's recommendations and the intention is that similar proposals will be brought forward in the MTFP Addition proposing central growth allocations for 2018 and 2019 to be agreed in the annual Budgets.

Capital Allocations Process

The Treasury, in consultation with the Law Draftsman, have been reviewing the options for changing the capital allocations process. The Treasury will work with departments and Scrutiny and will finalise any proposals for change for consideration by the States in preparation for the MTFP Addition 2017-2019.

The Council of Ministers has established an annual capital allocation of up to £35 million from the Consolidated Fund which will be allocated to projects in each annual Budget. The additional proposals for other projects reflect the need to identify other sources of funding for the more significant capital investment.

The MTFP provides for only the total capital expenditure limits to be approved for each of the four years and requires the allocations to projects in annual Budgets to be adjusted to reflect the financial position or any capacity issues. The Treasury has been working with departments to ensure that approved projects can be delivered more effectively and will continue to work with the construction industry to consider the impact of the different capital programmes on local construction capacity.

Adjusted fiscal position

To gain a better understanding of the scale of the economic impact of the proposals over the life of the MTFP it is possible to adjust the States operating balance to take account of what will actually be spent on capital projects in a particular year rather than what is allocated and what the impact will be from the balance on other States funds such as Social Security and the Health Insurance Fund (HIF).

This information is included in this report to be in keeping with FPP advice and the fiscal framework **(see Section 6)** and the detailed analysis at **Appendix 8.**

Presentation of the Medium Term Financial Plan 2016-2019

The Council of Ministers is conscious that there still remains uncertainty in the economic outlook for the Island and income forecasts for 2016–2019 and, therefore, cannot commit to additional funding for service pressures, the uprating of benefits or additional funding for priority services beyond 2016 until detailed plans for savings and other measures to balance the budget have been established.

The Council of Ministers is therefore only proposing detailed department revenue spending limits for 2016. However, it is setting total expenditure limits for each of the years 2017-2019 such that the budget is balanced by 2019.

Public Finances (Jersey) Law Amendment

The Minister for Treasury and Resources consulted with the Council of Ministers and Scrutiny and has proposed changes to the Finance Law which have been agreed by the States (P42/2015 – June 2015) and will afford the Council, and the States, time as well as flexibility to consider how the current financial challenges should be addressed.

The Minister for Treasury and Resources also acknowledged the intention of the Amendment from the Corporate Services Scrutiny Panel and the States has agreed proposals to accelerate the timescales proposed by the Panel to allow all the required MTFP proposals for 2017-2019 to be brought forward by the end of June 2016. This will be in the form of an **MTFP Addition for 2017-2019.**

The Council of Ministers is also considering whether further legislative amendments are required in due course to improve the current arrangements for the allocation of funding to capital projects, in particular other capital projects which will require alternative sources of funding. If such amendments are to be proposed they will be brought forward for debate before the MTFP Addition is proposed in June 2016.

As a result of the agreed changes, in this draft MTFP for 2016-2019 the Council of Ministers is proposing:

- total States income targets for each year 2016 - 2019;
- total maximum expenditure allocation limits for each year 2016 - 2019;
- total capital expenditure allocation limits for each year 2016 - 2019;
- minimum department spending limits and central contingencies for <u>2016 only</u>; and
- proposals for States Trading Operations for 2016 only.

The Council of Ministers is also presenting a MTFP Departmental Annex which will provide the detail of departments' purpose, responsibilities and detail of the spending proposals for 2016.

There will be no change to the 2016 Budget report, to be lodged in October 2015, which will recommend to the States:

- tax and funding proposals for 2016; and
- individual capital projects for 2016.

The MTFP Addition for 2017-2019, to be lodged by the end of June 2016, will propose:

- minimum department spending limits for 2017-2019;
- central growth and central contingencies for 2017-2019,
- proposals for States Trading Operations for 2017-2019.

Alongside the MTFP Addition the Council of Ministers will also present a further MTFP Department Annex providing the details of each department's spending proposals that have been developed for 2017 to 2019.

Other considerations

The purpose of the Council of Ministers is to serve and represent the best interests of the Island and its citizens. It is not only responsible for setting strategic direction for the Island, but also for the organisation – the public service - which takes a leading role in the delivery of these goals. Risk management is integral to these responsibilities.

Figure2 sets out the main types of risk that the States of Jersey must address. The examples shown cover risks to the public and wider Island interests and as well as those inherent in running a large and complex organisation such as the public sector. All four types of risk are closely connected and must be taken in to account in the Council's strategic and resource planning.

Figure 2 – Types of Risk

Strategic Risks

The Strategic Plan 2015-18 sets out the broad range of economic, social and environmental Strategic Goals which the Council of Ministers, as Jersey's government, is expected to deliver.

Strategic risks are the threats that could materially affect Jersey's ability to achieve these goals. In many cases, strategic risks emanate from external factors such as global economic pressures, the rise of new technologies and climate change. International treaties and conventions can also impact on a small, independent jurisdiction like Jersey. Closer to home, issues such as demographic change and the health profile of our population could have profound implications for Jersey's future.

Strategic risks pose difficult and complex challenges but also present real opportunities. In an increasingly competitive world, places that can demonstrate that they have effective measures in place to address key strategic risks are more likely to succeed.

Management of strategic risk therefore plays a fundamental part in our strategic planning process. In developing the Strategic Plan 2015-18, the Council of Ministers considered key strategic risks and their potential impact on the Island. The Plan explains how the five priorities for this Council's term of office were chosen in response to these key pressures and opportunities.

Hazard Risks

The Council of Ministers has a responsibility to consider emergencies that might affect the Island, assess their likelihood and put in place appropriate measures to prevent, mitigate, respond to or recover from such events. These risks are managed through the Community Risk Register which helps inform strategic, operational and financial planning.

Financial Risks

Financial risks relate to the effective, efficient and sustainable management and use of public funds. The Council of Ministers has a responsibility to –

- develop and implement fiscal policies to support its plans and provide the infrastructure and services citizens need; and
- maintain effective systems to ensure, efficiency, resilience, good internal controls and compliance within the public sector.

A key measure proposed in Strategic Plan 2015-18 to improve management of risk at a fiscal policy level is the development of a new Fiscal Policy Framework. This will ensure that fiscal policy development draws upon independent advice from Jersey's Fiscal Policy Panel and takes into account risks to the sustainability of public finances.

The Public Finances (Jersey) Law 2005 provides for the proper financial management of resources and robust governance arrangements to manage financial risk within the public sector.

Revenue Streams

The largest single component of States income is income tax revenue. The new Income Forecasting Group (IFG) has been established to agree and provide four year rolling income forecasts as advice for the Treasurer of the States. The Terms of Reference for this group, which can be found in **Appendix 7**, explains that this group is responsible for providing forecasts on States income from taxation and duty and reviewing Social Security contributions.

These forecasts are based on historical data and are modelled using base data and economic assumptions that have been endorsed by the FPP. These assumptions provide the ranges of higher, lower and central outturns for all the different types of States income, not just taxation and duty, along with some other factors to provide an illustrative range within which the central forecast sits. The forecast range provides an indication of the likely risk in the income forecasts and can be used to establish a degree of flexibility within the forward plans.

The risk is that the assumptions do not correctly reflect the actual for the outturn, for example, interest rates continue to be held at an all-time low for longer and whilst some of that risk is expressed in the range of forecasts it is also important to recognise these adjustments when they arise.

The IFG produces an absolute minimum of two reports each year, no later than March and no later than September. These dates ensure that sufficient review and comparisons are made.

Contingency Planning

If the forecasts for income from taxation and other States income are not reflected in the outturn position action on contingency plans may be needed.

As part of this MTFP a working balance on the Consolidated Fund has been reinstated. A balance of approximately £20 million allows for some outturn shortfalls to be managed without needing to take immediate action in the current year that you would not otherwise take because of the Public Finances Law requirement.

Article 9(3) of the Public Finances (Jersey) Law 2005 requires the Council of Ministers to lodge a proposition to amend the Medium Term Financial Plan if, at any time, it appears that amounts paid into or from the Consolidated Fund at the end of any financial year will differ from the approved MTFP and therefore would result in a deficit.
In addition to the working balance, Growth is to be held centrally for the period of this MTFP and will only to be transferred to individual departments once sufficient comfort can be achieved around States income and savings and also that departments can demonstrate the need.

Scenario Planning

The process of scenario planning usually begins with a long discussion about how the participants think that big shifts in society, economics, politics and technology might affect a particular issue. From this the aim is to draw up a list of priorities, including things that will have the most impact on the issue under discussion and those whose outcome is the most uncertain. These priorities then form the basis for sketching out future scenarios.

A good example of how this methodology is used in the States of Jersey is around the economic assumptions from the FPP. The range of assumptions will inform the MTFP planning in terms of the levels of risk in states income and the scale of flexibility that may need to be considered and provided for over the four year period.

Future improvements to modelling will include the consideration of further scenarios.

Financial Management

Robust financial management is critical to the success of this MTFP and the States of Jersey's ability to deliver quality public services whilst achieving value for money from public expenditure.

With the level of savings required over the period of this plan and the continued pressure on our fiscal position, departments will need even stronger systems and processes to manage spending reductions still to be implemented.

The format of this MTFP demonstrates the spending plan through setting States limits for each of the years with the overall limit allocated to departments for 2016. In the MTFP Addition in June 2016 the overall limits for all the future years will also be allocated to departments once the detail of how savings will be achieved have been worked up.

Asset Management

The States of Jersey has historically neglected to invest in its assets, particularly buildings. This was a key driver to making Jersey Property Holdings responsible for the whole estate enabling appropriate plans to be put in force for property.

All departments are required to develop an asset management strategy, which should be appropriate to the nature and scale of the department's assets and operations. That strategy provides guidance to managers and a clear framework in which decisions can be made.

Departments will have identified requirements for the monitoring, maintenance, replacement and disposal of assets including integrated maintenance, investment and disposal plans and will take a whole life cycle approach that commences with the identification of the need for an asset, considers initial capital requirements and ongoing operational cost and terminates with the decommissioning of the asset or any liabilities thereafter.

Investment Management

The majority of States investment holdings are invested via the Common Investment Fund (CIF), facilitating improved risk management, greater diversification across asset classes and investment managers as well as reducing costs through economies of scale.

The relatively small proportion of investment held outside the CIF includes Currency Fund infrastructure investments and part of the Social Security Reserve Fund portfolio which is managed passively by Legal and General.

Investment managers are rated by the States of Jersey's investment advisor Aon Hewitt who then advise us of any managers that have been put on watch or have been downgraded. The Treasury Advisory Panel (TAP) is then responsible for taking the advice from Aon Hewitt and deciding whether to recommend the removal of a manager or allow them to adjust and recover the rate.

The TAP membership includes an independent chair and the Treasurer of the States who is required to advise the Minister for Treasury & Resource on investment matters. The introduction of any new asset classes, strategy weightings for individual Funds and appointment of Investment Managers comes through this review process and the advice is recorded and presented to the Minister.

With return comes risk. In the last three years the States of Jersey has enjoyed substantial returns from its investments through positive market conditions and manager performance, the balance of return versus certainty is a different fund by fund and our advisors provide us with the necessary insight into future likelihoods.

Operational Risks

Operational risks relate to the capacity, capability and effectiveness of government departments in turning government strategy into action. The Council has a responsibility to ensure that:

- cross-cutting risks to the operational effectiveness of the public sector are managed; and
- operational risk is embedded into departmental planning processes.

Many governments are coming to terms with the risk that traditional service delivery models for public services cannot be sustained. The Council is seeking to mitigate this risk in the Strategic Plan 2015-18 through its commitment to a comprehensive Public Sector Reform programme. Delivery of key work streams such as e-Government, workforce modernisation and service redesign will ensure that the States of Jersey can deliver more productive and sustainable public services with tighter resources.

Each department maintains its own risk register to provide assurance that operational risks to the delivery of its Strategic Goals programme are being managed.

This departmental approach is necessary in an organisation providing services as varied as hospital operating theatres, schools and sewerage treatment works but there is also need for corporate management of risks that cut across departmental boundaries. The increasing role of partner organisations such as Digital Jersey, Visit Jersey and Andium Homes in the delivery of services previously managed by the States of Jersey also adds an important new dimension to risk management.

Way Forward

The States of Jersey has effective systems in place to manage different types of risk at both strategy and delivery levels. The challenge is to ensure that these processes are properly embedded into government's strategic planning and policy development processes.

The Strategic Plan 2015-18 commits to the development of a new long term plan for Jersey. Some of the key benefits of the new strategic planning process include the introduction of an improved performance framework and sustainability assessment tools. Such features will add to our understanding and management of risk. Work is already underway to review corporate risk management across the public sector. This will be aligned with the development of the new long term plan to further strengthen the integration of risk management into the strategic planning process.

6. Economic Background and Outlook

Economic and fiscal outlook

Global economy

In their June Economic Outlook the OECD believe that global growth will "strengthen in the course of 2015 and 2016, but will remain modest relative to the pre-crisis period". This improvement will be assisted by very supportive monetary policy, a slower pace of fiscal consolidation, financial repair and lower oil prices. Investment, however, has yet to recover.

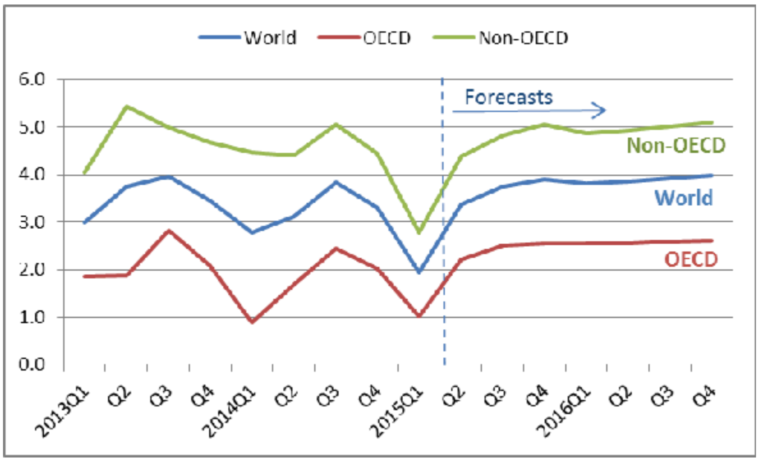
According to the OECD the appreciation of the US dollar against most currencies since mid-2014 is shifting global demand more toward Europe, Japan and some emerging market economies. Although growth in emerging markets is slowing due to specific factors in China, Brazil and Russia.

After a weak start to 2015 growth in OECD and non-OECD countries is expected to pick up in the remainder of 2015. In 2016 growth is projected to strengthen slightly in the OECD and more strongly in the non-OECD area. A key factor is that growth in the US is expected to recover after turning slightly negative in early 2015 as a result of relaxed monetary conditions, less drag from fiscal policy, lower energy prices and improving household finances. However, the pick-up will be tempered by the strong dollar and falling investment in the energy sector. In the euro zone and Japan activity will be supported by lower oil prices, weaker currencies and monetary policy conditions.

The OECD highlighted a number of extraordinary risks to this outlook, including financial turmoil in emerging markets, a sharp slowdown in China and an "unfavourable resolution of Greece's situation". With Greece failing to make a repayment to the IMF at the end of June and therefore falling into arrears with the IMF the situation continues to deteriorate. The European Central Bank has refused additional liquidity for the Greek banking system and despite the imposition of capital controls Greek banks remain under severe stress. The outcome is still uncertain and even more so for the wider implications for the Eurozone and global economies. However, the likelihood that it will culminate in a more significant drag on the global economy than the OECED anticipated in June is much higher.

Figure 3: World economic growth

quarter-on-quarter % changes at annual rates



Source: OECD Economic Outlook 2015/1

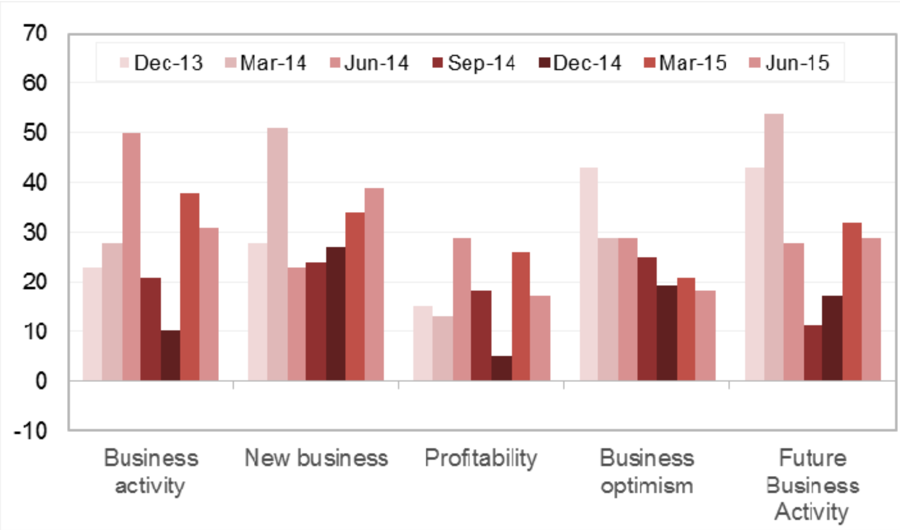
Jersey Economy

The most recent data on the performance of the Jersey economy continues to show positive developments. The Business Tendency Survey (BTS) for 2015Q2 showed that the headline all sector business activity remains close to the highest level since the survey was introduced in September 2009. Overall for all sectors nine of the ten indicators were largely unchanged after the significant improvements in the previous survey.

Figure 4 shows that in the finance sector conditions appear to have improved in the first two quarters of 2015 after indications of a slight slowdown in the last quarter of 2014. Overall in the finance sector eight of the ten indicators were positive and finance businesses expect both profits and employment to increase this year..

Figure 4: Finance business tendency results

% balance of respondents



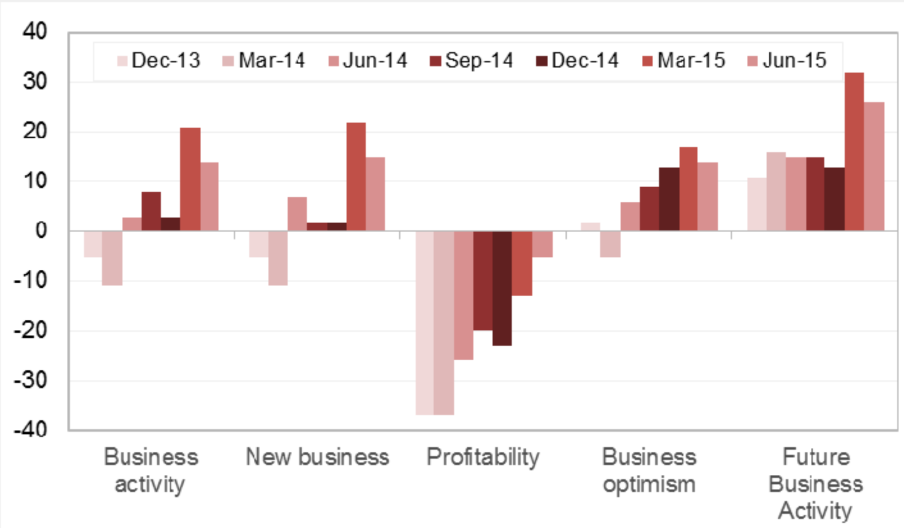
Source: States of Jersey Statistics Unit

The positive sentiments in the qualitative surveys are now translating into firm improvements in key economic variables. The 2014 Survey of Financial Institutions published on the 1 July shows a much larger increase in financial services profits than was expected with net profit for banking 28% higher, for 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. Initial indications are that this strong profit growth has not lead to significantly higher corporate tax receipts in 2014 although the implications for future tax receipts will be assessed alongside other economic developments ahead of the next update of the financial forecasts by the Income Forecasting Group (IFG).

These positive developments in financial services are being reflected in the non-finance sector BTS results. Eight of the ten indicators for the non-finance sector as a whole were relatively unchanged after significant improvements in the previous quarter. Within the non-finance sector the construction sector was generally more negative in the second quarter but nine of the ten indicators have shown increases since late 2013.In the wholesale and retail sector three indicators improved compared with the previous quarter although two declined and five were essentially unchanged.

Figure 5: Non-finance business tendency results

% balance of respondents



Source: States of Jersey Statistics Unit

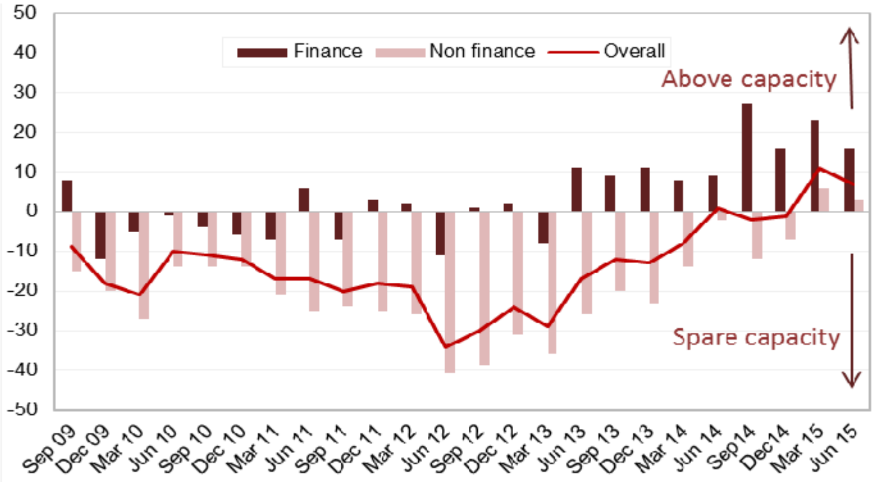
An important indicator going forward will be what the Business Tendency Survey shows about the extent to which businesses in Jersey are working above and below capacity. The FPP indicated in their Pre-MTFP Report that spare capacity in the Jersey economy is expected to be used up between 2017 and 2019 but that the assessment is subject to great uncertainty.

Figure 6 shows that the BTS indicator has moved positive in the finance and non-finance sectors in the first two quarters of 2015 suggesting 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).

As the BTS has only been in existence since the onset of the financial crisis this indicator does need careful consideration alongside other indicators. To fully assess how capacity utilisation evolves over the life of the MTFP it will be necessary to consider 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. The FPP will cover such issues as it updates its Pre-MTFP advice in its annual report this year and beyond.

Figure 6: Capacity utilisation

% balance of respondents above/below capacity

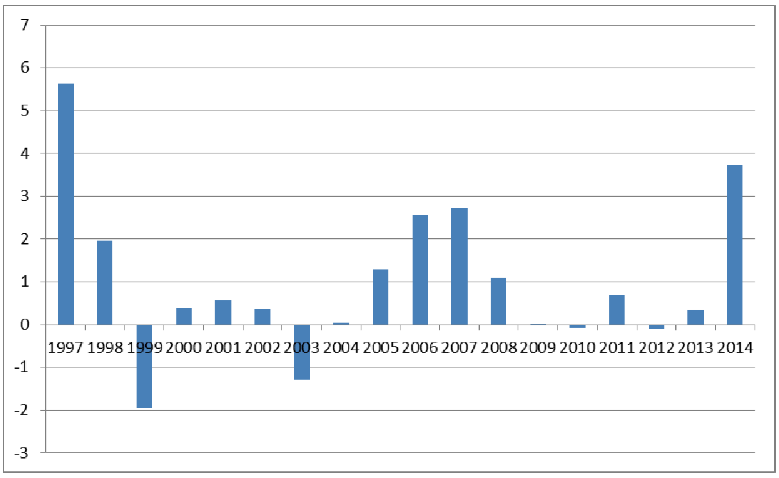


Source: States of Jersey Statistics Unit

Although official Statistics Unit GVA estimates are only available until 2013, there are consistent messages from other economic data available that the economy could have returned to growth in 2014. Firstly, not only are there 140 less Actively Seeking Work in May than in the same month in 2014 but employment has continued to grow in 2014. **Figure 7** shows that in December 2014 total employment was 1,980 or 3.7% higher than a year earlier. Most private sectors reported increases with employment up 400 in the finance sector, 360 in wholesale and retail and 310 in construction.

Figure 7: Employment trends in Jersey

% change in total employment in December each year compared to a year ago

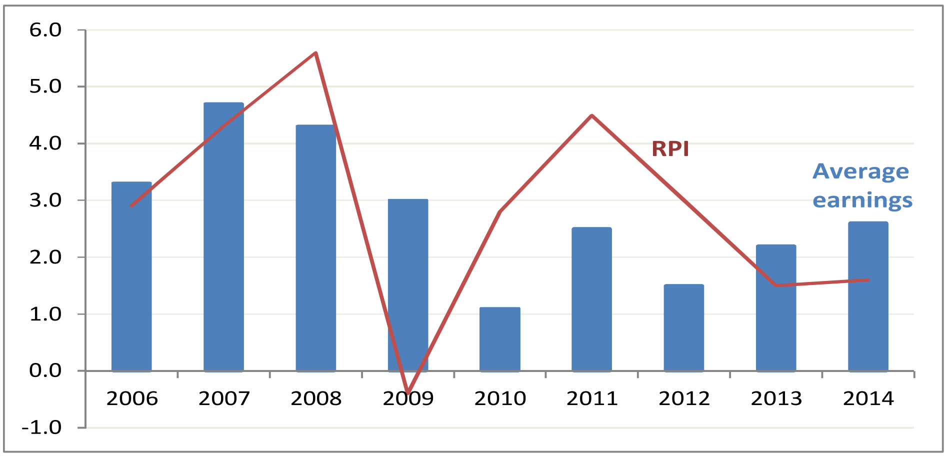


Source: States of Jersey Statistics Unit

Like many other economies in the aftermath of the global financial crisis Jersey households experienced a squeeze in incomes as unemployment rose and earnings growth tended to be lower than inflation. In Jersey now both of these trends are in reverse and indicating a more positive economic situation generally. **Figure 8** shows that average earnings in Jersey exceeded inflation in 2013 and 2014 after the reverse being the case for four of the previous five years. Taken together with the trends in average earnings this means a large proportion of GVA appears to have grown in real terms in 2014.

Figure 8: Earnings growth and inflation

% change in average earnings and retail prices index



Source: States of Jersey Statistics Unit

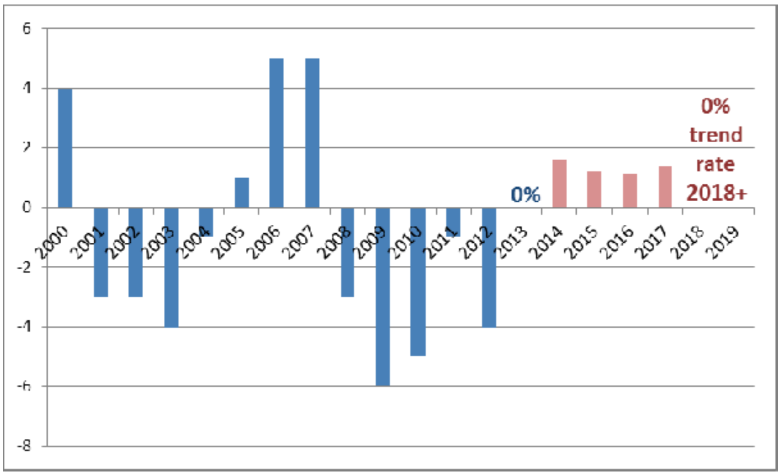
Drawing on all the trends within the local and global economies the FPP expect that the economy has returned to growth in 2014 and that moderate growth will continue until 2018 when the economy is likely to return to capacity. However, they also point out that:

…….. there is no evidence to suggest that the trend rate of growth in Jersey will be significantly positive. Therefore, future fiscal trends should be tested against a trend rate of real economic growth of 0% a year.

On the basis of this advice the financial forecasts underpinning the MTFP have been derived from the economic growth assumptions that are highlighted **in Figure 9.**

Figure 9: GVA trends

% change in real GVA, actual and FPP assumptions



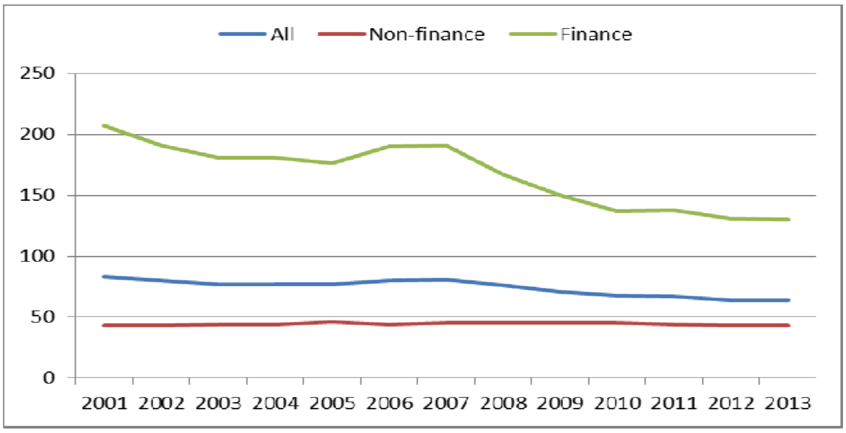
Source: Fiscal Policy Panel

It is worth noting that the strong growth in financial services profits reported in the Survey of Financial Institutions is much higher than suggested by any of the indicators available to the FPP at the time they advised on the economic assumptions. Such strong growth in a significant component of GVA (roughly 20% of the total), everything else being the same, not only gives greater confidence that the economy returned to growth in 2014 but also that growth was significantly higher than the FPP anticipated.

The FPP also highlighted concerns about Jersey's productivity performance in recent years and that looking ahead any increase in productivity would be a considerable improvement on previous performance. The latest data on productivity performance (as measured by GVA/fte) shows that productivity was broadly flat in the economy as whole in 2013. In addition, the trend is clear that over recent economic cycles there has been no productivity growth and potentially a slight decline in productivity over the most recent part of the economic cycle. This has been a combination of falling financial services productivity and relatively flat productivity in the non-finance sectors.

Figure 10: Productivity growth in Jersey

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



Source: States of Jersey Statistics Unit

The FPP highlighted that such productivity trends when combined with the fiscal implications of the ageing society will risk pushing Jersey's public finances back out of structural balance in the long-term. In particular the FPP advised in their 2015 Pre-MTFP Report that:

> *The States should act now and develop a clear strategy for raising productivity (in both the public and private sectors) and competitiveness in the Jersey economy. Ongoing improvements in these areas will help to manage the fiscal consequences of an ageing society and make it more likely that Jersey's economy will grow in the future.*

As well as investing in health, education and infrastructure as set out in his MTFP, the Strategic Plan sets out how we will try and rectify this productivity performance and optimise economic growth by in particular:

- Promoting jobs and growth in the technology sector, with a particular focus on Fintech.
- Delivering and further enhance the existing Financial Services Policy Framework
- Promoting higher productivity in all economic strategies, including the new Tourism, Retail and Rural Economy Strategies
- Developing a new and challenging Enterprise Strategy, a new Innovation Strategy and attract more inward investment
- Reviewing and upgrading the existing Skills Strategy
- Developing a new Competition Framework and reviewing opportunities to promote competition
- Identifying and addressing barriers to work for key groups
- Adopting environmental management principles to help improve productivity and efficiency and attract environmental businesses in line with our economic growth objectives.

Jersey's fiscal position

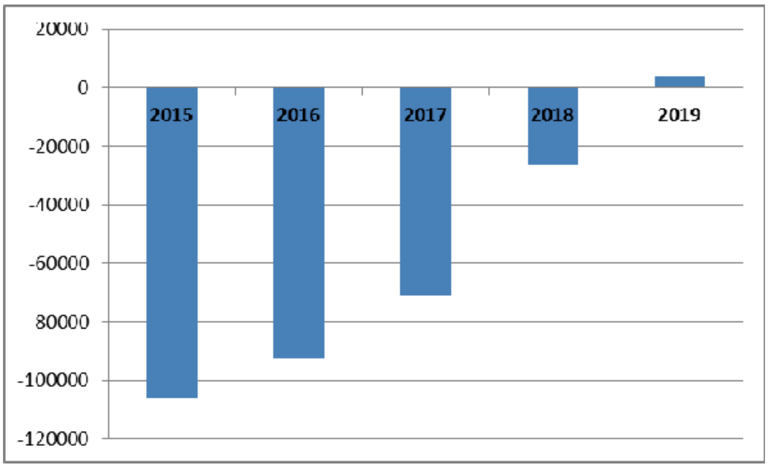
The FPP also advised what the overall approach should be on fiscal policy over the life of the MTFP:

> *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.*

The Council of Ministers has taken this advice seriously and framed the MTFP to follow this advice in terms of addressing any structural imbalance and being careful about the impact on the economic recovery. The chart below shows that after all the measures proposed in the MTFP the current budget (including depreciation) will move from a deficit of £90m (2% 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 should be addressed by 2019.

Figure 11: States current budget position

£000

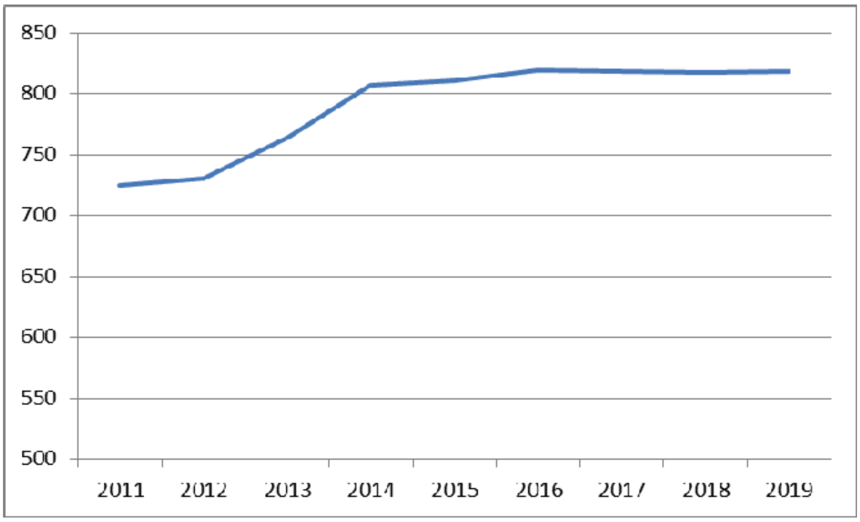


Source: Treasury and Resources Department

Over the 2015-19 period total Consolidated Fund revenue expenditure will increase slightly in nominal terms by just over 1% in total and at a slower rate than in previous years (between 2011 and 2015 it increased by about 12%).

Figure 12: Trend in total Consolidated Fund revenue expenditure

£m



Source: Treasury and Resources Department

To get a better understanding of the scale of the economic impact of the proposals over the life of the MTFP it is possible to adjust the operating balance to take account of cash flows in terms of what will actually be spent on capital projects rather than what is allocated and what the impact will be from the balance on other States funds such as the Social Security and Health Insurance Fund (HIF). The detailed tables are provided as **Appendix 8** to this report.

Figure 13 shows how the calculation can be built up. Firstly the initial operating balance is adjusted for the best estimate of the capital expenditure profile. Given the scale of capital expenditure on key projects such as social housing, sewage treatment works, a new school and by SoJDC (and the fact that they are not financed from tax or other revenue taken from the economy in the year of the spend) this suggests that the net fiscal position moves from one of moderate deficits (moving to slight surplus) to one of significant deficits throughout the 2015-2018 period, tailing off somewhat in 2019. The final adjustment to include the position on the trading, Social Security and Health Insurance Funds is relatively minor and does not alter this profile significantly.

Figure 13: Adjusted fiscal position

	2014 Actual £'m	2015 Forecast £'m	2016 Forecast £'m	2017 Indicative £'m	2018 Indicative £'m	2019 Indicative £'m
Operating surplus/deficit	-25	-57	-49	-28	21	58
Surplus/deficit after adj for cap x*	-77	-127	-251	-208	-166	-61
Adjusted for trading fund	-77	-127	-282	-217	-173	-58
Adjusted for Soc Sec and HIF	-78	-126	-282	-224	-185	-77

*2015 also includes carry forward adjustment and Budget measures

Source: Treasury and Resources Department (see also Appendix 8)

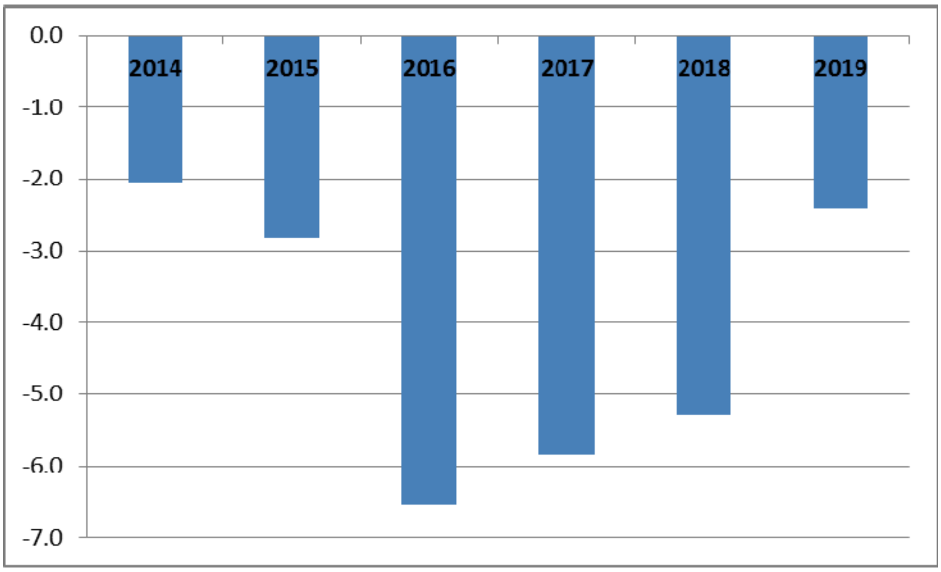
These adjusted deficits are large relative to the size of the economy, suggesting that significant fiscal support could be added to the economy over the life of the MTFP. They rise from just less than 3% of GVA in 2015 to a peak of nearly 7% in 2016 before falling back slightly in 2017 and 2018 and more sharply in 2019 to just over 2%.

In the initial years this does suggest that significant fiscal support will remain in place while the economy is performing below capacity, though there may be risks about the scale of fiscal support in the later years if the economy continues to recover and spare capacity is used up.

This is a high level assessment and it will be important to consider how capital expenditure and construction related spend actually impact on the economy. For example, whether there are large projects that may spend a high proportion on imported capital equipment and/or a high proportion on employment in the Jersey economy. In addition there could be delays in key projects and/or some could be brought forward which could significantly alter the profile of capital expenditure. The economic implications of the profile will be kept under review to determine whether adjustments or compensating measures could be required in future years. The FPP will continue to advise on future economic conditions and spare capacity in the economy which will be instrumental in determining whether action is required.

Figure 14: Adjusted fiscal position

% of GVA



Source: Treasury and Resources Department **(see Appendix 8)**

7. Financial Background and Balancing the 2015 Position

Financial Background

The financial forecast in the 2015 Budget identified a reduction in States income compared to MTFP forecasts (March 2012) of £50 million for 2015. The Budget 2015 identified a range of measures to balance the Budget and maintain a positive balance on the Consolidated Fund in 2015.

June 2015 - Update of States Income Forecast

The latest forecasts of States income (June 2015), prepared for the draft MTFP, show an operating shortfall of £66 million for 2015 before the measures previously identified, this includes the proposed £10 million allocation for Committee of Inquiry expenditure.

Figure 15 - Financial Forecast for 2015 (June 2015)

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: Depn)**	**730,629**
(25,196)	**Forecast Operating Surplus/(Deficit) for the year**		**(66,041)**

Balancing the Consolidated Fund in 2015

<u>2014 Outturn</u>

Although the Budget 2015 forecast a balance of £14 million on the Consolidated Fund at the end of 2014, the outturn for 2014 was lower than expected as a result of a number of variances. As a result the opening position on the Consolidated Fund is £4.7 million.

	£'000
Budget 2015 predicted 2014 position	**14,179**
Jersey Property Holdings receipts lower than budgeted	(1,606)
Restructuring Provision unspent balances returned early	2,701
Difference between forecast and outturn	(1,628)
Transfer of Housing Dept. underspend to Andium Homes Limited	(2,250)
Financial Forecast measures (roundings)	16
Dwelling House Loans Fund balance transfer higher than budgeted	414
Less Capital re-phased from 2014 to 2015	(999)
Housing Development Fund transfer delayed until 2015	(6,120)
2014 outturn	**4,707**

In addition to the adjustments from the 2014 Outturn there are other changes to the predicted balance including the reduction in the latest forecast of States income for 2015. These require further measures to be proposed to ensure the Fund remains in balance as is required by Article 9(3) of the Public Finances (Jersey) Law 2005.

	£'000
Opening balance 2015 from 2014 Accounts	***4,707***
Forecast deficit Financial Forecast (**Figure x** - includes CoI and latest income predictions)	(66,041)
Base Capital Programme Allocation for 2015 from Consolidated Fund	(4,090)
Estimated JPH Capital Receipts shortfall (against £9m target)	(1,140)
Consolidated Fund adjustment for Capital funding (MTFP 2013-2015)	(2,285)
Jersey Car Park increased return applied to Capital (Budget 2015 measures)	(1,135)
Departmental 2% savings (Budget 2015 measure)	11,981
FOI underspend (Budget 2015 measure)	1,000
Department non-carry forward (Budget 2015 measure)	5,000
Delay of PECRS pre-1987 debt early repayment (Budget 2015 measure)	2,000
Reduced pay award allocation (2.5% to 1.5% - Budget 2015 measure)	3,480
Transfer from HDF (Budget 2015 measure)	6,120
Reduced contribution from Social Security underspend to LTC Fund (Budget 2015 measure)	5,000
Jersey Water Preference Share – proposed redemption (Budget 2015)	6,800
Jersey Post – Special Dividend	2,000
Estimated shortfall for 2015	**(26,603)**

In order to address this position potential measures have been considered and agreed by the Council of Ministers and include further savings and underspends to be achieved by department in 2015. Also there are a small number of Capital schemes where the budgets are being returned to the Consolidated Fund as they are no longer required.

	£'000
Estimated shortfall for 2015	***(26,603)***
Proposed pay freeze for 2015	5,200
Return of Capital unspent contingency amounts	1,540
Redesign of capital project for RIS/PACS IT replacement IT Assets	400
Forecast underspend in Social Security in 2015	2,000
Additional AME contingency available from 2014 Carry Forward (LTC)	2,000
Projected Consolidated Fund balance for 2015 after measures	**(15,463)**

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.

The collection of current year basis tax was introduced in 2006, prior to that date all tax was collected on a prior year basis and new taxpayers did not pay tax in the first year. Assessments were also created on a prior year basis and collected in the year that the assessment was raised. i.e. assessments for 2004 income were raised and paid in 2005.

Taxpayers that existed prior to 2006 continue to be assessed on a prior year basis. All new taxpayers since 2006 with employment income have tax collected via their salaries in the year in which they earn it but, at present, the assessment is not raised until the following year and the tax collected is accounted for as a payment in advance.

The proportion of tax collected on a Current Year Basis in 2006 was 4.5% of the tax collected from employment income. This increased to 34.5% in 2014 and will at some point reach 100%. If this policy is left unchanged, an ever-increasing proportion of the tax collected from employment income will be treated as prepaid (i.e. the tax is collected a year before the bill is raised) when it can be demonstrated that the tax liability can be reliably measured and it is probable that the tax will be received.

In order to reflect the now significant proportion of income tax revenue collected from CYB taxpayers and given the demonstrable accuracy of estimates of their eventual tax liability, it is proposed that the accounting policy is 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 of 2014 income tax revenue 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 is estimated at approximately £45 million.**

Committee of Inquiry

Funding will also be required in 2015 for those departments where the current contingency funding for the Committee of Inquiry is likely to be exceeded and the States has already approved that the Minister for Treasury and Resources bring forward a proposition to the States.

The proposition for £14 million will be brought alongside the MTFP proposition and is intended to be debated at the same sitting. The proposition will propose the withdrawal of the funds from the Strategic Reserve for up to the £14 million to be agreed by the States. This funding will not all be required in 2015 and the balance of expenditure approval will be proposed in the MTFP 2016-2019 as part of the Contingency proposals.

Risks to the 2015 Proposals

The proposals for 2015 are still subject to variation and there are risks associated with the proposals, however, the 2015 position will be closely monitored and further forecasts of States income will be prepared for the 2016 Budget in October.

The proposals are also subject to the successful negotiations with trade unions in relation to the proposed pay freeze for all pay groups except Nurses and Midwives.

8. Financial Forecast 2015-2019

Summary of Financial Forecast for draft MTFP 2016-2019

The draft MTFP 2016-2019 is proposed on the basis of States income and expenditure forecasts as at **June 2015**. The forecasts take into account the latest economic assumptions (April 2015) and the latest proposals to address the shortfall for 2015, summarised **in Section 7**. The next forecasts will be prepared by the Income Forecasting Group and presented to the Council of Ministers in October 2015 to inform the 2016 Budget.

Figure 16 summarises the forecast position and proposes a return to balanced budgets by 2019, including depreciation, in accordance with the recommendations of the Fiscal Policy Panel in the Pre-MTFP Report of January 2015. The proposed sustainable savings and funding measures are described in **Section 11** and **Section 12** the measures to manage the balance on the Consolidated Fund in the short-term are outlined in **Section 13.**

Figure 16 – Summary of Financial Forecast for draft MTFP 2016-2019

2014 Outturn £'000	Financial Forecast	Forecast (June 2015) 2015 Forecast £'000	MTFP Proposals (June 2015) 2016 Proposed £'000	2017 Indicative £'000	2018 Indicative £'000	2019 Indicative £'000
	States Income					
436,665	Income Tax	438,000	458,000	475,000	499,000	519,000
80,226	Goods and Services Tax	81,740	83,334	84,968	85,779	86,609
54,103	Impôts Duty	55,323	55,367	55,444	55,615	55,820
25,977	Stamp Duty	26,890	26,357	28,802	30,946	31,800
11,896	Island Wide Rate	11,967	12,279	12,598	12,976	13,365
8,283	Other Income (Dividends)	10,859	10,699	8,354	14,515	9,279
18,236	Other Income (Non-Dividends)	12,255	11,703	11,352	10,560	10,283
13,581	Other Income (Return from Andium)	27,554	28,091	28,973	29,904	30,920
648,967	**States Income**	**664,588**	**685,830**	**705,491**	**739,295**	**757,076**
	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**	**664,588**	**685,830**	**706,491**	**755,295**	**793,076**
	States Expenditure					
674,163	Departmental Net Revenue Expenditure	687,146	697,214	697,214	697,214	697,214
	Central Allocations	33,483	37,203	37,173	36,783	37,631
	Proposed Allocation for Committee of Inquiry	10,000				
674,163	**Total Net Revenue Expenditure (excl: Depn)**	**730,629**	**734,417**	**734,387**	**733,997**	**734,845**
(25,196)	**Forecast Operating Surplus/(Deficit) for the year**	**(66,041)**	**(48,587)**	**(27,896)**	**21,298**	**58,231**
56,901	Departmental Depreciation	50,098	44,800	44,000	49,200	54,600
(82,097)	**Forecast Deficit of General Revenue Expenditure and Income**	**(116,139)**	**(93,387)**	**(71,896)**	**(27,902)**	**3,631**

States Income Forecasts 2015-2019

Background

The forecasts for all States income derived from taxation and duty have been reviewed and agreed by the new Income Forecasting Group (IFG). The IFG forecasts are summarised here with further details in the Appendices to the MTFP report. The detailed Income Tax Forecast update prepared for IFG is published by the Minister for Treasury and Resources **as an Addendum to the MTFP.**

The States income forecasts have been revised at three stages from the previous published forecasts for the Budget 2015:

- In **November 2014**, a set of provisional forecasts were produced internally to enable initial work developing the new Strategic Plan and MTFP with the Council of Ministers.
- In **March 2015**, a full formal revision of all States Income forecasts was carried out to inform the draft Strategic Plan debate and these were published in 'Resource Statement – Update on States Finances 2015-2019' (P.27/2015 Add) in April 2015. These forecasts were based on the provisional 2014 outturn and modelling which used the economic assumptions from the Fiscal Policy Panel (FPP) Pre-MTFP Report in January 2015. At that time the new Income Forecasting Group (IFG) recommended that a further update be carried out in May 2015 to ensure the draft MTFP could be based on the most up to date information.
- The final update presented to the Council of Ministers in **June 2015** is based on a revised set of economic assumptions as at April 2015 and endorsed by the FPP together with further in-year information available from the first quarter for 2015. This final set of income forecasts includes a further review by IFG of taxation and duty forecasts and by Treasury officers for other income.

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 revenue and capital expenditure, to assess the projected balance on the Consolidated Fund. This is a requirement of the Minister for Treasury and Resources as part of the Public Finances (Jersey) Law.

Summary

The forecasts of States income are presented as a range and within the context of uncertainty in the economic outlook. This uncertainty has been emphasised by the IFG in its current report and by the FPP in its report in January 2015.

The uncertainty in the forecasts reflects a general uncertainty in the outlook but certain factors which are emphasised by the IFG relating to:

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

For this reason it is important that the States must include appropriate flexibility in the proposals for the MTFP 2016-2019 to recognise the potential range of outcomes and the risks for States income forecasts around the downside of the central scenario.

Movement in forecasts since MTFP 2013-2015

In early 2012, when the original MTFP economic assumptions and forecasts were prepared, the extent and depth of the consequences of the unfolding euro crisis were not fully apparent. This meant that forecasts at that time did not fully anticipate the fallout from the euro crisis, that recovery in the international economy was delayed and that the low interest rate environment was maintained for longer than expected. This had direct and indirect implications for the Jersey economy which ultimately meant that it was weaker for much longer and that growth in average earnings and employment were more subdued than originally anticipated.

As a consequence of these trends the labour market underperformed and the biggest impact was on the forecasts of income tax revenues.

The forecasts of States income in the Budget 2015 identified a further reduction compared to MTFP forecasts of £35 million in 2014 and £50 million in 2015.

The 2015 Budget proposed measures to manage the deficits in 2014 and 2015 and the indications were that these reductions in income forecasts were not temporary and would need to be addressed with sustainable measures over the period of the next MTFP 2016-2019.

Draft MTFP forecasts 2016-2019 **(March 2015)**

The March 2015 update, published in the Resources Statement to the Strategic Plan (P.27/2015 Add), was based on the provisional 2014 outturn and economic assumptions from the FPP Pre-MTFP Report in January and show a reduction in States income forecasts compared to the Budget 2015. The reduction was primarily due to:

- A reduction in the 2014 outturn for income tax relative to the Budget 2015 forecast.
- A smaller reduction in income forecasts from 2016 to 2018 reflecting slightly lower assumptions for average earnings and financial services profits growth and a further reduction in income from 2018 is expected due to a low trend rate of economic growth.
- Information from financial services companies suggests lower growth in profits than was forecast for the Budget 2015.
- Inflation, employment growth, average earnings and interest rate expectations are all now generally lower than expected in the Budget 2015, particularly in the latter years of the forecast period.
- For other income the change in interest rate profile and investment returns together with lower fund balances have reduced investment income forecasts.

Draft MTFP Forecasts 2016-2019 **(June 2015)**

The latest update, which is to be used as the basis for the draft MTFP, is based on revised economic assumptions as at April 2015, which have been endorsed by the FPP. There are three key but slight changes to the latest assumptions relative to the assumptions made in January 2015:

1. Financial Services profit growth – is now expected to be slower in 2015, 2016 and 2017, than in previous forecasts.
2. Inflation – is now expected to be slightly higher in 2015 and 2016.
3. UK policy interest rates – are now expected to be very slightly lower in 2015 and 2016 and very slightly higher in 2017.

Further information was also available by June 2015 which is taken into account in re-modelling the income tax forecasts this relates to:

- New employment data for December 2014, which shows stronger than expected employment growth in the last half of 2014.
- Analysis of Business Tendency Survey data from December 2014 influencing the central financial services profits assumptions.
- Updated information on company income tax assessments for 2014 following the formal appeal period, these figures affect the starting point of the company income tax forecast for 2015 and specific information relating to future years expected tax liability.

The impact on the modelling of States income forecasts is as follows:

- The forecast models for income tax and impôts duties have been recast for the new economic assumptions.
- The forecasts for GST are based on past trends related to the overall direction of the economy and are therefore not affected by the minor changes in economic assumptions.
- Stamp duty forecasts are based on assumptions for house prices and market turnover which are un-changed since the last update and there is no additional data to affect the future forecasts.
- The 2015 stamp duty forecast has increased based on improved in-year information.
- Reductions in the 2015 special and ordinary dividend proposed by Jersey Post.
- Minor variations reflecting the small changes in RPI assumptions impacting on the Island Wide Rate and the proposed return from Andium Homes.

Figure 17 shows the central forecast scenario for the draft States income forecasts for the MTFP and indicates the movement since the forecasts for the Budget 2015.

Figure 17 – States Income Forecasts for drat MTFP 2016-2019 (June 2015)

Central Forecast from Range	MTFP forecast (June 2015)				
	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000
States General Revenues Income					
- Income Tax	438,000	458,000	475,000	499,000	519,000
- GST	81,740	83,334	84,968	85,779	86,609
- Impôt Duties	55,323	55,367	55,444	55,615	55,820
- Stamp Duty	26,890	26,357	28,802	30,946	31,800
Income from Taxation and Duty	**601,953**	**623,058**	**644,214**	**671,340**	**693,229**
- Other Income	62,635	62,772	61,277	67,955	63,847
Total States Income - Central Scenario	**664,588**	**685,830**	**705,491**	**739,295**	**757,076**
Budget 2015 as amended (September 2014)	682,531	708,909	743,799	779,290	819,502
Variation to Budget 2015 Forecast	(17,943)	(23,078)	(38,308)	(39,995)	(62,426)

Further details of the States income forecasts in **Figure 17** are provided in **Appendices 1 to 5** of this report and at **Figure 20**.

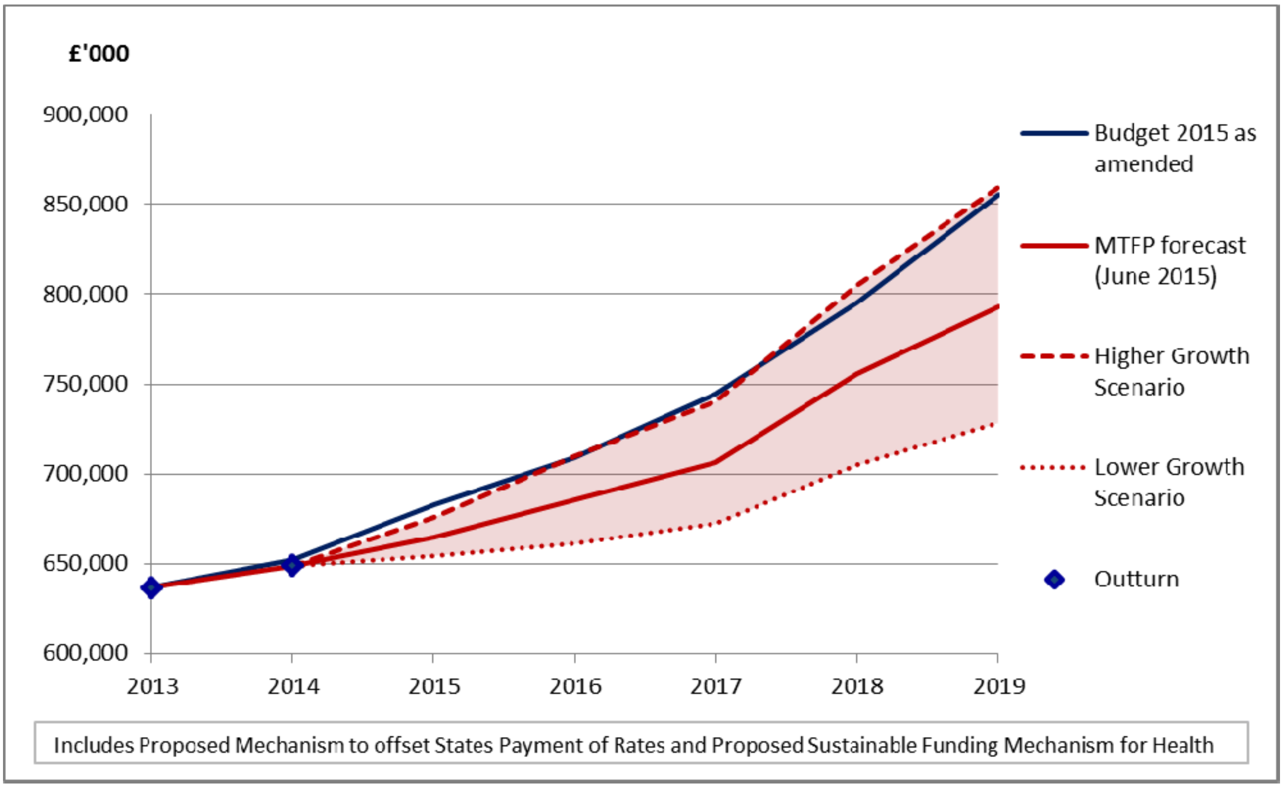
Overall range of forecasts

The latest economic assumptions 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.

In the MTFP 2013-2015 a range of +/- 5% was applied to the forecasts but consideration by the IFG has resulted in a different approach. The proposed range in the forecasts by 2019 is over £130 million between the higher and lower scenarios which represents broadly +/- 9% around the central scenario. The proposed range represents a funnel around the central scenario as can be seen in **Figure 18** and includes the proposed mechanism to offset the States payment of rates and a sustainable funding mechanism for health.

The central scenario is broadly the mid-point of the range but as proposed by the IFG there are risks on the downside of the central scenario and the proposals for the MTFP must consider and include appropriate flexibility within this range, particularly on the downside. The response to any variations in income will vary depending on the scale of change but the Council of Ministers has identified contingency plans at **Section 13** depending on the scale of variation.

Figure 18 – Forecast range of States Income to 2019 (June 2015)



Summary of Economic assumptions for the draft MTFP 2016-2019

R.102/2014 'Updating the Fiscal Framework' recommended the involvement of the FPP in the preparation of economic assumptions to be used for financial forecasting. The FPP has endorsed the latest economic assumptions for April 2015; these have also been considered by IFG and agreed as the basis for the draft income forecast modelling for the MTFP 2016-2019. The economic assumptions factor in the latest local and international developments. A report has been prepared for IFG by the Economics Unit and is included in the detailed Income Tax Report (published as an Addendum to the MTFP) and is summarised here.

Changes in assumptions 2015 Budget to FPP Pre MTFP Report (January 2015)

The main features of the economic assumptions when compared to the Budget 2015 are:

- Real economic growth is expected to be slightly stronger in 2014 and 2015 but slightly weaker in 2016 and 2017. For 2018 and beyond the FPP advised that the States should plan on the basis of a trend rate of real growth of 0%.
- Inflation (as measured by RPI and RPIY, for example) is expected to be lower until 2017, recognising the recent sharp falls in oil prices and lower market expectations for interest rate increases.
- Financial Services profits are expected to grow more slowly following information obtained through a series of interviews with financial services companies in November and December 2014. This is a key assumption for the company income tax forecast.
- Employment is expected to grow more quickly in 2014 and 2015 rather than in 2016 and 2017.
- Average earnings growth is expected to be weaker in 2015 and 2016.
- Interest rates are now expected to increase later and more slowly, according to financial markets expectations.

Changes in assumptions FPP Pre MTFP Report (January 2015) to April 2015

There are three key but slight changes to the latest assumptions relative to the assumptions made in January:

1. Financial Services profit growth – is now expected to be slower in 2015, 2016 and 2017.
2. Inflation – is now expected to be slightly higher in 2015 and 2016.
3. UK policy interest rates – are now expected to be very slightly lower in 2015 and 2016 and very slightly higher in 2017.

The economic assumptions factor in the latest local and international developments. The assumptions are included at **Appendix 6**.

Figure 19 – Economic Assumptions (April 2015) for draft MTFP 2016-2019

Central scenario - updated 14 April 2015						
	Forecast				Return to trend	
	2014	2015	2016	2017	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(a)	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(b)	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

OUTTURNS

(a) Gross profits for all companies, including traders.

(b) The number of employees multiplied by the costs of employment (wages, bonuses, pensions).

<u>April update and revised range in Economic Assumptions</u>

A full set of economic assumptions were provided by the FPP in the Pre-MTFP Report in January, however the IFG recommended that it would be helpful, particularly in relation to the latest UK interest rate profiles that a further revision be considered in April and updated forecasts be remodelled and presented to Council ahead of the MTFP lodging in July.

The economic assumptions from the FPP (April 2015) have been expanded to provide an upper and lower range of assumptions. The range of assumptions have informed the MTFP planning in terms of the levels of risk in States income and the scale of flexibility that may need to be considered and provided for over the four year period and contingency plans are discussed at **Section 13.**

The current forecasts reflect this update and provide the basis of the forecast recommended by the IFG for inclusion in the draft MTFP 2016-2019.

The full range of the economic assumptions showing the higher and lower ranges are shown at **Appendix 6.**

The next income forecasts will be prepared by the Income Forecasting Group (IFG) and presented to the Council of Ministers in October 2015 to inform the 2016 Budget.

Figure 20 – Detailed Forecasts of States Income for the draft MTFP 2016-2019 (June 2015)

Outturn	States Income	Forecast (June 2015)	MTFP Proposals (June 2015)			
2014 £'000		2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000
	Income Tax					
354,180	Personal Income Tax	359,000	375,000	395,000	417,000	434,000
83,429	Companies	82,000	85,000	82,000	85,000	88,000
(944)	Provision for Bad Debt	(3,000)	(2,000)	(2,000)	(3,000)	(3,000)
436,665		438,000	458,000	475,000	499,000	519,000
	Goods and Services Tax (GST)					
67,903	Goods and Services Tax (GST)	69,262	70,647	72,060	72,637	73,218
3,281	Import GST	3,478	3,687	3,908	4,142	4,391
9,042	ISE Fees	9,000	9,000	9,000	9,000	9,000
80,226		81,740	83,334	84,968	85,779	86,609
	Impôts Duties					
4,801	Impôts Duties Spirits	4,703	4,752	4,802	4,861	4,921
7,615	Impôts Duties Wine	7,527	7,838	8,161	8,515	8,883
988	Impôts Duties Cider	1,061	1,127	1,196	1,273	1,355
5,285	Impôts Duties Beer	5,365	5,420	5,477	5,544	5,612
13,788	Impôts Duties Tobacco	14,142	13,705	13,283	12,897	12,524
20,704	Impôts Duties Fuel	21,589	21,589	21,589	21,589	21,589
161	Impôts Duties Goods (Customs)	175	175	175	175	175
761	Vehicle Emissions Duty (VED)	761	761	761	761	761
54,103		55,323	55,367	55,444	55,615	55,820
	Stamp Duty					
21,988	Stamp Duty	23,075	22,376	24,669	26,680	27,481
2,735	Probate	2,500	2,500	2,500	2,500	2,500
1,254	Stamp Duty on Share Transfer (LTT)	1,315	1,481	1,633	1,766	1,819
25,977		26,890	26,357	28,802	30,946	31,800
596,971	**Total Taxation Revenue**	601,953	623,058	644,214	671,340	693,229
11,896	**Island Rate Income from Parishes**	11,967	12,279	12,598	12,976	13,365
8,283	**Other States Income - Dividends**	10,859	10,699	8,354	14,515	9,279
18,236	**Other States Income - Non Dividends**	12,255	11,703	11,352	10,560	10,283
13,581	**Other States Income - return from Andium Homes**	27,554	28,091	28,973	29,904	30,920
51,996	**Total Other States Income**	62,635	62,772	61,277	67,955	63,847
648,967	**Total States Income**	**664,588**	**685,830**	**705,491**	**739,295**	**757,076**
	% increase on previous year	*2.4%*	*3.2%*	*2.9%*	*4.8%*	*2.4%*
-	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**	**664,588**	**685,830**	**706,491**	**755,295**	**793,076**
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)*					

States Revenue Expenditure Forecasts

The detailed proposals for 2016 and the indicative forecasts of States expenditure for 2017-2019 represent the outcomes of the spending and savings review of the Council of Ministers. The proposals will be developed with departments ahead of the presentation of the MTFP Addition at the end of June 2016 when the detail spending limits for 2017-2019 will be proposed.

Figure 21 – Total States Net Revenue Expenditure Forecasts for 2016-2019

States Expenditure Proposals	2016 Proposals £'000	2017 Proposals £'000	2018 Proposals £'000	2019 Proposals £'000
Base Department Net Revenue Expenditure	686,471.5			
Base Adjustments	6,020.5			
Pay and Price Inflation	2,788.1			
Provision for Supplementation, Benefits and LTC	(4,843.3)			
Additional Funding	21,969.0			
Savings and Benefit changes	(15,191.6)			
Base Department Net Revenue Expenditure	**697,214.2**	-	-	-
Central Contingency Allocations				
Annual Managed Expenditure- AME	2,000.0			
Departmental Expenditure Limits - DEL	5,000.0			
Committee of Inquiry - CoI	4,000.0			
Economic and Groductivity Growth Provision	5,000.0			
Restructuring Provision	7,000.0			
Redundancy Provision	10,000.0			
Workforce Modernisation, Pay and PECRS Provision	4,203.1			
Total Central Allocations	**37,203.1**	-	-	-
Total Net Revenue Expenditure	**734,417.3**	**734,387**	**733,997**	**734,845**
Allocation for Annual Capital Programme	25,691.0	26,273	35,000	32,975
Allocation for Other Capital Projects	1,000.0	39,000	8,233	-
Total States Net Expenditure	**761,108.3**	**799,660**	**777,230**	**767,820**
Depreciation Forecast	*44,800.0*	*44,000*	*49,200*	*54,600*

The details of department's spending allocations are provided in the MTFP Department Annex published alongside this report. The Annex also provides each department's purpose, responsibilities and change initiatives and commentary on the various savings and growth initiatives for 2016. The details of additional funding proposed for Growth are included at **Section 10** and details of Central Contingency Allocations are provided at **Section 9** of this report.

Depreciation

Following the recommendations by the Fiscal Policy Panel (FPP) in their 'Pre-MTFP Report' issued in January 2015, estimated depreciation has been included in the financial forecast when identifying whether there is a forecast surplus or deficit.

Recognising depreciation in this way acknowledges the estimated expenditure required to maintain and renew States' assets. This is a measure of depreciation that ensures the capital stock that helps to provide public services does not deteriorate over time resulting in significant backlog and potentially increased lifecycle costs.

The estimated annual depreciation charge does not represent actual expenditure out of the consolidated fund but the inclusion of it in financial planning assumptions when balancing tax revenues and current expenditure provides for a cash balance in the consolidated fund. This balance then ensures that there are sufficient resources available to fund the annual capital programme allocations at an appropriate level to maintain the States' asset base.

The principle of including depreciation in the measure of expenditure was reiterated by the Comptroller and Auditor General in the 'Review of Financial Management' report issued in April 2015. The recommendation to include depreciation in the measure of expenditure for which funds are allocated by the States Assembly has been accepted and the MTFP Proposition now asks States Members to approve the total amount of non-cash net revenue expenditure.

The forecast reduction in depreciation from 2014 to 2015 is primarily the result of the incorporation of the Housing Department in July 2014. In the first six months of 2014, prior to incorporation, the Housing Department incurred depreciation charges of £9.5 million. These charges are now recognised in the accounts of Andium Homes Limited and fall outside of the MTFP financial forecast. The forecast increase in depreciation over the MTFP period 2016 – 2019 is directly correlated to the indicative capital programme over the same period with the increase predominantly related to the increase in the Transport and Technical Services Infrastructure Rolling Vote; all expenditure on infrastructure assets, with the exception of the creation of additional assets, is recognised as depreciation in the year it is incurred.

Figure 22 – Department Net Expenditure 2016-2019

States Funded Bodies	Proposed Total Net Expenditure 2016 £'000	Proposed Total Net Expenditure 2017 £'000	Proposed Total Net Expenditure 2018 £'000	Proposed Total Net Expenditure 2019 £'000
Ministerial Departments				
Chief Minister	22,640.8			
- Jersey Overseas Aid Commission	10,337.7			
Community and Constitutional Affairs[1]	49,270.5			
Economic Development	17,196.5			
Education, Sport and Culture	111,394.8			
Department of the Environment	5,205.4			
Health and Social Services	203,776.8			
Social Security	189,322.2			
Transport and Technical Services	28,618.3			
Treasury and Resources	32,562.5			
	670,325.5			
Non Ministerial States Funded Bodies				
- Bailiff's Chambers	1,563.9			
- Law Officers' Department	7,797.8			
- Judicial Greffe	6,616.1			
- Viscount's Department	1,320.6			
- Official Analyst	604.8			
- Office of the Lieutenant Governor	738.4			
- Office of the Dean of Jersey	25.8			
- Data Protection Commissioner	267.4			
- Probation Department	1,990.5			
- Comptroller and Auditor General	777.2			
States Assembly and its services	5,186.2			
	26,888.7			
Total Departmental Net Revenue Expenditure	**697,214.2**	-	-	-
Central Allocations	37,203.1			
Total Net Revenue Expenditure	**734,417.3**	**734,387**	**733,997**	**734,845**
Net Capital Expenditure Allocation - Annual Programme	25,691.0	26,273	35,000	32,975
Net Capital Expenditure Allocation - Other Projects	1,000	39,000	8,233	-
Total States Net Capital Allocations	**26,691.0**	**65,273**	**43,233**	**32,975**
Total States Net Expenditure Allocations	**761,108.3**	**799,660**	**777,230**	**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"*

An analysis of the movements from 2015 to 2016 are detailed in **Figure 21** and the following table **Figure 23** provides a comparison by department of these movements.

Figure 23 – Department Cash Limits for 2016

	2015 MTFP Annex Update £'000	Base Adjustments & Commitments £'000	2015 Service Transfers £'000	Staff and Non-Staff Inflation £'000	Provision for Supplementation and Benefits £'000	Additional Funding & New Growth £'000	Total Savings and Benefit changes £'000	Restraint on Staff and Non-Staff Inflation £'000	Total 2016 Cash Limits £'000	Variance to 2015 %
Chief Minister	*21,539.1*		300.8	135.6		1,103.0	(302.1)	(135.6)	**22,640.8**	
- Grant to Jersey Overseas Aid Commission	*10,283.7*			54.0					**10,337.7**	
Community and Constitutional Affairs	*48,557.3*		990.9	151.1		95.0	(372.7)	(151.1)	**49,270.5**	
Economic Development	*18,429.5*		(602.0)	298.7			(631.0)	(298.7)	**17,196.5**	
Education, Sport and Culture	*108,591.1*	(1,068.0)	580.9	270.0		4,807.0	(1,516.2)	(270.0)	**111,394.8**	
Department of the Environment	*5,743.2*		(1.0)	(31.5)			(536.8)	31.5	**5,205.4**	
Health and Social Services	*200,254.5*	6,078.0	(8,820.0)	1,246.1		7,947.0	(1,947.7)	(981.1)	**203,776.8**	
Social Security	*190,463.0*		8,622.1	70.6	(4,843.3)	477.0	(5,396.6)	(70.6)	**189,322.2**	
Transport and Technical Services	*26,650.9*		46.0	126.8		2,929.0	(1,007.6)	(126.8)	**28,618.3**	
Treasury and Resources	*28,722.7*	994.3	(1,117.2)	272.5		4,200.0	(237.3)	(272.5)	**32,562.5**	
Non Ministerial States Funded Bodies										
- Bailiff's Chamber	*1,626.9*			11.9			(63.0)	(11.9)	**1,563.9**	
- Law Officers' Department	*7,784.4*			52.3		209.0	(195.6)	(52.3)	**7,797.8**	
- Judicial Greffe	*6,785.7*		(8.8)	80.5			(160.8)	(80.5)	**6,616.1**	
- Viscount's Department	*1,386.5*		8.8	2.4			(74.7)	(2.4)	**1,320.6**	
- Official Analyst	*626.0*			3.7			(21.2)	(3.7)	**604.8**	
- Office of the Lieutenant Governor	*714.4*			1.8		42.0	(18.0)	(1.8)	**738.4**	
- Office of the Dean of Jersey	*25.8*			0.2				(0.2)	**25.8**	
- Data Protection Commission	*226.9*			(0.8)		60.0	(19.5)	0.8	**267.4**	
- Probation Department	*2,160.9*			3.4			(170.4)	(3.4)	**1,990.5**	
- Comptroller and Auditor General	*761.0*	16.2		13.8				(13.8)	**777.2**	
States Assembly and its Services	*5,138.0*		(0.5)	25.0		100.0	(51.3)	(25.0)	**5,186.2**	
Department Total	***686,471.5***	**6,020.5**	**0.0**	**2,788.1**	**(4,843.3)**	**21,969.0**	**(12,722.5)**	**(2,469.1)**	**697,214.2**	**1.6%**
Central Contingenciy Allocations										
Central Allocation - AME Contingency	*2,000.0*								**2,000.0**	
Central Allocation - DEL Contingency	*5,000.0*								**5,000.0**	
Central Allocation - Committee of Inquiry	-	4,000.0							**4,000.0**	
Central Allocation - Economic Growth	-						5,000.0		**5,000.0**	
Central Allocation - Restructuring Provision	*7,170.0*	(170.0)							**7,000.0**	
Central Allocation - Redundancy Provision	-						10,000.0		**10,000.0**	
Central Allocation - Workforce Modernisation, Pay and PECRS Provision	*3,764.4*	(3,764.4)		15,097.0				(10,893.9)	**4,203.1**	
Central Allocation - 2015 Budget Measures	*15,548.5*	(15,548.5)							-	
Subtotal of Central Contingencies	***33,482.9***	**(15,482.9)**	-	**15,097.0**	-	-	**15,000.0**	**(10,893.9)**	**37,203.1**	**11.1%**
Total	***719,954.4***	**(9,462.4)**	**0.0**	**17,885.1**	**(4,843.3)**	**21,969.0**	**2,277.5**	**(13,363.0)**	**734,417.3**	**1.9%**
Housing Adjustment	*675.2*	*(675.2)*								
Total	*720,629.6*	*(10,137.6)*								

*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"*

9. Central Contingency Allocations

Central Contingencies

Rules of Operation

The operation and management of central contingencies is covered by Financial Direction 4.3 which requires all departments, in the first instance, to demonstrate that requests cannot be funded from within existing cash limits. A business case is then submitted, with the support of the accounting officer, for consideration by the Treasurer of the States. The Treasurer will advise the Minister for Treasury and Resources who in turn will consult the Council of Ministers before making a decision on the allocation of funds.

All central contingency allocations are recorded in a formal and public Ministerial Decision. Central contingency allocations are reported to the Council of Minsters as part of quarterly financial monitoring and to the States as part of the half-yearly Budget Management Report.

Types of Central Contingency Allocation

Central Allocation - AME Contingency

The Annual Managed Expenditure (AME) contingency is set aside to provide for un-forecast variations in Income Support and other tax funded benefits which are in excess of the 1% contingency provided by the Social Security Department within its annual cash limit. The level of income support and benefits is difficult to forecast and significantly influenced by the performance of the economy. At a level of £2 million the central AME contingency provides a further 2% cover for this area of expenditure and also provides some contingency for higher education grants. This is another budget where there is significant uncertainty over the period of the MTFP 2016-2019 and is dependent on the policies adopted by the UK government and UK universities.

Any AME contingency budget unspent at the end of a year would normally be expected to be carried forward to provide further contingency against variations in future years. Conversely, if forecasts were suggesting an overspend that would exceed the AME contingencies the Council of Ministers would need to consider funding from other available contingencies or if necessary consider a re-allocation of existing expenditure budgets.

Central Allocation - DEL Contingency

In the MTFP 2013-2015, the intention was to provide within the Departmental Expenditure Limit (DEL) contingency for one-off unforeseen and unexpected items. In practice, a number of recurring pressures emerged in the first two years of the MTFP which the Council of Ministers agreed to provide from contingency. Several of these have now been prioritised within the additional funding for 2016-2019 and are proposed as part of departments' base budgets in 2016.

The principles should be that the first call on any emerging pressure or priority is within the department itself. The contingency must only provide a short-term funding solution in order to allow a department some time, generally during the remainder of a financial year, to adjust its spending plans accordingly. It must not provide a recurring source of funding for the remainder of the MTFP period.

The Minister for Treasury and Resources, along with all other Ministers, is determined to ensure discipline and adherence to these principles is achieved, particularly when significant savings and efficiencies are being delivered across the States.

Central Allocation - Committee of Inquiry in 2016

The debate of P20/2015 in May 2015 stated that the Minister for Treasury and Resources bring forward a Strategic Reserve request for £14 million for the Committee of Inquiry, if funding could not be funded from other sources. The Minister for Treasury and Resources is proposing that up to £14 million be transferred from the Strategic Reserve to the Consolidated Fund and is requesting that £10 million be allocated to the Contingency in 2015 to be allocated to departments as required.

The balance of £4 million is the estimate of the expenditure required in 2016 and the Council of Ministers is proposing this be allocated to Contingency such that it may be allocated to the appropriate departments as further expenditure is required.

If at any time the Council of Ministers is advised by the Accounting Officer that the current allocation may be exceeded a further proposition will need to be brought to the States to determine any further allocations and also the agreed funding source. This would also be likely to give rise to an Amendment to the MTFP.

Central Allocation - Economic and Productivity Growth Drawdown Provision

The Council of Ministers is proposing that a £5 million funding provision be created in each year of this MTFP period that could be drawn down if new economic growth and productivity initiatives can demonstrate they cannot be funded from existing resources and that have a strong rationale that they can have a positive impact on productivity can be allocated additional funding.

Financial management of the allocations would be through the Minister for Treasury and Resources and reported to Council of Ministers based on recommendations from the proposed Ministerial Oversight Group – the Economic Policy Group (EPG). Further details of the Provision are included in **Section 13**, Short Term Proposals.

Central Allocation - Restructuring Provision

In the MTFP 2013-2015, the Restructuring Provision supported the final year of the CSR programme and Phase 1 – the 'enabling' stage - of the Public Sector Reform (PSR) programme which commenced in 2012. In this first phase, the funds were used predominately to support the individual workstreams of Workforce Modernisation, e-Government, Lean and Culture which incorporated leadership, training and engagement.

In the MTFP 2016-2019, the Restructuring Provision is required to maintain support for PSR in the second phase – the 'implementation' stage – and is required for the following projects:

- To complete the Workforce Modernisation project;
- To continue funding for e-Government initiatives – the project is currently funded up to 2015, further allocations will be required in 2016 and future years to deliver the full capability;
- To provide programme support for PSR; and
- To provide a funding route for future Voluntary Release Schemes and Compulsory Redundancies if required.

Central Allocation - Redundancy Provision

The voluntary release scheme provides a mechanism for employees who wish to volunteer to leave the organisation through redundancy or early retirement to receive a redundancy payment or immediate pension. The scheme has been made available to all employees in 2015.

It is anticipated that future use of such schemes would be more targeted throughout 2016 to 2019 focusing on areas where re-design of services are identified that will add value to the services provided by the public sector. This focused approach in partnership with our Unions should reduce the need for compulsory redundancy and facilitate the achievement of the £70 million people saving targets for the period.

The Council of Ministers has already identified £2 million in 2015 and is proposing to set aside up to £10 million in 2016 and up to a further £5 million in 2017 and 2018 to the central redundancy provision.

All applications received will be considered by department Chief Officers and authorised where the business case demonstrate financial viability. The current terms of the scheme and any future alterations require approval of the States Employment Board. Release of central funding for redundancy payments requires authority of the Chief Executive, Treasurer of the States and the Director of Human Resources.

Central Allocation - Workforce Modernisation, Pay and PECRS Provision

As part of the Public Sector Reform programme, the Workforce Modernisation project continues to be developed in partnership with the Trade Unions. It will deliver an improved, more productive and sustainable public service by unifying at least 11 pay groups (75% of the workforce) onto a single reward framework with the same employee terms, conditions and policies that are fair, transparent, and fit for the future, thus providing equal pay for work of equal value (addressing pay parity issues to meet Jersey discrimination legislation), and enabling well designed jobs to be managed through an improved performance culture that provides organisational flexibility and supports continual service redesign.

The introduction of modern reward structures require funding in order to facilitate employees moving onto their new terms and conditions whilst maintaining services and redesigning the organisation.

The current proposals are for the new PECRS CARE scheme will be open to new starters from 1 January 2016 and to existing staff from 2019. The increased employer contributions for new starters are included from 2016 and the full employer costs of the new scheme will be phased in at £2 million p.a. over 3 years from 2019.

Central Allocations for 2017-2019

The allocations to central contingency for 2016 are being proposed by the Council of Ministers as part of this MTFP.

The central contingency allocations for 2017-2019 are only indicative as part of the total States net expenditure limits. The level and detail of these contingency allocations will be improved and defined over the course of the next 6 to 9 months in order that they can be proposed at the appropriate level of detail in the MTFP Addition by the end of June 2016.

Figure 24 – Summary of Central Allocations for 2016 (June 2015)

Central Contingency Allocations	Proposed Allocation 2016 £'000
AME - Anually Managed Expenditure	2,000.0
DEL - Department Expenditure Limit	5,000.0
Committee of Inquiry	4,000.0
Economic and Productivity Growth Drawdown Provision	5,000.0
Restructuring Provision	7,000.0
Redundancy Provision	10,000.0
Workforce Modernisation, Pay and PECRS Provision	4,203.1
Total Central Allocations	**37,203.1**

Note: The 2016 allocations for uprating benefits, non-staff inflation, growth funding and associated savings are allocated to departments. The 2017-2019 indicative allocations are held in central allocations but as proposals are developed will be allocated to departments as part of the proposals in the MTFP Addition at the end of June 2016.

The indicative central contingency allocations for 2017-2019 include:

Central Allocations for Pay, Prices, Benefits and LTC Provision

Provision is being made for the pay, price and benefit uprating for each of the years 2017-2019. The provisions are before savings to be achieved and represent 2% for pay and non- staff inflation and the appropriate uprating formula for tax funded benefits.

The actual allocations to departments will depend on the delivery of the planned programme and profile of savings and the achievement of the States income forecasts. The Council of Ministers will also be informed by the latest economic assumptions for each year and the progress of workforce modernisation and pay negotiations.

The States Grant to the Social Security Fund is proposed to be capped at 2015 levels as part of the short-term measures to ensure a positive balance on the Consolidated Fund **(see Section 13)**

The increase to the grant to the Long-Term Care Fund is based on an agreed formula determining the annual uplift which will be provided and allocated to Social Security on an annual basis.

Central Allocations for Additional Funding and Growth

The Council of Ministers is only proposing the allocation of additional funding and growth to departments for 2016 amounting to £22 million. The assumption is that this level of funding is provided to departments on a recurring basis but that any increases for 2017-2019 will be determined in the MTFP Addition in June 2016.

Indicative additional funding and growth allocations for 2017-2019 will also be dependent on the delivery of the planned programme and profile of savings and the achievement of the States income forecasts.

In the MTFP Addition in June 2016, the allocations will be made to Central Growth, in line with Corporate Services Scrutiny recommendations, according to what is affordable and with any re-prioritisation of funding that is required. Typically, the allocations to departments from the central growth allocation will be agreed by the States in the annual Budgets.

The Council of Ministers has included additional funding of £1 million from 2017 for the proposal for the States payment of rates in line with the Comment to the Strategic Plan. The additional funding and compensating additional income are both included in the proposals and will be subject of a separate presentation to the States.

Central Allocations for Savings

The programme and indicative targets for savings are described in more detail in the **Section 11 and Section 12**. The savings are made up of targets for redesign, reform and reorganisation, planned pay restraint, restraint on price inflation, benefit changes and user pays. The savings for 2016 held in the central allocation represent the level of proposed pay restraint in 2015 and 2016.

As the programme and allocation of savings to a department level are identified and agreed, these will be allocated to departments spending limits for the respective years. The intention would be that as part of the MTFP Addition at the end of June 2016, the majority of the savings targets will be fully allocated across departments.

The savings targets will also be reviewed relative to the income forecasts and as these are refreshed it may be necessary to adjust the savings targets to ensure the States still achieves balanced budgets by 2019.

10. Additional Funding for Pressures, Demographics & Growth

Background

The Long Term Revenue Planning Review (R.136/2014) presented to the States in September 2014 summarised the initial requests from departments for additional funding for the period 2016-2019.

The Council of Ministers then established the initial four strategic priorities of Economic Growth, Health and Wellbeing, Education and St.Helier ahead of the Strategic Plan. Departments were asked to review existing base budgets and consider if any of the initiatives to deliver the strategic priorities required additional revenue or capital funding over the period of the MTFP 2016-2019.

In many cases the delivery of the strategic priorities will be achieved or partly delivered by the re-prioritisation of existing resources or the redesign of services. This is particularly the case in those departments where the greater extent of savings target has been allocated to date. The reallocation of resources also recognises the necessary spending constraint in order to deliver sustainable public finances and balanced budgets by 2019.

The Corporate Management Board carried out initial categorisation and prioritisation of the revised bids for additional funding. This work was carried out alongside an ongoing spending review, supported by external advisors, to identify savings and efficiencies both across the States and within individual department programmes.

The bids were categorised as:

- **Base Pressures** – addressing pressures created by a shortfall in projected income or in maintaining standards (eg. H&SS).
- **Committed** – services, initiatives or legislation which have been committed to by the States or the Council of Ministers during the course of the MTFP 2013-2015 and where permanent funding is now required, often replacing temporary contingency funding.
- **Demographics** – addressing demographic pressures within existing policy and assuming existing service standards are maintained.
- **New Growth** – departmental or strategic priorities which require additional funding or growth in base budgets.

Resources Statement (P.27/2015Add.)

In preparation for the Strategic Plan debate the Council of Ministers gave initial consideration to the investment required in the strategic priorities and has continued to develop and refine the programme of additional funding alongside the savings proposals.

<u>Funding the increasing cost of healthcare</u>

The Health and Social Services Department has undertaken a full review of the next phase of the P82/2012 proposals. The funding from the MTFP 2013-2015 of £11 million is being maintained and the 2% investment in service standards and healthcare inflation is also being maintained and extended over the period 2016-2019, in order to provide a stable base from which to drive forward transformational change. The underlying cost drivers of changing drug treatments and new therapies will continue.

The review of the White Paper programmes has enabled a re-profiling of the funding request for 2016 and 2017 and further work is to be carried out to extend this review to 2018 and 2019, such that this can be considered as part of the detailed proposals in the MTFP Addition for 2017-2019 by the end of June 2016.

The provision of modern, safe and appropriate health and social care services is predicated on the delivery of the whole programme – as is the size a hospital required in the future. Key aspects of this programme of change have already been implemented in accordance with the States decision to support P.82/2012. It is important that this change continues and accelerates if health and social care services are going to be adequate to meet the needs of the ageing demographic into the future. It is important to balance this need against the need to deliver sustainable and affordable healthcare. The additional funding currently proposed for Health and Social Services amounts to £7.9 million in 2016 increasing to £39.5 million p.a. by 2019.

Funding for strategic priorities in Education

Education is another one of the four main strategic priorities of the Council of Ministers. Additional funding is being prioritised to address raising standards, support and improve the ICT investment in schools and to address the demographic pressures from early years through to post-16 education.

The crucial work on improving standards will include additional funding in three main areas:

- Targeted funding to address the risk of low performance across all groups of pupils vulnerable to lower attainment. If young people in Jersey are to meet and exceed outcomes of their peers in neighbouring jurisdictions a local equivalent to the UK's 'Pupil Premium' is required. Growth funding aims to bring the level of entitlement for those less advantaged pupils in our schools in line with those in the UK, resulting in higher standards achieved.
- Raising standards is not possible without robust data systems. An enhanced data insight team would provide the essential analytical tools to match those available to all education services in the UK. The addition of two data analysts is required.
- The expansion of the School Achievement and Standards Team to include two additional Professional Partners. This is the most effective and economical means of expediting the changes necessary to raise standards.

The level and profile of funding has been reviewed since the Resources Statement and a slight smoothing of the profile achieved. The additional funding currently proposed for education amounts to £4.8 million in 2016 increasing to £8.6 million p.a. by 2019.

Funding to maintain support of the economy

The MTFP 2013-2015 provided significant funding to support the strategic priorities of economic growth and getting people into work. This important injection of funding was allocated across a range of projects in different departments and amounted to £14 million per annum by 2015. As part of the spending review, this investment is being maintained from 2016 where it continues to provide effective investment in the ongoing priorities, or will be reprioritised towards other measures to grow the economy.

In addition the Council of Ministers is making provision centrally for funding of economic and productivity growth initiatives which cannot be met from the resources in base budgets of £5 million p.a. over the MTFP period **(see Section 13).**

Funding for other priorities and pressures

A number of requests arise from pressures and commitments from the period of the first MTFP. For example, the expectation of income from handling and disposal of Guernsey waste has not materialised, and there is an ongoing resource required to facilitate the Freedom of Information legislation, agreed during the MTFP 1 period.

In total, additional funding for other departments amounts to £9 million in 2016 and would increase to £12 million by 2019 if this is affordable.

How growth is being proposed for 2016

For 2016, the Council of Ministers is proposing that the additional funding is incorporated in Departments' cash limits. The Council of Ministers has conducted a series of workshops and the prioritisation of available funding has evolved over a period of discussion. The States Assembly has the opportunity to debate the additional funding allocation as part of the MTFP. The Council of Ministers is proposing that only the 2016 level of additional funding is agreed on a recurring basis. Any additional profile of funding will need to be approved in the MTFP Addition or in future Budget debates.

How growth will be handled in 2017-2019

Only the growth for 2016 is being allocated to departments. Unlike the first MTFP, the intention is to use a central growth allocation for 2017-2019 as part of the proposals for the MTFP Addition at the end of June 2016.

The level of additional funding and growth envisaged for 2017-2019 is and can only be agreed on the basis that the savings targets and/or projected income levels are achieved. If either savings or income forecasts fail to reach the proposed targets the level of additional funding will need to be revisited. The total spending limits for the four years cannot be exceeded and the financial position needs to be balanced by 2019.

The levels of health growth in future years could also be reviewed pending the approval by the States of a sustainable funding mechanism for Health, being phased in from 2018 but which by 2019 is required to deliver income of £35 million.

Process for monitoring growth

Procedures are currently in place to report on the progress of implementing the growth proposals for 2013-2015. These procedures, which involve extended quarterly monitoring and reporting to Corporate Management Board and the Council of Ministers, were introduced immediately following the first MTFP debate for the financial year 2013.

These procedures will continue through the period of the next MTFP 2016-2019 at a similar level of detail and will be extended to closely monitor progress towards the achievement of savings targets.

Figure 25 – Proposals for Additional Funding for Growth 2016 and Indicative Proposals for 2017-2019

Dept	Proposals	Category	2016 Proposals £'000	2017 Indicative £'000	2018 icative £'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
	P.82/2012 - Health Transformation (White Paper)						
HSS	- Early Intervention - Services for Children	New	1,870	2,415	3,192	3,589	
HSS	- Healthy Lifestyle 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 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 premises	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 Proposed for Education**		**4,807**	**6,318**	**7,527**	**8,573**	**73.6**
CCA	Revenue consequences of capital scheme - new Police Station & Prison	Com	95	377	385	423	-
CMD	Financial Services / McKinsey Implementation	Com	523	533	544	555	-
CMD	Freedom of information (FOI) - 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	-
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 - (not supported by Council of Ministers)	New	100	100	100	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 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**		**9,215**	**10,998**	**11,225**	**13,154**	**2.0**
	CUMULATIVE TOTAL		**21,969**	**34,556**	**50,306**	**61,262**	**260.6**
	ANNUAL TOTAL		***21,969***	***12,587***	***15,750***	***10,956***	

Notes:

*1. States Assembly – The Privileges and Procedures is proposing growth funding for States Members Pensions which is **not supported by the Council of Ministers** but the Finance Law requires this to be determined by the States.*

2. Treasury and Resources – Asset valuation is represented as one-off funding due to the requirement to undertake asset valuations only in particular years so recurring funding not required as it is with most proposals.

Detail of Proposals for Additional Funding for Growth

Strategic Priority for Health

HSS 2% investment in Service Standards and Healthcare Inflation £4.2m in 2016 £19.0m in 2019

The 2% funding for Health and Social Services is provided to assist the department to respond to changes in standards of care recommended by the Royal Colleges and other professional bodies; to maintain services at a comparable standard to neighbouring jurisdictions; provide for increases in demand for specific care, meet healthcare specific inflation costs (e.g. drugs) and make new drugs, treatments and therapies available to islanders where appropriate. Therefore, the exact allocation of this funding each year is variable and dependent on factors outside the control of the department. The actual additional costs to the department are historically approximately 0.5% higher, and are managed through targeted efficiency savings year on year.

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

HSS Early Intervention – Services for Children £1.9m in 2016 £3.6m in 2019

Investment in early intervention can have a profound impact on a broad range of socio-economic, health and wellbeing factors, including future development, learning, behaviour, health and the ability to build positive, secure attachments, and on truancy, conduct disorder and risk-taking behaviours such as substance misuse and mental illness. UK studies have shown that each child with untreated behavioural problems costs statutory services an average of £70,000 a year by the time they reach 28 years old, the average cost of an individual spending a lifetime on benefits is £430,000 not including lost tax revenue and returns of up to 3 to 7 times the original investment can be achieved by the time the young person is 21 years old.

Investment and service redesign is needed in order to:

- deliver the States' statutory obligation to safeguard and promote the welfare of children,
- prevent breakdown of families where children are disabled and/or have very complex needs,
- improve outcomes for the most vulnerable children with high and/or very specialist needs,
- minimise the risks of young people's suicide and increase treatment modalities for children and young people with mental ill health, and
- deliver timely and high quality child protection services to prevent further and/or more significant harm.

HSS Healthy Lifestyles £0.4m in 2018 £0.4m in 2019

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

HSS Mental Health Services £0.4m in 2017 £1.8m in 2019

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

HSS Out of Hospital Services £0.3m in 2016 £7.5m in 2019

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

The current numbers of hospital beds, operating theatres, residential and nursing care beds and other key community services would be inadequate to meet demand. Investment has been made into 'out of hospital' services during MTFP 2013-2015; as planned these now need to be enhanced and expanded, including expanding the Rapid Response, Reablement and Crisis team, the Step Up / Step Down beds, and implementing integrated pathways for Long Term Conditions and multimorbidities, in order to provide 24 hour support in the community, enabling people to live independently in their own homes for as long as possible. More detail can be found P82/2012.

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

HSS Acute Services £1.6m in 2016 £7.3m in 2019

Plans are progressing for a Future Hospital. This will provide a modern building and we must begin to make the changes in the way we provide the services now in order to continue improving quality and reducing cost as well as to ensure services are appropriate for the newly designed Hospital. Priority investments in 'ambulatory emergency services' are needed in order to ensure there is sufficient capacity in the transitional period up to the opening of the Future Hospital, and patient pathways can be redesigned to reduce hospital length of stay and ensure only those needing an inpatient stay are admitted. This work stream will be underpinned by an ongoing process of workforce redesign to ensure best value is obtained from these posts and they are appropriate for a future where care will be wrapped around the needs of patients.

Strategic Priority for Education

ESC Primary School Demographics £0.7m in 2016 £1.7m in 2019

Primary school numbers are set to increase due to a high number of births in 2010, 2011 and 2012 (average 1,092 per year compared to 1,006 in 2007-09). Average birth numbers are predicted to be 1,029 per year until 2020. As a result it is predicted that 400 new primary school places, (which equates to an average of 3 additional classes per year) will be required in the non-fee paying primary sector between 2016 and 2020. Additional capacity has been created as part of the primary school building programme in 2014-15.

ESC Secondary School Demographics £1.3m in 2016 £2.1m in 2019

Pupil numbers in secondary schools are predicted to increase from 2017-19 for Year 7-11. In addition, more pupils are staying in education until 18, resulting in additional pressure from 2016. There were 90 more pupils in the system in 2015 than when forecast. There is capacity in the four 11-16 schools to meet this increase in demographics, which is in effect a reversal of the decline we saw over the previous MTFP period.

ESC Nursery Education Fund £0.4m in 2016 £0.3m in 2019

The Nursery Education Fund (NEF) provides parents with the opportunity to access 20 hours per week (term time) of early years education at a registered private or voluntary sector nursery for children aged 4. Alongside nurseries in States primary schools, NEF registered nurseries enable approximately 95% of children in their pre-school year to access free early years education. High birth numbers in 2010-12 will result in more children requiring States funded places. As the capacity in States primary school classes is fixed (average of 500 places filled) any increase in numbers (currently forecast to be circa 19%) will need to be accommodated in the private and voluntary sector and funded through the NEF.

ESC Revenue consequences of capital schemes – ICT Skills Strategy £0.8m in 2016 £0.8m in 2019

The IT strategy was launched in October 2012 to provide the best IT education possible, a workforce fluent in technology and a prosperous, successful island. The initial £3 million funding from 2013-2015 enabled the infrastructure to be improved and saw schools starting to develop solutions that meet the needs of their pupils, provide teachers with continual first class professional development and develop the IT skills that are important in the 21st century. Funding of £750,000 from 2016 onwards will enable the increased cost of the fibre infrastructure to be met, together with continued investment in both training and physical IT within schools to support the continued delivery of school business cases. Each school has different teaching and learning methods including pedagogy, teacher training and physical equipment.

ESC Revenue consequences of capital schemes – New Schools £0.1m in 2016 £0.5m in 2019

New premises cost more to run than previous premises due to the increased and additional facilities provided. The new schools at St Martins and Les Quennevais, additional primary classes at six schools and Archive Store extension for Jersey Heritage Trust will all require increased non-staff revenue budgets to run.

ESC Raising Achievement Funding £0.8m in 2016 £2.4m in 2019

Academic outcomes for Jersey students have plateaued in recent years and are now trailing the UK. If young people in Jersey are to meet and exceed outcomes of their peers in neighbouring jurisdictions a local equivalent to the UK's 'Pupil Premium' is required. This provides targeted funding to address low performance across all groups of pupils vulnerable to lower attainment. Additional funding to UK schools is £2.5 billion per year. Jersey cannot access this funding but has the same issues surrounding both children with identified disadvantage and LAC ('looked-after-children') pupils. Growth funding aims to bring the level of entitlement for those disadvantaged pupils in our schools in line with those with identical disadvantages in the UK, resulting in higher standards achieved. There are a whole range of methods that have been tested and evaluated to raise standards. The department will select from these as appropriate. It is likely to include booster classes, 1:1 tuition, peer mentoring, teacher training and teaching assistants.

ESC Provision of a Data Team £0.1m in 2016 £0.1m in 2019

An enhanced data insight team, to provide the analytical tools at least matching those available to the education services in the UK, is essential if young people in Jersey are to meet and exceed outcomes of their peers in neighbouring jurisdictions. Additional and more accurate data would enable the current Professional Partner team to challenge our schools more effectively and enforce accountability. It would also enable continued long term planning in a period of constantly changing demographics. This team does not only provide schools' data, but also has an important link to the statistic unit and population predictions.

ESC Extend Professional Partnering £0.3m in 2016 £0.3m in 2019

The success of the Island's primary school sector has a clear link with engagement with high quality school self-evaluation under the Professional Partner scheme, established in 2009-10. The Professional Partner programme has ensured rigour in pupil assessment and improvements in teaching, learning, care and curriculum provision. For further school improvement to impact on higher attainment, schools and colleges must become more accountable for outcomes. With greater autonomy comes an increased need for enhanced school accountability, evaluation and inspection. The expansion of the School Achievement and Standards Team, encompassing two additional Professional Partners, is the most efficacious and economical means of expediting essential change and raising standards. Analysis demonstrates this will be far more cost effective than importing school accountability models from other jurisdictions (e.g. Ofsted in England, Estyn in Wales, VSSE in Guernsey).

ESC Early Years £0.3m in 2016 £0.3m in 2019

In 2012-2013 a working group reviewed the Early Years' provision within the Island and highlighted the absence of a coherent and cohesive support system (universal, targeted, specialist) for children and families from pre-birth to five. Within the Education Law pre-school is not statutory and, unlike the UK, receives no funding allocation from the States. Multi-agency work in recent years has clearly identified all the under-fives with special educational needs in states nurseries and pre-school. Working with this group ensures the children get the best possible start to their education and will ensure they are better able to access school when they start. Research shows early intervention is key.

Funding for Other Priorities

CCA Revenue consequences of capital schemes – New Police-Station and Prison Phase 6 £0.1m in 2016 £0.4m in 2019

The additional facilities provided in the new Police Station will lead to increased running costs compared to the former buildings so increased revenue budget is required to adequately fund these costs with a part year in 2016. In 2019, there are also additional costs due to the next upgrading at the prison.

CMD Financial Services/McKinsey Implementation £0.5m in 2016 £0.6m in 2019

The Jersey Government supported a jurisdictional review of the Financial Services sector in 2012/2013 which produced a strategy and from which a government policy framework was developed. Both require significant government involvement to maintain the sector. This involvement requires resources both manpower and operating costs. Over the past 18 months the benefits of this involvement has resulted in the industry stabilising and growing. Given the changing external environment the immediate future is even more challenging. This funding is essential for ensuring the future of employment and tax income from this critically important sector which supports all other sectors of the economy.

CMD Freedom of Information – Central Unit £0.1m in 2016 £0.1m in 2019

This growth funding is for a permanent Central Freedom of Information Unit (CFU) located in the Chief Minister's Department. A temporary CFU team is currently in place but their funding ends on 31 December 2015. No specific FoI funding for individual departments will be allocated after 31 December 2015 so a small permanent CFU will help manage various aspects of the Law for the States in 2016 and beyond. Departmental costs are being absorbed within budgets, with inevitable consequences to the work previously undertaken by those Officers involved.

The CFU's role is to manage the permanent execution of the Law for the States. The CFU is customer facing, tracks metrics, provides policy recommendations, trains departmental staff in the various disciplines required to handle FoI requests and assists in managing the States' legal and reputational risks associated with the Law. The CFU currently receives FoI requests sent to the States via foi@gov.je, a form on www.gov.je/foi and by post. The CFU coordinates, tracks, records and sends the responses back to the requestor. After the requester receives the response the CFU publishes final response on gov.je on behalf of the States.

CMD Joint Safeguarding £0.1m in 2016 £0.1m in 2019

The Council of Ministers have agreed to establish an Adults' Safeguarding Board bringing together agencies that work with adults who are, or may be, vulnerable and unable to take care of themselves or protect themselves from significant harm or exploitation (this includes physical, emotional or sexual harm, financial abuse or neglect). The purpose of the Board is to develop policies and procedures which help protect those adults and, in the event that someone does suffer harm, to investigate and bring forward recommendations to help prevent a reoccurrence. In an aging society, where increasingly more adults are cared for a multitude of different settings, it is imperative that steps are taken to help ensure their safety. Failure to do so has very considerable consequences, first and foremost in human and social terms, but also economically as recently experience in Jersey in relation to the historic abuse children.

CMD ISD Increased revenue budget required £0.4m in 2016 £0.5m in 2019

Consumerisation is changing the way staff prefer to work, with the use of tablets and smart phones etc. to access corporate data. Without the appropriate funding it will be impossible to ensure security of the corporate data as users will seek out alternative solutions themselves.

The States of Jersey Wide Area Network (WAN) connects all departments to provide applications, telephony and connection to the internet. If the network has insufficient bandwidth capacity all IT services and telephony can be badly affected. To ensure departmental services are efficient and effective the network infrastructure must grow to cope with increase in demand and services.

The Microsoft EA agreement is a five year contract with three year break point and the price is guaranteed at the start for any licenses under the agreement for the first three years. Microsoft has indicated that the cost of licences will be increasing in two steps in 2015 and 2017.

JD Edwards is expected to be end of life in 2020 and a replacement is essential to ensure we are on current, supported technology and software. A new system will ensure that we can support the current and future business operating model and changes that will create.

DPC FoI – Office of the Data Protection Commissioner £0.1m in 2016 £0.1m in 2019

The Freedom of Information (Jersey) Law 2011 creates the new statutory role of Information Commissioner whose department is charged with regulatory oversight. Due to risks of conflict, the Law Officers' Department are unable to provide the necessary legal support to the OIC for FoI as they do for Data Protection. Funding therefore needs to be allocated to the OIC to ensure appropriate legal support is available.

LOD Revised Pay and Rewards Structure £0.2m in 2016 £0.2m in 2019

A review of the Law Officers' Department by CAPITA in 2011 highlighted discrepancies in the pay awards of legal advisers. There was a lack of transparency, career progression, large inconsistencies in pay bands and an imbalance with market pay. In 2013, the States Employment Board agreed a new scheme, in line with the Workforce Modernisation project, to overhaul the reward structure for the Legal Advisers and the new scheme was implemented in 2014, with new job descriptions and competencies, pay bands and grades.

LtG Cadet and Military Support Officer £42k in 2016 £45k in 2019

Since its introduction, with short-term funding agreed in the last MTFP, this post now requires permanent funding. The CMSO has fostered links between Jersey and its Cadet Organisations. The loss of the post would be detrimental to those organisations. The CMSO promotes Jersey to Military Units, and his appointment has significantly increased the number of service visitors and revenue to the Island. Community projects are also undertaken by the Military for the benefit of Jersey. The CMSO is heavily involved in successfully supporting Island events and is a skilled organiser, without his input many Island events could suffer. Based at Government House he has developed an extensive network of contacts that support him in his role. His contribution to the Office of the Lieutenant-Governor is significant.

SA States Members' Pensions £0.1m in 2016 £0.1m in 2019

Following a recommendation made in 2014 by the States Members Remuneration Review Body (SMRRB), the Privileges and Procedures Committee members agreed that although the present financial situation of the States remains challenging there is, in fact, unlikely ever to be a time when it would be easy or uncontroversial to introduce a pension scheme for States members, and therefore, it would be unfair on members to continue to ignore the recommendation of SMRRB. Whilst **this proposal is not supported by the Council of Ministers**, Article 24B of the Public Finances Jersey Law requires the proposed estimates of the States Assembly to be determined by the States.

SSD Child Personal Care Benefit level 2 & 3 £0.5m in 2016 £0.5m in 2019

During the States debate of Deputy J A Martin of St Helier's amendment to the draft Income Support Regulations (P.90/2014) in respect of components payable to children with disabilities and long-term health conditions, the States strongly supported a move to make payments to children with severe or very severe disabilities irrespective of the income or means of the family. As identified by the Minister for Social Security both prior to and during the debate, acceptance of the amendment carried with it significant implications in terms of both funding and administration, and this additional funding request is essential to ensure adequate funding for agreed legislation changes.

TTS Energy from Waste – shortfall in income **£1.1m in 2016** **£1.3m in 2019**

Since the commissioning and operation of the new Energy from Waste (EfW) plant at La Collette, the unit rate received from the Jersey Electricity Company in respect of power has steadily reduced, mainly due to European energy market conditions (down 30% in 2015 compared to 2012). In addition, the economic downturn and success of the Island's recycling initiatives have reduced waste volumes. The assumptions used in calculating the cash limit have also assumed an increase in income of 2.5% per annum. The net effect of this is that the income budget is now unrealistically high – projections indicate that the shortfall will be in excess of £1.2m for 2016 - 2019 unless unit prices substantially increase.

TTS Energy from Waste – no Guernsey waste income **£1.5m in 2016** **£1.6m in 2019**

In the 2013-15 MTFP, the Transport and Technical Services Department's cash limit was reduced by £1.5 million, to recognise the net anticipated effect of income from importing and treating Guernsey Waste. Guernsey is still considering the best way to deal with their municipal and bulky wastes and published its Waste Management Strategy on 29 January 2014.

As part of the fact finding exercise for this document, Guernsey stated that the earliest that they could consider export of waste was 1 January 2016, which means that the income in 2015 is unachievable. Despite on-going discussions, export of waste is unlikely to commence until 2017 at the earliest and will require the prior approval of both Jersey and Guernsey States Assemblies, the Waste Regulators and the UK.

TTS Tipping fees shortfall **£0.3m in 2018** **£0.3m in 2019**

Income is dependent on the level of construction and demolition activity in the Island and available locations for disposal or treatment of inert waste. Historically, tipping fee income has been on a downward trend and the availability of a new inert waste site which is due to open in 2018/2019 in St Peter's Valley will have a further negative impact on income. The TTS department is not able to control this reduction in income and once La Collette inert waste site is full, the loss of all tipping income will create a bigger pressure on income, of approximately £1.3m.

TTS Bus Contract – Main and School Bus Contract Shortfall **£0.3m in 2016** **£0.3m in 2019**

The new bus contract has delivered significant savings in addition to an increase in service levels, these savings have contributed to the CSR targets achieved by the department in 2011 - 2013. Increases in bus ridership have meant that expenditure on concessionary fares for pensioners and the school bus service is significantly in excess of budget. Concessionary fares are a substantial contractual cost of the service and these costs will continue to increase year on year, unless changes are made to the concessionary travel rules. The growth bid over the period of this MTFP represents the current shortfall in contractual payments.

TTS Revenue consequences of capital schemes – new Sewage-Treatment works (from 2019) **Not Req'd until** **£1.7m in 2019**

This provision is required from 2019 to fund the cost of capital from the currency fund infrastructure investment for a period of time until liquid waste charges are fully established to provide a revenue stream from which the costs of capital could then be funded in due course.

<u>T&R</u> **<u>Additional Property Maintenance (HSSD Properties)</u>** **<u>£4.0m in 2016</u> to £<u>4.0m in 2019</u>**

Jersey Property Holdings (JPH) procured a condition survey in 2014 to identify and categorise backlog maintenance in the Health (excluding the General and Acute Hospital) property estate, responsibility for which moved to JPH in 2015. The survey identified the poor condition of the portfolio and determined the requirement over a 15 year period to bring and maintain the estate in a good order. JPH will undertake further phased surveys on the remaining estate to determine the maintenance deficit.

Two growth bids were originally submitted, from Health and Social Services and JPH respectively to address the maintenance deficit, and following discussion by the Council of Ministers, the two entities were tasked with reprioritising these to produce a consolidated bid. That work has led to two lines of additional funding being included under Treasury and Resources as follows:

- Hospital transitional maintenance £2.85m, and
- JPH Backlog Maintenance (including Health and Community services properties) £1.15m.

Bringing the two items together and with the budget being allocated to JPH with a 'ring-fenced' budget for Health will allow a delivery schedule to be agreed with Health and further reprioritisation in year if necessary across the two sums.

A growth bid of £4 million per annum will address a proportion of the highest needs across the overall estate in the next MTFP period. Failure to undertake this necessary work will result in a greater call on JPH's reactive maintenance budget to address building and services failures, which is a less cost effective way of providing a fit for purpose estate for occupiers and service users and would reduce funding available for other priority maintenance.

<u>T&R</u> **<u>Asset Valuation</u>** **<u>£0.3m in 2017 only</u>**

The States of Jersey accounting policy requires that land and building assets are revalued every five years with an interim valuation in the third year of the cycle. A one-off increase in funding is required in 2017 to fund the next full valuation of States of Jersey's land and buildings.

<u>T&R</u> **<u>Strengthening Shareholder Relationship Resources</u>** **<u>£0.2m in 2016</u>** **<u>£0.2m in 2019</u>**

Treasury and Resources provides the shareholder function for the States to its strategic investments such as Jersey Electricity, Jersey Telecoms and SoJDC. This role has a wider and more diverse scope now; in 2014, the Housing Department left the States and became a separately incorporated body, Andium Homes Limited and in 2015 the States approved legislation which will lead to the incorporation of Ports of Jersey. The Incorporation is awaiting Privy Council approval and an appointed day. There have been several reviews carried out in recent years on Treasury and Resources' function as a shareholder and this additional funding will enable the department to action the recommendations of these reviews including strengthening the governance surrounding the relationships and providing Treasury with the necessary resources to engage specialists in relevant areas as and when needed.

<u>T&R</u> **<u>Payment of Rates on States' Properties</u>** **<u>£1.0m in 2017</u>** **<u>£1.0m in 2019</u>**

In accepting the Connétable of St Helier's Amendment 7(6) to the Strategic Plan 2015-18, the Council of Ministers agreed to provide in the MTFP for the payment of rates on States properties and the additional income required to fund this payment.

In order to meet this commitment, the Council proposed to bring forward an overall package for the funding and provision of municipal services to the Assembly for separate approval. This package will need to be developed in co-operation with the parochial authorities. It follows that the payment of rates will be contingent on the identification and approval of this income stream, and an agreement for the fair and reasonable funding and efficient and effective provision of municipal services.

The £1m allocation is an estimate of the likely additional cost of paying rates on States' properties which will be refined in advance of the development of the 2017 budget submission. It is mirrored by a commensurate increase in States income in order to achieve the required cost neutral position.

11. Sustainability in States Finances

Background

The Council of Ministers is working towards the recommendation of the FPP that the States should aim to balance its tax revenues and current expenditure, including an appropriate allowance for depreciation, over the economic cycle, and that the economy is expected to be close to full capacity by 2018/2019.

Equally, it is important that the States' fiscal position (the combined impact of expenditure and revenue decisions) continues to support the economy in the early stages of recovery.

The Council of Ministers is adopting a three-part approach to balancing States' finances by 2019:

- Firstly, to secure the economic recovery forecast by the FPP and lay the foundations for raising productivity and the underlying rate of economic growth over future economic cycles, thereby increasing States revenues;
- Secondly, to focus on;
  - a programme of savings, efficiencies and expenditure constraint; and
  - consideration of the level of provision of benefits and changes in fees and charges for services where appropriate.
- When these measures are recognised agreement will be given to the introduction of an additional charge for Health.

The investment in health services envisaged could only be approved with the agreement to additional funding being introduced, in accordance with previous decisions to ensure sustainable funding of Healthcare.

Ministers have a set a target to deliver £145 million of savings, charges and other measures by 2019. The target represents a central plan, this will be continually reviewed over the MTFP period and particularly in advance of the proposals for the MTFP Addition in June 2016. The target will be adjusted, as required, for any variation in income forecasts and the delivery of the programme of savings and other funding measures.

The sustainable measures for savings, efficiencies and other funding measures are being phased in to minimise the risks to the economic recovery. As a result short-term measures are required in the years 2016-2018 to ensure a positive balance is maintained on the Consolidated Fund, these are described in Section 12.

Contingency measures and options to address any variations in income forecasts are set **out at Section 14.**

The target of £145 million includes the £12 million of savings already taken from cash limits in 2015 as part of the 2015 Budget measures.

Build-up of the shortfall

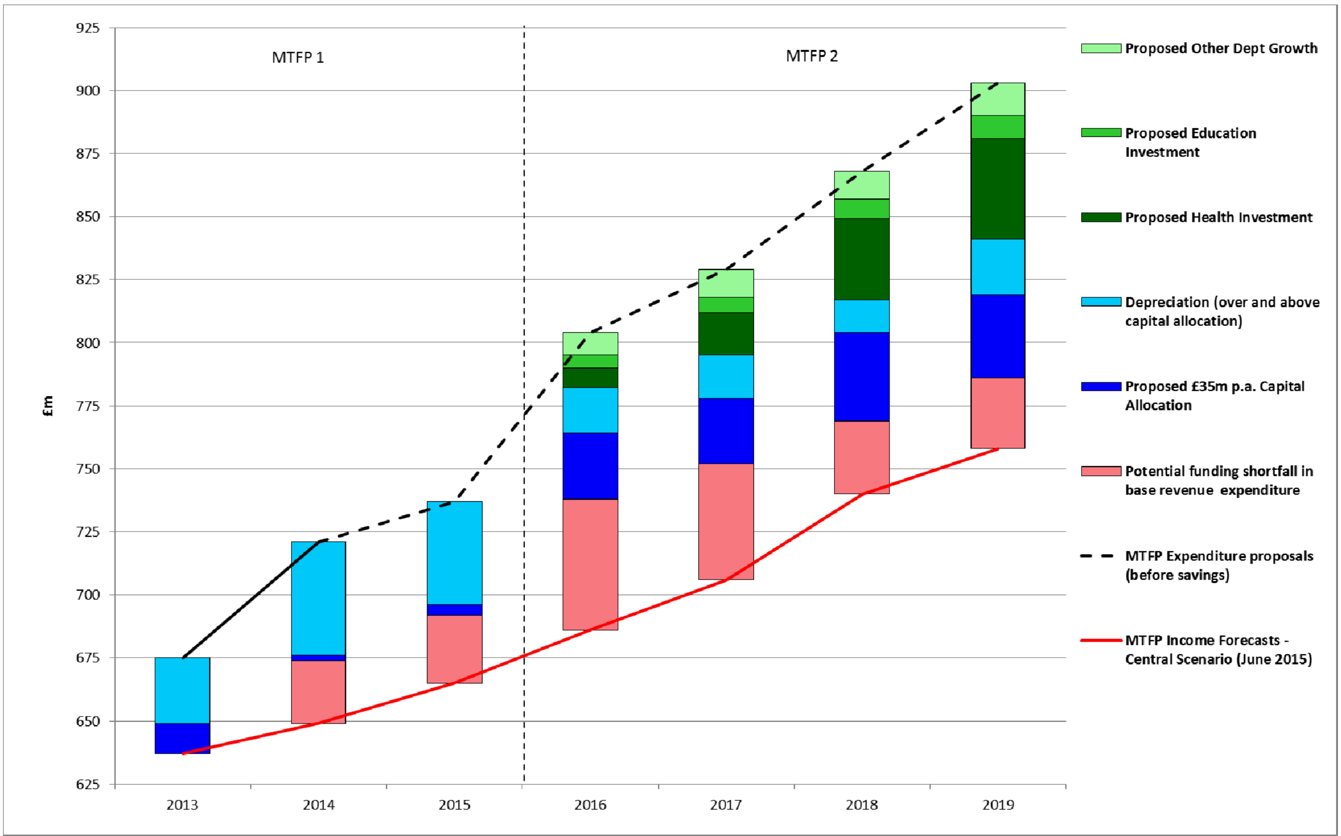
A funding shortfall was identified in the 2015 Budget and the income forecasts at that stage indicated that sustainable measures would be required over the period of the next MTFP 2016-2019 in order to return to balanced budgets.

The Council of Ministers is proposing additional funding of £61 million, described in Section 10, for significant investment in Health of £40 million p.a. by 2019, the investment in improving Education of £9 million p.a. by 2019 and the additional funding for other departments of £12 million p.a.

The Council of Ministers is also proposing to maintain the investment in economic growth from the first MTFP and to establish a base capital programme of £35 million p.a. by 2018/2019. The proposals also allow for the inclusion of depreciation in determining total current expenditure levels, as proposed by the FPP

This level of investment coupled with the latest income forecasts indicate a significant shortfall in funding in each of the years of the MTFP 2016-2019, as illustrated at **Figure 26.**

Figure 26 – Projected Funding Shortfall before savings and funding measures



Sustainable Funding Measures

<u>Economic Growth</u>

The latest economic assumptions endorsed by the FPP show that the economy is expected to return to real growth in 2014 and that growth will continue in the 2015-17 period. The latest data, particularly on financial services profitability does suggest that the economy grew significantly more strongly than expected in 2014. However, significant risks remain, not least relating to the outlook for the international economy. The Council of Ministers will therefore continue to focus on delivering fiscal support to the economy in the early years as advised by the FPP to ensure that growth returns on a sustained basis.

The investment in health, education and infrastructure set out in this MTFP will help to support the economy. In addition, the Strategic Plan sets out how existing policies on growth and productivity will be reviewed, refreshed and enhanced to help achieve the growth forecast in coming years but also quite critically achieve sustained productivity-led economic growth over future economic cycles. In particular:

- an increased focus on new, high potential growth sectors;

- increased innovation, enterprise and inward investment across all sectors;
- promoting competition within a new competition framework;
- an updated skills strategy;
- identifying barriers to work for key groups to improve participation; and
- ensuring Jersey has sustainable public finances and low inflation.

Recognising the importance of investing in our economy and jobs, additional funding allocated through the current MTFP of £14 million by 2015, for getting people into work, back to work and employment initiatives, is being maintained, although as with all areas of expenditure may be subject to savings targets.

In addition the Council of Ministers is making provision centrally for funding of economic and productivity growth initiatives which cannot be met from the resources in base budgets of £5 million p.a. over the MTFP period **(see Section 14).**

<u>Spending Review and savings measures</u>

The Council of Ministers and the Corporate Management Board have met a number of times to explore how to meet the funding shortfall and agreed that, as staff costs are a significant element of States expenditure, a target on People costs should be implemented along with other measures.

Furthermore, it was agreed that, in order to make the level of savings required, departments should increasingly be working collaboratively. E-Government will assist in this regard by simplifying and minimising processes.

In an initial savings exercise, departments were asked to identify how they might contribute to a savings target of £50m and then in tranches of £10m up to £80m (excluding Health and ESC). This clearly showed that some savings were achievable but, as the target got higher, concentrating solely within departments was not sustainable. Those savings which could, and should, be made from this exercise have been 'banked' and included in MTFP 2016-2019. Further savings are being scrutinised for future consideration by the Council of Ministers.

The spending review is now building on the Public Sector Reform programme and developing various savings programmes and themes across departments in order to deliver service redesign, savings and efficiencies between 2016 and 2019. The current target is for £70 million of staff related savings and £40 million of savings on non-staff expenditure, changes to benefits and user pays charges.

<u>Public Sector Reform</u>

The Public Sector Reform programme (PSR) started life in 2012 following the Comprehensive Spending Review work which saved £61m between 2011-2013, (see R008/2014: MTFP Update to the department Annex for 2014). In the 2012 Strategic Plan, one of the then Council of Ministers' strategic priorities was to 'Reform Government and the Public Sector'. In May 2012, the then Council of Ministers agreed a way forward focussed around three core elements – Service Redesign, Culture Change and Workforce Modernisation. Following initial groundwork, particularly on mapping customer interactions with the States, a formal PSR programme was proposed and agreed as follows:

> *Public Sector Reform is a long term programme, proposed to run over 6 years to 2018, the purpose of which is to help forge a more innovative, efficient and less expensive government which will increasingly be seen as a partner of the private sector in growing and diversifying the economy as well as a deliverer of essential public services to the citizen. In addition, Reform will deliver a more flexible, efficient and sustainable public sector workforce which will be better able to meet the future challenges Jersey will face over the next 10-20 years. It is about changing how we deliver services which may save money, may avoid increasing costs or may mean costs increase less than they might otherwise have done.*

The Programme has been split into manageable phases – Phase 1 (2013/14) which created the enabling infrastructure to deliver sustainable reform in the latter phases. Much is to do with e-Government, but modernisation of the workforce and using proven methodologies to re-engineer States' processes by concentrating on the customer is vitally important.

Much has been achieved in the first phase, the highlights of which are:

- A Jersey Lean Academy has been developed and rolled out across the States providing a proven and consistent methodology to empower its work force to problem solve and redesign processes and taking out waste whilst ensuring customer focus.
- A business case for implementing e-Government has been approved whilst exemplar projects have been implemented ahead of refocussing on the major customer departments of Income Tax and Social Security. The Social Security Department acted as a pilot both for the Lean Academy and the development of e-Government tools.
- A Reward system is being developed to model alternative Reward Frameworks based on a Job Evaluation system piloted in Health and Social Services and now extended to other States Services (excluding Teachers and Uniformed Services). This will allow the States to consider the alternative Reward system to consolidate and streamline the current myriad of pay scales across departments to ensure 'equal pay for equal work' as well as providing increased flexibility and mobility within the workforce.
- In tandem with this work, all Terms and Conditions are being reviewed to ensure they are consistent and modernised.
- A States-wide Engagement programme has been developed to ensure all staff are aware not only of the PSR programme but what is going on within the States. This not only increases productivity and motivation but ensures consistent messages are communicated to all staff.
- A Performance Management Framework has been developed and is being piloted to ensure all staff are regularly appraised and to identify training and development requirements for the future.
- An Office Consolidation Project aims to ensure that office space can be used as efficiently and effectively as possible and modern office requirements implemented wherever possible.

Phase 2 of the PSR programme was predicated on using the enabling tools developed during Phase 1 to redesign services to be modern, efficient and more customer focussed. This has coincided with the current requirement to reprioritise funds within the States to meet the strategic priorities and should provide the basis for redesign and restructuring which is now required to meet projected budget shortfalls in MTFP 2016-2019.

<u>People Savings - £70 million</u>

There are a number of ways these savings will be achieved:

- Managing staff attrition – when any post becomes vacant due to a retirement, a member of staff leaving or a contract finishing, serious consideration is being given as to whether filling the post is the right thing to do. The States HR Department have already identified all posts which will fall vacant in the next 5 years and departments are considering whether through service redesign or e-Government a post can be saved and the financial saving realised.
- Pay restraint – a pay freeze has already been proposed for 2015 and pay restraint over the next 4 years will be required. The Workforce Modernisation project is key to this element as is working closely with our staff representatives.
- The current Voluntary Release Scheme will also contribute to this target as staff willing to leave the organisation can be assisted in doing so with a resultant post being saved or a redesign being implemented. It is anticipated that future use of such schemes would be more targeted throughout 2016 to 2019 focusing on areas where re-design of services are identified that will add value to the services provided by the public sector. This focused approach in partnership with our Unions should reduce the

need for compulsory redundancy and facilitate the achievement of the £70 million people saving targets for the period.

- Service Redesign, through Lean methodology or with the enablement of e-Government, will also help achieve this target as will consideration of whether a service could be stopped, reduced or provided in a completely different way e.g. by an external or 3rd sector organisation. A good example of this can be seen in Transport and Technical Services where initial plans have been put forward which will transform the way its services are delivered in the future .

Figure 27 – Indicative Staff Savings Targets

People Savings	Indicative Savings Targets			
	2016	2017	2018	2019
	£'m	£'m	£'m	£'m
Target Profile	**20**	**39**	**54**	**70**

<u>Other savings - £40 million</u>

These would be non-staff savings and also some user pays charges where they are considered appropriate:

- Service Redesign, as mentioned above, will have some non-staff savings, for instance, TTS restructuring will attract savings in supplies and services costs etc.
- The current plan is that no non-staff inflation has been included in the MTFP 2016-2019 which will mean departments have to become more efficient in order to absorb inflationary increases from outside suppliers. It also means best value must be obtained from all procurement activities throughout the States.
- Office Consolidation will also provide a catalyst to more efficient and effective working environments which should lead to a cost reduction.
- Social Security has proposed a number of changes to benefits which will promote financial independence, improve the targeting of benefits whilst minimising individual impact. These are summarised in greater detail below.
- In some areas, it is appropriate that a user of a particular service pays for that service rather than being subsidised by the tax payer. Planning fees are a good example here and every effort should be made to ensure full cost recovery in these circumstances. TTS is proposing alternative funding for liquid and solid waste in the future and this will contribute to a reduction in States net expenditure in these areas, as well as provide a funding mechanism for later stages of the capital spend.
- The States provide many grants and subsidies to outside organisations and, with the tight financial control required in MTFP 2016-2019, it is appropriate that our partners are also asked to contribute.

The PSR programme will coordinate and monitor all of the projects which will deliver the savings targets in MTFP 2016-2019; this work is just beginning but the infrastructure is in place.
2016 department savings have been agreed and the breakdown is shown in **the MTFP Departmental Annex** with highlights explained in **Section 12** of this document. By June 2016, individual departmental cash limits for 2017 to 2019 will be identified in the MTFP Addition, which will include the savings proposals for those years.

Figure 28 – Indicative Other Savings Targets

Other Savings	Indicative Savings Targets			
	2016	2017	2018	2019
	£'m	£'m	£'m	£'m
Target Profile	**18**	**24**	**31**	**40**

Changes to Benefits - Target of £10m by 2019

The great majority of Social Security's budgets are used to provide benefits to individuals. Changes in benefit expenditure are being considered using the following major themes:

- *Promote financial independence* – use changes in benefit to promote activities that will support the financial independence of claimants, and protect benefits which are supporting the financial independence of claimants;
- *Improve targeting of benefits* – change benefits in areas where public money is not specifically targeted to vulnerable groups; and
- *Minimise individual impact* – spread changes over larger groups of claimants, rather than a few individuals.

Further details are provided in **Section 12** of this document and the Social Security section of the **MTFP Department Annex** to be published as an Addendum to this report.

User Pays - Charging for certain services – Target of £10m by 2019

The Council of Ministers has been quite clear about its policy regarding sustainable measures which require departments to firstly demonstrate that every effort has been made to prioritise existing services, drive out all savings and efficiencies and demonstrate that public services are efficient and providing value for money, before increasing or introducing new charge for services.

The Transport and Technical Services Department (TTS) is a good example of how a department is undertaking a comprehensive review of all of its operations that will enable the Department to provide and enhance these essential public services to the Island and manage its finances in a sustainable manner in the long term.

The challenge will be addressed in three steps:

- Amalgamate the operations of Jersey Property Holdings and Transport and Technical Services to form the new Department of Infrastructure;
- Restructure services to meet the revised budget and manpower targets; and
- Raise user pays charges predominantly focussing on liquid and solid waste operations enabling a more sustainable funding stream for the future.

Given the financial challenges facing the States, it is important that every effort is made to minimise cost and improve efficiency across the services. Whilst that will contribute to meeting the shortfall, it is increasingly obvious that some additional charges will have to be considered in order to provide sustainable funding in the longer term. Chief amongst these will be charges for solid and liquid waste disposal. In many jurisdictions such charges are commonplace and go some way to encourage recycling and innovative solutions to dealing with waste.

It is acknowledged that additional charges for services which have been perceived as a free good by the public is, at best, challenging. However the principle of user pays charges will significantly improve the environmental behaviours with respect to transport, solid waste and liquid waste. Charging for commercial solid waste will also enable alternative business opportunities for recycling which are currently suppressed due to TTS's free disposal option.

TTS will embark on a number of changes over the coming years, not least of which will be the potential for some areas to become a trading or separate operation. Whilst investigations into the feasibility of such a move are currently at very early stages, it is intended that proposals be brought forward to the States in the next phase of the current MTFP period in early 2016.

<u>Health Charge - £35 million</u>

Figure 29 – Proposed Targets for Health Charge

Health Charge	Indicative Savings Targets			
	2016	2017	2018	2019
	£'m	£'m	£'m	£'m
Target Profile	-	-	**15**	**35**

The Health and Social Services Department (HSSD) issued a Green Paper in May 2011 for public consultation, enabling islanders to understand the challenges the Island is facing in the coming years in meeting the growing cost of healthcare and for them to express their preference over the three options available to find a solution.

The option preferred by the public led to States approval for “Health and social services: a new way forward ” (P.82/2012), a strategy document which set out actions to be taken by HSSD and identified the need for a sustainable funding mechanism for health and social care.

Existing health and social care services are funded in several separate ways. HSSD provides direct services from its departmental budget. The Social Security Department provides financial support for GP costs and prescription drugs through the Health Insurance Fund. Individuals also make point of use payments across a range of health services.

MTFP 2013-2015 included £11 million of extra funding for HSSD services and MTFP 2016-2019 includes proposals for an additional £40 million of HSSD increased costs and new services by 2019. To meet these additional costs, this MTFP also proposes a new health specific income stream of £35 million by 2019.

In order to provide the additional funding proposed for HSSD in this plan the Council of Ministers is proposing that contributions from the Health Insurance Fund (HIF) are taken in 2017 and 2018, ahead of the proposed introduction of a Health charge from 2018. However, the Council of Ministers will be working to bring forward proposals for the Health charge as soon as possible and depending on the funding mechanism this may be possible earlier than indicated. If proposals for a Health charge can be agreed earlier, then the contributions from the HIF in 2017 and 2018 could be reduced accordingly.

The annual cost of health benefits provided from the HIF already exceeds the contribution income received into the fund. This situation must also be addressed and the future of the HIF will be considered as part of the overall project to create a sustainable funding mechanism for health and social care.

With political support in place, an officer group was convened, with representatives across all areas of the States affected, with a remit to look at how existing health services are funded, to consider ways in which additional funding could be introduced as part of MTFP 2016-2019 and to provide options to those who need to make decisions.

In 2011 KPMG were commissioned to explore the funding options available to the States of Jersey, drawing on their international database of knowledge and experience of existing Health funding methods in countries such as Singapore, the Netherlands, the USA and Guernsey.

Their report highlighted the three main types of policy options available: insurance contributions (either mandated or through encouraged private insurance), taxes and charging health care users to pay at the point of delivery.

There are a number of practical policy variations and considerations around these mechanisms, and whilst all options have their respective benefits and drawbacks, ultimately the gap is most easily bridged by the public of Jersey making a greater contribution in funding, or electing to reduce services elsewhere.

In the UK in 2014, the Kings Fund commissioned a review into people's entitlement to health, care and support and how these could be funded. The report expressed their view that there should be a "single ring-fenced budget for health and social care which is singly commissioned and which entitlements are much more closely aligned".

The King's Fund report also acknowledges there are some hard decisions to be faced with regards to funding, that there will be a requirement of a combination of higher taxation, charges or cuts in other areas of public spending. They also suggest that some of the funding should come from a pensioner population that is on average better off than its preceding cohort.

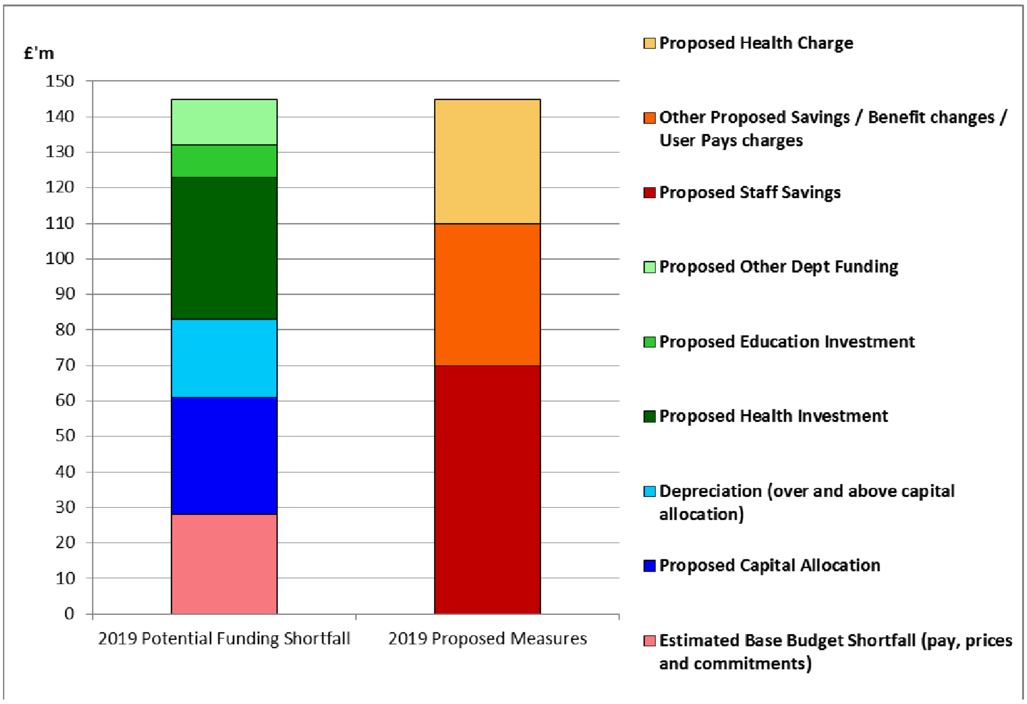
The officer group is tasked with providing advice to the Health and Social Services Ministerial Oversight Group on matters relating to the provision of a sustainable funding mechanism for health and social care in Jersey and the future of the Health Insurance Fund. That advice will include consideration of any economic impacts of the options and provide feedback from the consultation process.

Summary

The advice of the Fiscal Policy Panel in its Pre-MTFP report was for the States to address any structural deficit with sustainable measures by 2018/2019. The Fiscal Policy Panel also advised that 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.

The Council of Ministers has interpreted this advice to mean that there should be a phased introduction of the sustainable measures which should be carefully planned and implemented over the four year period to 2019.

Figure 30 – Proposals for a balanced budget by 2019



As a result the balanced position that will be the result of the proposed plan in 2019, as shown in **Figure 30**, will require short-term measures to be applied in 2015-2018 to ensure that the Consolidated Fund is not overdrawn, as required by the Public Finances Law.

The proposals for short-term measures are covered in the next Section together with considerations for contingency plans should the levels of income vary within the forecast range.

Figure 31 – Summary of Proposed Savings Targets

Proposed Measures	Indicative Savings Targets			
	2016	2017	2018	2019
	£'m	£'m	£'m	£'m
People Savings	**20**	**39**	**54**	**70**
Other Savings				
- Non Staff Savings	13	17	20	20
- Benefit Changes	5	7	8	10
- User Pays Charges	-	-	3	10
Total Other Savings	**18**	**24**	**31**	**40**
Health Charge	**-**	**-**	**15**	**35**
Total Proposed Measures	**38**	**63**	**100**	**145**

12. 2016 Proposals for Savings and Benefit Changes

As part of the 2015 Budget measures to balance the budget, departments were asked to make 2% savings from their annual expenditure for 2015. At the time it was recognised that in a number of areas the savings would need to be made in 2015 on a non-recurring basis.

These savings are now recurring from 2016 and contribute towards the required savings for this MTFP and departments have been working on how they can become sustainable from 2016 and going forwards. The detail about how they plan to make the savings can be found in the MTFP annex but the highlight have been summarised below.

In addition, further savings have been identified by departments from 2016 and work is on-going to identify the targets for each area for 2017-2019. These will be explained in the MTFP addition in June next year.

The savings from 2015 and 2016 by department can be seen in **Figure 32.**

Figure 32 – Summary of 2015 and 2016 Savings and Benefit Changes by Department

Summary of 2015 and 2016 Savings and Benefit Changes	Savings and Benefit changes 2015 £'000	Savings and Benefit changes 2016 £'000	Restraint on Staff and Non-Staff Inflation 2016 £'000	Total Savings and Benefit changes 2015/2016 £'000
Chief Minister	(486)	(302)	(136)	**(924)**
- Grant to Jersey Overseas Aid Commission				-
Community and Constitutional Affairs	(1,033)	(373)	(151)	**(1,557)**
Economic Development	(420)	(631)	(299)	**(1,350)**
Education, Sport and Culture	(2,649)	(1,516)	(270)	**(4,435)**
Department of the Environment	(205)	(537)	32	**(710)**
Health and Social Services	(4,624)	(1,948)	(981)	**(7,553)**
Social Security	(331)	(5,397)	(71)	**(5,798)**
Transport and Technical Services	(817)	(1,008)	(127)	**(1,951)**
Treasury and Resources	(779)	(237)	(273)	**(1,289)**
Non Ministerial States Funded Bodies				-
- Bailiff's Chamber	(37)	(63)	(12)	**(112)**
- Law Officers' Department	(204)	(196)	(52)	**(452)**
- Judicial Greffe	(161)	(161)	(81)	**(402)**
- Viscount's Department	(39)	(75)	(2)	**(116)**
- Official Analyst	(13)	(21)	(4)	**(38)**
- Office of the Lieutenant Governor	(17)	(18)	(2)	**(37)**
- Office of the Dean of Jersey	-		(0)	**(0)**
- Data Protection Commission	(8)	(20)	1	**(27)**
- Probation Department	(53)	(170)	(3)	**(227)**
- Comptroller and Auditor General	-		(14)	**(14)**
States Assembly and its Services	(98)	(51)	(25)	**(174)**
Workforce Modernisation, Pay and PECRS Provision	-	-	(10,894)	**(10,894)**
Total Proposed Savings and Benefit Changes	**(11,974)**	**(12,723)**	**(13,363)**	**(38,060)**

How these savings will be made varies department by department although there are a number of themes around reviewing staff levels and working hours, the buying-in of advisory work and efficiencies around non-staff expenditure.

Chief Minister's Department, as well as those areas identified across the departments, they intend to deliver savings by reducing their budget to support inbound VIP visitors to the island.

Community and Constitutional Affairs savings share the themes described as well as reviewing overtime costs and looking at residential accommodation and prisoner activity in Prison Services.

Economic Development has identified a reduction in grants as a key area of savings delivery, including grants to Jersey Finance and Skills Development. They also intend to reduce expenditure to the rural sector and route development. They are prioritising expenditure towards Economic Growth and employment opportunities.

Education Sport and Culture have identified a small decline in the number of students accessing UK higher education with an increase in on island provision. This has resulted in reduced costs which are allocated towards their savings target. They have also been looking at grants.

Department of Environment used a service redesign which will mean some action statements will be delivered differently to help them with their savings, as well as the themed changes around staff and grant reductions.

Health and Social Services have identified a number of schemes they plan to use to deliver their savings. These include:

- a review of non-pay budgets and reduction in usage of supplies;
- reducing spend on patient food services for inpatients;
- reducing the number of FTE in management and administrative support areas;
- improving procurement of specialist care in the UK to reduce cost;
- requiring efficiencies in contracts for services with on-island providers including voluntary and community sector partners;
- restructuring management of Community & Social Services;
- closing hospital beds at the weekends, where safe to do so;
- reducing staff travel costs and patient travel subsidies;
- reviewing the provision of patient transport services;
- improving staff absence management and the spend on agency and locum staff;
- reviewing provision of some low level care services; and
- implementing recommendations from the review of Private Patient Income by the Comptroller and Auditor General.

Social Security Department plan to achieve efficiencies supported the capacity generated by the application of LEAN methodology and other reform work. They have been using LEAN methodology for some time now and so far have found not only has their customer service improved but the capacity generated has allowed them to not replace some staff leavers.

As well as their departmental savings, the Resources Statement accompanying the Strategic Plan (P.27/2015(Add)) identified that changes to benefits would be included within the overall package to support the funding of the strategic aims approved by the States Assembly and achieve the agreed public funding position by 2019. In total, Social Security Department proposes to reduce its anticipated spend on tax funded benefits by £10.0 million by 2019.

For 2016, Social Security proposals provide for a tax funded benefit budget that is £5.1 million below the original anticipated spend.

Changes are proposed to the income support scheme. The impact of these changes for 2016 is explained in the **Figure 33.**

Figure 33 – Proposed changes to the Income Support Scheme

Proposal	2016 Net Saving £'m	Notes
Provide increases for rental and childcare components but maintain other Income Support components at their 2015 value	2.0	Planned increases in rents for Andium and other social housing providers will be fully covered
Align the treatment of lone parents with other adults in income support households	0.8	An additional component worth just over £40 per week is currently allocated to lone parents who receive income support. Over the next four years the treatment of lone parents will be progressively brought in line with the treatment of all other adults in income support households
Phase in changes to the income support child component		Changes will be gradually introduced from 2016 onwards
Align the treatment of some types of benefit income with that of other non-earned income	0.6	Some income support claimants are currently allocated an extra allowance of up to £12 a week in respect of specific contributory Social Security benefits that they also receive. In 2016, the treatment of this benefit income will be aligned with the treatment of all other non-earned income
Align the treatment of pension income with that of earned income	0.0	Income support claimants over State pension age who receive a pension are currently allocated a fixed allowance which does not reflect the value of the pension. The structure of the allowance will be gradually changed so that it is progressively aligned with the treatment of earned income and the value of the allowance reflects the amount of provision made by the claimant for their old age
Bring the treatment of jobseekers under 25 in line with the treatment of students aged under 25	0.2	A jobseeker aged between 19 and 24 can currently claim £92 per week, even if living at home with parents who do not qualify for income support. By 2016, the treatment of jobseekers will be brought in line with the treatment of full-time students in a similar situation
Provide more Income Support one-off payments as loans	0.1	Income support households receive help with a variety of one-off costs. Grants are currently available for white goods, furniture and fittings. By 2016, these will be available as loans

Changes will be made through the update of Ministerial Orders or internal policy documents except for changes in the Child and Lone parent components, which require States approval to amend income support regulations. Amendments will be lodged in August to allow for debates immediately following the main MTFP debate.

One of the financial pressures facing all developed Western ageing economies is the range of extra costs associated with the growth in the number of people aged 65 and above and one of the key strategic aims of this Council of Ministers is to ensure that we have a health system that can continue to provide good quality care to an ageing population.

In order to allow funds to be available to meet the costs of demographic pressures within the health service, Social Security proposes to make major changes to two benefits which are predominantly claimed by older people. The Christmas Bonus is paid to local pensioners and is worth just over £80 per person per year, giving a total cost of £1.5 million in 2015. It is not means tested or targeted and it is paid automatically. From 2016 this bonus will no longer be paid. The second change is that the scheme that provides free television licences to some pensioners aged 75+ will be closed to new entrants. People who are already receiving a free TV licence under this scheme will continue to be eligible.

From the funds released by these changes, the Department will retain £200,000 to improve the 65+ health scheme which provides financial support for dental, optical and chiropody costs to pensioners with incomes below the tax threshold, who do not pay income tax.

These changes will require States approval to amend existing legislation. Changes will be lodged in August to allow a debate immediately following the main MTFP debate.

Transport and Technical Services plan a number of efficiency improvements in many operational and support areas of the Department including the closure of day-to-day operations of La Saline quarry. Concessionary bus fares are also under consideration to maximise bus capacity during the morning peak period.

Treasury and Resources plan to deliver savings mainly through staff rationalisation and reduced planned maintenance from Jersey Property Holdings.

Non-ministerial departments each have their plan, which are largely the same as the themed areas, as follows:

- Bailiff Chambers - Delivering efficiencies through the review of Court and Case Costs
- Law Officers Department - Delivering efficiencies through introducing new policies, a review of Court and Case Costs and a review of both Staff and Non Staff expenditure.
- Judicial Greffe - Delivering efficiencies through review of Court and Case Costs, fixed fees and review of both staffing and professional fees
- Viscounts Department - Delivering efficiencies through review of advisory services in Court and Case costs and a review of staffing
- Official Analyst - Review of staffing and a reduction of staff working hours
- Office of the Lieutenant Governor - Review of staffing
- Office of the Information Commissioner - Reduction in operational expenditure
- Probation and After Care - Review and reduction in budget allocated to upgrade of Daisy software and a review of staffing.

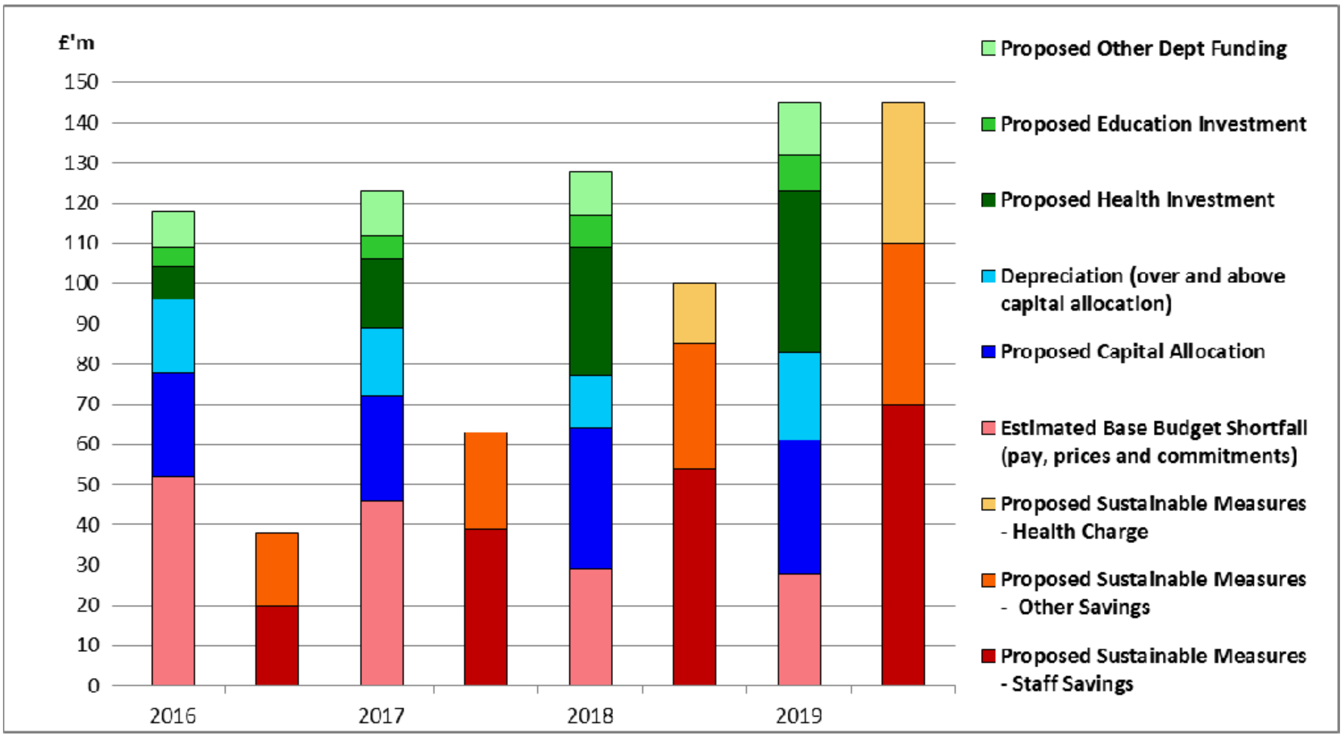
States Assembly plans to make their savings through staff rationalisation, including not filling the Independent Care Inquiry liaison officer.

13. Additional Proposals and Short Term Funding Measures 2016-2018

Projected Profile of Proposed Sustainable Measures from 2016-2019

The proposed measures to balance budgets by 2019 summarised in Figure x in the previous section arebeing phased in to minimise the risk to the economic recovery. It is also clear that even with the most aggressive or optimistic targets for these sustainable measures the scale of change that is required will inevitably require some additional form of short-term funding measures to ensure that a positive balance is maintained on the Consolidated Fund. However, the Council of Ministers are also keen to stress that the earlier that these sustainable measures are agreed and implemented the greater the accrued benefit over the period of the plan, and this is particularly the case in relation to savings and efficiencies.

Figure 34 – Projected profile of the proposed sustainable measures from 2016-2019



The projected profile of the £145 million of sustainable measures by 2019 is illustrated in **Figure x**, which is based on the initial targets that the Council of Ministers has set departments for the spending review and savings plan for staff and non-staff savings, detailed in **Section 11,** which include 2015 savings measures. It also reflects the targets for the phased introduction of changes to benefits in Social Security.

The profile of user pays charges and the introduction of a sustainable funding mechanism for Health are planned for the latter period of this MTFP in line with the Council of Ministers principle that savings, efficiencies and economic growth initiatives should be identified first before any charges are implemented. The profile assumes that the introduction of a Health charge, once a mechanism has been agreed, is initially proposed for 2018 but with £35 million required to be raised by 2019. As the principle of a sustainable funding mechanism for health was agreed in 2012, consideration will be given to introducing the charge earlier, in order to reduce the scale of the short-term measures required.

Proposals for Priority Capital and Investment Funding and Other Pressures

The Public Finances Law requires the Council of Ministers to present an MTFP in which the Consolidated Fund is forecast not to show a negative balance for each year of the MTFP period, in this case 2016-2019. The Council of Ministers has already taken action to introduce measures to ensure that the Consolidated Fund is not overdrawn in 2015, as a result of the reduction in income forecasts, and these measures are described in **Section 7.**

In addition to the shortfall identified in **Figure 34,** the Council is also proposing a number of other important initiatives which require one-off funding in the early years of the MTFP.

Committee of Inquiry

The debate of P20/2015 in May 2015 stated that the Minister for Treasury and Resources bring forward a Strategic Reserve request for £14 million for the Committee of Inquiry, if funding could not be funded from other sources. This will require a proposition from the Minister for Treasury and Resources to change the policy for use of the Strategic Reserve and to transfer the funds from the Strategic Reserve to the Consolidated Fund and will be brought alongside the draft MTFP 2016-2019. The current forecast is that £10 million will be required in 2015 with £4 million will require approval in the MTFP to be allocated in 2016. This would be the first call on the Strategic Reserve over and above that required to maintain the value at the 2012 level uprated by inflation.

Economic Growth and Productivity Drawdown Provision

Economic and productivity growth leading to job creation and income generation is one of the five objectives in the States Strategic Plan 2015. Although progress has been made in a number of areas in economic and productivity growth policy there should be no misunderstanding that the scale of the productivity challenge facing the Jersey economy is both large and critical to the Island's future prosperity. The FPP have highlighted concerns about Jersey's productivity performance in recent years and that looking ahead any increase in productivity would be a considerable improvement on previous performance.

The Council of Ministers is proposing that the States should act now and develop a clear strategy for raising productivity (in both the public and private sectors) and competitiveness in the Jersey economy. Ongoing improvements in these areas will help to manage the fiscal consequences of an ageing society and make it more likely that Jersey's economy will grow in the future. While government cannot be solely responsible for an economy's productivity performance, it can make a difference in key policy areas where the private sector alone may not deliver optimal results.

An Economic Policy Group (EPG) be established to improve the coordination of economic policy formulation and to oversee its implementation. This Group could form part of an appropriate governance structure to both review the allocation of existing resources and consider and prioritise new economic and productivity growth initiatives.

Ministers and Officers must work together to focus resources where they can make the most impact in raising productivity, and ensure that what money is already spent on productivity policy is being allocated to the most effective uses. The need to invest and prioritise resources for economic and productivity growth initiatives is set against the sustainable measures required to deliver balanced budgets and associated savings and expenditure restraint which must be apportioned to all areas whilst reflecting their relative strategic priorities.

As a result the base budgets of the key areas for influencing economic growth and productivity improvements will inevitably be part of this process and those departments affected will be required to refocus and reprioritise existing base budget funding.

The Council of Ministers is proposing that up to £20 million provision be set aside in this MTFP period to be drawn down so that new initiatives that can demonstrate they cannot be funded from existing resources and that have a strong rationale that they can have a positive impact on productivity can be allocated additional funding. This funding is proposed at a level of up to £5 million in each year of the MTFP from 2016, for the period of this MTFP only.

Financial management of the allocations would be through the Minister for Treasury and Resources and reported to Council of Ministers based on recommendations from the proposed Ministerial Oversight Group - the Economic Policy Group (EPG), a similar process to that previously used for managing Fiscal Stimulus allocations.

Voluntary Release Scheme and Funding for further Redundancies as part of Public Sector Reform

The voluntary release scheme provides a mechanism for employees who wish to volunteer to leave the organisation through redundancy or early retirement to receive a redundancy payment or immediate pension. The scheme has been made available to all employees in 2015.

It is anticipated that future use of such schemes would be more targeted throughout 2016 to 2019 focusing on areas where re-design of services are identified that will add value to the services provided by the public sector. This focused approach in partnership with our Unions should reduce the need for compulsory redundancy and facilitate the achievement of the £70 million people saving targets for the period.

To enable the release of staff through the various processes of Voluntary Redundancy (VR), Voluntary Severance (VS) Voluntary Early Retirement (VER) and potentially compulsory redundancy as a final option, additional funding will be required over the MTFP period. The Council of Ministers has already identified £2 million in 2015 and is proposing to set aside up to £10 million in 2016 and up to a further £10 million in 2017 to the central redundancy provision.

All applications received will be considered by department Chief Officers and authorised where the business case demonstrate financial viability. The current terms of the scheme and any future alterations require approval of the States Employment Board (SEB). Release of central funding for redundancy payments requires authority of the Chief Executive, Treasurer of the States and the Director of Human Resources.

Funding to re-establish a working balance on the Consolidated Fund

The first MTFP 2013-2015 started with a balance on the Consolidated Fund of £32 million and proposed to maintain at least a working balance of £10 million over the three-year period. Although subsequent reductions in the forecast income have caused those balances to be applied the practical objective must be to re-establish an appropriate working balance for the MTFP 2016-2019.

The Consolidated Fund balance at the end of 2014 was £4.7 million and measures described in **Section 7** are proposed to maintain a positive balance of £43 million at the end of 2015. The Council of Ministers is proposing that funds be transferred into the Consolidated Fund to establish a working balance of around £20 million in 2016 and for broadly this level of balance to be maintained over the period of the MTFP 2016-2019 and beyond. At each annual Budget the forecasts would be reviewed to establish if any measures were required to maintain the balance for the following year.

A working balance of this level is intended to prevent further unplanned and short-term measures having to be taken to adjust to minor variations in States income forecasts. With the levels of uncertainty and range of forecasts identified by the FPP and the IFG, variations of 1% or 2% in any one year are very likely and with States income at £700 million this would translate to £7 million to £14 million. As part of the annual financial planning cycle, the Minister for Treasury and Resources has the opportunity to manage some of the income variations with proposals for tax and funding in annual Budgets, however a working balance on the Consolidated Fund will enable any necessary changes to be phased in over a longer period.

Funding for Other Capital Projects in addition to the Annual Capital Programme

The proposals for other capital projects in addition to the base capital programme are covered in **Section 15.** These proposals identify that the major project for Les Quennevais School requires funding in the short-term ahead of anticipated capital receipts from asset disposals later in the MTFP period.

The short-term funding would enable the project to start in 2017, with preparatory work beginning in 2016. The Council of Ministers' intention is that the allocation of £40 million, which would be funded from the Strategic Reserve, would be reimbursed with a similar level of capital receipts by 2019. These receipts would come from the sale of assets or from the consideration of any sale of all, or part of, a States' owned utility. A review of the ownership of Jersey Telecoms is underway.

The next Phase of the Prison Improvement scheme is scheduled for 2018. This is currently not prioritised with the main capital programme but the plan is that should funds be received into the Criminal Offences Compensation Fund, beyond those required to provide a contingency for major court and case costs, then these funds could be used to fund the capital scheme at the Prison.

The Minister for Treasury and Resources would bring forward appropriate proposals in the relevant annual Budget.

Figure 35 – Summary of Funding Requirements for Additional Proposals

States Expenditure Proposals	Forecast 2015 £'000	Forecast 2016 £'000	Forecast 2017 £'000	Forecast 2018 £'000	Forecast 2019 £'000	Forecast Total £'000
Requirement for Additional Proposals						
Funding requirement for shortfall before additional proposals		55,278	39,169	8,702	(30,256)	72,894
Funding requirement for Committee of Inquiry	10,000	4,000				14,000
Funding requirement for Economic and Productivity Growth Drawdown Provision		5,000	5,000	5,000	5,000	20,000
Funding requirement for Redundancy Provision		10,000	10,000			20,000
Total Funding Requirements - Financial Forecast	**10,000**	**74,278**	**54,169**	**13,702**	**(25,256)**	**126,894**
Funding requirement for Consolidated Fund Working Balance		5,000				5,000
Funding Requirements for Other Capital Projects						
Les Quennevais School		1,000	39,000			40,000
Prison Improvement - Phase 6				8,233		8,233
Total Funding Requirement - Major Projects	**-**	**1,000**	**39,000**	**8,233**	**-**	**48,233**
Total Funding Requirements	**10,000**	**80,278**	**93,169**	**21,935**	**(25,256)**	**180,127**

Funding Options for Additional Proposals

In previous years the Council of Ministers would have been able to draw on much larger balances on the Consolidated Fund and in the period 2010 to 2012 the States had prudently established a Stabilisation Fund which was able to be drawn down over a period to protect public services and provide fiscal stimulus and economic growth initiatives. However, the length and depth of the current economic downturn has been greater than anyone had predicted and when income forecasts reduced the States are now facing the current funding shortfalls.

As a result, the Council of Ministers has had to consider other short-term funding options, and has given regard to the Fiscal Policy Panel's advice, and decided that in the early years it would be appropriate, once all other options had been explored, to draw on its Reserves rather than employing measures that might put at risk the economic recovery. The use of Reserves has enabled the much needed investment in capital, restructuring costs and investment to drive productivity and economic growth.

<u>Change in Accounting Policy for Tax Revenues</u>

The States of Jersey Financial Report and Accounts are prepared in accordance with the States of Jersey Financial Reporting Manual (JFReM) issued by the Treasurer of the States and presented to the States by the Minister for Treasury and Resources in order to meet the requirements of the Public Finances (Jersey) Law 2005. The accounting policies contained in the JFReM apply International Financial Reporting Standards (IFRS) as adapted and interpreted for the Public Sector in Jersey.

Accounting policies are constantly reviewed to ensure compliance with updates to IFRS and to ensure that the financial statements provide the most reliable and relevant information.

The collection of Current Year Basis (CYB) tax was introduced in 2006 and, at that time, the proportion of tax collected from employment income on a current year basis was 4.5%. This has increased to 34.5% in 2014 and will eventually reach 100%. Current year basis tax revenue is recognised a year in arrears in the financial statements with any tax collected through the Income Tax Instalment Scheme (ITIS) in the current year recognised as a payment in advance.

In order to reflect the increasing proportion of income tax revenue collected from CYB tax payers and given the demonstrable accuracy of estimates of their eventual tax liability, the accounting policy is being updated to recognise CYB tax revenues in the current year. This amendment will have a minimal recurring impact on the financial statements other than a one off prior year restatement of 2014 income tax revenue in the 2015 Financial Report and Accounts of approximately £60 million.

The other impact is on the Consolidated Fund where the £60 million will be recognised in the unallocated balance during 2015 rather than a creditor at the year-end as is currently the case.

<u>Strategic Reserve Transfers from Real Return</u>

The current policy on the use of Strategic Reserve **capital balance** is restricted to strict criteria relating to exceptional circumstances for Jersey involving severe structural decline or major natural disaster or specifically in relation to the Bank Depositors Compensation Scheme (limited to £100m).

The States approved in the 2015 Budget that the capital value of the Strategic Reserve be protected in real terms from the value of £651 million at the end of 2012.The States also considered the use of the investment return on the Strategic Reserve to fund the cost of New Hospital Services.

The debate of P20/2015 in May 2015 stated that the Minister for Treasury and Resources bring forward a Strategic Reserve request for £14 million for the Committee of Inquiry, if funding could not be funded from other sources.

The Council of Ministers is proposing to continue to protect the capital value of the Strategic Reserve but to use the real return, estimated at £113 million for 31.12.2014, **(see Figure 37)** net of the budgeted contributions to the Hospital project at the end of 2014, to contribute to the short-term funding requirements of the MTFP 2016-2019.

The Council of Ministers deliberated long and hard regarding the possible of use of the Strategic Reserve and other Reserves, having regard for the recommendations of the Fiscal Policy Panel (FPP) that:

> *"Given the strength of Jersey's public sector net asset position, financing issues should not be a reason to delay or postpone important investments, particularly those which support productivity improvements and competitiveness"*

The Council of Ministers also consider that the current economic condition of the Island is not such that would qualify as a severe structural decline and therefore it is not appropriate to consider using the capital balance of the Strategic Reserve.

The Council of Ministers however does consider that it should be established, that the real return income over and above that required to maintain the capital value of the Reserve be used to ensure important capital expenditure is undertaken. Furthermore, that funding so vital to restructuring the public service and stimulating the economy, both of which are essential to bringing the States' finances back into balance, was made available.

The Council of Ministers also considered it to be very important that whenever possible and as soon as practicable any drawdowns from the Strategic Reserve be repaid and accordingly is proposing capital receipts equivalent to the costs of Les Quennevais School be repaid. It is also proposing that the drawdowns proposed for stimulating economic and productivity growth and a redundancy provision are repaid by the end of this MTFP period.

A further minor drawdown of £5 million is proposed to ensure the Consolidated Fund maintains a working balance of £20 million over the MTFP period.

The proposed use of the Strategic Reserve return would require a proposition from the Minister for Treasury and Resources for the States to approve the specific transfers to the Consolidated Fund in the respective years and this will be brought for debate alongside the draft MTFP 2016-2019 in October 2015.

Figure 36 illustrates the proposed Strategic Reserve transfers to and from the Consolidated Fund over the period 2015-2019. This includes the agreed transfer to the Future Hospital of £22.7 million in 2015 in line with the previous funding proposals for the project. Once the proposals to facilitate the funding for a new hospital either on a new site or a rebuilt and refurbished hospital on the current site are finalised, these proposals will be brought to the States in the form of future amendments to the MTFP and appropriate legislation for approval.

Figure 36 - Proposed withdrawals and repayments from the Strategic Reserve for the period 2015-2019

Funding Proposals from Strategic Reserve	2015 Forecast £'000	2016 Forecast £'000	2017 Forecast £'000	2018 Forecast £'000	2019 Forecast £'000
Funding requirement for Committee of Inquiry	(10,000)	(4,000)	-	-	-
Funding requirement for Economic and Productivity Growth Drawdown Provision	-	(5,000)	(5,000)		10,000
Funding requirement for Redundancy Provision	-	(10,000)	(10,000)		20,000
Consolidated Fund working balance	-	(5,000)	-	-	
Les Quennevais School	-	(1,000)	(39,000)	-	-
Funding requirement for Annual Capital Programme		(25,691)	(26,273)	-	-
Future asset disposals forecast			20,000		20,000
Funding Requirement from Strategic Reserve Return	(10,000)	(50,691)	(60,273)	-	50,000

Figure 37 – Estimated balances on the Strategic Reserve 2013 - 2019

Strategic Reserve - Estimated Balances	2013 Actual £'000	2014 Actual £'000	2015 Forecast £'000	2016 Forecast £'000	2017 Forecast £'000	2018 Forecast £'000	2019 Forecast £'000
Strategic Reserve - Protected Capital Value [2]	664,240	672,875	684,987	702,797	721,070	742,702	764,983
Strategic Reserve - Accumulated Excess Return [1]	78,888	113,647	98,101	64,457	19,819	35,231	103,096
Strategic Reserve - Estimated Fund balance	**743,128**	**786,522**	**783,089**	**767,254**	**740,888**	**777,933**	**868,079**

Variations in the States Grant to the Social Security Fund (SSF)

The Social Security Fund receives contributions from employers and employees and a contribution from the Consolidated Fund via a Grant in the Social Security cash limit. A certainty formula determining the value of the grant for each year of an MTFP period was established in 2012 replacing the annual supplementation formula from previous years. The grant provides a contribution based on the level of actual supplementation in the year before the preparation of each MTFP and then inflates the grant by the average earnings index.

The Council of Ministers is proposing that the grant to the SSF be fixed at 2015 levels (£65.3 Million), which would reduce the increase otherwise required in the Social Security revenue expenditure by £2.5 million in 2016 and £7.9 million by 2019. The overall reduction is £20 million over the MTFP period which represents less than 2% of the SSF Fund balance. Over the period of the MTFP 2016-2019 total grant payments of over £260 million will still be paid to the Social Security Fund from taxpayers funding.

The proposal recognises the substantial value of the Social Security (Reserve) Fund at £1.25 billion, equivalent to about 5 years expenditure in the Social Security Fund (SSF), which in turn had a balance of £88.6 million at 31.12.2014. The proposal also recognises that this level of Fund was built up over many years to manage the financial pressures of an ageing population and to smooth the inevitable changes that will be needed to provide a sustainable fund for future pensions.

The Council of Ministers is proposing that plans be brought forward during this MTFP period for the States to consider the preferred sustainable funding solution for the SSF from the options being explored by the Social Security Department and its actuaries. Section 18 identifies the current position and the options that are being considered.

Contributions from the Health Insurance Fund (HIF)

The Council of Ministers is proposing that a sustainable funding mechanism ("Health charge") is introduced during this MTFP period which by 2019 would raise £35 million towards the increasing costs of health care in the island, in addition to the £30 million per annum currently raised through the existing Health Insurance Fund.

The introduction of the new mechanism in 2018 will raise an additional £15 million, increasing to the full £35 million in 2019. However, as the cost of additional health services will also need to be met in earlier years, the Council of Ministers is proposing transfers from the Health Insurance Fund (HIF) of £15 million in 2017 and £15 million in 2018. The Council of Ministers intention is to introduce a health charge at the earliest opportunity, so if it were possible for an earlier introduction, perhaps in 2017, this could be used to partly offset the proposed level of HIF contributions.

The balance on the HIF at the end of 2014 is £85.1 million and any transfer to the Consolidated Fund requires a change to primary legislation. The Council of Ministers will request the Minister for Social Security to bring such a proposition to the States in due course and the plan to make these transfers will be confirmed in the MTFP Addition in June 2016.
The Council of Ministers is therefore proposing the funding measures summarised in **Figure 38.**

Figure 38 – Summary of Proposed Short-term Funding Measures

Summary of Funding Proposals	2015 Forecast £'000	2016 Forecast £'000	2017 Forecast £'000	2018 Forecast £'000	2019 Forecast £'000
Forecast Consolidated Fund balance b/fwd	**4,707**	**45,742**	**21,155**	**23,259**	**24,556**
Shortfall from Financial Forecast	(28,965)	(74,278)	(54,169)	(13,702)	25,256
Funding Requirement for Other Capital Projects	-	(1,000)	(39,000)	(8,233)	-
Revised Funding Requirements	(28,965)	(75,278)	(93,169)	(21,935)	25,256
Proposed Short-term measures					
Accounting Policy	-				
Change in Accounting Policy for Income Tax	60,000				
Transfers (to)/from Strategic Reserve					
Other Capital Project funding - Les Quennevais	-	1,000	39,000	-	-
Annual Capital propgramme funding	-	25,691	26,273	-	-
Funding requirement for Committee of Inquiry	10,000	4,000	-	-	-
Funding requirement for Economic and Productivity Growth Drawdown Provision	-	5,000	5,000	-	(10,000)
Funding requirement for Redundancy Provision	-	10,000	10,000	-	(20,000)
Consolidated Fund Working balance from Strategic Reserve	-	5,000	-	-	-
	10,000	50,691	80,273	-	(30,000)
Transfers from Health Insurance Fund					
Transfer from Health Insurance Fund			15,000	15,000	
Transfer from COCF					
Transfer for Prison Improvement - Phase 6				8,233	
Forecast Consolidated Fund balance c/fwd	**45,742**	**21,155**	**23,259**	**24,556**	**19,812**

Summary

The FPP advised that:

> *"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."*
>
> *"Given the strength of Jersey's public sector net asset position, financing issues should not be a reason to delay or postpone important investments, particularly those which support productivity improvements and competitiveness"*

In response, the Council of Ministers has given careful consideration to the FPP's advice. It has considered its options in utilising the strength of its balance sheet and has formulated the approach set out above. This is intended to get the balance right between continuing to allow the economy to recover and using reserves in a way in particular where this funding is allowing important investment in strategic priorities and maintaining essential services.

The Council of Ministers will monitor the financial position closely over the period upto the 2016 Budget and then ahead of the MTFP Addition by the end of June 2016 and consider any variations to the current proposals as States income levels become more certain.

14. Contingency Planning

Introduction

Experience from the first MTFP 2013-2015 has shown that appropriate contingency planning is required to provide for variations in income forecasts. Medium term financial planning can provide appropriate control and certainty on expenditure levels but it also relies on sufficient funding being available for those expenditure plans.

Contingency plans should enable the planned expenditure to be carried out despite variations in forecasts income or allow changes to expenditure to be adjusted in a managed way, particularly if those expenditure plans continue to be appropriate for the current state of the economy. If economic conditions change such that it is appropriate to constrain expenditure then the MTFP provides that allocations are only made on an annual basis for the revenue expenditure growth and capital project funding within the total spending limits.

In the first MTFP it was appropriate to broadly continue to maintain expenditure levels to support the weak economy but this required contingency plans to provide for the reduced income levels which arose as the length and depth of the economic downturn varied from the forecasts on which the MTFP was prepared.

The new Income Forecasting Group (IFG) has given detailed consideration of the States income forecasts and in particular the appropriate range within the income forecasts for the period. The Group has also considered the various influences and risks to the income forecasts and recommended that the Council of Ministers include appropriate contingency plans, particularly for the downside risks to the income forecasts.

The Contingency Plans outlined in this section provide a summary of the measures that are available within the current plan and the Council of Ministers will continue to develop further plans during the course of the MTFP and review these ahead of the MTFP Addition at the end of June 2016 and at each annual Budget.

Contingency Plans

<u>Driving up the Income line with proposals and funding for Economic and Productivity Growth initiatives</u>

The MTFP is based on the economic assumptions (April 2015) provided by the Fiscal Policy Panel and incorporated in the States income forecast modelling. These economic assumptions are based on current global and local economic measures and forecasts which in the years 2018 and 2019 revert to the long term trend economic growth of no real terms economic growth.

It is appropriate that the States income forecasts are prudent and are based on the latest economic assumptions and these provide a central scenario around which the Council of Ministers expenditure proposals are based. The States has agreed economic growth as one of its five strategic priorities and the Council of Ministers is determined to drive existing resources harder to stimulate economic growth in the island.

Work is being carried out to refocus and reprioritise the significant investment in economic growth in the first MTFP and also to establish one-off funding of up to £20 million for specific economic and productivity growth initiatives that are identified by the Economic Policy Group (EPG) **(see Section 13).**

The objective of these initiatives and the reorganisation of existing resources will be to drive improvements in underlying productivity and economic growth and a subsequent improvement in the States income line in future years.

The income forecasts include no adjustment to reflect the intended improvements to revenues driven by these initiatives. Therefore any improvements to the current forecasts and assumptions would either offset other variations or more positively provide surpluses which would not be spent but which would be used to replenish the Stabilisation Fund once the working balance on the Consolidated Fund has been established. If these improvements were significant the surpluses could be used to further replenish the Strategic Reserve.

Establishing a working balance on the Consolidated Fund

The first MTFP 2013-2015 started with a balance on the Consolidated Fund of £32 million and proposed to maintain at least a working balance of £10 million over the three-year period. Although subsequent reductions in the forecast income have caused those balances to be applied the practical objective must be to re-establish an appropriate working balance for the MTFP 2016-2019.

The short-term measures in **Section 12** propose to re-establish a £20 million target balance for the Consolidated Fund which annual Budget measures would also seek to maintain. This level of balance provides an initial contingency against variations in income, but would not alone off-set such changes. The balance may provide some time for off-setting measures to be introduced without having to immediately return to the States. A balance of £20 million would provide a 3% variation on current forecasts of States income in any year.

Potential Budget Measures 2016-2019

The MTFP includes the intent to bring forward proposals to establish an appropriate and sustainable funding mechanism for Health.

The IFG impôts duty forecasts assume an annual RPI increase on alcohol and tobacco commodities only, consistent with recent Budget policies. Any increases above RPI or any increases on other commodities, such as Fuel or VED, would generate additional income.

The forecasts for income tax are predicated on increases in the tax exemption thresholds in line with inflation, this provides some scope for increasing revenue through Budget measures which seek to bring more people into tax by limiting or freezing such increases.

It has not been unusual for measures proposed in past Budgets to raise in the order of £2 million to £3 million per annum which could give rise to around £10 million additional income over the MTFP period, depending on the annual measures proposed.

The Minister for Treasury and Resources will be guided by the long-term tax policy principles, as amended in the Strategic Plan, and will also consider the movement in income forecasts and the balance on the Consolidated Fund when preparing proposals for the Council of Ministers for the annual Budgets over the MTFP period.

Further savings/ funding measures 2017-2019

The Council of Ministers is proposing challenging savings and funding measures of £110 million in addition to a Health charge of £35 million by 2019, but if further reductions in income forecasts were identified during the period then serious consideration would have to be given to either accelerating existing measures or identifying further options for consideration.

Deferring Growth in 2017-2019

The Council of Ministers is only proposing additional funding and growth is allocated to departments for 2016. The proposals for funding beyond 2016 will be dependent on both the achievement of income forecasts and the delivery of savings targets both for the respective years and those forecast for the remaining period of the MTFP.

The MTFP Addition will provide an updated position at the end of June 2016, at which point further consideration and re-balancing can be done, after which the decisions will take place in the annual Budgets based on the previous year's outturn and the updated income and expenditure forecasts.

A total of £38 million of additional funding and growth will be held centrally to allocate annually over the period 2017-2019, but only if the financial situation allows.

Consideration of other Asset Disposals

The routine capital programme is not predicated on capital receipts over the period of the MTFP. The intention is that certain asset disposals would be used to return funds initially drawn from the Strategic Reserve. Any asset disposals arising out of a more actively managed asset portfolio would contribute to the Consolidated Fund position over the period and into the future; in particular to allow further capital expenditure.

It would not be the intention to use the asset sales to fund annually recurring revenue expenditure.

Review of Return on Strategic and Shareholder Investments

In addition to consideration of the rationale for the ongoing ownership by the public of Utility companies over the course of this MTFP, proposed returns from these entities will be continually reviewed and monitored.

15. Capital Programme 2016-2019

Indicative Capital Programme 2016 - 2019

Introduction

Capital decisions must look to the future so that investment is made in the right capital and infrastructure projects. This can help departments plan for service change and improvement, help boost the economy and safeguard the Island for the future. This Medium Term Financial Plan proposes the indicative capital allocations for 2016, 2017, 2018 and 2019. Whilst proposed schemes are set out in the indicative capital programme, approval is not sought for the capital allocations to individual schemes in this report. The detail of the capital programme will be determined for each year as part of the setting of the Budget, usually in December of the previous year.

The Long Term Capital Plan, which includes the MTFP period of 2016– 2019, identifies and develops the long term capital investment needs for the Island:

- It collates the anticipated capital expenditure requirement, identified by departments for a 25 year period to 2040.
- It identifies the level of funding that might be available from existing States of Jersey financial resources.
- It identifies the resulting funding gaps in order that options for new funding streams can be considered in an appropriate and timely way.

The process ensures that the schemes proposed for funding are the priorities for a particular year, that service reviews are undertaken and that consideration is given to the delivery of strategic objectives. Potential problems, caused by short term planning horizons, can be avoided. The prioritisation of maintenance projects on essential buildings and infrastructure can be improved. The process will continue to ensure that capital projects being brought forward for formal approval have detailed feasibility studies and costed business cases in place prior to such approval being sought.

The Medium Term Financial Plan (MTFP) sets out the capital programme for each of the years 2016-2019 and the total allocation envelope for capital spending in each of these years. The budget for each of these years will approve the detailed list of projects. To comply with the Public Finances (Jersey) Law 2005, therefore, the States is asked to approve the total available to allocate to capital projects in each of the years 2016 to 2019.

The programme has worked to a broad allocation for routine capital programme of £35 million per annum to be funded from current revenues of the Consolidated Fund. The principle for other projects and capital investment is that these should not be limited by these funds and the States should consider the use of its strong balance sheet to support such investment which could contribute to the competitiveness and productivity of the island.

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.

The indicative capital programme over the period of the MTFP includes a deliberate investment in IT projects to support modernising the public sector to increase the efficiency and effectiveness of services provided.

Figure 39 – Indicative Capital Programme 2016-2019

Proposed Total Programme and Indicative Capital Projects	Proposed Programme 2016 £'000	Proposed Programme 2017 £'000	Proposed Programme 2018 £'000	Proposed 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	-	-
Home 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**
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**

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

Figure 39 - Indicative Capital Programme 2016-2019 (continued)

Proposed Total Programme and indicative Capital Projects	Proposed Programme 2016 £'000	Proposed Programme 2017 £'000	Proposed Programme 2018 £'000	Proposed Programme 2019 £'000
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 Indicative Capital Projects	**25,691**	**26,273**	**35,000**	**32,975**
Other Projects Excluded Above				
Sewage Treatment Works - Upgrade				
Future Hospital *				
Office Modernisation Project *				
Les Quennevais School Rebuild *	1,000	39,000	-	-
Prison Improvement Works - Phase 6 *	-	-	8,233	-
Total Other Projects	**1,000**	**39,000**	**8,233**	**-**
Total Proposed Capital Programme (including Other Projects)	**26,691**	**65,273**	**43,233**	**32,975**

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

Other projects have been identified separately as they require specific funding arrangements to manage the higher levels of upfront allocations to enable them to proceed. £1 million of the 2016 allocation, up to £39 million of the 2017 allocation and up to £8.2 million of the 2018 allocation will be subject to the States approval of the intended transfer of funds from the Strategic Reserve and the Criminal Offences Confiscation Fund and future amendments to the MTFP and appropriate legislation as necessary will be brought forward for approval to facilitate the funding for the office consolidation project and a future hospital provision. Details of the Other Projects identified above can be found later on in this section after the general programme projects narratives.

<u>Chief Ministers Department</u>

Desktop Upgrades

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

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

Income/Payment management System

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.

Corporate Web Platform Refresh

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.

Expectation from the public regarding the range and quality of services that the States provide online will continue to increase over the 2016 to 2019 period. When viewed as an asset and in a constantly changing technology, this programme of continual investment is required to ensure the website keeps current.

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

Web Search Engine Upgrade

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.

Content Management System Refresh (SharePoint Upgrades)

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.

Hardware Refresh

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.

Citizen Database Upgrade

This programme of work is specified to update the technology for the core citizen database, ensuring it stays up to date and current with other SoJ platforms.

In order for the States to improve the quality, efficiency and business use of information authoritative sources (Systems of Record) are being developed for core enterprise datasets. The three identified primary enterprise datasets are address/GIS, citizen and business. Authorised citizens in Jersey are given a JY number by Social Security which is used to identify a person as a unique individual.

In response to the Control of Housing and Work (Jersey) Law 2012 the States has created the Populous, Opus and Domus systems to capture and track citizen information in order to manage registration cards and housing qualifications. While the Chief Minister is responsible for citizen information, these systems are currently managed by the Population Office which is now part of the Social Security Department. The current databases will need to be upgraded in order to ensure they remain the System of Record for the citizen dataset.

Business Database Creation

This project is to update the technology for the core business database ensuring it stays up to date and current with other SoJ platforms.

The core data set of Jersey businesses will need to be kept current, up to date and available, since this, as with citizen, address/GIS will become a core integral part of the e-Government platform.

Open Data Platform Refresh

The open data platform upon which SoJ data sets are published will require updating to keep current with other SoJ platforms and new technology.

There needs to be a programme of continual investment in online services, rather than being characterised by several years of little or no investment followed by a significant replacement cost, and this capital project will allow for the open data platform to be refreshed and updated to ensure the States continues to produce and publish data sets that can be made available online for all to see and use.

Examples include public transport data – train and bus timetables, which are now widely available online and via smartphone apps from third-parties – or crime statistics. Developers are free to combine these data sets in innovative ways – for example overlaying commute times, average house prices, crime rates and school league tables on a map in order to highlight pockets of Greater London which offer improved quality of life.

Data Warehouse Platform Refresh

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

A data warehouse would enable information to be updated real time to data sets, which would be available for subscribing sections/other departments to use instead of generating that information themselves or asking the public repeatedly. It would also enable the bringing together of data sets for management information, modelling and strategic planning in a more efficient, timely and accurate manner than is currently possible.

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

CRM Platform Refresh

The creation of the CRM platform on which a number of integrated applications rely will need regular updating to latest version, to keep in line with other SoJ platforms and to take advantage of the latest functionality. This project is for the ongoing refresh programme for the CRM platform upon which a number of common departmental applications run.

The CRM platform enables a common approach to applications to be implemented, and a shared view of the customer across a number of departments. It also enables a common approach to common processes, and creates a consistent approach when interacting with the customers in form design and documentation.

This business case reflects a need for regular refreshes to this platform to enable the applications to continue to provide functionality and also enable the ongoing availability of the underlying data. If refreshes are not done then the platform starts to cost more to maintain, skills need to be retained in older versions, and compatibility issues increase.

Talentlink Replacement

Talentlink will be at the end of its contract and will either need to have a contract re-negotiated or move to a different platform.

Since the introduction of an automated system for managing recruitment, this has enabled a complete electronic flow of information to be input and processed, whereas before this was completely manual. Since the software is provided as a cloud-based service, and the contract will be up for renewal, a new solution could be chosen.

Finance System - JD Edwards Upgrade

An upgrade for JD Edwards is planned in 2017/18. The current version has been in use in the States since 2004. A more up to date version would enable more modern workflows to be used, and also easier integration to other departmental systems.

A more up to date version of the financial system would allow for improved reporting and modelling of future scenarios.

Taxes Office System Renewal

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 90% 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, major embarrassment, considerable inconvenience to the general public and require extensive funding to remedy in an unplanned scenario.

Consequently, it is essential that the States of Jersey recognise the critical nature of the Taxes Office systems, and ensure they receive regular capital investment (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 process in the Taxes Office, whilst providing digital channels for customers, and increase the efficiency and effectiveness of the service.

E-Government (Previous Rephasing)

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

T&R JDE System (HRIS) (Previous Rephasing)

The States Enterprise Resource Planning (ERP) system, JD Edwards, will be 13 years old in 2015. To ensure the organisation is able to utilise its financial information an upgrade programme will need to be initiated between 2014 and 2016. It is anticipated that this re-implementation of ERP will take a number of years to complete.

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

Replacement Assets – CMD

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

<u>Community and Constitutional Affairs</u>

Minor Capital

Funding is required for asset replacement, minor capital projects and the purchase of specialist equipment. Funds will be allocated by the Accounting Officers based on the Department's asset replacement programme and service needs.

Fire and Rescue HQ Co-location with Ambulance – Enabling Works

This project, which will combine the Fire and Rescue Service and the Ambulance headquarters on one site, is outside the current MTFP timetable. The £500,000 included in the capital programme in 2017 will enable feasibility and site preparation work to be undertaken ahead of the main allocation.

<u>Education, Sport and Culture</u>

Grainville Phase 5 (Inclusive of provision for Music Service)

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

Jersey Music Service: The aim of the project is to replace the present unsatisfactory accommodation at Fort Regent with a new facility at Grainville School. The premises will be located next to the main school complex, and will be available for use by the school during school hours.

St Mary's School Refurbishment

This is a comprehensive refurbishment project that will bring St. Mary's School into line with the standards expected of Jersey primary schools, and will improve the learning environment for all pupils. The proposed works include increases to classroom sizes, additional small teaching rooms, disabled access, electrical and drainage works, and repairs to the external fabric.

Replacement Assets and Minor Capital – ESC

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.

Jersey Heritage Trust - Archive Store Extension

The Archive has operated successfully since 2000, but 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.

Department of the Environment

Equipment, Maintenance and Minor Capital

This funding will allow the department to replace its existing fixed assets, as they reach the end of their useful lives.

Fisheries Vessels

Originally, the States intended to replace the current Fisheries vessel, the Norman Le Brocq, in 2019. However, following a mid-term refit in 2014 and evaluation of the condition of the vessel, it is now considered that a further re-fit in 2020 will extend the operational life of the vessel by approximately 10 years. The funds identified in 2018 are to provide for planning and further condition assessments, prior to the bulk of the funding being allocated in 2020.

Met Radar Refurbishment / Upgrade

The project to refurbish and improve 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 systems.

Health and Social Services

Replacement Assets (Various)

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.

Replacement of the Picture Archiving Communication System (PACS) and the Radiology Information System (RIS)

PACS and RIS are the names given to a number of computer based systems operated in the Radiology Department which distribute reports and images to all relevant clinicians both inside and outside the hospital. The scope of this project also covers updating a range of hardware including the main server infrastructure and visual display equipment for viewing the images and reports. The 2015 replacement project was reduced to release funding back to the Consolidated Fund, so this replacement project is vital to maintain the scoped solution.

Refurbishment of Sandybrook (Previous rephasing)

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 2015 funding commitments, it is proposed that the funding approval be temporarily withdrawn and reallocated in the 2016 capital programme. This is a technical adjustment and not a further allocation of funds.

Transport and Technical Services

Replacement Assets

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

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

Many items of plant and equipment, including the EfW, pumping stations and other (often unseen) assets are of strategic importance for managing the Island's waste and ensuring that the risk of pollution, flooding or harm to the environment are minimised.

Infrastructure Rolling Vote

The infrastructure rolling vote is designed to allow Transport and Technical Services (TTS) to facilitate the maintenance and further improvement of the Island's infrastructure network. It is likely that a substantial proportion of the 2016 - 2019 allocation will have to be used to support the new Sewage Treatment Works. Infrastructure programme works that would otherwise be in the plan for the MTFP period will be prioritised and remaining funds will have to be allocated to those areas at greatest risk.

Waste: La Collette Cell Construction

The current ash cells provide repositories for ash that are safe and sustainable in the context of the proximity to the nearby Ramsar site. In 2014, TTS commenced export of Air Pollution Control residue (APCr) and this by-product of the Energy from Waste process is no longer stored at La Collette. However, Incinerator Bottom Ash (IBA) is currently stored on Island, and contaminated soils and other materials not suitable for placement in the inert waste fill need to be contained within engineered cells at La Collette. Whilst it is hoped that export of IBA may commence in the MTFP 2016-2019 period, there will always be a need for some lined cells at La Collette for containment of waste products that cannot be exported or treated on Island.

Backlog Infrastructure Works

This additional funding will help the department catch up with the backlog of Infrastructure programme works that will have to be postponed due to the likely allocation of a substantial proportion of 2016-18 Infrastructure allocations to the new Sewage Treatment Works.

<u>Treasury and Resources</u>

Replacement Assets - T&R

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

<u>Non-Ministerial Departments</u>

Official Analyst

Laboratory Equipment - 2016: £32,500, 2017: £50,000, 2018: £44,400, 2019: £49,301

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

Viscounts Department

Désastre Database - £130,000 for 2019

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

Other Capital

Vehicle Replacement (£1,200,000 for 2016).
This funding is to support the work of Jersey Fleet Management in the purchase of vehicles on behalf of departments. This is a continuation of the funding established in the 2012 Business Plan to enable the initial purchase of additional vehicles.

Other Projects

Five other projects have been identified as requiring funding during the MTFP period 2016 – 2019. All of these projects require specific funding sources over and above that identified from the consolidated fund in order for the allocation to be proposed as part of the Budget process in each year. The other projects and their funding proposals are:

Sewage Treatment Works – Upgrade

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 charge 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.

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 funding required to cover the allocation requirements for the project over the 2016 – 2019 period will be funded from the TTS Infrastructure Rolling Vote. This is provided for from the allocations identified in the indicative MTFP capital programme.

Future Hospital

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 forwards 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.

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

Construction of a new Les Quennevais School is needed to replace the existing school which is reaching the end of its useful life. Work is currently underway to confirm the most appropriate site and develop a feasibility study. Construction will commence once a preferred option has been chosen and a funding source has been identified.

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

Consideration will be given to the opportunity cost of removing £40 million from the Strategic Reserve to provide a commensurate return when the funds are repaid from asset disposals.

Office Consolidation Project

The implementation phase of the Office Consolidation Project aims to reduce the number of office buildings and portfolio 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 considering a number of opportunities and locations to deliver the proposed rationalization. During the remainder of 2015 and 2016, the 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 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 2015 and into 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 Group or the external cost associated with external debt.

Prison Improvement Works – Phase 6

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

Various works pertaining to the overall Prison Masterplan have been undertaken since the prison opened. Phase 6 is for the construction of a new secure Gate House and Administration/HQ Facility which completes the terrace of three buildings forming the new façade to HMP La Moye.

Funding:
It is proposed that the Prison Improvement works are granted a priority against any proceeds received in to the Criminal Offences Confiscation Fund (COCF) such that, in the event that sufficient funds are received into the Fund, a request can be made to utilize them to fund this project in the 2018 capital programme.

Progressing of this phase will be dependent on the sums being available in the COCF.

Fort Regent

In addition to the five other projects, work is continuing on the evaluation of options for the Fort Regent site.

The Fort Regent Steering Group was tasked by the States with establishing a way forward for the development of Fort Regent. During 2012 and 2013 the Steering Group undertook a series of activities including public and stakeholder engagement and information gathering. This work, set out in the “Rediscovering Fort Regent” document published in November 2013, focused on 3 main areas:

- Improving Access,
- Creation of additional space to provide opportunities to increase activities, and
- Redevelopment of the outdoor space surrounding Fort Regent.

The Fort Regent Steering Group completed this work and presented its proposals in the document, “Rediscovering Fort Regent: A Vision for the Future” published in September 2014. It has developed and put forward a phased and costed proposal for the delivery of the proposals aimed at the regeneration of Fort Regent. These support the States Strategic Priorities 2015-2018 in terms of Health and Wellbeing, Economic Growth and St Helier. To achieve best value for money for the States of Jersey and maximise the potential of the development, funding options inclusive of private investment are being considered.

Revenue Consequences of Capital Schemes

Section 10 - 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.

States Trading Operations

States Trading Operations comprise Jersey Harbours and Jersey Airport (Ports of Jersey) as part of the Economic Development Department and Jersey Car Parking and Jersey Fleet Management in the Transport and Technical Services Department.

The States Assembly formally approved the incorporation of Ports of Jersey in P.5/2015 'Draft Air and Sea Ports (Incorporation) (Jersey) Law 201-'. The draft Law is the first step in the legislative process which will allow Incorporation. It will be shortly followed by subordinate legislation in the form of draft Regulations, which will make provision for the transfer of property, staff and assets to the new company. The aim is that the draft Law will be approved by Privy Council in July and then the draft Regulations will be debated in early September with a target incorporation date of 1st October 2015. Should these be approved the capital Programme for Ports will be withdrawn from the MTFP debate.

A summary of the capital expenditure proposals for the States Trading operation is shown in **Figure 40** and in **Summary Table H.**

Figure 40 – Indicative Capital Programme for States Trading Operations

Proposed Capital Programme and Indicatice Capital Projects for States Trading Operations	Proposed Programme 2016 £'000	Proposed Programme 2017 £'000	Proposed Programme 2018 £'000	Proposed Programme 2019 £'000
Minor Capital Assets 2012 - 2037	300	300	300	300
ARFFS Replacement Facility	200	3,500	-	-
Cargo/Commercial Apron Replacement	4,500	-	-	-
Power resiliance review implications	-	-	500	-
Airfield Obstacle Compliance (Arrivals & Hangar)	-	3,500	-	-
Car Park System	-	200	-	-
Fire Tender (Rescue 8)	650	-	-	-
UPS replacement - East substation	200	-	-	-
Flight Information display systems (Terminal)	338	-	-	-
Departures Hall Refurbishment	-	500	4,000	-
HBS + OOG X-Rays	-	-	1,500	-
Grass management	-	-	-	200
UPS replacement - West substation	-	200	-	-
Addagrip treatment to 27/26 Runway concrete end	-	400	-	-
PAPIs 08 & 26 (North Side)	-	250	-	-
Alpha/Bravo Taxiway Joint reseal/realignment	-	450	-	-
CUTE/CUSS system upgrade 1	-	500	-	-
HV Switchgear & Transformers Replacement	-	-	600	-
Fire Training Rig	-	-	250	-
UPS replacement - ATCC substation	-	-	200	-
Flight Information Distribution System (ATC)	-	-	250	-
Upgrade West Substation	-	-	-	500
Central Sub UPS	-	-	-	750
Fire Tender (Rescue 8)	-	-	-	650
Replace East Sub Diesel & Switchgear	-	-	-	150
Aeronautical Transmitters/Receivers & Emergency RT's	-	-	-	300
Voice Comms Control System (ACS)	-	-	-	350
Approach Light Fittings Replacement	-	-	-	250
Jersey Airport Proposed Programme	**6,188**	**9,800**	**7,600**	**3,450**

Figure 40 – Summary of Proposed Capital Programme for States Trading Operations (cont'd)

Proposed Capital Programme and Indicatice Capital Projects for States Trading Operations	Programme 2016 £'000	Programme 2017 £'000	Programme 2018 £'000	Programme 2019 £'000
Port of Jersey - MCA - (2015-2025)	250	250	250	250
Coastguard - Offshore Beacons	100	100	100	100
Coastguard - Radar Replacement	-	-	100	-
Maritime Museum Roof	300	-	-	-
Dredge Project	1,000	-	-	-
Port of Jersey - Elizabeth Café	1,500	-	-	-
Port of Jersey - Eliz Harbour - Terminal Phase 4 Transec Security	-	600	-	-
Port of Jersey - NNQ - Quay	-	3,000	-	-
Port of Jersey - St Helier - Albert Pier Berth 1	200	-	-	-
Port of Jersey - La Collette - Fishermans Quay/Pontoon	-	1,500	-	-
Port of Jersey - La Collette - Tanker Berth B/Water Bullnose	-	200	-	-
Port of Jersey - Elizabeth Harbour - Terminal Phase 5 -	-	-	2,000	-
Port of Jersey - Piers & Quays scour protection	100	-	200	-
Marinas - Old Harbour - Sill	-	150	-	-
Marinas - Elizabeth - Gate renovation	200	-	-	-
Marinas - StHM Upgrade	2,400	-	-	-
Property - Albert Quay Terminal Roof	-	-	3,000	-
Marine Ops - Duke of Normandy Refit	-	-	250	-
Marinas - La Collette - Replacement Boat hoist	150	-	-	-
Ports of Jersey - East Berth Fendering	300	-	-	-
Ports of Jersey - East Berth RoRo Ramp Upgrade	-	-	-	1,500
Jersey Harbours Proposed Programme	**6,500**	**5,800**	**5,900**	**1,850**
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 Proposed Programme	**2,488**	**3,584**	**3,704**	**2,992**
Vehicle and Plant Replacement	1,344	1,285	2,169	1,556
Jersey Fleet Management Proposed Programme	**1,344**	**1,285**	**2,169**	**1,556**

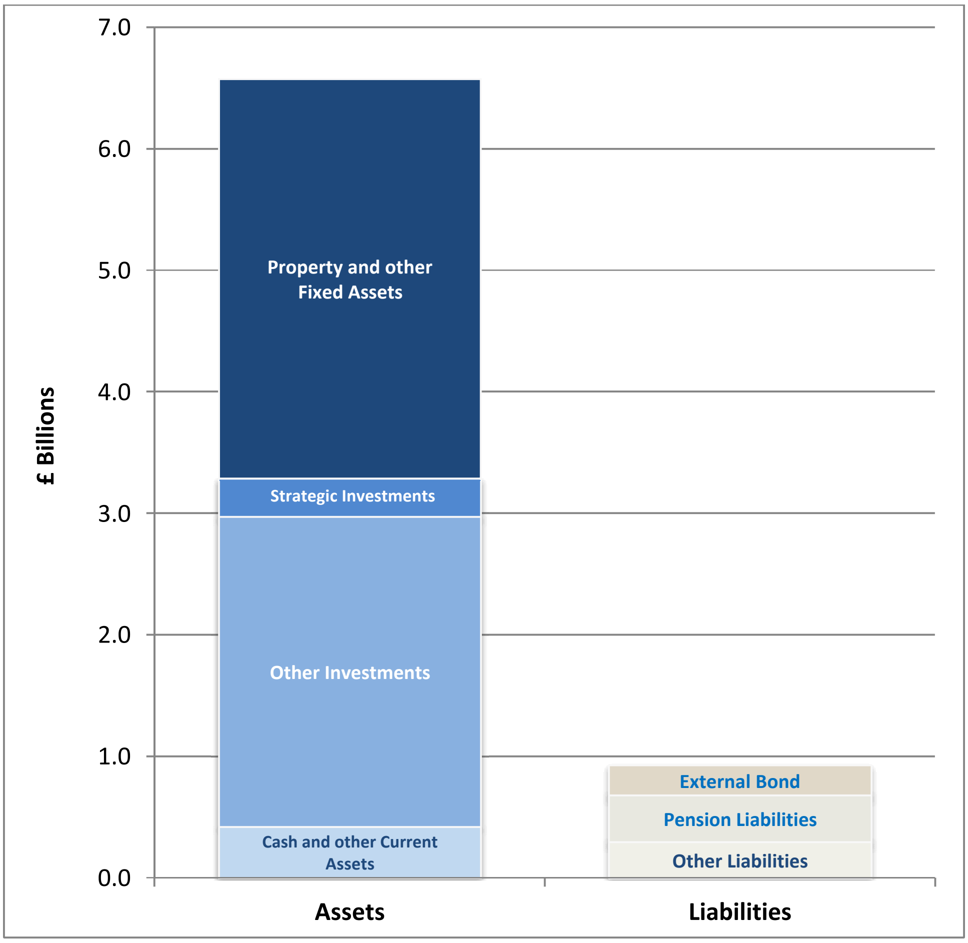
16. Managing the Balance Sheet

Overview

The States of Jersey has a healthy Balance Sheet. As at 31st December 2014 the Asset value exceeded the Liability value by £5.7 billion. It is vital that the States continues to manage the Balance Sheet as well as its revenue expenditure.

The Balance Sheet, as at 31st December 2014 includes £3,304 million of property, land and infrastructure assets and £318 million of Strategic Investments such as Jersey Post, Jersey Telecom etc.

Figure 41 – States Balance Sheet as at 31.12.2014



It was this strength in the Balance Sheet that enabled stimulus into the economy to be maintained in the last MTFP and means that further investment in the economy such as funding of the capital programme, including building new schools, as well as vital investment to drive efficiencies and remove cost from public services, do not need to be postponed or limited to the balances on the current account, or Consolidated Fund.

Other financing options are being explored in order to continue investment in public sector infrastructure, and in line with the FPP's recommendation:

"Given the strength of Jersey's public sector net asset position, financing issues should not be a reason to delay or postpone important investment, particularly that which supports productivity improvements and competitiveness".

Property

During MTFP 2013-2015 the States actively managed it property assets and Jersey Property Holdings will have delivered £13 million by means of disposals either through direct sales or through the asset transfer protocol with States of Jersey Development Company for them to manage the sale or development. That money has been used to help fund the capital programme for MTFP 2013-2015.

The rationalisation of the property portfolio will continue through the period of this MTFP but the financial implications of that have not been included as this work is still at the planning stage. It is hoped that within this MTFP, sites such as St Saviour's Hospital and South Hill will either be disposed of or a decision to re-develop will be made. The proceeds from future assets disposals can be considered against the States financial position at the time and applied to contribute to future capital projects, such as the Office Consolidation Project, or returned to Reserves.

Strategic Investments

Strategic investments include the States controlling investments in the following utility companies: Jersey Electricity plc, Jersey New Waterworks Company Limited, JT Group Limited and Jersey Post International Limited.

There have been a number of reviews performed and recommendations made that encourage the States to assess its ownership and control of these entities. Work has started and may result in recommendations to release some control. This could be another method of providing funding for the construction of fixed assets, particularly for assets that may help improve productivity in the future.

The Housing Department was incorporated in 2014 as Andium Homes Limited, a company limited by guarantee. This company remains responsible for the management of all directly provided social housing for the States of Jersey.

In 2014 the States of Jersey successfully issued a £250 million Bond at a rate of 3.75% with a final maturity of 40 years. The Bond prompted a great deal of interest from investors and was 2 and a half times over-subscribed.

Investors were willing to lend on a long term basis on the strength of Jersey's financial management and ability to repay. Investors were impressed by Jersey's ability to manage difficult global economic circumstances and by the financial reserves the Island has built up.

The Bond was issued to fund a comprehensive programme of social and affordable housing building and refurbishment. The purpose of this Bond was targeted and its repayment clearly planned from the guaranteed rental income. This represents a huge investment in Jersey's future and provides funding towards the much needed investment in affordable housing for the island.

There has been significant interest over the States of Jersey Development Company's activities recently. This incorporated body continues to follow it remit to develop buildings and property investments using land transferred to it from the States and returning profits back to the States.

Ports Incorporation
In October 2012 the States approved "in principle" the incorporation of Jersey Airport and Jersey Harbours into a single limited liability company, (P.70/2012).

In June 2015 the States approved the Draft Air and Sea Ports (Incorporation) (Jersey) Law 201- putting in place the framework for a wholly States-owned self-funding company to be called the "Ports of Jersey Limited" (POJL). The decision to incorporate allows the Ports more flexibility in terms of self-funding and their ability to manage their revenue and capital expenditure.

The Financial Model used by Ports of Jersey in making the case for Incorporation was a financial projection for the next 25 years. It was recognised that in looking out over such a long period that assumptions and forecasts will be subject to change.

Therefore a key priority for POJL is to develop a detailed 5 year Strategic Business Plan building on the Financial Model assumptions and which accords with the overall policy objectives and dividend policy set by the Ports Policy Group, a newly formed political body, to balance the policy objectives for POJL (including dividend policy and risk appetite). These will be articulated to the Board of POJL to be reflected in the Strategic Business Plan.

The resulting Strategic Business Plan will need to be assessed and approved by the Minister for Treasury and Resources. This will include the Minister commissioning expert advice as and when required. This was a point emphasised by the Economic Affairs Scrutiny Panel in their review P5/2015.

The draft Law is the first step in the legislative process which will allow Incorporation. It will be shortly followed by subordinate legislation in the form of draft Regulations, which will make provision for the transfer of property, staff and assets to the new company. The aim is that the draft Law will be approved by Privy Council in July and then the draft Regulations will be debated in early September with a target incorporation date of 1st October 2015.

Dividends and Returns
The anticipated returns from the States Strategic Investments, without any changes to the States levels of control, for this MTFP are as follows:

Figure 42 – Forecast of States Income from Dividends and Returns

States Income from Dividends and Returns	States Income Forecasts (June 2015)			
	2016	2017	2018	2019
	£'000	£'000	£'000	£'000
Other Income - Dividends				
- Investment income - Telecoms Dividend	5,449	2,511	2,599	2,689
- Investment income - Postal Dividend	419	885	883	1,116
- Investment income - JNWC Dividend	1,771	1,806	1,842	1,879
- Investment income - JEC Dividend	3,031	3,152	3,279	3,410
- Financial returns - SOJDC	-	-	5,800	-
- Return from Ports of Jersey	29	-	113	185
Total Other Income - Dividends	**10,699**	**8,354**	**14,515**	**9,279**
Other Income - Housing Incorporation				
- Return from Andium Homes	28,031	28,900	29,811	30,795
- Return from Housing Trusts	60	73	93	125
Total Other Income - Housing Incoporation	**28,091**	**28,973**	**29,904**	**30,920**

Note: Jersey Telecoms Dividend includes a special dividend proposed for 2016 of £3 million

States Investment Strategies

The latest investment strategies of funds under management were presented to the States on the 19th February 2015, with a further update scheduled to be lodged in the third quarter of 2015.

The five largest States Investment Portfolios (excluding Pension Funds) invested through the Common Investment Fund along with their investment Strategies are detailed below:

Figure 43 – States of Jersey Major Funds as at 31.12.2014

States of Jersey Major Funds	Investment portfolio value as at 31/12/14	Equities	Alternative Investments Class	Bonds	Cash
		%	%	%	%
Social Security (Reserve) Fund	£1,253m	50	10	40	-
Strategic Reserve Fund	£787m	80	10	10	-
Housing Development Fund	£206m	45	10	45	-
Consolidated Fund	£179m	20	60	10	10
Currency Fund	£81m	15	12	66	7

Highlights of the significant States Funds

Social Security (Reserve) Fund

The Social Security (Reserve) Fund holds a range of investments both within the CIF and outside. The assets within the CIF are mostly managed on an active basis; these managers seek to outperform a relative benchmark. The Fund also holds some assets in passive funds outside the CIF, which follow a benchmark without seeking to outperform. By the 2014 year end £1,099 million of the Fund's assets were held within the CIF and £154 million of its assets were held outside with L&G.

Over 2014 the balance of the Social Security (Reserve) Fund grew by £96 million to £1.25 billion. The increase was generated by investment returns primarily held through the CIF and retained within the Fund.

In addition to the Social Security (Reserve) Fund there is the Social security Fund which receives all contributions and pays out benefits such as the old age pension and incapacity benefit and expenditure related to the administration of these benefits. It has a working balance of £89 million but is forecast to have small annual deficits from 2017 on current assumptions. This Fund is managed by the Social Security Department and invests in cash to reflect the liquidity requirements of its balance.

Strategic Reserve

The Strategic Reserve Fund continues to pursue its investment strategy through investment in the CIF. The Fund's portfolio includes a balance of return seeking assets, including equity and capital preservation assets, such as gilts. By the end of 2014 the Fund held investment assets to the value of £787 million; these assets generated the vast majority of the Fund's 2014 income of £54 million equating to a return of around 7.2%. Although lower than the prior year return this represents a good return for the Fund and exceeds the Fund's expected long term return of 5% p.a.

The majority of the performance of the Fund was generated by the Fund's equity class investments which contributed £38 million to the total Fund return. Of the remaining £16 million, the property pool contributed £3 million and the UK corporate bond pool £9 million. The remainder was earned by the other fixed income classes, the short term government bond and absolute return bond pools.

Consolidated Fund

The Consolidated Fund holds an operational portfolio of cash, representing the liquidity requirement of the States and a long term portfolio representing assets not expected to be drawn in the short term. The majority of the investment return is generated by the long term portfolio which was reduced to around £105 million shortly after the year end. At the end of 2014, the unallocated Consolidated Fund Balance was £4.7 million.

The 2014 Budget Statement forecast an unallocated balance in the Consolidated Fund of £5.4 million. This was revised in the 2015 budget to £14.2 million after considering the 'Proposed measures to balance the Consolidated Fund'. The actual balance was £9.5 million less than expected at £4.707 million. This difference is primarily as a result of lower than expected General Revenue Income (£3.3 million), and transactions not finalised by the year end such as proposed measures to transfer £6.1 million from the Housing Development Fund and £1.0 million from rephrasing capital projects and lower than budgeted property receipts (£1.6 million). This was offset by the earlier than anticipated return of £2.7 million from the Restructuring Provision and other smaller differences.

This MTFP proposes that plans should aim that the Consolidated Fund be maintained at a minimum working capital balance of £20 million on an unallocated basis, to ensure that in the event that income variations occur, short-term decisions on funding do not need to be implemented to ensure the Consolidated Fund remains in balance.

Housing Development Fund

In the 2014 Budget the States approved:

- borrowing of up to a maximum of £250 million for housing purposes – the money to be held in the Housing Development Fund.
- the variation of the approved purposes of the Housing Development Fund to enable the further provision and development of housing in Jersey, to allow the Fund to lend up to a maximum of £250 million to Housing Trusts/Associations/Companies or bodies with the same purpose, registered in Jersey.

This followed the States approval of P.33/2013: The Reform of Social Housing and the incorporation of the Housing Department into Andium Homes Ltd.

The 2015 Budget (Appendix C) set out the rules for the use and operation of the Housing Development Fund. Key features of these are:

- Loans are made for "Agreed projects" on a project by project basis with a separate loan agreement for each project.
- Loan agreements are authorised by the Minister for Treasury and Resources in a Ministerial Decision. The Ministers approval will take into account the financial viability of each scheme and the ability to repay the loan requested.
- All loans will be charged a rate of interest to be agreed between the parties.

As at 30th June 2015 the following loans had been approved by the Minister for Treasury and Resources. All are to Andium Homes Ltd:-

	Loan Amount (£000)	Loan Expiry Date
Repayment of previous advances	38,429	2033
Le Squez Phase 3	4,741	2032
Lesquende Phase 2	9,675	2032
Hampshire Gardens	2,659	2033
Nicolle Close	2,149	2038
	57,653	

Currency Fund

The Currency Notes Fund continues to generate the majority of its returns through investment in the CIF. The Fund's portfolio includes a large operational balance, this balance is maintained in cash type assets, focused on liquidity and capital preservation and varies in line with the annual fluctuation in the islands currency in circulation. The long term investment portfolio, made up of the non-cash elements of the Fund's CIF investments plus £10 million of infrastructure investment held outside the CIF, represents the proportion of currency deemed to be in permanent circulation which can be invested over a longer term time horizon.

In 2014 the majority of income generated by the Fund is attributable to the Fund's long term investment portfolio which generated £2.6 million of returns during the year. The operational portfolio generated £0.3 million of returns with the remaining £0.4 million generated by royalties from the issue of commemorative coins.

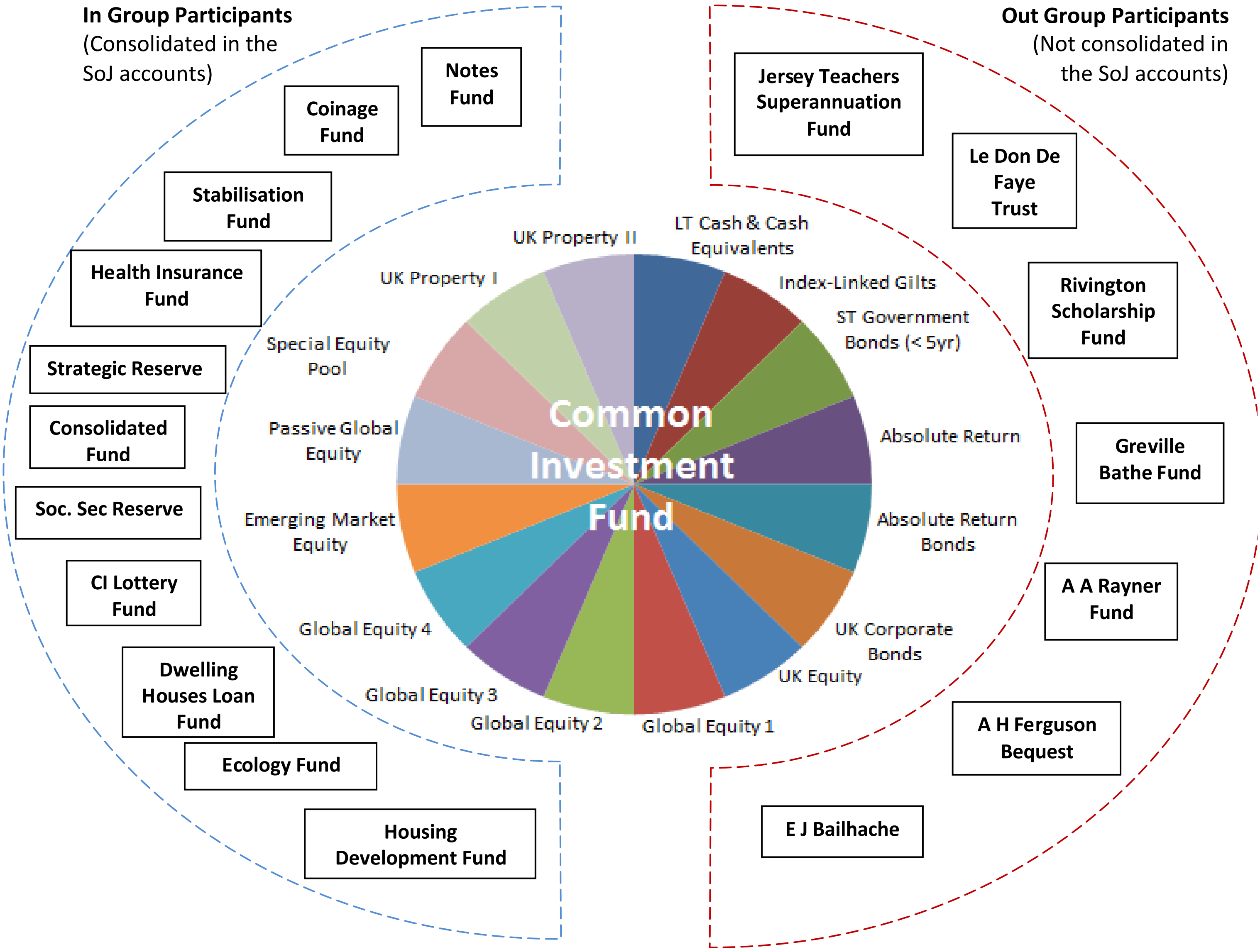
The Common Investment Fund

The Common Investment Fund (CIF), facilitates improved risk management, greater diversification across asset classes and investment managers as well as reduction of cost through economies of scale.

During 2014 the CIF, as a whole, generated returns of £207 million, a rate of return, net of fees, inexcess of 8%. This represented both positive market conditions and performance of the underlying investment managers.

The participants in the CIF and the pools available for the Funds to invest in are represented below:

Figure 44 – Common Investment Fund (CIF)



Managing Pensions

The States of Jersey administers two main public sector pension schemes on behalf of its employees:

- *Public Employees Contributory Retirement Scheme (PECRS)*
- *Jersey Teachers Superannuation Funds (JTSF)*

Both pension schemes are funded and open to new members. Scheme benefits are currently calculated based on member's final salary and are, in the main compulsory for full and part-time employees. Jersey has funded public sector pensions schemes with investments that it is anticipated will provide the investment returns necessary to pay for pensions in future years.

However, as in other jurisdictions, people are living longer. This is increasing the cost of providing pensions. Employee and employer contributions into the pension schemes have remained static for many years over which time the cost of providing pension benefits has increased as people have been living longer. PECRS is now in a position where the contributions being paid into the scheme are insufficient to fund the benefits being offered. Change is needed so as to ensure that pensions are sustainable, affordable and fair for employees, employers and the taxpayer and provide benefits that are appropriate for the way people live and work today. The public sector pension scheme landscape has changed.

The public sector pension schemes in the UK have been reviewed following the publication of a report by the Independent Public Service Pensions Commission chaired by Lord Hutton. By April, 2015, all of the major UK public sector pension schemes had moved to career average re-valued earnings (CARE) pension schemes with the normal retirement age linked to the State Retirement Age and with higher employee contributions.

The public sector pension schemes in Jersey are in the 'Public Sector Transfer Club' which aids the transfer of pension benefits to and from the UK public sector pension schemes. It is important for Jersey to be able to remain within the Club so as to recruit teachers, doctor and nurses from the UK. PECRS have been reviewed and a final offer made to the Joint Negotiating Group (JNG) which will change the scheme from final salary to a career average re-valued earning (CARE) pension scheme. The three major unions have balloted and accepted the proposals for change.

Prior to 1987, PECRS pension increases were paid from the States revenue budget. In 1987 all pension increases became payable from PECRS and the States of Jersey are now repaying this past service debt. The original plan was to repay this debt by 2083. The amount payable increases each year in line with the average pay increases (including increments). The debt is valued as a salary linked bond and long term returns mean that the level of the debt is sensitive to market conditions and can increase and decrease irrespective of how the repayments are made. In MTFP 2013-2015, it was agreed that repayment should be accelerated to repay the debt by the mid 2050's and reduce the total costs of repayment.

The total projected future cost of repaying the States Pre-1987 debt under the original arrangement was estimated to be £2.6 billion. The management of the pension requirement for the States of Jersey is a significant issue and one that we are not alone in needing to tackle. MTFP 2013-2015 proposed increasing repayments by £1 million in 2013, £2 million in 2014 and £3 million in 2015 and thereafter.

In 2013 an additional £1 million was repaid. The 2015 Budget agreed a short delay in the accelerated repayments and the additional repayments were maintained at £1 million in 2014 and 2015. The additional repayments will return to £3 million, as previously agreed, in 2016. On this basis the Pre-1987 debt will be repaid in 2053 and the long term cost of repaying the debt will be reduced by around £1.7 billion.

17. Managing Manpower

As part of the Public Sector Reform Programme increased emphasis and focus has been placed on the control, monitoring and reporting of manpower and in particular, to ensure that the financial controls around budgeted FTE are reconcilable to the States main Human Resources Information System (HRIS).

Establishing a base for reporting budgeted FTE across the States

Revised 2015 budgeted FTE figures for Departments were given in the Annual Update to the MTFP Department Annex for 2015. This enabled Departments to reflect any permanent and recurring changes which had taken place since the original MTFP Annex was published in 2012.

The HRIS system that records details on posts (jobs) and appointments (employees)does not meet the needs of a modern HR management information system and although it accurately represents actual appointments it has not held posts that are consistent with MTFP FTE figures. However, it is now more important than ever to ensure that the States of Jersey has a clear understanding of budgeted FTE and actual FTE in order to support public sector reform and the redress of the States' financial deficit for the following reasons:

- **Vacancy Management**: to enable swift reporting and monitoring of genuine vacancies.
- **Workforce Planning**: to provide a departmental and corporate view of careers, services, skills etc. to identify duplications and opportunities to provide better services with the right people in the right place at the right time.
- **FOI/ political questions and regulatory requirements**: to generate accurate and meaningful data to meet legislation and be more transparent.

Therefore, a joint exercise was conducted between the Treasury and Resources Department, which has responsibility for approval of additional FTE increases and the Human Resources Department which has responsibility for the administration of HRIS and who are the main point of contact for queries about FTEs and vacancies. This was carried out in order to reconcile 2015 budgeted FTE figures in the MTFP Annex Update with HRIS.

The result of the exercise was that the FTE figure published in the 2015 Annex Update needed to increase by 44.4 FTE to be accurately and fully representational of all existing posts. The major variations include:

- an increase of 114.4 FTE in ESC for zero hours posts which are being re-categorised as permanent posts;
- an increase of 81.9 FTE in SSD for posts which are recharged to the Social Security Fund and Health Insurance Fund;
- an increase of 44.0 FTE in CMD and 5.0 FTE in T&R for fixed term posts which were not included in the MTFP Annex updates in 2014 or 2015, and
- a reduction of 227.7 FTE in H&SS for FTEs approved in the MTFP 2013-2015 which are no longer required, FTE savings from year 3 of CSR and FTEs not appointed to from Health's 2015 2% growth allocation.

Contingency FTE

In addition, in order to provide flexibility over the period of the next MTFP, some Departments will hold small contingency FTEs which will be used as and when required for temporary and short term workforce pressures. Some departments already carry contingency posts within their budgeted FTE figure, and others are applying for a small number. Some departments have opted not to hold contingency posts. Approval would still be expected to be sought by Departments for permanent staffing changes or longer term workforce pressures.

Figure 45 – Revised Budgeted FTE for 2015 by Department

States Funded Bodies	2015 FTE per Annex Update	Fixed Term Posts	Other Changes	Contingency Posts requested	2015 Revised FTE	Establishment FTE	Contingency FTE
Ministerial Departments							
Chief Minister	**237.5**	44.0	-	5.0	**286.5**	281.5	5.0
- Jersey Overseas Aid Commission	**1.0**	-	0.5	-	**1.5**	1.5	-
Community and Constitutional Affairs	**692.5**	-	1.6	-	**694.1**	685.6	8.5
Economic Development	**58.3**	-	-	-	**58.3**	58.3	-
Education, Sport and Culture	**1,675.5**	-	114.4	-	**1,789.9**	1,789.9	-
Department of the Environment	**117.5**	-	1.0	-	**118.5**	113.2	5.3
Health and Social Services	**2,962.7**	-	(227.7)	-	**2,735.0**	2,708.0	27.0
Social Security	**160.6**	-	82.9	-	**243.5**	243.5	-
Transport and Technical Services	**499.1**	-	19.8	-	**518.9**	500.5	18.4
Treasury and Resources	**268.3**	5.0	-	10.0	**283.3**	273.3	10.0
Non Ministerial States Funded Bodies							
- Bailiff's Chambers	**10.0**	-	-	-	**10.0**	10.0	-
- Law Officers' Department	**68.0**	-	-	-	**68.0**	68.0	-
- Judicial Greffe	**45.2**	-	-	-	**45.2**	45.2	-
- Viscount's Department	**23.9**	-	-	-	**23.9**	23.9	-
- Official Analyst	**9.6**	-	-	-	**9.6**	9.6	-
- Office of the Lieutenant Governor	**14.4**	-	-	-	**14.4**	14.4	-
- Office of the Dean of Jersey	**-**	-	-	-	**-**	-	-
- Data Protection Commission	**4.0**	-	(3.0)	-	**1.0**	1.0	-
- Probation Department	**32.3**	-	(3.8)	-	**28.5**	28.5	-
- Comptroller and Auditor General	**1.5**	-	-	-	**1.5**	1.5	-
States Assembly and its services	**33.8**	-	(5.3)	-	**28.5**	28.5	-
States Trading Operations							
Jersey Airport	**197.3**	-	-	-	**197.3**	197.3	-
Jersey Harbours	**66.5**	-	-	-	**66.5**	66.5	-
Jersey Car Parking	**24.0**	-	-	-	**24.0**	24.0	-
Jersey Fleet Management	**29.0**	-	-	-	**29.0**	29.0	-
Total FTE	**7,232.5**	**49.0**	**(19.6)**	**15.0**	**7,276.9**	**7,202.7**	**74.2**

Ongoing control of budgeted FTE

The Treasury and Resources Department will continue to be responsible for the publication of budgeted FTE figures in the MTFP Annex (updated in the annual MTFP Annex Update documents), and for the approval of in-year changes to budgeted FTE figures via the current approvals process which remains in place.

It is expected that following this exercise, monthly reporting on 'genuine' vacancies will highlight any reconciliation issues, thus promoting Departmental finance teams and Departmental HR staff to work more closely together to ensure that all approved FTE changes are correctly recorded on HRIS. As well as enabling rigorous vacancy management and better workforce planning it will also ensure that at any time, FTE information provided by the Human Resources Department will be consistent with FTE figures published in the MTFP and any subsequent in-year changes approved.

Impact of detailed cash limit proposals on budgeted FTE for 2016

Indicative 2015 2% Savings measures = reduction of 32.3 FTE

Budget measures to balance the Consolidated Fund were approved by the States Assembly during the 2015 Budget debate, including a reduction in budgets for all departments of 2% in 2015. Some departments were able to identify recurring savings including a reduction in FTE during 2015 and other departments are now identifying the recurring measures in 2016 to replace the level of savings initially identified in 2015 through one-off measures.

Service Transfers = net nil

- Transfer of Population Office from CMD to SSD: 17 FTE
- Transfer of Emergency Planning function from CMD to Community and Constitutional Affairs: 1.5 FTE
- Transfer of PA resource from T&R to CMD: 1 FTE
- Transfer of Taxes IS team from T&R to CMD: 8.5 FTE
- Transfer of FTE posts for H&SS maintenance from H&SS to T&R: 4 FTE
- Transfer of Constitutional Affairs, Safeguarding Partnership Board and Policy from CMD to Community and Constitutional Affairs: 9.5 FTE

Other 2015 Changes = reduction of 48.6 FTE

- 24 of the fixed term contracts within CMD for Freedom of Information will be coming to an end on 31st December 2015.
- A review of the FTE requirement for Workforce Modernisation resulted in a reduction of 2 FTE.
- 4 additional temporary FTE have been approved to support the implementation of the e-Government project.
- A reduction of 20.1 FTE in Economic Development due to the closure of Jersey Tourism, with the function now carried out by Visit Jersey.
- EDD will transfer the budget for the Trackers Apprentice programme to ESC on 1st January 2016 but ESC require 2 additional FTEs in order to deliver the increased demand for the scheme.
- 3.8 FTE were removed from Probation in error during 2015 and are to be re-instated.
- The 10 contingency FTE posts in Treasury and resources have been removed following a review of requirements

Indicative MTFP Growth and Savings for 2016

Departments have identified the indicative FTE impacts of their growth bids and planned savings measures in 2016 based on current information.

The presentation of the indicative FTE numbers recognises that at this stage departments have not fully identified the detailed impact of all their savings proposals.

The indicative FTE numbers do not at this stage include an allocation of the expected FTE savings as a result of the current Voluntary Release (VR) scheme. However, it is likely that a further level of FTE reductions will result from this process, which will be included in future presentations. At this stage, if the proposed contributions to the central redundancy provision of £20 million are approved, it is anticipated that a significant reduction in FTE will be identified over the course of the MTFP.

Figure 46 – Indicative forecast of budgeted FTE by Department for 2016

States Funded Bodies	2015 Revised FTE	Indicative 2015 2% Savings	2015 Service Transfers	Other 2015 Changes	Indicative 2016 Growth	Indicative 2016 Savings	Indicative 2016 FTE
Ministerial Departments							
Chief Minister	**286.5**	-	(18.5)	(22.0)	-	(3.0)	**243.0**
- Jersey Overseas Aid Commission	**1.5**	-	-	-	-	-	**1.5**
Community and Constitutional Affairs	**694.1**	(5.0)	11.0	-	-	-	**700.1**
Economic Development	**58.3**	-	-	(20.1)	-	-	**38.2**
Education, Sport and Culture	**1,789.9**	-	-	-	44.4	-	**1,834.3**
Department of the Environment	**118.5**	(1.0)	-	-	-	(2.6)	**114.9**
Health and Social Services	**2,735.0**	(15.0)	(4.0)	-	47.0	-	**2,763.0**
Social Security	**243.5**	-	17.0	-	-	-	**260.5**
Transport and Technical Services	**518.9**	(3.0)	-	-	1.1	(22.1)	**494.9**
Treasury and Resources	**283.3**	(5.0)	(5.5)	(10.0)	-	(2.0)	**260.8**
Non Ministerial States Funded Bodies							
- Bailiff's Chambers	**10.0**	-	-	-	-	-	**10.0**
- Law Officers' Department	**68.0**	(0.5)	-	-	5.0	-	**72.5**
- Judicial Greffe	**45.2**	-	-	-	-	-	**45.2**
- Viscount's Department	**23.9**	(1.0)	-	-	-	(1.0)	**21.9**
- Official Analyst	**9.6**	(0.2)	-	-	-	-	**9.4**
- Office of the Lieutenant Governor	**14.4**	(0.6)	-	-	-	(0.2)	**13.6**
- Office of the Dean of Jersey	-	-	-	-	-	-	-
- Data Protection Commission	**1.0**	-	-	-	-	(0.5)	**0.5**
- Probation Department	**28.5**	-	-	3.8	-	-	**32.3**
- Comptroller and Auditor General	**1.5**	-	-	-	-	-	**1.5**
States Assembly and its services	**28.5**	(1.0)	-	-	-	(0.5)	**27.0**
States Trading Operations							
Jersey Airport	**197.3**	-	-	(0.3)	-	-	**197.0**
Jersey Harbours	**66.5**	-	-	-	-	-	**66.5**
Jersey Car Parking	**24.0**	-	-	-	-	-	**24.0**
Jersey Fleet Management	**29.0**	-	-	-	-	-	**29.0**
Total FTE	**7,276.9**	**(32.3)**	**0.0**	**(48.6)**	**97.5**	**(31.9)**	**7,261.6**

Note: Indicative 2015 2% FTE savings relate either to manpower reductions identified during 2015 or savings in 2016 which represent the department's recurring measures to put in place the level of savings initially identified in 2015 through one-off measures.

Summary

Currently, there is a forecast overall net reduction to States of Jersey manpower of 5.3 FTE between the reconciled 2015 position and 2016. Departments will hold a total of 66.8 Contingency FTEs which will be used to meet temporary and short term workforce pressures.

The indicative figures will be updated for 2016 and forecasts for 2017-2019 presented in the MTFP Addition by the end of June 2016, alongside the plans for savings, efficiencies and redesign at a department level, at that stage it is anticipated that further significant reductions in FTE will be identified.

18. Planning for an Ageing Population

Introduction

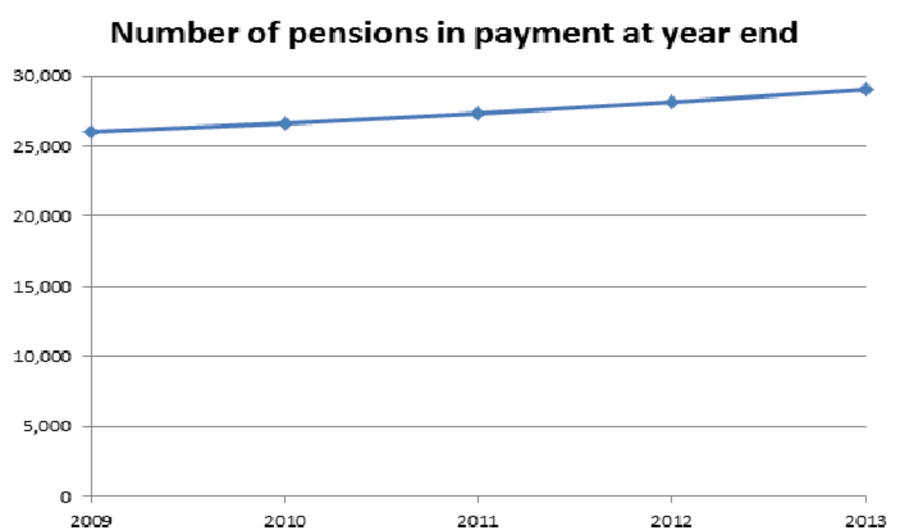
Looking out beyond this Medium Term Financial Plan and over the next 20 years the number of people in Jersey aged over 65 will double from 14,000 today to 28,000 by 2035. This will represent one in four people in the community. This has significant consequences for the States' public finances. It is important that we plan ahead and embark on changes now to provide for the future of the Island.

Social Security Fund

The main purpose of the Social Security Fund is to provide old age pensions for people who have worked in Jersey. The Fund receives contributions from employers, employees and general tax revenues. As well as paying old age pensions, benefits are also available to support working age people through maternity, incapacity and other benefits.

The rising number of older people in our population is leading to higher pension costs. We are already seeing a steady increase in the number of pensions in payment each year:

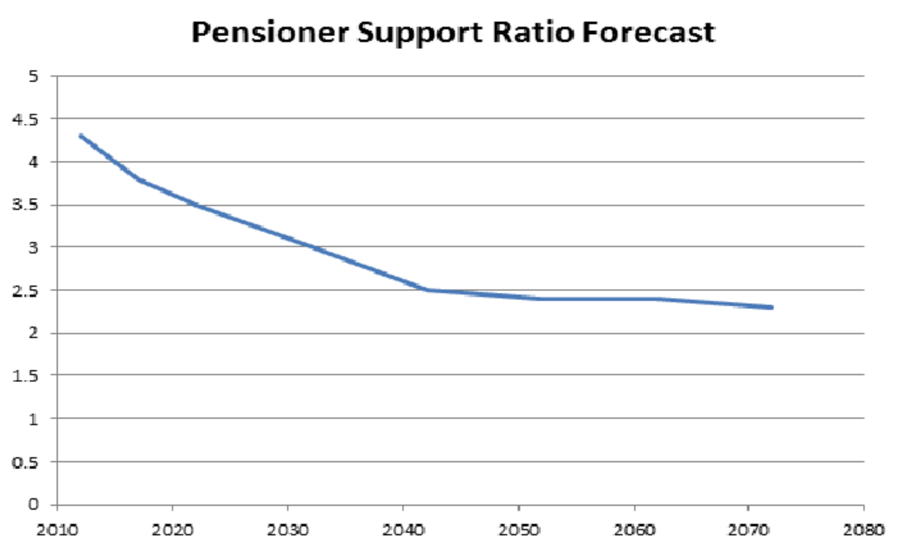
Figure 47 – Number of Pensioners in payment at year end



Looking forward, population projections identify the continuing upward trend in the number of pensioners. These projections include the current population policy of net future migration of 325 people per year and also take account of increasing pension age from 65 up to 67.

The pensioner support ratio (PSR) is calculated as the ratio of working age people to pensioners. At present, the PSR is just under 4 - i.e. for each pensioner in Jersey receiving a pension, there are four working age people making contributions to pay for that pension. The rise in the number of pensioners means that by 2032, there are forecast to be only three working age people supporting the pension of each local pensioner. This ratio is forecast to continue to decline rapidly until the early 2040's and then to decline more slowly throughout the rest of the 60 year period covered by the most recent review of the Fund undertaken by the UK Government Actuary's Department.

Figure 48 –Pensioner Support Ratio Forecast 2010 – 2080

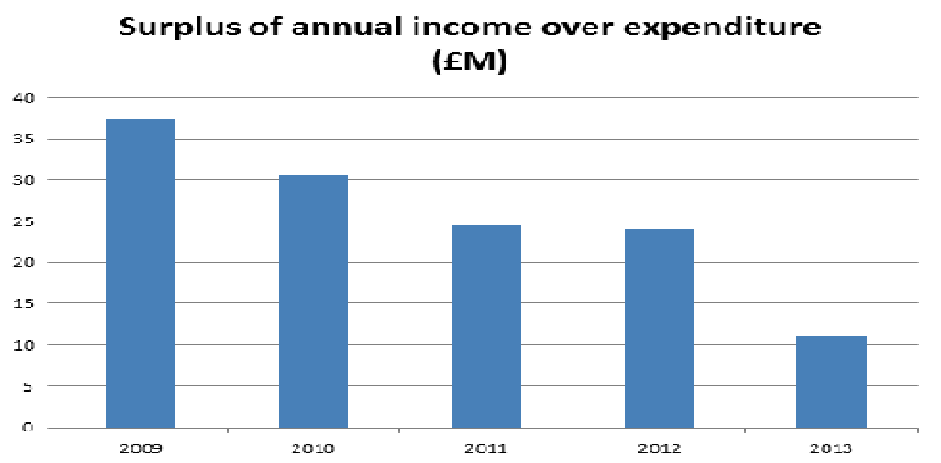


This issue was anticipated at the end of the 1990s and Social Security contribution rates were raised to a total of 12.5%, well above the rate needed to pay for pensions and benefits at that time. Since then, surplus contributions have been invested in a reserve fund, which now has a balance of £1.25 billion. This long term strategy, initiated nearly 20 years ago, places us in a strong position today to be able to adapt the scheme to maintain a viable pension fund going forward.

As predicted, the increasing cost of pensions is now being reflected in the reducing level of surpluses produced through the collection of contributions.

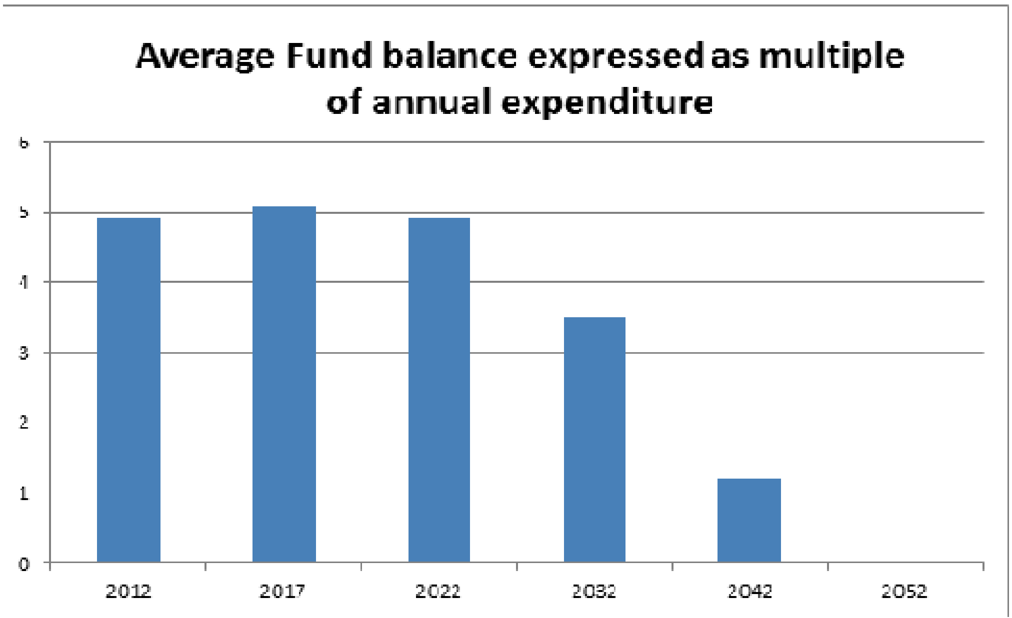
The proposal to cap the level of the States Grant over the MTFP as part of the package to address short-term funding pressures will reduce the income into the fund at a time of growing expenditure. However, the total impact over the four years is estimated at £20 million, less than 2% of the total value of the reserve fund. Over the same period Government will continue to contribute £260 million in grant payments.

Figure 49 – Surplus of Income over Expenditure for Social security Fund (SSF)



In 2014, the UK Government Actuary identified that the Fund is projected to reach a break-even point **next year**, with increasing pension and benefit costs outstripping contribution income for the first time in 2016. If the scheme continues as now, the reserves that have been built up are forecast to peak in the near future and then decline with the Fund projected to be completely exhausted by 2046.

Figure 50 – Average Fund Balance expressed as a multiple of Annual Expenditure



In summary, the Social Security Fund has substantial reserves, but a major review of the Social Security Scheme is now needed to ensure its long term sustainability.

This review will consider the level at which the States Grant should be set in future. It will also consider all aspects of the current scheme, including the level of contributions collected and the eligibility for, and the value of, pensions and benefits payable. The review will consider options for:

- increasing the liability for contributions from higher earners,
- reviewing the level of the standard earnings limit and the upper earnings limit,
- increasing the percentage rate for contributions,
- reviewing the balance between employer and employee contributions,
- reviewing the liability of self-employed contributors,
- reviewing the method for uprating pensions and benefits,
- increasing the state pension age,
- reviewing the eligibility for pensions,
- reviewing the range of working age benefits available.

The review will be supported by an actuarial review of the SSF as at 31 December 2015. This review will be undertaken by the UK Government Actuary and is likely to be published in the second half of 2016.

During the course of this MTFP, the Social Security Department will also work with the Treasury and Resources Department to promote financial independence in old age, and to encourage a higher proportion of workers to take up occupational pensions. For example, this could be achieved through changes in income tax or benefit rules, as well as the promotion of work-based pension schemes aimed at lower earners.

Health Insurance Fund and Long Term Care Fund

In addition to the Social Security Fund, the Social Security Department administers two other standalone funds.

- The Health Insurance Fund (HIF) provides for a compulsory, contributory health insurance scheme that receives contributions from employers and employees. The health scheme is mainly used to provide subsidies for the cost of GP visits and to cover the full cost of prescription drugs.
- A Long Term Care Fund (LTCF) was established at the end of 2013 and is used to fund a compulsory, contributory long term care scheme that receives contributions from adults who have an income tax liability and provides a range of benefits for adults with long term care needs.

As with the Social Security Fund, the cost of the benefits and services provided through these schemes will increase steadily as the number of pensioners in the population increases.

The LTCF was set up specifically to create a new funding stream to help to meet the increasing cost of long term care provision in the island. The current contribution rate of 0.5% will rise to 1% in 2016 and initial modelling suggests that a rate of up to 3% will be needed by the 2040s.

The HIF was set up in the 1960s and the benefits currently provided still largely reflect a traditional model of primary healthcare provision. Significant improvements have been made in the last five years to adapt legislation to introduce a modern governance framework for GPs and to extend the way in which primary care services can be supported through the Fund. At the same time, the Health and Social Services Department (HSSD) has been leading a major review of health services in the island in response to the issue of ageing demographics and the increasing costs of providing all forms of healthcare to an older population.

The current contribution rate of 2% has led to reserves being built up in the Fund. However, the 2% rate is no longer sufficient to cover the costs of the benefits provided and the fund has needed to use investment returns to make up the shortfall in contribution income in recent years. Separately, some of the reserve (just over £26 million) has been used to support primary care costs incurred by HSSD since 2011.

One of the short term measures proposed within the current MTFP is to transfer additional sums to ensure that HSSD can continue to meet the growing cost of health care overall. This would involve up to £30 million to support costs in advance of the introduction of a sustainable funding mechanism for health care. However, if at all possible, Council of Ministers will be considering an earlier introduction of a Health charge, perhaps in 2017, which could be used to partly offset the proposed level of HIF contributions.

It is likely that future health services will be closely coordinated between primary and secondary practitioners, with more care being provided in the community. This will require different funding methods and the future role of the HIF will be reviewed as part of this process and alongside the development of a sustainable funding mechanism to support the overall cost of healthcare**, see Section 11. .** In the short term, the Social Security Department will also be reviewing the possible re-introduction of prescription charges.

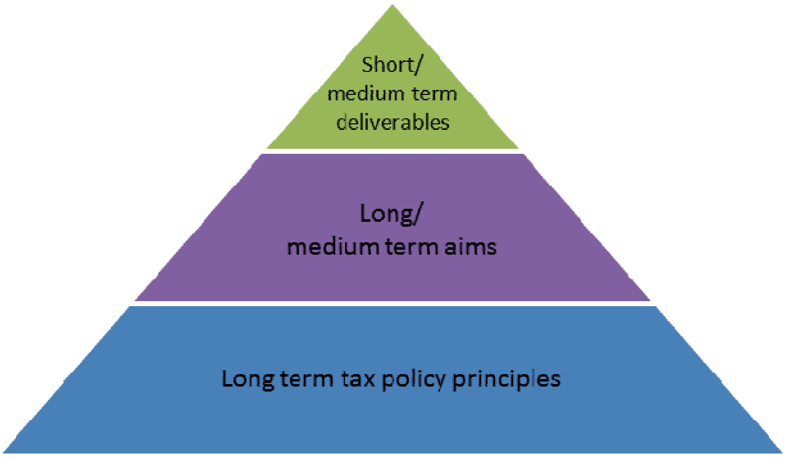
19. Long-Term Tax Policy

Future tax policy development

Changes to the Island's taxation system are ordinarily determined through the annual Budget process, however a discussion paper issued by the Tax Policy Unit and the Taxes Office in September 2014[4] recommended that the States should develop a clear and coherent strategic tax policy framework, against which individual tax policy initiatives could be assessed.

Model strategic tax policy framework

The model for this strategic tax policy framework outlined in the discussion document is as follows:



In this model the strategic tax policy framework consists of three separate layers:

Layer 1 – long term tax policy principles

At the base of the framework is the identification of long term tax policy principles. These are the fundamental building blocks of the tax system and help to shape the nature of the tax system as a whole. By definition these principles are likely to remain constant over long periods of time. Changes to the tax system which are inconsistent with the long term tax policy principles should *prima facie* not be introduced, whilst acknowledging that, at times, there will be a trade-off between principles that will need to be resolved or accepted.

Layer 2 – long/medium term aims

The next layer of the framework in this model is the identification of a series of long/medium term[5] aims for the development of the tax system. These "aims" outline specific issues within, and areas of, the tax system that should be reviewed, developed, modernised and/or otherwise improved. For each aim a "vision" of what the tax system will look like after the improvement has been made should be provided where possible.

[4] See: http://www.statesassembly.gov.je/AssemblyReports/2014/R.133-2014.pdf

[5] For these purposes: "long term" – 5 years+; "medium term" – 3-5 years; "short term" – 1-2 years

Importantly this layer of the framework should also be used to identify those elements of the tax system that will not be subject to change/significant change over the long/medium term.

These "aims" should be consistent with and build upon the long term tax policy principles. However unlike the long term tax policy principles they will change over time as, for example, they are delivered and replaced by other aims or reprioritised

Layer 3 – short/medium term deliverables

The final layer of the framework in this model is a series of short/medium term deliverables which seek to identify the practical steps that should be taken in order to work towards and eventually deliver the long/medium term aims. By their nature, these deliverables should be much more granular than the remainder of the framework.

These deliverables will change regularly as they are fulfilled and replaced by other deliverables. They will also be subject to reprioritisation as other deliverables are identified or obtain greater importance.

Layer 1 – long term tax policy principles

The long term tax policy principles were originally published as part of the MTFP 2013-2015. These long term tax policy principles were then included in the Strategic Plan 2015-2018, where they were subject to a number of minor amendments during the relevant States debate. Therefore the long term tax policy principles, which form the base of the Island's strategic tax policy framework, are:

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

Layer 2 – long/medium term aims

For clarity, the aims within this layer of the strategic tax policy framework have been set out by reference to each particular tax type.

Personal income tax

<u>General simplification</u>

Jersey's personal income tax system is complicated and many taxpayers struggle to understand how their income tax liability has been calculated. Furthermore the distribution rules are, in certain situations, highly complex, placing a large compliance burden on taxpayers and tax agents. Therefore during the period of this MTFP consideration will be given to measures which seek to simplify the personal income tax system, and the distribution rules in particular.

In addition measures will be introduced which seek to simplify the administration of the personal income tax system, with the long term aim of requiring fewer taxpayers to complete and submit an income tax return on an annual basis; making use of data already gathered from other sources and e-Government products to assess people without the need for paper based manual processes.

Addressing inequities

Due to the way in which certain allowances within the personal income tax system operate, households in similar financial circumstances can pay differing amounts of income tax. The personal tax system would be fairer if households in similar financial circumstances paid similar amounts of income tax. Therefore during the period of this MTFP measures will be introduced which seek to reduce these inequities between groups of taxpayer.

Prepare for same sex marriage and then independent taxation

In the feasibility report into the introduction of independent taxation in Jersey[6] the previous Minister for Treasury and Resources stated:

> "It is a widely accepted principle that our tax system should be both efficient and equitable, and that tax policy should not be used to encourage or discourage lifestyle choices; individuals or couples, whether married or cohabiting, should be treated equally. Independent taxation is therefore an important aspect of tax modernisation and provision for the needs of today's families."

In light of the potential impact on taxpayers and the Treasury, and the potential additional administration costs falling on the Taxes Office, further work was then to be undertaken to help facilitate the introduction of independent taxation, the indicative timetable suggesting it would be fully implemented by 2020. However since that commitment was made the Council of Ministers have lodged a report regarding same sex marriage[7], which committed to making same sex marriage a reality in Jersey by the end of 2017 (subject to States Members' approval).

The introduction of same sex marriage will require changes to the Income Tax Law. Therefore during the period of this MTFP the personal income system will be updated to ensure that it is not an obstacle to the introduction of same sex marriage. Furthermore changes made during the period of this MTFP will be benchmarked so as to determine whether they make independent taxation more achievable over the longer term.

Transition to current year payment basis

The fact that ITIS is collected in relation to a different year (e.g. the current year or the prior year) depending on when the taxpayer commenced paying tax in the Island adds complexity to the tax system. Most importantly taxpayers on a prior year payment basis are often unaware that they have a latent tax liability that will need to be paid at some point, their assumption being that their income tax is being fully settled through their ITIS deductions. In many cases the first time the taxpayer becomes aware of this latent tax liability is when they retire, take a career break or become non-resident; ITIS deductions correspondingly cease and the Taxes Office subsequently issues a demand for the outstanding tax.

It is therefore preferable for taxpayers to pay their tax on a current year basis, such that taxpayers are up-to-date with their tax payments and the risk to the Treasury of default is minimised. Therefore measures will be introduced during the period of this MTFP to ensure that a greater proportion of taxpayers are on a current year payment basis.

[6] See: http://www.gov.je/SiteCollectionDocuments/Tax%20and%20your%20money/R%20Independent%20taxation%2020131007%20JMB.pdf

[7] See: http://www.gov.je/news/2014/pages/equalmarriagereport.aspx

Maintain the tax regime for high value residents

The Island's high value resident population makes a significant contribution to the Island's tax revenues through a combination of income tax, social security contributions, stamp duty and GST on personal expenditure. The new tax regime for high value residents, applicable since July 2011, has played a major role in attracting more high net worth individuals to move to the Island.

Consistent with good practice, the changes made to the regime in July 2011 will be subject to a post-implementation review once the regime has been in operation for three complete tax years (i.e. 2012, 2013 and 2014) and all the associated tax reporting has been completed. Therefore this post-implementation review will be undertaken in early 2016.

Personal tax rates

Personal tax rates are an important element in attracting and retaining a highly skilled workforce in an increasingly mobile market place. Personal tax rates in Jersey are competitive when benchmarked against other jurisdictions and, consistent with the fourth long term tax policy principle, the Council of Ministers is committed to ensuring this remains the case. The importance of retaining higher earners within Jersey is evidenced by the fact that the 10% of islanders with the highest income contributed 51% of total personal income tax for the 2013 year of assessment (the latest complete data available).

A broad based tax

The key benefit of maintaining a broad based personal income tax system, where many people pay income tax, is that it helps to maintain low, internationally competitive tax rates. This approach is considered more stable than a tax system with a narrower base and a higher rate.

However, broadening the tax base, whereupon more people pay income tax, must be balanced against the principle of protecting those on the lowest income. Currently approximately 25% of entities registered for personal income tax are non-taxpayers due to the availability of the exemption thresholds and other tax allowances[8]. Over the period of this MTFP consideration will be given to measures that seek to broaden the personal income tax base marginally whilst continuing to prevent those on the lowest income from paying income tax.

Corporate income tax

As outlined in the Jersey Financial Services Industry Policy Framework[9] the Island's corporate tax regime consists of a general rate of tax of 0%, delivering a tax neutral corporate vehicle, and a low rate of tax for financial services companies (10%), both of which are a key feature of the Jersey financial services offering. The intention is that Jersey will maintain a tax neutral proposition, whilst maintaining a competitive rate for the financial services industry.

[8] This percentage would be higher if it included those individuals who are not required to complete an income tax return because the Taxes Office is satisfied that their total annual income is consistently below the tax exemption thresholds.

[9] See: http://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/P%20Financial%20Services%20Policy%20Framework%2020140402%20LO.pdf

Therefore no significant changes to the corporate income tax regime are anticipated during the period of the MTFP 2016-2019. However the Taxes Office will commence the collection of more information from Jersey resident companies on taxable profits so as to provide policy makers with more complete information.

GST

Since its inception, Jersey's GST has been characterised by its low rate and its broad base. This makes GST economically efficient and easy to administer, both from the perspective of the Taxes Office and GST registered businesses. During the period of this MTFP no significant changes to GST are anticipated, maintaining both the low rate and the broad base.

Impôts duties

Impôts duties raise a significant amount of revenue for the States whilst discouraging individuals from consuming certain products that may cause harm to themselves or others, or to the environment. It is acknowledged that changes in impôts duties should be broadly aligned with wider States strategies where relevant.

Property taxes

The Minister for Treasury and Resources will publish his plans for the Island's property taxes later in the summer.

Anti-avoidance

Wherever the Taxes Office become aware of taxpayers seeking to avoid paying their share of tax through the use of artificial arrangements they will seek to challenge those arrangements by way of the existing general anti-avoidance rule and apply appropriate sanctions. Wherever necessary, specific legislation will be introduced to ensure that avoidance opportunities are closed down as quickly as possible and to ensure that the Taxes Office has the powers required to administer the tax system as efficiently and effectively as possible.

Capital taxes

There is no intention to introduce a capital gains tax or inheritance tax during the period of this MTFP.

International tax

The Island's policy in respect of international tax matters was outlined in the Jersey Financial Services Industry Policy Framework. The key statements from that framework are outlined below:

> *"Jersey has positioned itself to be an internationally compliant offshore jurisdiction that has adopted international standards. This has been evidenced by:*
>
> - *A corporate tax regime that is compliant with the European Union's Code of Conduct on Business Taxation in 2011.*

The Island's policy in respect of international tax matters was outlined in the Jersey Financial Services Industry Policy Framework. The key statements from that framework are outlined below:

> "Jersey has positioned itself to be an internationally compliant offshore jurisdiction that has adopted international standards. This has been evidenced by:
>
> - A corporate tax regime that is compliant with the European Union's Code of Conduct on Business Taxation in 2011.

- Intergovernmental agreements for improving international tax compliance with both the US and UK were signed on 13 December 2013 and 22 October 2013 respectively.
- From 1 January 2015 automatic exchange of tax information, in place of the present retention tax, for EU Savings Tax Agreements with EU Member States will be mandatory; legislation is in place to facilitate exchange, optionally, from 1 January 2014.
- Jersey has signed 35 TIEAs, of which 27 are in force. A further 5 have been agreed but are unsigned and 5 are in advanced discussions. The Island has also signed 8 DTAs including agreements with Hong Kong, Qatar, Luxembourg and Singapore. These agreements demonstrate Jersey's commitment to international standards and facilitate further business flows between jurisdictions.
- In November 2013 Jersey was rated 'largely compliant' by the OECD Peer Review Group. This is the same rating as the UK, USA and Germany.
- It has been agreed that the UK's ratification of the OECD/Council of Europe Convention on Mutual Administrative Assistance in Tax Matters be extended to Jersey. This will come into effect in June 2014.

These actions have resulted in an improved understanding of the position of Jersey in the financial services markets that it operates in and increased respect for the legislative and regulatory environment that Jersey maintains.

The international tax environment is currently undergoing significant change in terms of public engagement and increased impetus for greater transparency. We are mindful of these changes and will ensure that we respond and adapt to these changes, whilst ensuring a competitive platform to both sustain existing business and grow the financial services industry."

"It is our intention to support the financial services industry in both developed and developing countries. We recognise the opportunities created by the shift of wealth and speed at which emerging markets in Eastern Europe, Africa, Asia, the Gulf States and the Far East are growing. We will seek to build reciprocal relationships with identified countries including the development of trade treaties, Double Tax Agreements (DTAs) and Tax Information Exchange Agreements (TIEAs) where required."

Layer 3 – short/medium term deliverables

These measures and deliverables will be the subject of the annual Budget statements.

SUMMARY TABLES FOR PROPOSITION

Summary Table A -	States Income Targets for 2016-2019
Summary Table B -	Total States Net Expenditure 2016-2019
Summary Table C -	States Revenue Expenditure for States Funded Bodies for 2016
Summary Table D -	Summary of Proposed Central Contingency Allocations for 2016
Summary Table E -	Proposed Total Capital Expenditure Programme Funding Sources for 2016-2019
Summary Table F -	Proposed Total Capital Expenditure Programme and Indicative Capital Projects for 2016-2019
Summary Table G -	Proposed Income and Expenditure of each States Trading Operation for 2016
Summary Table H -	Proposed Total Capital Expenditure Programme for each States Trading Operation and Indicative Capital Projects for 2016-2019
Summary Table I -	Consolidated Fund Forecast for 2015-2019
Summary Table J -	Intended Strategic Reserve Transfers for 2015-2019

Summary Table A – Proposed States Income Targets 2016-2019

States Income	Forecast (June 2015)	MTFP Proposals (June 2015)			
	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000
Income Tax					
Personal Income Tax	359,000	375,000	395,000	417,000	434,000
Companies	82,000	85,000	82,000	85,000	88,000
Provision for Bad Debt	(3,000)	(2,000)	(2,000)	(3,000)	(3,000)
	438,000	458,000	475,000	499,000	519,000
Goods and Services Tax (GST)					
Goods and Services Tax (GST)	69,262	70,647	72,060	72,637	73,218
Import GST	3,478	3,687	3,908	4,142	4,391
ISE Fees	9,000	9,000	9,000	9,000	9,000
	81,740	83,334	84,968	85,779	86,609
Impôts Duties					
Impôts Duties Spirits	4,703	4,752	4,802	4,861	4,921
Impôts Duties Wine	7,527	7,838	8,161	8,515	8,883
Impôts Duties Cider	1,061	1,127	1,196	1,273	1,355
Impôts Duties Beer	5,365	5,420	5,477	5,544	5,612
Impôts Duties Tobacco	14,142	13,705	13,283	12,897	12,524
Impôts Duties Fuel	21,589	21,589	21,589	21,589	21,589
Impôts Duties Goods (Customs)	175	175	175	175	175
Vehicle Emissions Duty (VED)	761	761	761	761	761
	55,323	55,367	55,444	55,615	55,820
Stamp Duty					
Stamp Duty	23,075	22,376	24,669	26,680	27,481
Probate	2,500	2,500	2,500	2,500	2,500
Stamp Duty on Share Transfer (LTT)	1,315	1,481	1,633	1,766	1,819
	26,890	26,357	28,802	30,946	31,800
Total Taxation Revenue	601,953	623,058	644,214	671,340	693,229
Island Rate Income from Parishes	11,967	12,279	12,598	12,976	13,365
Other States Income - Dividends	10,859	10,699	8,354	14,515	9,279
Other States Income - Non Dividends	12,255	11,703	11,352	10,560	10,283
Other States Income - return from Andium Homes	27,554	28,091	28,973	29,904	30,920
Total Other States Income	62,635	62,772	61,277	67,955	63,847
Total States Income	**664,588**	**685,830**	**705,491**	**739,295**	**757,076**
% increase on previous year	*2.4%*	*3.2%*	*2.9%*	*4.8%*	*2.4%*
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
Total States Income - including additional proposals	**664,588**	**685,830**	**706,491**	**755,295**	**793,076**

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 Total States Net Expenditure for 2016-2019

States Funded Bodies	Proposed Total Net Expenditure 2016 £'000	Proposed Total Net Expenditure 2017 £'000	Proposed Total Net Expenditure 2018 £'000	Proposed Total Net Expenditure 2019 £'000
Ministerial Departments				
Chief Minister	22,640.8			
- Jersey Overseas Aid Commission	10,337.7			
Community and Constitutional Affairs[1]	49,270.5			
Economic Development	17,196.5			
Education, Sport and Culture	111,394.8			
Department of the Environment	5,205.4			
Health and Social Services	203,776.8			
Social Security	189,322.2			
Transport and Technical Services	28,618.3			
Treasury and Resources	32,562.5			
	670,325.5			
Non Ministerial States Funded Bodies				
- Bailiff's Chambers	1,563.9			
- Law Officers' Department	7,797.8			
- Judicial Greffe	6,616.1			
- Viscount's Department	1,320.6			
- Official Analyst	604.8			
- Office of the Lieutenant Governor	738.4			
- Office of the Dean of Jersey	25.8			
- Data Protection Commissioner	267.4			
- Probation Department	1,990.5			
- Comptroller and Auditor General	777.2			
States Assembly and its services	5,186.2			
	26,888.7			
Total Departmental Net Revenue Expenditure	**697,214.2**	**-**	**-**	**-**
Central Allocations	37,203.1			
Total Net Revenue Expenditure	**734,417.3**	**734,387**	**733,997**	**734,845**
Net Capital Expenditure Allocation - Annual Programme	25,691.0	26,273	35,000	32,975
Net Capital Expenditure Allocation - Other Projects	1,000	39,000	8,233	-
Total States Net Capital Allocations	**26,691.0**	**65,273**	**43,233**	**32,975**
Total States Net Expenditure Allocations	**761,108.3**	**799,660**	**777,230**	**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"*

Summary Table C – Proposed Net Revenue Expenditure for States Funded Bodies for 2016

	Gross Revenue Expenditure 2016 £'000	Income 2016 £'000	Net Revenue Expenditure 2016 £'000
Ministerial Departments			
Chief Minister	23,657.2	(1,016.4)	22,640.8
- Grant to the Overseas Aid Commission	10,337.7	-	10,337.7
Community and Constitutional Affairs	51,387.7	(2,117.2)	49,270.5
Economic Development	18,359.4	(1,162.9)	17,196.5
Education, Sport and Culture	130,980.9	(19,586.1)	111,394.8
Department of the Environment	9,654.3	(4,448.9)	5,205.4
Health and Social Services	229,670.8	(25,894.0)	203,776.8
Social Security	194,291.3	(4,969.1)	189,322.2
Transport and Technical Services	44,433.1	(15,814.8)	28,618.3
Treasury and Resources	39,516.4	(6,953.9)	32,562.5
	752,288.8	(81,963.3)	670,325.5
Non Ministerial States Funded Bodies			
- Bailiff's Chambers	1,650.7	(86.8)	1,563.9
- Law Officers' Department	7,909.8	(112.0)	7,797.8
- Judicial Greffe	7,574.4	(958.3)	6,616.1
- Viscount's Department	1,947.1	(626.5)	1,320.6
- Official Analyst	661.8	(57.0)	604.8
- Office of the Lieutenant Governor	845.5	(107.1)	738.4
- Office of the Dean of Jersey	25.8	-	25.8
- Data Protection Commissioner	467.4	(200.0)	267.4
- Probation Department	2,435.5	(445.0)	1,990.5
- Comptroller and Auditor General	835.3	(58.1)	777.2
States Assembly and its services	5,276.7	(90.5)	5,186.2
	29,630.0	(2,741.3)	26,888.7
Total Departmental Net Revenue Expenditure	**781,918.8**	**(84,704.6)**	**697,214.2**
For Information:			
Departmental Depreciation			*44,800*

Summary Table D – Summary of Proposed Central Contingency Allocations for 2016

Central Contingency Allocations	Proposed Allocation 2016 £'000
AME - Anually Managed Expenditure	2,000.0
DEL - Department Expenditure Limit	5,000.0
Committee of Inquiry	4,000.0
Economic and Productivity Growth Provision	5,000.0
Restructuring Provision	7,000.0
Redundancy Provision	10,000.0
Workforce Modernisation, Pay and PECRS Provision	4,203.1
Total Central Allocations	**37,203.1**

Summary Table E – Proposed Total Capital Expenditure Programme Funding Sources for 2016-2019

Proposed Funding of Indicative Capital Programme	Proposed Funding Sources 2016 £'000	Proposed Funding Sources 2017 £'000	Proposed Funding Sources 2018 £'000	Proposed Funding Sources 2019 £'000
Total Proposed Departmental Capital Programme	**26,691**	**65,273**	**43,233**	**32,975**
Proposed Funding Sources				
Consolidated Fund	(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)	-	-
Total Proposed Funding Available	**(26,691)**	**(65,273)**	**(43,233)**	**(32,975)**

Notes:

- 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 office consolidation project and a future hospital provision.
- The Prison Improvement Phase 6 project is dependent on funds being available in 2018 from the Criminal Offences Confiscation Fund (COCF).

Summary Table F – Proposed Total Capital Programme and Indicative Capital Projects for 2016-2019

Proposed Total Programme and Indicative Capital Projects	Proposed Programme 2016 £'000	Proposed Programme 2017 £'000	Proposed Programme 2018 £'000	Proposed 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	-	-
Home 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**
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**

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

Summary Table F (cont'd) – Proposed Total Capital Programme and Indicative Capital Projects for 2016-2019

Proposed Total Programme and indicative Capital Projects	Proposed Programme 2016 £'000	Proposed Programme 2017 £'000	Proposed Programme 2018 £'000	Proposed Programme 2019 £'000
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 Indicative Capital Projects	**25,691**	**26,273**	**35,000**	**32,975**
Other Projects Excluded Above				
Sewage Treatment Works - Upgrade				
Future Hospital *				
Office Modernisation Project *				
Les Quennevais School Rebuild *	1,000	39,000	-	-
Prison Improvement Works - Phase 6 *	-	-	8,233	-
Total Other Projects	**1,000**	**39,000**	**8,233**	**-**
Total Proposed Capital Programme (including Other Projects)	**26,691**	**65,273**	**43,233**	**32,975**

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

Notes:

- 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 office consolidation project and a future hospital provision.
- The Prison Improvement Phase 6 project is dependent on funds being available in 2018 from the Criminal Offences Confiscation Fund.

Summary Table G – Proposed Income and Expenditure of each States' Trading Operation for 2016

States Trading Operations	Gross Expenditure	Income	Net Revenue Expenditure	FTE	Financial Return
	2016 £'000	2016 £'000	2016 £'000	2016	2016 £'000
Jersey Airport	28,454.6	(29,400.0)	(945.4)	197.0	-
Jersey Harbours	17,610.9	(16,487.8)	1,123.1	66.5	-
Jersey Car Parking	6,420.3	(6,743.8)	(323.5)	24.0	1,672.0
Jersey Fleet Management	4,242.0	(4,381.2)	(139.2)	29.0	-
Net Revenue Expenditure Allocation	**56,727.8**	**(57,012.8)**	**(285.0)**	**316.5**	**1,672.0**

Summary Table H – Proposed Total Capital Programme for each States' Trading Operation and Indicative Capital Projects for 2016-2019

Proposed Capital Programme and Indicatice Capital Projects for States Trading Operations	Proposed Programme 2016 £'000	Proposed Programme 2017 £'000	Proposed Programme 2018 £'000	Proposed Programme 2019 £'000
Minor Capital Assets 2012 - 2037	300	300	300	300
ARFFS Replacement Facility	200	3,500	-	-
Cargo/Commercial Apron Replacement	4,500	-	-	-
Power resiliance review implications	-	-	500	-
Airfield Obstacle Compliance (Arrivals & Hangar)	-	3,500	-	-
Car Park System	-	200	-	-
Fire Tender (Rescue 8)	650	-	-	-
UPS replacement - East substation	200	-	-	-
Flight Information display systems (Terminal)	338	-	-	-
Departures Hall Refurbishment	-	500	4,000	-
HBS + OOG X-Rays	-	-	1,500	-
Grass management	-	-	-	200
UPS replacement - West substation	-	200	-	-
Addagrip treatment to 27/26 Runway concrete end	-	400	-	-
PAPIs 08 & 26 (North Side)	-	250	-	-
Alpha/Bravo Taxiway Joint reseal/realignment	-	450	-	-
CUTE/CUSS system upgrade 1	-	500	-	-
HV Switchgear & Transformers Replacement	-	-	600	-
Fire Training Rig	-	-	250	-
UPS replacement - ATCC substation	-	-	200	-
Flight Information Distribution System (ATC)	-	-	250	-
Upgrade West Substation	-	-	-	500
Central Sub UPS	-	-	-	750
Fire Tender (Rescue 8)	-	-	-	650
Replace East Sub Diesel & Switchgear	-	-	-	150
Aeronautical Transmitters/Receivers & Emergency RT's	-	-	-	300
Voice Comms Control System (ACS)	-	-	-	350
Approach Light Fittings Replacement	-	-	-	250
Jersey Airport Proposed Programme	**6,188**	**9,800**	**7,600**	**3,450**

Summary Table H (cont'd) – Proposed Total Capital Programme for each States' Trading Operation and Indicative Capital Projects for 2016-2019

Proposed Capital Programme and Indicatice Capital Projects for States Trading Operations	Proposed Programme 2016 £'000	Proposed Programme 2017 £'000	Proposed Programme 2018 £'000	Proposed Programme 2019 £'000
Port of Jersey - MCA - (2015-2025)	250	250	250	250
Coastguard - Offshore Beacons	100	100	100	100
Coastguard - Radar Replacement	-	-	100	-
Maritime Museum Roof	300	-	-	-
Dredge Project	1,000	-	-	-
Port of Jersey - Elizabeth Café	1,500	-	-	-
Port of Jersey - Eliz Harbour - Terminal Phase 4 Transec Security	-	600	-	-
Port of Jersey - NNQ - Quay	-	3,000	-	-
Port of Jersey - St Helier - Albert Pier Berth 1	200	-	-	-
Port of Jersey - La Collette - Fishermans Quay/Pontoon	-	1,500	-	-
Port of Jersey - La Collette - Tanker Berth B/Water Bullnose	-	200	-	-
Port of Jersey - Elizabeth Harbour - Terminal Phase 5 -	-	-	2,000	-
Port of Jersey - Piers & Quays scour protection	100	-	200	-
Marinas - Old Harbour - Sill	-	150	-	-
Marinas - Elizabeth - Gate renovation	200	-	-	-
Marinas - StHM Upgrade	2,400	-	-	-
Property - Albert Quay Terminal Roof	-	-	3,000	-
Marine Ops - Duke of Normandy Refit	-	-	250	-
Marinas - La Collette - Replacement Boat hoist	150	-	-	-
Ports of Jersey - East Berth Fendering	300	-	-	-
Ports of Jersey - East Berth RoRo Ramp Upgrade	-	-	-	1,500
Jersey Harbours Proposed Programme	**6,500**	**5,800**	**5,900**	**1,850**
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 Proposed Programme	**2,488**	**3,584**	**3,704**	**2,992**
Vehicle and Plant Replacement	1,344	1,285	2,169	1,556
Jersey Fleet Management Proposed Programme	**1,344**	**1,285**	**2,169**	**1,556**

Summary Table I – Consolidated Fund Forecast 2015-2019

Forecast Consolidated Fund balance	Forecast 2015 £'000	Forecast 2016 £'000	Forecast 2017 £'000	Forecast 2018 £'000	Forecast 2019 £'000
Opening Balance brought forward	**4,707**	**45,742**	**21,155**	**23,258**	**24,556**
Forecast Operating Surplus/(Deficit)	**(66,041)**	**(48,587)**	**(27,896)**	**21,298**	**58,231**
Measures to manage 2015 Shortfall	53,386				
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)
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 from Jersey Water Preference Share	(6,800)				
- 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		
- 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
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	**45,742**	**21,155**	**23,258**	**24,556**	**19,812**

Summary Table J – Intended Strategic Reserve Transfers for 2015-2019

Intended Transfers to/(from) Strategic Reserve	Forecast Movements 2015 £'000	Forecast Movements 2016 £'000	Forecast Movements 2017 £'000	Forecast Movements 2018 £'000	Forecast Movements 2019 £'000
Funding requirement for Committee of Inquiry	(10,000)	(4,000)	-	-	-
Funding requirement for Economic and Productivity Growth Provision	-	(5,000)	(5,000)	-	-
Transfer from Consolidated Fund	-	-	-	-	10,000
Funding requirement for Redundancy Provision	-	(10,000)	(10,000)		
Transfer from Consolidated Fund	-	-	-	-	20,000
Funding for Consolidated Fund working balance	-	(5,000)	-	-	
Les Quennevais School	-	(1,000)	(39,000)	-	-
Funding requirement for Annual Capital Programme		(25,691)	(26,273)	-	-
Transfer from Consolidated Fund - Asset Disposals	-	-	20,000	-	20,000
Total Intended Transfers to/(from) Strategic Reserve	**(10,000)**	**(50,691)**	**(60,273)**	**-**	**50,000**

APPENDICES

Appendix 1	IFG - Income Tax Forecasts 2015-2019
Appendix 2	IFG - GST and ISE Fee Forecasts 2015-2019
Appendix 3	IFG - Impôts Duty Forecasts 2015-2019
Appendix 4	IFG - Stamp Duty Forecasts 2015-2019
Appendix 5	Other Income Forecasts 2015-2019
Appendix 6	FPP - Economic Assumptions for 2015-2019 (April 2015)
Appendix 7	Terms of Reference for Income Forecasting Group (IFG)
Appendix 8	Financial Forecast - Additional Considerations
Appendix 9	Ports Incorporation

Appendix 1 – IFG : Income Tax Forecasts 2015-2019

Draft Income Tax Forecasts 2015-2019 from Income Forecast Group

The Taxes Office have provided data on the personal and company income for the year of assessment 2013 (YOA 2013) together with the values of exemptions and allowances.

The model is tested by running the actual tax data through it and checking the results against the 2014 outturn. Any amendments to the model can be made to improve the forecasting model going forward.

There were several new sources of information between the Budget 2015 and the March 2015 forecast:

- The Taxes Office had new information on personal and company tax assessments for YOA 2013.
- The Statistics Unit had published data on economic variables, such as for economic growth, employment and average earnings.
- The Fiscal Policy Panel (FPP) published their Pre-MTFP Report[10] which contains a new economic growth forecast for Jersey and the underlying economic assumptions, these have subsequently been updated in April 2015 and further endorsed by the FPP.
- The latest market expectations for interest rates, for example, those published in the Bank of England's Inflation Report.
- 2014 ITIS data providing information on employment income trends.
- Initial information from tax agents and interviews with major financial institutions.

Further information has been included in the latest update (June 2015):

- Updated Fiscal Policy Panel economic assumptions for 2015-2017. In particular, slightly lower financial services profits growth expectations and slightly higher inflation expectations compared to the last set of economic assumptions (end of January 2015).
- New employment data for December 2014, which shows stronger than expected employment growth in the last half of 2014.
- Updated information on company income tax assessments for 2014 following the formal appeal period, these figures affect the starting point of the company income tax forecast for 2015 and specific information relating to future years expected tax liability.

The latest economic assumptions are summarised in **Appendix 6** and described in detail in the IFG income Tax Update Report published **as an Addendum to this Report.**

[10] Fiscal Policy Panel Pre-MTFP Report 2015, http://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20Fiscal%20Policy%20Panel%202015%20annual%20report%2020150130%20JE.pdf

Variations in Income Tax Forecast from Budget 2015

The variations in income tax forecast since the Budget 2015 are shown in the two updates March 2015 and June 2015.

Figure 51 shows the differences between the March 2015 forecasts and those at Budget 2015 and **Figure 52** shows the further variations between the latest June 2015 forecasts and the March 2015 update.

Figure 51 – Variations in Income Tax from Budget 2015 to March 2015

	Actual	Forecast					
	2013	2014	2015	2016	2017	2018	2019
	£m	£m	£m	£m	£m	£m	£m
Personal tax							
Budget 2015 forecast	**357**	**364**	**373**	**386**	**404**	**425**	**452**
2014 outturn		-8	-8	-8	-8	-8	-8
2015 Budget measures				2	2	2	2
2015 in-year estimate of employment income			-4	-4	-4	-4	-4
Updated economic assumptions			0	0	3	4	-5
Current provisional forecast	**357**	**356**	**361**	**376**	**397**	**419**	**437**
Company tax							
Budget 2015 forecast	**98**	**84**	**85**	**91**	**97**	**103**	**109**
2014 outturn		-1	-1	-1	-1	-1	-1
2015 in-year estimate of top 100 taxpayers			2	2	2	2	2
Updated economic assumptions			0	-3	-5	-7	-10
Current provisional forecast	**98**	**83**	**86**	**89**	**93**	**97**	**100**

Note: the 2013 outturn included a one-off £10 million tax receipt.

At the time of the March 2015 forecast, income tax revenues were expected to be £12 million lower from 2015 than expected in the forecast for the 2015 Budget.

Figure 52 – Variations in Income Tax from March 2015 to June 2015

Personal Income Tax	Forecast				
	2015	2016	2017	2018	2019
	£m	£m	£m	£m	£m
Provisional forecast	360	376	396	419	437
Higher exemption thresholds	-1	-1	-2	-2	-2
Updated central forecast	**359**	**375**	**395**	**417**	**434**

Company Income Tax	Forecast				
	2015	2016	2017	2018	2019
	£m	£m	£m	£m	£m
Provisional forecast	86	89	93	97	100
2015 in year estimate - YOA 2014 assessments	-2	-2	-2	-2	-2
Repayment on past assessments	-1	0	0	0	0
2015 in-year news on YOA 2016 for 2017	0	0	-5	-5	-5
Lower financial services profits growth	0	-2	-3	-5	-5
Updated central forecast	**82**	**85**	**82**	**85**	**88**
Net change to income tax forecast	**-5**	**-5**	**-13**	**-14**	**-15**

<u>Summary Forecasts</u>

Figure 53 – Updated Income Tax Forecast 2015-2019

March 2015	Forecast				
	2015	2016	2017	2018	2019
	£m	£m	£m	£m	£m
Personal	360	376	397	419	437
Companies	86	89	93	97	100
Bad debts	-3	-2	-2	-3	-3
Total	**443**	**463**	**488**	**513**	**534**
Annual growth	6	20	24	26	21
Annual growth, %	1%	4%	5%	5%	4%
June 2015	**Forecast**				
	2015	2016	2017	2018	2019
	£m	£m	£m	£m	£m
Personal	359	375	395	417	434
Companies	82	85	82	85	88
Bad debts	-3	-2	-2	-3	-3
Total	**438**	**458**	**475**	**499**	**519**
Annual growth	1	19	17	24	21
Annual growth, %	0%	4%	4%	5%	4%

The June 2015 forecast shows a further reduction in income tax forecasts of £5 million in 2015, compared to the March 2015 update.

Forecast range

The Income Forecasting Group (IFG) considered the suggested range around the forecasts which had been calculated using the range in relevant economic assumptions. However, the IFG felt that a more significant variation was required in the early years 2015 and 2016 and this is reflected in **Figure 54.**

Figure 54 – Range of income tax forecasts

Income Tax	Forecast					
	2014	2015	2016	2017	2018	2019
	£m	£m	£m	£m	£m	£m
Upper		447	476	499	535	568
Central	**437**	**438**	**458**	**475**	**499**	**519**
Lower		430	440	451	462	471
Range as a % of central, +/-		**2%**	**4%**	**5%**	**7%**	**9%**

The detailed IFG income Tax Update Report is published **as an Addendum to this Report.**

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

Draft GST and ISE Forecasts 2015-2019 from the Income Forecasting Group (IFG)

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 exempt from GST.

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

In year, GST forecasts are usually modelled using the previous increases in actual GST income as a base to project forward. The MTFP 2013-2015 GST forecasts were based on the economic assumptions at the time (March 2012) which were for economic growth and inflation. During the last 3 years the actual GST income has been lower than forecast in MTFP 2013-2015.

IFG asked for information on the trends in GST over the period since 2008 and the average increase has been 0.5% over the period. However, in 2014 the increase has been stronger at 2%, probably reflecting the improving economic conditions.

The Group asked if similar trends could be identified by sector to provide more detail on individual trends about which forward assumptions could be made. Detailed trends for the various sector where subsequently provided but there were no obvious correlations identified that would help improve the forward forecast.

The proposal is that for 2015 to 2017, while economic growth is forecast to continue, to use the recent 2% trend. For 2018 and 2019 the longer term average of 0.8% is used.

<u>GST on imports</u>

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 has been developed based on this trend growth. The Group has no reason to believe this trend will not continue.

<u>ISE Fees</u>

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 assumes £9 million of ISE fees per annum.

<u>Variations between Budget 2015 and June 2015 forecasts</u>

In the 2015 Budget the emerging trend in 2014 was used to forecast forward over the MTFP2 period. At the time economic growth was assumed to continue through to 2019, rather than the trend % real growth now assumed from 2018.

The main difference in the forecasts since the 2015 Budget arises out of the different economic assumptions beyond 2017.

The changes in economic assumptions and additional information on in-year 2015 figures between the March and June 2015 updates have not affected the forecasts proposed for the draft MTFP 2016-2019.

Figure 55 – Summary GST draft forecasts 2015-2019 (June 2015)

GST	Forecast					
	2014	2015	2016	2017	2018	2019
	£'000	£'000	£'000	£'000	£'000	£'000
GST	*67,904*	69,262	70,647	72,060	72,637	73,218
Import GST	*3,281*	3,478	3,687	3,908	4,142	4,391
ISE Fees	*9,042*	9,000	9,000	9,000	9,000	9,000
Total GST	***80,227***	**81,740**	**83,334**	**84,968**	**85,779**	**86,609**
Annual Growth %		*1.9%*	*2.0%*	*2.0%*	*1.0%*	*1.0%*
Budget 2015 Forecast	*79,107*	80,650	82,584	84,571	86,460	89,171
Variation £	*1,120*	1,090	750	397	(681)	(2,562)

Note: These forecasts are unchanged from those presented to CoM in March 2015

Forecast Range

Following proposals from the Economics Unit to the IFG, the recommendation is that:

- 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 56**

Figure 56 – GST draft forecast range (June 2015)

GST	Forecast					
	2014	2015	2016	2017	2018	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Higher	*80,227*	82,530	84,911	87,379	88,897	90,460
Central	***80,227***	**81,740**	**83,334**	**84,968**	**85,779**	**86,609**
Lower	*80,227*	80,995	81,818	82,652	82,800	82,953
Range £'000	**-**	**1,535**	**3,093**	**4,727**	**6,097**	**7,507**
Range %	***0%***	**2%**	**4%**	**6%**	**7%**	**9%**

Note: The forecast range is unchanged from those presented to CoM in March 2015

Appendix 3 – IFG : Impôts Duty Forecast 2015-2019

Draft Impôts Duty Forecasts 2015-2019 from the Income Forecasting Group (IFG)

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 latest 2014 outturn and to apply the last 10 year average importation figures and then to forecast the future duty rates.

<u>10 year importation trend</u>

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.

The average 10 year trends by commodity are:

Spirits	98%
Wines	101%
Cider	103%
Beer	98%
Tobacco	94%
Fuel	100%

<u>Increases in Impôts duty rates</u>

IFG 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 next MTFP. 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 current 2015 Budget rates and assume RPI increases in future years for alcohol and tobacco only.

From 2014, a new bonded warehouse scheme has been introduced by customs to deter profiteering around budget announcements for the following year. This reduced tobacco taken to duty in 2014 but correspondence with the tobacco wholesalers suggests that this will be a one-off effect and future forecasts should not be affected.

Figure 57 - Draft MTFP forecasts for impôts duties (June 2015)

Impôts	Forecast					
	2014	2015	2016	2017	2018	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Impôts on Spirits	*4,801*	4,703	4,752	4,802	4,861	4,921
Impôts on Wine	*7,615*	7,527	7,838	8,161	8,515	8,883
Impôts on Cider	*988*	1,061	1,127	1,196	1,273	1,355
Impôts on Beer	*5,285*	5,365	5,420	5,477	5,544	5,612
Impôts on Tobacco	*13,788*	14,142	13,705	13,283	12,897	12,524
Impôts on Fuel	*20,708*	21,589	21,589	21,589	21,589	21,589
Impôts on Other Goods	*161*	175	175	175	175	175
Vehicle Emissions Duty	*760*	761	761	761	761	761
Total Impôts Duties	***54,102***	**55,323**	**55,367**	**55,444**	**55,615**	**55,820**
Annual Growth %		*2.3%*	*0.1%*	*0.1%*	*0.3%*	*0.4%*
Budget 2015 Forecast	*55,613*	55,649	55,587	55,558	55,566	55,602
Variation £'000	*(1,511)*	(326)	(220)	(114)	49	218

Variation from March 2015 to June 2015

The forecasts have been revised to reflect the in-year information for 3 months actuals for 2015 and also the small variation in RPI assumptions which affect the duty rate increase assumptions from 2016 onwards.

Forecast range

An approach to providing a range around the impots duty forecast was accepted byIFG and this 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 58**

Figure 58 – Impôts draft forecast range (June 2015)

Impôts	Forecast					
	2014	2015	2016	2017	2018	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Higher	*54,106*	55,875	56,968	58,121	59,399	60,748
Central	***54,102***	**55,323**	**55,367**	**55,444**	**55,615**	**55,820**
Lower	*54,106*	54,770	53,799	52,880	52,064	51,295
Range £'000	-	**1,105**	**3,169**	**5,241**	**7,335**	**9,453**
Range %	***0%***	**2%**	**6%**	**9%**	**13%**	**17%**

Appendix 4 – IFG : Stamp Duty Forecasts 2015-2019

Draft Stamp Duty Forecasts 2015-2019 from the Income Forecasting Group (IFG)

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%.

MTFP 2013-2015 forecasts were based on the actual stamp duty in 2011 of £13.3 million and an assumption for an economic recovery from 2012 and 2013. The lack of economic growth and depressed conditions in the property market for 2012 and 2013 have meant that stamp duty income has been well below the MTFP forecast in those years.

The current draft forecast for the next MTFP 2016-2019 has been based on a considerable analysis of the past years' data. This has 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 higher value properties over £2 million.

2014 Outturn – establishing a base for the MTFP forecasts 2015-2019

The reasons for the significant increase in 2014 were examined and have been identified as:

- a general increase in activity and increase in the average value of transactions,
- an unusually large number of high value properties transacted in 2014 which were linked to the relocation of high net worth individuals to Jersey, and
- the effect of the 2015 Budget announcing an increase in Stamp Duty rates for properties above £1m. This is thought to have led to an acceleration of high value property transactions leading up to the end of 2014 where purchasers looked to transact before rates increased. (A similar pattern of activity was seen in the first half of 2011 when Stamp Duty rates were also raised for properties over the value of £1m on 1st July 2011.)

IFG asked for additional information on potential high net worth activity and forecasts of high net worth residency applications in future years. As a result of this work with the High Net Worth Residency team, the Group has been able to identify that the activity in over £2 million property transactions in 2014 was unusually high and, based on latest information, is unlikely to recur at a similar level in future years. However, there is sufficient evidence to suggest an increase in the assumption for the average number of high value residential transaction in future years. Information was also provided which suggested a further number of significant receipts in the first quarter of 2015 for which one-off adjustments have been included, but not affecting future years.

The Group agreed to reduce the 2014 outturn figure to be used as the basis of the forward forecast. A positive adjustment was then agreed for the improved assumptions for high value properties.

The 2015 Budget measures were discussed with the conclusion that the net effect of these measures should be broadly neutral. The Group was not aware of any further changes in rates or policy that would affect the forward forecasts.

Economic Assumptions

The general stamp duty forecasts are modelled using economic assumptions for the forecast movement in house prices and the forecast level of housing market turnover. These are derived by the economics unit from the forecasts provided in the FPP report.

These assumptions, like the economic assumptions generally, are slightly more buoyant in the short term and less so from 2017 onwards compared to those used in the 2015 Budget forecasts. The market turnover assumptions forecast a return to pre-downturn levels at about the point the economy is forecast to return to capacity in 2018/2019.

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

The majority of share transfer property transactions are for flats and apartments, and therefore 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 forecasts are based on an adjusted 2014 outturn and the same economic assumptions have been applied as for general stamp duty.

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 individuals are non- domiciled but have Jersey moveable property. Between 2009 and 2014 transactions 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.

Draft MTFP Forecasts for 2015-2019 (June 2015)

The resulting draft MTFP forecasts in Figure 14 show an improvement in the early years and a slight deterioration by 2018 and 2019 compared to the 2015 Budget forecasts.

There is also a small improvement in 2015 relative to the forecasts presented to Council of Ministers in March 2015, due to actual results in the first three months of 2015. These are due to two significant over-£2 million property transactions which are not considered to be a change in trend which would affect forward forecasts.

Figure 59 - Draft MTFP forecasts for Stamp Duty (June 2015)

Stamp Duty	Forecast					
	2014	2015	2016	2017	2018	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Stamp Duty	21,988	21,668	22,376	24,669	26,680	27,480
Probate	2,735	2,500	2,500	2,500	2,500	2,500
Stamp Duty on Share Transfer (LTT)	1,254	1,356	1,481	1,633	1,766	1,819
Total Stamp Duty	***25,977***	**25,524**	**26,357**	**28,802**	**30,946**	**31,799**
Annual Growth %		*-1.7%*	*3.3%*	*9.3%*	*7.4%*	*2.8%*
Budget 2015 Forecast	*22,730*	23,838	25,605	27,763	31,730	33,209
Variation £'000	*3,247*	1,686	752	1,039	(784)	(1,410)

The 2014 and 2015 stamp duty is adjusted to reflect the high volume of over-£2 million property transactions, and 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

An approach to providing a range around the Stamp Duty forecast was accepted by IFG and this uses the variation around the economic assumptions on house prices. The impact on the central forecasts is shown in **Figure 60**.

Figure 60 – Stamp Duty draft forecast range (June 2015)

Stamp Duty	Forecast					
	2014	2015	2016	2017	2018	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Higher	*25,977*	26,161	27,760	31,146	34,382	36,295
Central	***25,977***	**25,524**	**26,357**	**28,802**	**30,946**	**31,799**
Lower	*25,977*	24,888	24,994	26,591	27,796	27,796
Range £'000	-	**1,273**	**2,766**	**4,555**	**6,586**	**8,499**
Range %	***0%***	**5%**	**10%**	**16%**	**21%**	**27%**

Appendix 5 – Other Income Forecasts 2015-2019

Draft Other Income Forecasts 2015-2019

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,
- Income other than from Dividends and financial returns,
- Returns from Andium Homes and Housing Trusts, and
- Proposed Return from Ports Incorporation.

The forecasts of other States income were reviewed fully in March 2015 and have been revisited to re-model the effect of 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.

Income from Dividends and returns

The principal contributions to this area of income arise from the dividends paid by those utility 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%

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. Gigabyte Jersey at Jersey Telecom.

The current forecasts reflect 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 earlier years.

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.

However, the update for June 2015 has identified a potential reduction in the 2015 special and ordinary dividend from Jersey Post. Currently, this would not include the special dividend of £2 million proposed in the 2015 Budget and would also see a reduction in the ordinary dividend proposed. Discussions are continuing relating to certain pension liabilities on the Jersey Post balance sheet.

The other main source of income in this area is the return paid by SoJDC. In May 2014, for the Budget 2015, a fairly regular return was forecast based on the anticipated returns from the progress and completion of a number of developments or phases. The current forecast is updated for the current programme of development and forecast returns are only provided in the years where particular developments are due to complete. This has caused some fairly significant negative variances in particular years.

Income – Non-Dividends

A number of income streams contribute to this area, many of which are fairly small and relatively simple to forecast i.e. income tax penalties, crown revenues and miscellaneous interest, fees and fines.

Larger streams of income arise from:
- Investment returns from the Consolidated Fund
- Investment returns from the Currency Fund
- Returns from the JFSC
- Returns from Jersey Car Parking Trading Account

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.

At the time of the May 2014 forecasts for Budget 2015, the forecast returns on equity and interest rates were more favourable than those currently projected. The Consolidated Fund will also be significantly affected by the proposed change in allocation of capital monies and the latest reduced income forecasts. These changes result in a much smaller forecast holding balance to be invested over the forecast period.

A combination of reduced holding balances, revised investment return and interest rate forecast combined with some changes in strategy for infrastructure investment in the Currency Fund have contributed to fairly significant reductions in the income forecasts of both the Consolidated and Currency Fund since May 2014. The draft MTFP forecasts are prudent and the 2014 returns exceeded earlier forecasts, but the States advisers recommend that future returns should be based on long term trends rather than the higher returns achieved in the last two years.

Returns from Andium Homes and Housing Trusts

The returns from Andium Homes and the Housing Trusts arise from the incorporation of the housing function in July 2014. 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. Agreements are also being put in place with Housing Trusts to deliver a return tracking each Trusts 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.

These changes have caused a reduction in the predicted return from Andium Homes from that originally forecast, but this should be partly offset by lower levels of uprating required on the benefits paid for the housing component of income support. Whilst there have been significant reductions in income support forecasts it is extremely difficult to correlate these savings directly with the variations in the Andium and Housing Trust returns.

There is a small variation between the latest forecast and the March 2015 update due to changes in RPI assumptions.

Proposed Return from Ports Incorporation

The strategic business plan for Ports Incorporation is currently being updated ahead of the plans for Ports Incorporation from October 2015. Based on the current model and prior to the planned update, there are only fairly moderate returns forecast for the MTFP period 2016-2019 as a result of forecast investment in commercial projects, post incorporation and reduced taxation returns as the loss relating to the payment of the PECRS pre-1987 debt is utilised.

Economic assumptions

The common economic assumptions endorsed by the FPP in April 2015 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 Forecasts for 2015-2019

The resulting MTFP forecasts are shown in **Figure 61** which show that compared to the March 2015 forecasts there is a reduction reflecting the proposed dividend reductions but a slight improvement in future years through changes to the RPI assumptions.

Figure 61 - Draft MTFP forecasts for Other Income Update for June 2015

Other Income	Forecast					
	2014	2015	2016	2017	2018	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Island Wide Rate	*11,896*	12,079	12,381	12,715	13,097	13,490
Other Income - Dividends	*8,284*	13,761	10,968	8,354	14,515	9,276
Other Income - Non Dividends	*18,234*	12,255	11,687	11,335	10,546	10,277
Other Income - Returns from Andium and Housing trusts	*13,581*	27,547	28,021	28,769	29,672	30,680
Total Other Income	***51,995***	**65,642**	**63,057**	**61,173**	**67,830**	**63,723**
Budget 2015 Forecast	*50,798*	67,394	68,433	75,208	78,834	81,820
Variation	*1,197*	(1,752)	(5,376)	(14,035)	(11,004)	(18,097)

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 62.**

Figure 62 – Range of Other Income Forecasts

Other Income	Forecast					
	2014	2015	2016	2017	2018	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Higher	*51,995*	65,691	64,175	63,667	71,352	67,871
Central	***51,995***	**65,642**	**63,057**	**61,173**	**67,830**	**63,723**
Lower	*51,995*	65,331	60,219	57,839	63,716	58,884
Range £'000	**-**	**360**	**3,956**	**5,828**	**7,636**	**8,987**
Range %	***0%***	**1%**	**6%**	**10%**	**11%**	**14%**

Appendix 6 – FPP : Economic Assumptions 2015-2019 (April 2015)

The draft MTFP economic assumptions for the central scenario including, the upper and lower ranges

					Return to trend	
	2014	**2015**	**2016**	**2017**	**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(a)	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(b)	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

Central scenario - previous 30 January 2015

					Return to trend	
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
Real GVA	1.6	2.0	1.2	1.7	0.0	0.0
RPI	1.6	1.5	2.5	3.0	3.3	3.3
RPIY	1.6	1.5	2.5	2.7	3.0	3.0
Nominal GVA	3.2	3.5	3.7	4.4	3.0	3.0
Company profits(a)	2.5	3.4	3.9	4.5	3.0	3.0
Financial services profits	1.8	3.3	4.3	5.1	3.0	3.0
Compensation of employees(b)	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	0.6	1.2	1.5	2.0	2.5
House prices	1.0	3.0	4.0	5.0	3.0	3.0

Difference

					Return to trend	
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
Real GVA	0.0	-0.8	-0.1	-0.3	0.0	0.0
RPI	0.0	0.1	0.6	0.1	0.0	0.0
RPIY	0.0	0.3	0.1	-0.1	0.0	0.0
Nominal GVA	0.0	-0.5	0.0	-0.4	0.0	0.0
Company profits(a)	0.0	-1.0	-0.6	-0.8	0.0	0.0
Financial services profits	0.0	-2.2	-1.2	-1.8	0.0	0.0
Compensation of employees(b)	0.0	0.0	0.0	0.0	0.0	0.0
Employment	0.0	0.0	0.0	0.0	0.0	0.0
Average Earnings	0.0	0.0	0.0	0.0	0.0	0.0
Interest rates (%)	0.0	-0.1	-0.1	0.1	0.0	0.0
House prices	2.3	0.0	0.0	0.0	0.0	0.0

OUTTURNS

(a) Gross profits for all companies, including traders.

(b) The number of employees multiplied by the costs of employment (wages, bonuses, pensions).

Appendix 7 – Terms of Reference for Income Forecasting Group (IFG)

Terms of Reference for an Income Forecasting Group (IFG)

Purpose

The group is established as an advisory function on the forecasts of all States income from taxation and social security contributions which will be informed by economic assumptions produced by the Fiscal Policy Panel (FPP).

Objectives

To produce an absolute minimum of two forecasts each year:

- A full review of states tax, social security contributions and duty revenue forecasts will take place following the provisional outturn and no later than March of each year.
- A further forecast to inform the Budget debate, no later than September, including any revised economic assumptions and experience form the current year actual revenues.
- In an MTFP year, a further update will be considered between the full review in March and the actual lodging of the MTFP.

To produce reports on the forecasts of states income from taxation and social security contributions, including:

- Forecasts for income tax revenues,
- Forecasts for goods and services tax and ISE Fees,
- Forecasts for impots duties,
- Forecasts for stamp duties,
- Forecasts for social security contributions,
- Economic assumptions used, and
- Factors and risks that should be considered.

The forecasts will cover a period of at least four years and include a range within which a central forecast can be applied.

Reporting

The reports will be presented to the Minister for Treasury and Resources in advance of the Council of Ministers consideration.
Once a report is approved by the Minister for Treasury and Resources it will be published alongside the Medium Term Financial Plan and the Budget.
Other reports can be prepared on the request of the Minister for Treasury and Resources.

Administration

All meetings will be minuted with agreed actions.
Quarterly review meetings will also be held.
Quorum – at least six of the nine members be present for the meetings to be considered quorate.
Any variations to the group membership once established to be agreed by the Minister for Treasury and Resources or Chief Minister.

It will be the responsibility of the Chief Executive and Treasurer of the States to ensure that the group has sufficient resources to fulfil its responsibilities.

<u>Group Membership</u>

The members of the group are:

- Treasurer of the States of Jersey (Chair)
- Comptroller of Taxes
- Director of Financial Services
- Chief Officer, Economic Development
- Chief Officer, Social Security
- Adviser, International Affairs
- Deputy Director of Tax Policy
- States Economic Adviser
- An external person appointed by the Minister for Treasury and Resources

The meetings of the group will be attended by the following officers in a supporting role

- Head of Financial Planning (secretary)
- Finance Director, Income Tax
- Economist

The group will invite other officers and external advisers to attend as appropriate which will be documented. The group will operate independent of any political influence.

Appendix 8 – Financial Forecast – Additional considerations

The current financial forecast of the States' financial position for 2015-2019 is presented at **Figure 16**. The forecast presents the current operating surplus/(deficit) which is summarised in **Figure 63**

Figure 63 - Summary of current operating surplus/deficit for 2015-2019

Summary of Financial Forecast	Forecast (June 2015)	MTFP Proposals (June 2015)			
	2015	2016	2017	2018	2019
	Forecast	Proposed	Indicative	Indicative	Indicative
	£'000	£'000	£'000	£'000	£'000
Total States Income - incl: Proposed Health Charge	664,588	685,830	705,491	754,295	792,076
Total Net Revenue Expenditure (excl: Depn)	720,629	734,417	733,387	732,997	733,845
Forecast Operating Surplus/(Deficit) for the year	**(56,041)**	**(48,587)**	**(27,896)**	**21,298**	**58,231**

Addressing any structural imbalance in States fiscal balance

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

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

The position over the course of the MTFP is illustrated in **Figure 64** and shows that the proposed measures will see the States move from a current deficit in 2015 to a slight surplus proposed in 2019. **Given the FPP's advice in their Pre MTFP report this suggests that States finances will be close to structural balance, if economic conditions unfold in line with the current expectations.**

Figure 64 – Financial forecast of structural financial position 2015-2019

Summary of Financial Forecast	Forecast (June 2015)	MTFP Proposals (June 2015)			
	2015	2016	2017	2018	2019
	Forecast	Proposed	Indicative	Indicative	Indicative
	£'000	£'000	£'000	£'000	£'000
Total States Income - incl: Proposed Health Charge	664,588	685,830	705,491	754,295	792,076
Total Net Revenue Expenditure (excl: Depn)	720,629	734,417	733,387	732,997	733,845
Forecast Operating Surplus/(Deficit) for the year	**(56,041)**	**(48,587)**	**(27,896)**	**21,298**	**58,231**
Depreciation Forecast	50,098	43,613	42,903	47,798	54,593
Current financial position - Surplus/(Deficit)	**(106,139)**	**(92,200)**	**(70,799)**	**(26,500)**	**3,638**

Further adjustments to take account of cashflows

The Fiscal Framework at **Section 4** requires the MTFP to provide an analysis which gives a better indication of the economic impact of the proposals over the forecast period of at least 4 years. That is a better indication of when money will be withdrawn from the economy and when it will actually be spent i.e. actual cashflows. This was included for the first time in the 2015 Budget and is extended to 2019 in the following analysis.

The Economic Background and Outlook is discussed in **Section 6** and this provides an assessment of the adjusted fiscal position to give a better indication of the economic impact and a commentary summarising the considerations for the States over the MTFP period. The FPP will consider this analysis and their advice will be instrumental in determining whether adjustments or compensating measures are required in future years. The FPP's next Annual Report will be published in September 2015 ahead of the MTFP debate.

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

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

Further adjustments are also included to reflect the contribution from other States funds, the most significant of these are the Social Security Fund (SSF) and Health Insurance Fund (HIF). Over the period of the analysis the SSF and HIF are both expected to go into deficit on an annual basis where benefits paid will exceed the contributions to the Fund. In both these funds and in line with the Fiscal Framework proposals will be brought forward over the period of this MTFP to consider the options to address the medium to long-term sustainability of these funds.

The MTFP provides firm proposals for 2016 and proposes the total revenue and capital expenditure limits and the total States income targets for 2017 to 2019. The detailed proposals for 2017-2019 will be developed ahead of the MTFP Addition for 2017-2019, which will be brought to the States by the end of June 2016. If income forecasts were to fall the MTFP Addition may be required to propose a reduction in expenditure levels or other measures to achieve balanced budgets by 2019 as planned.

Figure 65 provides the overall estimate of the adjusted fiscal position and this is summarised in **Section 6.**

Figure 65 – Adjusted fiscal position over the MTFP period

MTFP - Calculation of Adjusted Fiscal Position	2012 Actual £m	2013 Actual £m	2014 Actual £m	2015 Forecast £m	2016 Indicative £m	2017 Indicative £m	2018 Indicative £m	2019 Indicative £m
General Revenue Income	628	637	649	665	686	706	755	793
Department Income	130	128	133	89	85	85	85	85
Total Consolidated Fund Income	758	765	782	754	771	791	840	878
Gross Department Revenue Expenditure	730	764	807	777	782	782	782	782
Fiscal Stimulus Revenue Expenditure	1							
Central Allocations				33	37	37	37	38
Total Consolidated Fund Revenue Expenditure	731	764	807	810	819	819	819	820
Operating Surplus/(Deficit)	**27**	**1**	**(25)**	**(57)**	**(49)**	**(28)**	**21**	**58**
Net Capital Allocation Routine	14	13	2	4	26	26	35	33
Net Capital Allocation Major Programme				-	1	39	8	-
Additional Housing Capital Allocation	27							
Revised Surplus/(Deficit)	(14)	(12)	(27)	(61)	(75)	(93)	(22)	25
Timing Adjustments to Surplus/(Deficit):								
Add back: Capital Allocation 2013-2015	14	13	2	4	27	65	43	33
Add back: Additional Housing Capital Allocation	27							
Carry Forward Adjustments 2014/2015				(13)				
2015 Exptre Outturn Forecast				5				
2015 Proposed funding measures				61				
Capital Expenditure Outturn	(33)	(41)	(52)					
Fiscal Stimulus Capital Expenditure	(1)	(3)						
Capital Expenditure Profile				(124)	(202)	(180)	(187)	(119)
Revised Surplus/(Deficit)	(7)	(43)	(77)	(127)	(251)	(208)	(166)	(61)
Trading Fund Capital Expenditure	(4)	(8)	(14)	(14)	(46)	(23)	(21)	(11)
Near cash surplus/(deficit) on Trading A/cs	13	14	14	14	14	14	14	14
Consolidated Fund - Adjusted fiscal position	2	(38)	(77)	(127)	(282)	(217)	(173)	(58)
Other Funds								
Currency Fund - Infrastructure Investment								
- Gigabyte Jersey £10m	(5)	(5)	-	-	-	-	-	-
- Parish Loan £6m	-	(5)	(1)	-	-	-	-	-
DHLF/AHP/AHP/HDF								
- Net (advances)/repayments	2	1	1	1	-	-	-	-
Deposit Loan Scheme								
- Net (advances)/repayments		(2)	(1)	(0)	-	-	-	-
Social Security Fund								
- Net Surplus/(Deficit)	24	11	6	8	3	(3)	(7)	(12)
Health Insurance Fund								
- Net Surplus/(Deficit)	3	6	(6)	(8)	(3)	(4)	(5)	(7)
Overall States - Adjusted fiscal position	**26**	**(31)**	**(78)**	**(126)**	**(282)**	**(224)**	**(185)**	**(77)**

Capital Cash Flows

The details of the estimated capital cash flows are provided in **Figure 66.** An adjustment is made to the financial forecast to remove the budget allocations for capital and this is replaced with an estimate of the capital cash flow.

Treasury has been working closely with departments to improve the forecasting of the cash flows of individual capital projects. This information is now included in the quarterly capital monitoring process. The capital cash flows also include the projects planned by Andium Homes and for the first time the forecasts from SoJDC.

Figure 66 – Projected Capital Cash Flows 2015-2019

Forecast Capital Cash Flows	Forecast Cashflow 2015 £'000	Forecast Cashflow 2016 £'000	Forecast Cashflow 2017 £'000	Forecast Cashflow 2018 £'000	Forecast Cashflow 2019 £'000
Current Allocations					
Departments	57,388	30,249	30	-	-
Traders	14,085	31,518	-	-	-
	71,473	61,767	30	-	-
Future Allocations					
Departments Excluding Major Projects	200	33,222	19,273	35,000	34,125
Traders	-	14,376	22,934	20,704	10,792
	200	47,598	42,207	55,704	44,917
Major Projects					
Sewage Treatment Works - Upgrade	4,106	34,117	12,350	-	-
Future Hospital	15,158	16,341	-	-	-
Les Quennevais School Rebuild	-	1,000	12,000	15,000	12,000
Prison Improvement Works - Phase 6	-	-	-	2,058	4,117
Fort Regent	-	-	-	-	-
Office Rationalisation	-	-	-	-	-
	19,264	51,459	24,350	17,058	16,117
Subsidiary Companies					
Andium Homes	41,662	53,989	82,376	81,351	34,958
SOJDC	5,000	33,000	54,000	54,000	34,000
	46,662	86,989	136,376	135,351	68,958
Total Cashflow	**137,599**	**247,812**	**202,963**	**208,113**	**129,992**

The analysis of the adjusted fiscal position also includes information for the last 3 years to provide a trend for consideration. The MTFP includes proposals for the other projects for the Sewage Treatment Works, Les Quennevais School and the Prison Improvement Phase 6. The proposals for the other projects for the Future Hospital and for Office Consolidation have not yet been finalised so are not included at this stage.

The 2016 Budget in October 2015 will provide a further opportunity for the capital programme and the adjusted fiscal position to be represented as further proposals are developed.

Additional information is also provided for consideration in relation to the two major employee pension schemes PECRS and JTSF at **Figure 67**

Figure 67 – Forecasts for PECRS and JTSF to 2019

	2013 Actual £ million	2014 Actual £ million	2015 Forecast £ million	2016 Forecast £ million	2017 Forecast £ million	2018 Forecast £ million	2019 Forecast £ million
PECRS							
Pension payments to Jersey residents	57	58	60	63	67	70	74
minus employee contributions	(14)	(15)	(15)	(15)	(16)	(17)	(21)
	43	43	45	48	51	54	53
JTSF							
Pension payments to Jersey residents	14	15	16	16	17	18	19
minus employee contributions	(3)	(3)	(3)	(3)	(3)	(4)	(4)
	11	12	12	13	14	15	16
Total	**54**	**55**	**58**	**61**	**65**	**68**	**69**

Appendix 9 – Ports Incorporation

Current position

In October 2012 the States approved "in principle" the incorporation of Jersey Airport and Jersey Harbours into a single limited liability company, subject to appropriate legislation being brought to the States to achieve this (P.70/2012).

On 3rd June 2015 the States approved the Draft Air and Sea Ports (Incorporation) (Jersey) Law 201-. This puts in place the framework for the creation of a wholly States-owned self-funding company to be called the "Ports of Jersey Limited", to control and operate the air and sea ports. The Law provides for the effective regulation and control of the new company, while permitting it to operate commercially in its regulated environment. This commercial operation will allow it to generate the income necessary to resolve a potentially very significant liability in the form of a demanding and essential programme of capital investment, in what is a capital intensive business. The aim is to enable the ports to become self-sustainable.

Primary objectives of Ports of Jersey Limited (POJL)

The primary objective is to provide, or ensure the provision of, safe, secure and efficient port operations for Jersey. In carrying out commercial port operations POJL shall act in the manner best calculated to secure sustainable growth in the economy of Jersey in the medium to long term.

In addition, POJL will be responsible for a number of Public Service Obligations including Coastguard, Historic Harbours and management of the Channel Islands Control Zone.

Governance

The Memorandum of Understanding (MoU), between the Minister for Treasury and Resources as Shareholder and POJL that has been developed provides firm guidance on how the company will be strategically managed. The MoU has been developed from a thorough review and update of the Jersey Post and Andium MoU's and incorporates recommendations made by the Comptroller & Auditor and Deloitte's aimed at improving the effectiveness of the Shareholder function.

It is recognised that the Shareholder in setting the strategy for POJL faces a number of challenges and unique factors e.g. the Public Service Obligations to be retained by POJL as well as the legal requirement for POJL to "act in the manner best calculated to secure sustainable growth in the economy of Jersey in the medium to long term." This provision in Law has not been in any previous Incorporation Laws and reflects the need to strategically align the Company and the Shareholder. How will the Shareholder balance these with the level of return expected and what is the risk appetite?

To address these issues a Ports Policy Group (PPG) will be formed whose members are the Chief Minister, Minister for Economic Development and Minister for Treasury and Resources. The Group will meet annually to agree and balance the policy objectives for POJL (including dividend policy and risk appetite). These will be articulated to the Board of POJL to be reflected in the Strategic Business Plan.

POJL Strategic Business Plan

The Financial Model used by Ports of Jersey in making the case for Incorporation was a financial projection for the next 25 years. This made a number of key assumptions on volume and capital requirements which were independently developed or verified. A number of assumptions relating to commercial projects were also made by Ports and incorporated into the figures. It was recognised that in looking out over such a long period that these assumptions and forecasts will be subject to change.

A key priority for POJL is to now develop a detailed 5 year Strategic Business Plan building on the Financial Model assumptions and which accords with the overall policy objectives and dividend policy set by the Ports Policy Group. This Strategic Business Plan will need to be assessed and approved by the Minister for Treasury and Resources. This will include the Minister commissioning expert advice as and when required. This was a point emphasised by the Economic Affairs Scrutiny Panel in their review P5/2015. Draft Air and Sea Ports (Incorporation) (Jersey) Law 201-: Comments.

Commercial projects

POJL's ability to pursue, develop and deliver commercial projects, new products and services is critical if it is to achieve the stated aim of financial self-sustainability. Without the additional profitability being delivered by these projects then the only available options will be service reductions, significant price increases and/or the requirement to fund shortfalls from general taxation. All of these impact on Jersey's ability to be competitive and are certainly not supportive of the Ports objective to secure sustainable growth in the economy of Jersey in the medium to long term.

Commercial projects therefore hold the key between a self-sustainable future and a significant future liability. POJL in their Business Case for Incorporation identified a number of such projects that could be progressed. It was recognised that at that stage these were not all fully developed and fully costed projects. Those projects which are to be progressed will therefore form a critical element of the Strategic Business Plans in future and will need to be supported by robust and fully costed business cases in order for the Strategic Business Plan to be approved.

Next Steps

The draft Law is the first step in the legislative process which will allow Incorporation. It will be shortly followed by subordinate legislation in the form of draft Regulations, which will make provision for the transfer of property, staff and assets to the new company. The aim is that the draft Law will be approved by Privy Council in July and then the draft Regulations will be debated in early September with a target incorporation date of 1st October 2015.

If these steps are approved as scheduled before the debate of the MTFP then the proposals for Jersey Airport and Jersey Harbours will be withdrawn from the proposition and report.