States of Jersey

DRAFT BUDGET STATEMENT 2015

Embargoed until after delivery of the Treasury and Resources Minister's Statement on Friday 18 July 2014

Proposition

Draft Budget Statement 2015

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

a) to approve, in accordance with the provisions of Article 10(3)(a) of the Public Finances (Jersey) Law 2005, the estimate of income from taxation during 2015 of £615,502,000 as set out in summary Table A of the Budget Statement, with the sum to be raised through existing taxation measures and the proposed changes to Income Tax, Goods and Services Tax, Impôts Duty and Stamp Duty for 2015 as set out in the Budget Statement.

b) to approve, in accordance with the provisions of Article 10(3)(d) of the Public Finances (Jersey) Law 2005, a capital head of expenditure for each of the capital projects for States funded bodies to be started or continued in 2015 (other than States trading operations) as set out in the recommended programme of capital projects in Summary Table D totalling £76,382,000, noting that the Minister of Treasury and Resources, in accordance with the investment strategy for the Currency Fund set out in the "States Investment Strategies" (made under Part 2 of the Public Finances (Transitional Provisions)(No.2)(Jersey) Regulations 2005 and presented to the States on 11th November 2013), will make an investment of £25,494,000 from the Currency Fund to fund Phase 1 of the £75 million project to construct the new sewage treatment works, with such sum being repayable by the Transport and Technical Services Department over a period of 40 years, applying a formula of investment return determined by the Minister for Treasury and Resources after taking advice from the States investment managers.

c) to refer to their Act dated 3rd June 2014 in which they approved the Waste Water Strategy (P.39/2014) and to agree, in principle, that a total capital allocation of £75 million for funding the proposed new sewage treatment works should be made and 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 this maximum of £75 million in future Medium Term Financial Plans and Budget Statements respectively;

d) to approve, in accordance with the provisions of Article 10(3)(e) of the Public Finances (Jersey) Law 2005, each of the capital projects that are scheduled to start during 2015 in the recommended programme of capital for each States trading operation, as set out in Summary Table E that require funds to be drawn from the trading funds in 2015;

e) to refer to their Act dated 5th December 2013 in which they approved the Draft Budget Statement 2013 and agreed, *inter alia,* that the Strategic Reserve Fund could be used for the planning and creation of new hospital services in the Island, and to approve the transfer of a further sum of £22.7 million from the Strategic Reserve Fund to the Consolidated Fund in 2015 so as to provide for these purposes, in accordance with the provisions of Article 4(3) and 10(3)(f) of the Public Finances (Jersey) Law 2005;

f) to refer to their Act dated 5th December 2013 in which they approved the Draft Budget Statement 2014 (P.122/2014) and, *inter alia*, agreed to vary the purpose of the Housing Development Fund in accordance with Article 3(3)(b) of the Public Finances (Jersey) Law 2005 to include the lending of monies to enable the further provision and development of housing in Jersey,

and to approve, in accordance with Article 3(3)(b) the revised rules for the operation of the Housing Development Fund as set out in Appendix C of the Budget Statement with these rules giving further instruction and guidance on the use of funds and the purpose and the operation of the Fund;

g) to refer to their Act dated 5th December 2013 in which they approved the Draft Budget Statement 2014 and, in accordance with the provisions of Article 10(12) of the Public Finances (Jersey) Law 2005, to approve the following additional transfers in 2014 of –

(i) up to £6,120,000 from the Housing Development Fund to the consolidated fund in accordance with the provisions of Article 10(3)(f) of the Public Finances (Jersey) Law 2005;

(ii) up to £1,058,000 from the Stabilisation Fund to the Consolidated Fund in accordance with the provisions of Article 4(3) of the Public Finances (Jersey) Law 2005.

h) to approve the transfer of up to £2,000,000 from the Dwelling Houses Loan Fund to the Consolidated Fund in accordance with the provisions of Article 2(1) of the Building Loans (Jersey) Law 1950;

i) to note the future operation of the Strategic Reserve Fund ("The Fund"), as set out in Appendix D of the Budget Statement and to agree that the Strategic Reserve balance of £651,216,000 as at 31st December 2012 should be defined as the capital value of the Strategic Reserve and that, for future years, the capital value be maintained in real terms by increasing the capital value in line with increases in Jersey RPI(Y);

j) to refer to their Act dated 5th December 2006 in which they approved the establishment of a Stabilisation Fund and agreed that the purpose of the Fund was to make fiscal policy more countercyclical and create in the Island a more stable economic environment with low inflation, and to approve the rules for the future operation of the Stabilisation Fund as set out in Appendix E of the Budget Statement;

k) to request the Minister for Treasury and Resources to request for The Jersey New Waterworks Company Limited, a public company limited by shares, incorporated in 1882 and operating under the Companies (Jersey) Law 1991, to ask the shareholders of the company to pass a special resolution for the following -

(i) to alter its Memorandum of Association by special resolution, to reduce its share capital – by removing the Fifth Preference Share, class of share capital;

(ii) to repay the States of Jersey, the sole shareholder of all the Fifth Preference Shares, a fair market value for the shares (estimated at £7.4 million) during 2015 (the shareholding representing 900,000 issued and fully paid 10% cumulative fifth preference shares of £5 with a par value of £4.5 million).

Minister for Treasury and Resources

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PART A – INTRODUCTION

1. Foreword

Introduction

The Budget for 2015 marks the final budget for this Ministerial term of office.

It is a budget which balances the need for continued support to the economy with maintaining our current system of taxation and sustaining a lower marginal rate of taxation.

Since the onset of the financial crisis, our island has faced many different types of challenges, and budgets of the last three years have reflected them.

In 2011 we faced an extremely difficult budget, where Members were asked to take tough decisions to address the deficit, make savings and protect Jersey's economy.

The 2012 and 2013 budgets that followed were focused on stability and targeted investment.

Last year, in the 2014 budget we were able to start giving back to islanders, as we began to see signs of recovery, and Islanders will feel the financial benefit of our decision to lower the marginal rate in their pockets this year.

For 2015, we are presenting a budget containing a number of proposals allowing us to fund capital expenditure and keep the consolidated fund in balance.

The measures are not dramatic, but they will provide stability, enable further recovery and protect our strong financial position.

Strategic Priorities and the MTFP

In addition to the budgets, we have made a fundamental change to the way we do things by introducing the Island's first Medium Term Financial Plan.

As well as delivering on an extensive agenda of service improvements and reform, it was designed to deliver growth in essential services, balance revenue budgets in all three years and provide support for the economy without raising taxes.

It provided a longer-term approach to budgeting to allow departments to plan ahead for service development and improvements.

The approval of the MTFP, which supported our strategic objectives, has delivered:-

- the investment of a further £26 million annual funding in Health and Social Services
- the delivery of the CSR savings amounting to £60 million.
- £161.4 million spend on capital projects over the course of the last three years.
- An additional £14 million for Social Security by 2015.

A key priority for this Council of Ministers was the need to address rising unemployment. The £5 million to the Innovation Fund to boost business and create jobs through the 'Back to Work' programme has seen unemployment, which had reached its highest ever levels, brought under control.

The work has resulted in a sustained downward trend in the number of people registered as actively seeking work, despite continuing uncertainty and the loss of a significant proportion of the fulfilment industry.

Economic recovery

Confidence in the global economy has been growing over the last twelve months and the UK, our most important economic partner, is seeing a strong and broadly-based return to growth.

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Concerns about a potential housing bubble in the South East remain, however, and this has informed the thinking behind some of the measures outlined in this budget.

Jersey's position

There is also renewed optimism locally, but Jersey economy also remains under pressure.

The headline indicator of Jersey's output, GVA, last published in September 2013 showed that economic activity fell in 2012 by 4% in real terms.

Data published for the finance sector for 2013, showed that gross operating surplus declined by 5%. However, businesses reported that expenditure on employment increased by 3%.

Most recently, the Business Tendency Survey data has been encouraging. The headline business activity indicator has continued to strengthen over the last 12 months for the finance sector and has remained negative for non-finance. Nine of the ten indicators have improved, with business optimism and future business activity showing the most significant improvement.

Our public finances remain strong, however, continuing low interest rates and the consequences of the financial crisis resulted in personal taxation being under-achieved, as was reported in the 2013 States of Jersey accounts. While in 2013 this was offset by an improved business tax position, it would not be prudent to rely on that for 2014.

While confidence is returning to the economy, interest rates are expected to increase at a moderate rate next year which will start to alleviate some of the pressure on States income.

Notwithstanding the impact that low interest rates, the financial services contagion and lower economic growth have had on income, we have been determined to deliver capital spending as a key way of supporting the economy.

Outstanding work has been by the Treasury team and their colleagues across the States over last three years and our strong position is evidence of that.

Specific Budget measures for 2015

The main proposals in this Budget will ensure that the States is continuing to spend more money in the local economy than it is taking out.

The net revenue from the measures outlined is estimated at £2.7 million, above that outlined in the Medium Term Financial Plan.

The main proposals which will have an impact on our financial forecasts are to:

- Maintain the Marginal Rate at 26% for 2015.
- Increase all tax exemption thresholds by 1.7%.
- Reduce the Stamp Duty on the cost of borrowing (Nil for the first £300,000 then 0.25% on the balance up to a maximum property cost of £400,000).
- Increase the Stamp Duty payable on purchasing residential property costing £1m or more on an increasing scale.
- Cap mortgage interest tax relief at £15,000.
- Amend the double tax credit provisions in order that marginal rate taxpayers can benefit.
- Set Impôts duty rates.

Marginal rate

We have chosen in 2015 to maintain the marginal rate at 26% - underscoring our commitment to middle income earners. The long term goal remains to reduce the marginal rate to 25%. The economy needs the stimulus that the lower marginal tax rate provides, by encouraging those who are most likely to spend to do so.

Tax exemption thresholds

We propose to:

- Increase all income tax exemption thresholds by 1.7%. The MTFP assumed an increase of 3%. So this represents a saving of £2.1 million against previous plans.
- Continue to freeze tax allowances
- Amend our legislation so as to ensure that taxpayers returning to the Island are treated as current year tax payers for ITIS.

Property tax – 2015 measures and long term tax review

This year's Budget also contains a series of property-related tax measures. These measures have the potential to raise revenue as well as bring us closer to a system that is as simple and equitable as possible.

A wide-ranging Property Tax Review Consultation has been launched alongside this Budget and will be open to public responses until the end of 2014. It will provide an open process for islanders to have a hand in shaping the system that Treasury develops for Jersey's future.

Mortgage interest tax relief

We have been aware for some time that we need to find ways to remove distortions from the system that we currently have for taxing property.

A number of expert reviews have confirmed this. Professor Christine Whitehead, in her Jersey Housing Strategy paper, identified the need to investigate the use of property tax as a relatively simple and equitable source of revenue.

The current administration of mortgage interest tax relief does little to help those home-owners at the lower end of the income scale and it actively worsens the situation for those who are trying to buy due to its effect on house prices.

In the 2015 budget we have sought flatten out that inequality with a proposal to place a cap on mortgage interest tax relief set at £15,000 – being 5% on £300,000, which above the standard variable rate and, even with a rise in interest rates, will remain so.

This cap is a modest one – creating additional revenue in 2015 of £100,000 and will have an impact on only a small number of home-owners – 250 out of around 8,500 homes.

Stamp duty - removing the lower end tax burden

Since 2011 first-time buyers have benefitted from reduced rates on property purchased up to the value of £450,000. This measure was a temporary extension to the £400,000 threshold. It has benefitted some 145 purchasers and had an approximate cost of £287,000 per year.

We now propose to revert to the £400,000 threshold for reduced rates for first-time buyers.

Stamp duty – reducing the burden for purchasers buying residential property worth up to £400,000.

This measure will help purchasers of residential property costing no more than £400,000.

On the first £300,000 of borrowing no duty will be payable and a reduced rate of 0.25% will apply to amounts above that threshold but not exceeding a value of £400,000.

This removes the burden on borrowing and will support the lower end of the market where higher rates can be a disincentive to purchasing property.

This change will cost £500,000 but I believe we are wholly justified in targeting help where it is needed and creating a point above which tax relief is not available.

Stamp duty – increased rates for high value properties

The second stamp duty proposal will increase the rates of duty collected on higher value properties and will affect those acquiring properties with a value of more than £1 million.

The proposal increases the rates which already apply and introduced a new rate for properties costing more than £3 million.

The proposed revisions are:

- £22,000 plus 4% on the difference between the cost and £1 million on properties valued at £1m to £1.5 million.
- £42,000 plus 5% on the difference between the cost and £1.5 million on properties valued at £1.5m to £2 million.
- £67,000 plus 6% on the difference between the cost and £2 million on properties valued at between £2 million and £3 million.
- £127,000 plus 7% on the difference between the cost and £3 million on properties costing more than £3 million. This remains significantly less than the UK. For instance, on a property valued at £4 million, the duty payable will be £197,000 compared to £280,000 on the same value property in the UK.

This measure increases the duty rates at the higher end where it is likely to have little impact on the decision to purchase and, based on market movements over the past three years, would generate around £857,000 in additional revenue.

Stamp duty – inherited property

Our last property adjustment amends the stamp duty law so as to ensure that where individuals and charities are both heirs to immovable property, the individuals pay a fair rate of duty on their share of the estate.

States paying parish rates

A Report sits alongside this Budget and addresses the question as to whether the States should pay rates on all the properties it owns and occupies. The cost is estimated at £900,000 per annum of which £600,000 would be payable to the Parish of St Helier and £150,000 to the Parish of St Saviour. If a decision is reached by a future Assembly that the States should pay rates then it is possible that the Island Wide Rate could be increased for commercial tax payers.

Double tax credit

Much of the work that has been done in Treasury over the last few years has aimed to adjust our system to find the areas which need to be updated to reflect our society and provide equity for all tax payers.

As such, our current regulations need to be amended to ensure that those taxpayers assessed at the marginal rate who have taxable income in more than one jurisdiction are not unfairly penalised and are able to receive a fair level of relief. This measure will cost £500,000.

Impôts

The proposed increases in impôts duties from the beginning of 2015 are:

- Spirits – 1.7% - an increase of 21.7p per litre
- Wines – 1.7 % - an increase of 2.4p per 75cl bottle
- Strong beer – 1.7% - an increase of 1p per pint
- Weak cider – 6.9% - an increase of 1.1p per pint
- Standard cider – 6.9% - an increase of 2.2p per pint
- Strong cider – 8.7% - an increase of 4.6p per pint
- Tobacco – 4.7% - an increase of 22.4p on 20 king size cigarettes
- Fuel – 2.2% - an increase of 1p per litre
- Vehicle emission duty bands - a 1.7% increase

The budget proposals on impôts will raise additional revenue of approximately:

- £310,000 on alcohol
- £687,000 on tobacco
- £439,000 on fuel, and
- £15,000 on vehicle emissions duty

Goods and Services Tax

No change to the rate of GST is proposed in this budget but we have suggested an alignment of the time limit for the repayment of GST to bring it in line with the Income Tax law.

This will have no impact on financial forecasts but will provide us with some certainty on future revenue.

Our duty levels remain lower than those prevailing in the UK and GST is set at significantly lower level than VAT. The proposals for income tax also include significant changes to the tax rules applying to pensions and are vital if our rules are to keep pace with societal changes and bring our system in line with other comparable jurisdictions.

Pension measures

The pension measures contained in this budget follow a long public consultation process.

We have had many positive responses which have resulted in plans to:

- simplify the tax rules;
- modernise the rules, particularly by introducing flexible retirement for occupational pension schemes;
- provide greater consistency between the treatment of occupational pension schemes and personal pension schemes and;
- give more access to the tax free lump sums.

These changes give greater flexibility to pension savers and give Islanders greater confidence in their future pension provision.

As you would expect, Treasury will be monitoring this position carefully for the remainder of the year.

Capital programme

In addition, this Budget contains the measures we will take to balance the Consolidated Fund while maintaining capital spending in accordance with the Fiscal Policy Panel's advice.
Confidence is returning to the local economy, but will continue to need our support. The capital programme outlined in the Budget 2015 report will continue to provide that stimulus.

The proposed total allocation for 2015, following review and reprioritisation, is £76 million.

This includes:

- The States of Jersey payroll software replacement
- The second phases of additional primary school accommodation, and
- The infrastructure for the sports strategy
- The second phases of the future hospital project and the Liquid Waste Strategy have also been accommodated.

Funds

In the Treasury response to the Fiscal Policy Panel's last report on Budget 2014, the Minister proposed to set out in Budget 2015:

(a) A strengthened definition of capital within the Strategic Reserve;
(b) Confirmation of the role of the Stabilisation Fund and how it should be replenished;
(c) The arrangements for the repayment of the Housing Bond through the Housing Development Fund (HDF).

Housing Development Fund

Members will recall that in early June we issued a bond for £250 million at a coupon of 3.75% and for a term of 40 years.

The receipt from the bond issuance has been placed in the Housing Development Fund.

I undertook to bring to the States the rules for the operation of the Housing Development Fund and these are set out in Appendix C of this report.

These rules allow monies to be lent to housing trusts, associations or bodies with the same purpose and registered in Jersey in order that they can provide more and better housing for Islanders.

Strategic Reserve

The rules for the future of the Strategic Reserve Fund have also been set out here, delivering on the commitment we made to make clear the definition of the capital value of the fund and how it should be managed.

I am proposing that the Strategic Reserve balance of just over £651 million as at 31 December 2012 be defined as its capital value.

In future years that capital value should be maintained in real terms using Jersey's RPI (Y) for the inflation factor.

Stabilisation Fund

In my response to the Fiscal Policy Panel report on the Budget 2014, which was laid before the States in January 2014, I made a commitment to set out clearly the rules for the Stabilisation Fund.

These rules are set out in Appendix E of the Budget 2015 report.

Conclusion

In closing, I would like to draw a comparison between the relatively strong position that we find ourselves in, here in the summer of 2014, and the challenges we faced when this Council of Ministers took office in late 2011.

I am extremely proud of the work which has been done over the last three years and the work that is ongoing to modernise and improve our tax and financial planning systems.

The principles that guided previous budgets have proved their worth and the principle of balance which underpins this budget will now provide a solid foundation for the next States Assembly to build upon.

We have been bold and innovative in our planning for future investment and made decisions which support Islanders and encourage new economic growth.

These last three years have been productive ones and we have demonstrated that we are able to deliver real results against the targets set by the Council of Ministers at the outset of their term of office.

We have put money back into the economy, we have supported low and middle income tax payers, we have helped people back into employment and we have provided the means for improvements in Jersey's housing and healthcare.

This Budget for 2015 will provide the means to maintain and develop this position of strength and deliver a prosperous and balanced economy.

PART B – BUDGET STATEMENT 2015

2. Income Tax Proposals

Background

The Minister for Treasury and Resources considers annual Budget measures so as to ensure the States revenues are sufficient to meet spending proposals. The spending proposals were set out for three years from 2013 to 2015 in the MTFP adopted in 2012.

Exemptions and Allowances

Income tax exemption thresholds

The income tax exemption thresholds are the amount below which taxpayers do not have a liability to income tax.

The practice in recent years has been to increase the exemption thresholds by reference to the lower of the RPI figure and the annual increase in earnings. In Budget 2012 however, exemption thresholds were increased by a higher amount to provide greater benefit to lower income taxpayers. In 2013 the exemption thresholds were increased by 3% in line with the increase in inflation for the year to June 2012. This was the higher of the two figures, as the increase in average earnings in the period to June 2012 was 1.5%. In 2014 the thresholds were increased by the June 2013 RPI figure of 1.5% but in conjunction with a decrease of 1% in the marginal rate. It is proposed that for 2015 the exemption thresholds are increased by 1.7% (the March 2014 RPI figure).

The rate of inflation factored into the MTFP for 2015 is 3.0% and it was assumed that exemption thresholds would increase at the same rate, therefore a 1.7% increase in the tax exemption thresholds will generate a net saving against the MTFP of £2.1m. The exemption thresholds are rounded to the nearest £100 after the increase has been applied for simplicity.

The people affected will include all marginal rate taxpayers and a small number of standard rate taxpayers who become marginal rate taxpayers as a consequence of the increase in the exemption thresholds.

The cost of increasing the exemption thresholds by 1.7% will be approximately £2.9m.

FIGURE 2.1 EXEMPTION THRESHOLD FOR 2014 AND 2015

	2014	2015
Single Person	£14,000	£14,200
Single Person (aged 65+)	£15,600	£15,900
Married Couple/Civil Partnership	£22,400	£22,800
Married Couple /Civil Partnership (aged 65+)	£25,700	£26,100

Freezing Income tax allowances

The Minister proposes that the income tax allowances are unchanged for the 2015 year of assessment. Details of the allowances are set out in Figure 2.2 below.

FIGURE 2.2 INCOME TAX ALLOWANCES

	2014	2015
Child*	£3,000	£3,000
Child in higher education*	£6,000	£6,000
Single Parent*	£4,500	£4,500
Wife/Civil Partner "B" Earned Income Allowance**	£4,500	£4,500
Childcare tax relief**	£6,150 (max)	£6,150 (max)
Enhanced childcare tax relief (pre-school children)**	£12,000 (max)	£12,000 (max)
Enhanced child allowance (higher education)**	£3,000	£3,000

*These allowances benefit standard rate and marginal rate taxpayers
**These allowances specifically benefit marginal rate taxpayers by enhancing exemption thresholds

The basic Child Allowance figures of £3,000 and £6,000 have remained unchanged since 2008. The enhanced Child Allowance (higher education) rate was introduced in Budget 2014. The Single Parent allowance and the Wife's Earned Income Allowance have not changed since 1999. Childcare tax relief has remained unchanged since 2003. The enhanced childcare tax relief in respect of pre-school children has remained unchanged since it was introduced in Budget 2012.

Figure 2.3 illustrates the impact of these proposals on sample households.

FIGURE 2.3 IMPACT ON SAMPLE HOUSEHOLDS

	Income	2014 liability	2015 liability	Saving
Single, no children	£20,500	£1,690	£1,638	£52
Married, 2 children, wife not working	£36,000	£1,976	£1,872	£104
Married, 2 children (1 child at university), wife working	£40,000	£286	£182	£104
Married, 2 children, £240k mortgage (at 5% interest), wife working	£62,000	£4,446	£4,342	£104
Married, 2 children (1 child at university), wife working	£70,000	£8,086	£7,982	£104
Married, 2 children (1 child at university), wife working	£140,500	£26,300	£26,300	NIL
Married pensioner	£26,000	£78	£nil	£78

Tax facts

The following tax facts provide an illustration of the existing personal tax structure, and also provide relative comparisons against other jurisdictions.

The tax threshold (i.e. the point above which an individual starts to pay income tax) is determined by the taxpayer's personal circumstances. For example, a married couple, who are both working and have two children (one at university), paying mortgage interest of £7,500, do not become liable to income tax in 2014 until their income exceeds £46,400. For 2015 this would increase to £46,800 under the current proposals. Figure 2.4 refers.

FIGURE 2.4 INCOME TAX THRESHOLDS

	2014	2015
Married Couple Exemption	£22,400	£22,800
Wife's Earned Income (max)	£4,500	£4,500
Child Allowance	£3,000	£3,000
Child Allowance (higher)	£6,000	£6,000
Child in higher education enhanced exemption	£3,000	£3,000
Mortgage Interest	£7,500	£7,500
Total	**£46,400**	**£46,800**

Tax Comparisons

The income tax thresholds in Jersey mean that many residents pay less tax than in most neighbouring territories. Figure 2.5 refers.

FIGURE 2.5 COMPARISIONS OF TAX PAYABLE

The income tax payable by a married couple in 2014 with a joint income of £41,000, without children or a mortgage, is as follows:

Jersey	£3,666
Isle of Man	£2,300
Guernsey	£4,330
UK 2014/15 (based on one person having an income of £40k)	£6,000
UK 2014/15 (based on each person having an income of £20k)	£2,000 each

The income tax payable by married pensioners in 2014 (aged 65+) with an income of £26k without a mortgage, is as follows:

Jersey (wife not working) (aged 65+)	£78
Isle of Man (aged 65+)	£600
Guernsey (aged 64+)	£620
UK 2014/15 (based on one person having an income of £26k) (age 65–74)	£3,100
UK 2014/15 (based on each person having an income of £13k) (age 65–74)	£500 each

Additional Income Tax Proposals for 2015

The Minister proposes the following amendments to the Income Tax (Jersey) Law 1961 ("the Income Tax Law").

Amendments to tax rules applying to pensions and pension schemes

Alongside the Budget 2014 a consultation document was issued regarding proposed changes to the tax rules relating to pensions and pension schemes. The changes outlined in the consultation document sought to achieve the following aims:

- simplification of the tax rules;
- modernisation of the tax rules – including, in particular, the introduction of flexible retirement in the context of occupational pension schemes; and
- achieving greater consistency between the tax rules applying to occupational pension schemes and personal pension schemes, and between the tax rules applying to different forms of personal pension schemes, such that the tax incentives to transfer funds between pension schemes are minimised.

The overwhelming majority of respondents to the consultation were supportive of the general aims of modernisation and simplification, but they also challenged the initial proposals and identified different options. Having reviewed the consultation responses, a Report was presented to the States on 22 May 2014 which summarised the consultation responses and outlined the changes that would be made to the initial proposals. The key changes to the initial proposals are:

- allowing pension schemes greater flexibility over the payment of tax-free lump sums;
- allowing individuals to access the flexibility of approved drawdown contracts irrespective of whether they have already taken a tax-free lump sum from their pension scheme; and
- removal of the proposed caps on tax-free lump sum payments.

This Budget contains the amendments to the Income Tax Law necessary to introduce the new tax rules. If agreed by the States these new tax rules will create a modern, flexible set of rules for pensions and pension schemes, which have been completely rewritten in a coherent and straightforward manner. If agreed these tax rules will come into effect on 1 January 2015.

Importation and supply of Hydrocarbon Oil – further amendment

The Income Tax Law was amended in Budget 2014 to ensure that there was a level playing field between companies that import and supply hydrocarbon oil and those companies that supply hydrocarbon oil but do not import it. Whilst the amendment achieved this aim in respect of all existing importers and suppliers of hydrocarbon oil, there remains a potential scenario where a company that does not import and does not supply to forecourts, could reorganise its affairs so as to pay tax at 0% on profits generated from the supply of hydrocarbon oil. This amendment will ensure this is not possible.

The Income Tax Instalment System – amendment to ensure returning previous year basis taxpayers are put on a current year basis on their return to the Island

Currently where a taxpayer who pays his/her tax by way of the income tax instalment system ("ITIS") on a previous year basis ("PYB") leaves the Island for an extended period of time and then returns to the Island, he/she will continue to pay tax by way of PYB ITIS. This compares to the taxpayer who arrives in the Island for the very first time and is automatically required to pay his/her tax by way of ITIS on a current year basis ("CYB").

It is proposed that the Income Tax Law is amended such that the returning taxpayer, provided he/she has been non-tax resident in the Island for at least one year, pays their tax by way of CYB ITIS. This results in a cash flow benefit for the Treasury, as the returning taxpayer starts paying his/her tax liability sooner.

Double Tax Credit – extends entitlement to claim double tax credits to marginal rate taxpayers

Where a double taxation agreement is in force, standard rate taxpayers are entitled to receive double tax credit relief consistent with that agreement, however marginal rate taxpayers are not entitled to such relief. It is acknowledged that, as a result of changes in the personal income tax system, the majority of personal income taxpayers are now marginal rate taxpayers. To continue to deny the majority of personal income taxpayers double tax credit relief is inappropriate. It is therefore proposed that entitlement to double tax credit relief is extended to marginal rate taxpayers from the 2015 year of assessment.

Cap Mortgage Interest Tax Relief

As the economic recovery begins to gain ground in other jurisdictions, it is increasingly translating into rising house prices. This is concerning for a number of reasons, principally because housing bubbles were a key factor of the financial crisis which has been paralysing economies around the world for a number of years.

Rapid increases in house prices can also make it more difficult for people to be able to afford to buy homes, and encourage them to take on unsustainable levels of debt to fund purchases. This is particularly true for first-time buyers. The dangers posed by higher household debt at a time when interest rates are predicted to rise are well understood.

Finally, rising house prices contribute to inflation, which puts pressure on all sectors of the economy.

Jersey's housing market has not suffered the same ill-effects as other jurisdictions, although it has certainly been affected by the global downturn. Prices have remained relatively stable since 2008. However, there is a risk that as the Island's economy recovers, property prices will begin to rise swiftly, as has been the case in the south-east of England and Switzerland.

Two main factors affect the price of properties in Jersey. Firstly, the provision of housing stock; to address this, the States has taken steps to ensure greater and sustained supply through the policies approved in the Island Plan and the creation of Andium Homes Limited.

The second main factor affecting property prices is the availability of debt. The more credit is extended to homebuyers, the higher prices become. Other jurisdictions have recognised the extent to which the availability of credit is an important factor in increasing house prices and governments have adopted a number of options to try to control this. The Bank of England has recently outlined measures to restrict the amount that banks can lend, and the Monetary Policy Committee is giving serious consideration to raising interest rates to try to control the market.

In Jersey, the tax system has an impact on the availability of mortgage debt through the provision of tax relief for mortgage interest. In response the Minister proposes that the amount of Mortgage

Interest Tax Relief that can be claimed in respect of a taxpayer's only or main residence is capped at £15,000 from the 2015 year of assessment. This measure would affect approximately 250 taxpayers out of around 8,500 that benefit from the relief currently. The measure would increase States revenue by approximately £100,000.

Mortgage Interest Tax Relief is available in respect of interest incurred on mortgages taken out to buy a taxpayer's only or main residence. Relief is available for interest incurred on the first £300,000 of mortgage debt. A cap of £15,000 on the interest relief that can be claimed would imply an annual interest rate on this level of borrowing of 5%, higher than most current variable and fixed rate mortgage levels.

This measure by itself is not therefore expected to have a large impact on the mortgage market, and relatively few taxpayers will be affected. However, it does recognise that the tax system can play a part in fuelling housing bubbles, and establishes the principle that Mortgage Interest Tax Relief should not be allowed to do so. In addition, with interest rates predicted to rise, the introduction of such a cap helps to limit the cost of Mortgage Interest Tax Relief to the Treasury.

Review of Mortgage Interest Tax Relief

The green paper on property taxation, published alongside this Budget, sets out a number of aspects to consider about the Island's property tax system. Among them is the question of how, and whether, the States should support housing affordability.

Many jurisdictions have removed the availability of tax relief for the interest incurred on purchasing a home; this reflects the growing understanding by economists that government subsidies for home ownership in this way simply increase the cost of housing rather than making homes more affordable.

The green paper does not propose that Mortgage Interest Tax Relief should be abolished at this time; however it does ask whether the States should continue to give this relief and whether there may be better ways to encourage the provision of affordable housing. These questions will be further expanded on with the publication of the Strategic Housing Review in due course.

It is important that if the States decides to address the availability of Mortgage Interest Tax Relief in the future, that it should send a clear message about what is planned and when it is likely to take place, so that homeowners, current and future, and lenders can factor it into their planning.

3. Goods and Services Tax Proposals

The Minister proposes the following amendment to the Goods & Services Tax (Jersey) Law 2007 (“the GST Law”).

Refund of overpaid GST

In order to more closely align administrative aspects of the GST Law with the Income Tax Law it is proposed to shorten the period within which refunds of overpaid GST can be claimed from the Comptroller to the fifth anniversary of the due date of the GST return relating to the relevant period. Currently a refund can be claimed within six years of the payment or six years from the date of discovery of the mistake. If agreed, this measure would become effective from 1 July 2015.

4. Impôts Duty Proposals

Background

Each year, in advance of the Budget, the proposals for impôts duties are reviewed against the prevailing economic conditions, the Island's financial position and the States strategies on alcohol and tobacco.

The Minister's proposals for 2015 take all the above factors into account.

To help inform his decision the Minister has considered the following:

- The most recent rate of inflation
- The tobacco and alcohol strategies
- Informed consultation with the Council of Ministers and in particular the Ministers and Officers from Health and Social Services, Home Affairs and Economic Development.
- Consultation with the alcohol and tobacco trade

It is proposed that the increases in duty will take effect at midnight on 31 December 2014.

The Budget proposals are set out in detail below and will raise additional revenue of approximately:

- Alcohol duties - £310,000
- Tobacco duties - £687,000
- Fuel duties - £439,000
- Vehicle Emissions Duty - £15,000

(The above amounts are the estimated additional revenue that will be collected by the Customs and Immigration Service in 2015 and does not take into account any increases already calculated as a result of the MTFP forecast).

Alcohol

Following consultation with the Council of Ministers, the Minister is proposing the following increases to alcohol duty rates:

- A 1.7% increase on spirits, wines, and strong beer (exceeding 4.9% abv)
- A 6.9% increase on weaker and standard cider (not exceeding 4.9% abv)
- A 8.7% increase on stronger cider (exceeding 4.9% but not exceeding 8.6% abv)

The increases in duty for cider harmonises beer and cider rates. The Minister is not proposing to increase duties on weak and standard beers.

As a result of these Budget proposals, the forecast is that the annual duty collected on all alcohol will total £18,842,000 in 2015. This would be £310,000 extra on the 2014 alcohol forecast but £276,000 less than the 2015 MTFP forecast.

Tobacco

It is proposed that the policy of increasing duty on tobacco at a level above the cost of living is continued.

As a result the Minister is proposing to increase the rate of duty on all tobacco products by 4.7%. This is 3% above the rate of inflation as of March 2014.

There is evidence to show that both locals and tourists are increasingly turning to duty free sources for their tobacco supplies and that this is because of the high cost of tobacco in the Island.

The Customs and Immigration Service has previously reported a significant increase in passengers attempting to import cigarettes in excess of their statutory allowance and there has been no change in this trend during 2014. The Service continues to monitor this activity to see what impact it may have on the revenue yield. Whilst the incidence of commercial tobacco smuggling is very low, it is nevertheless a risk that needs to be monitored carefully.

As a result of the Budget proposals, the forecast is that the annual duty collected on all tobacco will total £15,316,000 in 2015. This would be £687,000 more than on the 2014 tobacco forecast and £1,080,000 more than on the 2015 MTFP forecast.

Fuel

The Minister continues to consider all issues regarding the duty for fuel including the current worldwide price of hydrocarbon oil and the retail price of fuel at garages in the Island.

Having taken this into account and having considered the fact that there was no increase in fuel duty 2 years ago and the increase last year was 1.5% in line with inflation, it is proposed to increase fuel duty by 2.1%. This would increase unleaded fuel by 1p per litre.

As a result of the Budget proposals, the forecast is that the annual duty collected on fuel will total £20,395,000 in 2015. This would be £439,000 extra on the 2014 fuel forecast but £189,000 less than the 2015 MTFP forecast.

Customs Duties

It is calculated that the duty collected on goods imported from outside the EU will total £200,000 in 2014. This would be the same as the 2014 forecast and £50,000 more than the 2015 MTFP forecast.

Vehicle Emissions Duty

Vehicle Emissions Duty (VED) was introduced in September 2010 with an estimated annual revenue yield of £2 million.

The number and type of new vehicles registered has not proved consistent with the original modelling used to formulate the duty banding and in 2013 the total yield for VED was approximately £840,000. It is estimated that the yield in 2014 will be slightly higher at £881,000.

It is not known to what extent the introduction of VED has influenced consumers' decisions on vehicle purchases, but the recent economic situation must have also been a factor. In addition it is apparent that new vehicles are being manufactured with reduced carbon dioxide (CO^2) emission figures. As a result these vehicles are either falling into a lower VED duty band or the band where the revenue collection is zero.

For 2015 the Minister proposes a percentage increase of 1.7% to all VED bands in line with the March 2014 RPI figure.

As a result of the Budget proposals, the forecast is that the annual duty collected for VED will total £896,000 in 2015. This would be an extra £15,000 on the 2014 VED forecast, but £28,000 less than the 2015 MTFP forecast.

Detailed Duty Increases for 2015

FIGURE 4.1 DUTY INCREASES PROPOSED FOR 2015

	Current Duty	Proposed Duty	Increase
Litre of whisky at 40%	£12.76	£12.98	21.7p (1.7%)
Bottle of table wine	£1.43	£1.45	2.4p (1.7%)
Pint of beer ≤ 4.9% abv	£0.34	£0.34	0p (0%)
Pint of beer ≥ 4.9% abv	£0.57	£0.58	1p (1.7%)
20 king size cigarettes	£4.76	£4.98	22.4p (4.7%)
Litre of unleaded petrol	£0.44	£0.45	1p (2.1%)

FIGURE 4.2 PROPOSED RATES OF VEHICLE EMISSIONS DUTY BASED ON CO² MASS EMISSION FIGURE

CO² mass emission figure:	LPV first registered in Jersey	LPV first registered outside Jersey 1 year or less ago	LPV first registered outside Jersey more than 1 but 2 years or less ago	LPV first registered outside Jersey more than 2 years ago
120g or less	£0	£0	£0	£0
More than 120g but not more than 150g	£47	£47	£28	£23
More than 150g but not more than 165g	£141	£141	£94	£70
More than 165g but not more than 185g	£212	£212	£135	£107
More than 185g but not more than 225g	£354	£354	£230	£177
More than 225g but not more than 250g	£707	£707	£461	£354
More than 250g but not more than 300g	£1,178	£1,178	£766	£589
More than 300g	£1,473	£1,473	£960	£735

Note: LPV means a light passenger vehicle, being a motor vehicle designed and constructed for the carriage of passengers and comprising no more than 8 seats in addition to the driver's seat.

FIGURE 4.3 PROPOSED RATES OF VEHICLE EMISSIONS DUTY BASED ON CYLINDER CAPACITY OF ENGINE

Cylinder capacity of engine	Vehicle first registered in Jersey	Vehicle first registered outside Jersey 1 year or less ago	Vehicle first registered outside Jersey more than 1 but 2 years or less ago	Vehicle first registered outside Jersey more than 2 years ago
1000cc or less	£0	£0	£0	£0
More than 1000cc but not more than 1400cc	£177	£177	£118	£88
More than 1400cc but not more than 1800cc	£295	£295	£194	£147
More than 1800cc but not more than 2000cc	£447	£447	£289	£225
More than 2001 but not more than 2500cc	£589	£589	£382	£295
More than 2501cc but not more than 3000cc	£883	£883	£578	£442
More than 3001cc but not more than 3500cc	£1,178	£1,178	£766	£589
More than 3500cc	£1,473	£1,473	£960	£735

Comparisons with neighbouring jurisdictions

FIGURE 4.4 2014 RETAIL PRICE MARGINS – COMPARISIONS WITH THE UK (MARCH 2014)

	Jersey Retail Price	Jersey Duty	GST	Price net of duty & GST	Duty & GST as % of price	UK Retail Price	UK Duty	UK Vat	Price net of duty & VAT	Duty & VAT as % of price
Litre of whiskey	£20.78	£12.76	£0.99	£7.03	66%	£20.75	£11.29	£3.46	£6.00	71%
Pint of standard beer	£3.33	£0.34	£0.16	£2.83	15%	£2.92	£0.48	£0.49	£1.95	33%
20 King size cigarettes	£7.21	£4.76	£0.34	£2.11	71%	£8.08	£5.01	£1.35	£1.72	79%
Litre of Unleaded Petrol	£1.21	£0.44	£0.06	£0.71	41%	£1.29	£0.58	£0.22	£0.50	62%

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

Figure 4.5 illustrates that in all of the above examples of dutiable products the proportion of price made up by duty and tax is lower in Jersey than the UK. Even allowing for other cost factors in Jersey there would still appear to be a much greater margin in the retail price of products in Jersey than exists in the UK.

FIGURE 4.5 A COMPARISON OF TYPICAL 2014 TAX AND DUTY LEVELS FOR A RANGE OF COMMODITIES

	Jersey Duty	Jersey GST @ 5%	Guernsey Duty	UK Duty	UK Vat @ 20%
Litre of Whisky @ 40%	£12.76	£0.99	£11.15	£11.29	£3.46
Bottle of table wine	£1.43	£0.29	£1.55	£2.05	£.1.20
Pint of beer/lager @ 4.5% abv	£0.34	£0.16	£0.39	£0.48	£0.49
20 King Size cigarettes	£4.76	£0.34	£3.72	£5.01	£1.35
Litre of Unleaded Petrol	£0.44	£0.06	£0.49	£0.58	£0.22
Litre of Diesel	£0.44	£0.06	£0.49	£0.58	£0.23

FIGURE 4.6 SUMMARY OF DUTY REVENUES

	MTFP (July 2012) 2015 £'000	Budget 2014 (October 2013) 2015 £'000	Budget 2015 (July 2014) 2015 £'000	Contribution to Budget measures 2015 2015 £'000
Impôts on Spirits	4,110	4,724	4,858	134
Impôts on Wine	7,769	7,891	7,677	(214)
Impôts on Cider	1,180	902	1,113	211
Impôts on Beer	5,784	5,601	5,194	(407)
Impôts on Tobacco	11,260	14,236	15,316	1,080
Impôts on Motor Fuel including Fuel Duty Rebate	21,858	20,584	20,395	(189)
Impôts on Goods Imported	150	150	200	50
Vehicle Emissions Duty	1,000	924	896	(28)
TOTAL IMPÔTS DUTY	**53,111**	**55,012**	**55,649**	**637**

FIGURE 4.7 EXPLAINING THE NET VARIATION TO FORECASTS

	2015 Budget Proposals 2015	Less: Original MTFP Assumptions 2015	Changes in Volume Assumptions 2015	Net Variation to Forecasts 2015 £'000
Impôts on Spirits	82	(120)	170	134
Impôts on Wine	128	(189)	(153)	(214)
Impôts on Cider	79	(27)	159	211
Impôts on Beer	21	(130)	(298)	(407)
Impôts on Tobacco	687	(365)	758	1,080
Impôts on Motor Fuel including Fuel Duty Rebate	439	(498)	(130)	(189)
Impôts on Goods Imported	0	0	50	50
Vehicle Emissions Duty	15	(37)	(5)	(28)
TOTAL IMPÔTS DUTY	**1,451**	**(1,366)**	**553**	**637**

The table shows the estimated net variation to forecasts after allowing for the duty assumptions in the MTFP for 2015 of 2.5% and the estimated effect of changes in the assumption for the volume of each commodity since the MTFP.

5. Stamp Duty and Land Transaction Tax Proposals

The Minister proposes the following amendments to the Stamp Duties and Fees (Jersey) Law 1998 ("the Stamp Duty Law" and the Taxation (Land Transactions) (Jersey) Law 2009 ("the LTT Law") in respect of the following:

Stamp Duty – Amend the Stamp Duty Law to enable fair rates of stamp duty to apply where the will devises immovable property of the Testator to a charity and also to individual heirs to the Estate

Under the existing Stamp Duty Law an opportunity exists to lower the duty payable where a Testator devises immovable property to an individual (or individuals) and a charity. Where this situation arises it is possible to arrange for the charity to be the "applicant" for the purposes of registration of the will, so that only the nominal fee (rather than the tariff) is payable in stamp duty. The individuals therefore benefit from reduced duty.

It is proposed that an amendment is made Stamp Duty Law in order to ensure that where a charity is the "applicant" for the purposes of registering a will that devises immovable property, and there is an individual or individuals that are beneficiaries to the will in addition to the charity, that the individual or individuals will pay fair rates of stamp duty on their share of the immovable property.

Stamp Duty/Land Transaction Tax ("LTT") – first time buyers relief

Since 1 December 2011 first-time buyers have been entitled to reduced rates of stamp duty/LTT where the property purchased is worth not more than £450,000, this threshold having temporarily been extended from £400,000. The data contained in the 2014 first quarter "Jersey House Price Index" published by the Statistics Unit shows that the average price for a 2 bedroom flat in the period was £340,000, whilst the mean price for a 2 bedroom house was £377,000; both of which are significantly below the temporary threshold of £450,000.

It is therefore proposed that the temporary threshold of £450,000 for determining entitlement to reduced rates of stamp duty/LTT is not extended beyond 31 December 2014, whereupon the threshold will revert to £400,000. Based on the data available to 30 June 2014, 145 purchasers have benefitted from the extended threshold, at an average cost to the States of approximately £287,000 per annum.

Stamp duty/LTT – duty/tax on secured debts

Stamp duty/LTT is payable on mortgages secured on Jersey property at the rate of 0.5%, except for purchasers entitled to first-time buyers relief who are entitled to reduced rates of stamp duty/LTT on mortgages, consisting of a nil rate band, up to £300,000 and a reduced rate of 0.25% applying up to the threshold determining whether first-time buyer relief is available.

In order to reduce the stamp duty/LTT burden for all purchasers buying residential property worth not more than £400,000 it is proposed that, provided this threshold is not exceeded, purchasers will be entitled to the following reduced rates of stamp duty/LTT on mortgages:

Where the amount secured does not exceed £300,000	Nil
Where the amount secured exceeds £300,000 but does not exceed £400,000	Nil in respect of the first £300,000, plus 0.25% on the amount in excess of £300,000

For example, where a purchaser is buying a property for £400,000, £360,000 of which is funded by a mortgage secured on the property, under the current law they would pay stamp duty on the mortgage (excluding flat rate fees) of £1,800 (£360,000 x 0.5%); whereas under this proposal they would only pay £150 ((£360,000 - £300,000) x 0.25%), a saving of £1,650.

It is proposed that this measure will become effective from 1 January 2015 and based on the data available, it is estimated that this measure will cost approximately £532,000 per annum.

Stamp duty/LTT on expensive properties

It is proposed that reducing the cost of buying a home for those at the lower end of the market will be paid for by increasing the stamp duty/LTT rates for properties costing more than £1 million. A new duty band is also proposed for properties costing more than £3 million. The current and proposed rates of duty/LTT for properties costing more than £1 million are as follows:

Figure 5.1 Current and Proposed Stamp Duty Rates/LTT on Property Costing more than £1 million

Property cost	**Current rate**	**Proposed rate**
£1 million - £1.5 million	£22,000 plus 3.5% on the difference between the cost and £1 million	£22,000 plus 4% on the difference between the cost and £1 million
£1.5 million - £2 million	£39,500 plus 4% on the difference between the cost and £1.5 million	£42,000 plus 5% on the difference between the cost and £1.5 million
£2 million - £3 million	£59,500 plus 5% on the difference between the cost and £2 million	£67,000 plus 6% on the difference between the cost and £2 million
Properties costing more than £3 million	£59,500 plus 5% on the difference between the cost and £2 million	£127,000 plus 7% on the difference between the cost and £3 million

This means that the amount of stamp duty/LTT that will be paid at different property prices will increase as shown in the figure below.

Figure 5.2 Illustration of the impact of the proposed increase in stamp duty/LTT rates on a range of properties

Property cost	**Current duty/tax**	**Proposed duty/tax**
£1.5 million	£39,500	£42,000
£2 million	£59,500	£67,000
£3 million	£109,500	£127,000
£4 million	£159,500	£197,000
£5 million	£209,500	£267,000

The number of transactions affected by these proposals is likely to be low, with fewer than 100 properties sold for more than £1 million in each of the last three years. However, as the property market picks up, there will be the potential for increased stamp duty and LTT revenues.

The number of properties sold in each price bracket for each of the three years to 30 June 2014 is as follows:

Figure 5.3: Number of properties costing more than £1 million sold in Jersey between 1 July 2011 and 30 June 2014

Year	**Cost of between £1 million and £1.5 million**	**Cost of between £1.5 million and £2 million**	**Cost of between £2 million and £3 million**	**Cost of more than £3 million**	**Total**
2011/12	53	13	6	11	83
2012/13	39	12	15	5	71
2013/14	46	21	15	12	94

It is proposed that this measure will become effective from 1 January 2015 and based on the data available, it is estimated that this measure will raise approximately £857,000 per annum.

6. On-going and Future Reviews

Property Tax Review

A green paper on Jersey's property tax system has been published alongside the draft 2015 Budget. This green paper sets out the aims of the property tax review, outlines some possible changes to three areas of the existing property tax system that are consistent with those aims and seeks the public's views. The three areas of the existing property tax system identified as potentially benefitting from reform are:

1. Modernising the basis for charging annual property taxes
2. Ensuring the public share in the benefit arising from increases in property values that they helped to create
3. Modernising the treatment of property financing

These are discussed in detail in both the green paper and the accompanying report prepared by PwC LLP, but it should be stressed that these are not firm proposals at this time; they are merely intended to illustrate what form changes should take.

Fundamental change to the way we tax property will take time. Shifting the burden of who pays tax, changes to the way taxes are calculated and potentially introducing new taxes would have to be a gradual process to limit the impact on taxpayers. This green paper should therefore be seen as the first step along the road to reforming the Island's property tax system and hence it is important that as many Islanders and businesses as possible read the green paper, consider the issues and feedback their views. The consultation will be open until 31 December 2014.

Parish rates and States-owned Properties

The Minister for Treasury and Resources has previously undertaken to provide a report to address whether the States should pay Parish rates on all of the properties which it owns and occupies. In view of the likely revenue expenditure requests such a step should only be taken where an appropriate mechanism could be introduced to fund the additional cost to the States.

We have been working with rates assessors to establish the potential cost of the States paying rates. This work is ongoing, but it is likely that the figure will be approximately £900,000 per annum. Of this, the majority (approximately £600,000) would be payable to the Parish of St Helier and £150,000 to the Parish of St Saviour.

If a decision is taken by a future Assembly that the States should pay rates then the Minister considers that the most appropriate option to fund this is an increase in the element of the Island-wide Rate ("IWR") paid by commercial ratepayers.

Tax Incentive Scheme for Private Investors

In 2013 the Tax Policy Unit undertook an initial feasibility review relating to the introduction of some form of tax incentive scheme to encourage private investment in local businesses. The key finding of that review was that there was no firm evidence, at that time, of demand for such a scheme. In 2014 the Tax Policy Unit have continued their research into tax incentive schemes and are working with the Institute of Directors, Jersey Business, Chamber of Commerce and other interested parties to establish the need for a tax incentive scheme for private investors and the types of business that might qualify. This work is scheduled to be completed by the end of 2014, and will complement the broader piece of work being undertaken by the Economic Development Department on access to funding, as identified in their 2014-2015 Enterprise Action Plan.

Long Term Tax Policy Programme

In the 2014 Budget the Minister committed to publish a document summarising Jersey's long term tax policy programme. This document, will be published in September 2014 in advance of the 2015 Budget debate. The documents seek to outline the future direction of the Island's tax system from both a policy and an administrative perspective. Wherever possible the document will identify the individual steps that will be taken in the short, medium or longer term to develop the Island's tax system in a manner consistent with the programme.

Independent Taxation

A commitment was made alongside the 2014 Budget to continue pursuing the objective of introducing independent taxation into the personal income tax system. Consistent with the timetable outlined in the published feasibility report, work on the potential options for the introduction of independent taxation is continuing, in order that recommendations can be brought forward in the 2016 Budget.

7. Financial & Manpower Implications

Figure 7.1 Estimated financial implications of the 2015 budget proposals:

Financial Implications for 2015

Measure	Estimated 2015 Taxation Revenue (£)
Goods and Services Tax	Neutral
Impôts Duty	
Alcohol duty increases	(276,000)
Tobacco duty increases	1,080,000
Fuel duty increases	(189,000)
Goods Imported	50,000
VED duty increases	(28,000)
Sub Total	**637,000**
These figures represent the increased/decreased revenue compared to the 2015 MTFP forecast and not the total increased revenue that will be collected on these goods by the Customs and Immigration Service in 2015 compared to 2014	
Stamp Duty	
Reduce SD rate on borrowing re residential property costing up to £400,000 (NIL on first £300,000, 0.25% on balance)	(532,000)
Increase SD rate on property costing £1m or more	857,000
Sub Total	**325,000**
Total Financial Implications 2015	**962,000**

Financial Implications for 2016

Measure	Estimated Impact on 2016 Taxation Revenue £m
Income Tax	
Maintain the marginal rate of tax at 26%	Neutral
Increase tax exemption thresholds by 1.7%	2,100,000
Amend the double tax credit provisions	(500,000)
Cap mortgage interest tax relief at £15,000	100,000
Sub Total – additional 2016 financial implications	**1,700,000**
Financial implications from 2015 brought forward	**962,000**
Total – Financial implications 2016	**2,662,000**

The income tax measures relate to the income tax year of assessment 2015. These will impact on the tax revenues to the States in 2016. However, most current year basis taxpayers under ITIS will see the benefit of these measures during 2015. This is because the measures will impact on the calculation of their provisional ITIS effective rate.

Manpower Implications

The proposals within the Budget Statement 2015 will be implemented without any increase to current approved staffing levels.

PART C – PROGRAMME OF CAPITAL PROJECTS

8. Capital Programme 2015

Introduction

The Medium Term Financial Plan (MTFP) set out the capital programme for each of the years 2013-2015 and the debate on the MTFP approved the capital programme, in total, for each of these years. The Budget for each of these years then approves the detailed list of projects. To comply with the Public Finances (Jersey) Law 2005, therefore, the States is asked to approve the detailed list of capital projects for 2015.

The MTFP approved a total allocation in 2015 of £77,341,000. A review and reprioritization of the proposed programme reduced the total capital requirement to £76,382,000. The payroll software replacement, the second phases of additional primary school accommodation and sports strategy infrastructure have all been accommodated within the revised programme. The removal of the Social Housing programme due to incorporation allowed for the second phases of the Future Hospital and Liquid Waste Strategy to be accommodated.

Figure 8.1 – Capital Programme for 2015

	£'000 2015 Budget
Chief Minister's	
E Government	320
JDE Development and Upgrade	1,238
Payroll Replacement	1,000
Chief Minister's total	**2,558**
Education, Sport and Culture	
School ICT	1,000
Additional Primary School Accommodation (Phase 2)	2,134
Sports Strategy Infrastructure (Phase 2)	1,450
Education, Sport and Culture total	**4,584**
Health & Social Services	
Future Hospital (Phase 2)	22,700
Replacement of MRI Scanner	2,277
Replacement of RIS/PACS	1,567
Refurbishment of Limes	1,662
Health & Social Services total	**28,206**
Transport and Technical Services	
Infrastructure Rolling Vote	11,097
Liquid Waste Strategy (Phase 1)	25,494
EFW Plant La Collette Replacement Assets	681
Road Saftey Improvements	635
Transport and Technical Services total	**37,907**
Vehicle Replacement (additional from consolidated fund)	**300**
Replacement Assets	**2,827**
Total Projects - Capital Allocation	**76,382**
Housing	
Social Housing Programme *	-
Total Programme	**76,382**

* The Housing department was incorporated as Andium Homes Ltd on 1st July 2014 so the Social Housing capital programme has been excluded on that basis.

Chief Minister's Department

E Government (£320,000 for 2015).

Public Sector Reform will create a more innovative and efficient and lower cost government. A key strand to the reform programme is the creation of an effective and efficient eGovernment model to deliver services to its customers.

eGovernment will provide the 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;
- Creating an environment that will increase the digital skills of the States employees and citizens;
- Delivering services through more cost effective channels, creating value for money for taxpayers;
- Becoming a major 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 put in place the technology necessary to achieving an efficient and effective eGovernment model for the States of Jersey

JDE Development & Upgrade (£1,238,000 for 2015). The States Enterprise Resource Planning (ERP) system, JD Edwards, will be 12 years old in 2014. If the States is to renew this asset (purchased in 2000, implemented in 2002), then 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.

Payroll Replacement (£1,000,000 for 2015).

This funding will aid the procurement of a new Payroll system. The current Payroll system is at the end of its life with many limitations; it will also be unsupported from July 2015. A replacement is essential to ensure we are on current, supported technology / software, and ensure the system can support the current and future business operating model.

The current payroll system pays approximately 10,000 employees / pensioners through a variety of monthly and weekly payrolls. The Payroll Team input around 90,000 variable claim forms per annum for the payment of overtime, mileage claims etc.

A modern payroll system and processes are important building blocks to support the provision of streamlined back office support services. The Payroll Replacement Project Board has concluded that improvements to payroll processes and systems should be met via the purchase of a new payroll system to support the in-house provision of payroll services by the Treasury & Resources Department to all States Departments.

A future payroll system should also have the ability to deal with the diverse and wide-ranging terms and conditions that are prevalent in the States of Jersey whilst also being able to deal with any modern reward structure introduced in the future.

Education, Sport and Culture Department

School ICT (£1,000,000 for 2015). The IT skills strategy was launched on 11 October 2013 to inspire the next generation to be digital champions, confident and able in a challenging business world where IT is increasingly at the forefront. This money is necessary to upgrade the infrastructure and provide equipment and training to schools to enable students to learn anytime, anyplace and to harness the maximum benefit from mobile technology. Funding of £1,000,000 is the final part of a 3 year strategy from 2013 to 2015 making the overall total £3,000,000 for the School ICT project.

Additional Primary School Accommodation Phase 2 (£2,134,000 for 2015). Latest information on primary demographics indicates a significant increase in pupil numbers over the next few years. As a result it will be necessary to provide increased facilities for the schooling of these students. Feasibility studies have been completed to review and evaluate the options and a decision was made to provide additional classrooms on existing sites. The final cost for this option is £10,322,000, of which £8,188,000 was provided in 2014 and the balance of £2,134,000 is in the 2015 capital programme. Plans have been submitted for all projects with the exception of one, which will have plans submitted later this year. The first new classrooms will open for the 2015-16 academic year.

Sports Strategy Infrastructure Phase 2 (£1,450,000 for 2015). Projects include but are not limited to; artificial grass pitches at school sites, tennis court resurfacing, Les Quennevais cycle track resurfacing and the refurbishment of sport centres. This is a continuation of the Sports Infrastructure upgrade following the launch of the Sport Strategy and in preparation for the 2015 NatWest Island Games. This second phase of work will cost £1,450,000.

Health and Social Services Department

Future Hospital – Feasibility Study and Initial Phases - Design and Planning: (£22,700,000 for 2015). This funding provides for the development of the Feasibility Study Outline and Full Business Cases for the Future Hospital project to set out the proposed overall feasibility concept for the new build and refurbished Future Hospital capacity in response to the requirement placed upon the Council of Ministers under P.82/2012 to:

"co-ordinate the necessary steps by all relevant Ministers to bring forward for approval 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), including full details of all manpower and resource implications necessary to implement the proposals."

The funding will enable the development of design work to provide a feasibility design for the whole future hospital concept for consideration by the States Assembly and the necessary design work to enable the tendering of initial phases of the Future Hospital capacity for States Assembly consideration such that recommendation for the appointment of construction contractors can be sought in Budget 2016

In addition the funding will enable the relocation of Community and Social Services from existing failing buildings at Overdale, the demolition of these buildings in readiness for initial phases of development of the Future Hospital at Overdale and the undertaking of enabling works that would improve access and utility connections to the General Hospital and at Overdale to make them fit for development of fit for purpose Health Buildings.

The provisional allocation of 2015 funding comprises[1]:

Overdale Development (Design, demolition and enabling works)	£6,415,000
General Hospital – Initial phase design and enabling works	£7,024,000
General Hospital – Subsequent phases design and enabling works	£7,845,000
Cancer Care Design Works	£638,000
Planning Vote	£778,000
	£22,700,000

1 The Budget 2014 budget profile for 2015 is retained for the purposes of project planning and has been applied to Strategic Outline Case estimates, within a single capital Head of Expenditure. The actual allocated spend may need to be modified to reflect improving information during development of the Feasibility Study, which will require reallocation of the available budget across the cost elements.

Replacement of MRI Scanner (£2,277,000 for 2015). The Health and Social Services Department currently owns and operates an MRI scanner, which was commissioned in December 2007. The MRI scanner is in constant use and in 2013, 7,418 scans were undertaken. The unit operates Monday to Saturday (71½ hours per week), however, in 2014 it has also operated on most Sundays to meet increased demand. The MRI scanner needs replacing in 2015 and the replacement costs include the purchase and commissioning of a new machine as well as the necessary building costs associated with installation.

Replacement of RIS/PACS (£1,567,000 for 2015). 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 designed to run the Radiology Department and distribute reports and images to all relevant clinicians both inside and outside the hospital. The scope also covers updating a range of hardware including the main server infrastructure and visual display equipment for viewing the images and reports.

Limes Upgrade (£1,662,000 for 2015). The Limes is a care home built in the 1980s to a very high standard but not refurbished since. This project will:

• *Replace all floor, wall and ceiling finishes in all bedrooms, shower rooms (including new sanitary ware), corridors and communal areas;*

• *Install 3 new assisted bathrooms;*

• *Modernise and increase number of sluice rooms; and*

• *Completely redecorate the building inside and out.*

Transport and Technical Services Department

Infrastructure Rolling Vote (£11,097,000 for 2015). The infrastructure rolling vote is designed to allow TTS to facilitate the maintenance and further improvement of the Island's infrastructure network. The allocation is split broadly between highways (34%), traffic improvements/street lighting (11%), drainage infrastructure maintenance including pumping stations (46%) and other infrastructure assets (9%).

Liquid Waste Strategy (Phase 1) (£25,494,000 for 2015). The liquid waste strategy is the master plan for the complete regeneration of the Bellozanne site.

The 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 is 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 £10,100,000 was awarded to Transport and Technical Services in 2014 to undertake the first phase of this work. This included undertaking planning and environmental impact studies, site investigations, initial service diversions and the replacement of the clinical waste incinerator, which currently sits in the middle of the site. The majority of this work should be completed by the end of 2014, although it is envisaged that some may run into the first half of 2015.

Funding of £25,494,000 has been proposed in the 2015 capital programme to allow the Department to begin phase 2 of this regeneration programme. This work will include the demolition and excavation of parts of the hillside at Bellozanne to provide a greater operating surface, site remediation, completion of the detailed design, procurement and awarding of the STW phase I construction contract. This contract is likely to be awarded towards the second half of the year with the contractor starting on site in quarter 3. The scope of these works will include creation of new inlet works, primary settlement tanks, storm tanks and some of the final settlement tanks, sludge storage and the administration building. It is anticipated that this contract will last until the beginning of 2017. The total funding of £25,494,000 is required in order for the Department to enter into a construction contract with the approved supplier in accordance with the requirements of the Public Finance Law (Jersey) 2005.

Once these works are built, connected to the existing sewage treatment works and commissioned, phase II of the works can be commenced, which will involve removing the existing inlet works, primary settlement and sludge areas and constructing the new ASP lanes, remaining final settlement tanks and new UV treatment plant.

EFW Plant La Collette Replacement Assets (£681,000 for 2015). The Energy From Waste plant (EFW) begun operations in October 2010 and is of strategic importance to the island. The asset must be maintained to a high level to ensure that it can handle the Island's waste, maintain electrical generation and minimise the use of chemicals and utilities. The main financial benefits stemming from the replacement of these assets include lower operating and maintenance costs and preservation of the current level of service provided to the user. As the plant is a pressure system it must be maintained to an acceptable standard to satisfy the insurance inspector. The plant must continue to be able to meet its environmental emission standards as specified in its Waste Management Licence. The plant is of strategic importance for managing the treatment of the Island's waste. A long term breakdown of the plant would be difficult and expensive to deal with so would constitute an unacceptable risk. The plant also has to comply with the Waste Incinerator Directive (WID). Thus it is essential that the plant's emissions are maintained to internationally recognised safe levels.

Road Safety Improvements (£635,000 for 2015). In order to promote the current sustainable transport policy, additional funding is required to maintain and increase the infrastructure for non-motor vehicles. Various high level schemes have been identified although detailed analysis of each is still required:

- Extension of the Eastern Cycle Network
- Safety of the Western Cycle Network
- Enhancing the cycle route in St Peters Valley
- Various projects on bus stop safety

In addition, certain sections of road have been identified as having road traffic collision levels that are higher than appropriate especially for vulnerable users such as pedestrians, cyclists and motor cyclists.

Other Capital

Vehicle Replacement (£300,000 for 2015). 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.

Replacement Assets (£2,827,000 for 2015). Departments go through a process of identifying those assets that are due for replacement and then conduct a prioritisation exercise to come to their final request.

Figure 8.2 – Breakdown of Replacement Assets by Department

Replacement Assets	
Health and Social Services	2,595
Home Affairs	-
Transport and Technical Services	232
Total	**2,827**

Proposed Capital Programme for 2015 – Funding Sources

The proposed 2015 capital programme has been fully funded using a variety of funding sources as identified in the table below and Summary Table C.

Figure 8.3 – Capital Programme for 2015 – Funding Sources

	£'000 2015
Departmental Capital Programme	**76,382**
Funding Sources	
Consolidated Fund	(3,463)
Strategic Reserve	(22,700)
Contribution from Currency Fund	(25,494)
JPH receipts	(9,140)
Housing Repayment	(528)
Repayment of JT Preference Shares	(1,757)
Repayment of Jersey Water Preference Shares	(6,800)
Jersey Post Extraordinary Dividend	(5,000)
Funded from the Central Planning Vote	(1,500)
Funding Available	**(76,382)**
Social Housing Programme*	-
Housing Funding Sources*	-
TOTAL CAPITAL EXPENDITURE	**76,382**
Funding from Consolidated Fund (Main allocation)	**3,463**
Funding from Other Sources (Income to Consolidated Fund etc)	**72,919**
Housing Funding	**-**
TOTAL FUNDING	**76,382**

*The Housing department was incorporated as Andium Homes Ltd on 1st July 2014 so the Social Housing capital programme has been excluded on that basis.

States Trading Operations

For 2015, States Trading Operations comprise Jersey Harbours and Jersey Airport as part of Economic Development department and Jersey Car Parking and Jersey Fleet Management in the Transport and Technical Services department. A summary of the capital expenditure proposals for the States Trading operation is shown in Summary Table E.

Figure 8.4 – Capital Programme for States Trading Operations for 2015

	£'000 2015 Budget
Arrestor Bed Refurbishment	200
Fire Tenders	195
Grass Management	200
ILS 26/08A	775
Minor Capital Assets	300
Public Address/Fire Alarm System	450
Vehicle Fleet Replacement	273
Jersey Airport	**2,393**
Minor Capital Assets	250
Piers and Quays Infrastructure	350
StHM Marina Pontoons Replacement/Enhancement	320
Replacement West Berth Ro-Ro Ramp/Walkways & Future Refurb	450
Road Re-building	300
Jersey Harbours	**1,670**
Car Park Maintenance and Refurbishment	
Jersey Car Parking	**583**
Vehicle and Plant Replacement	
Jersey Fleet Management	**1,418**

PART D – ALLOCATION OF GROWTH FOR 2015

9. Allocation of Growth for 2015

In the debate of the draft Budget 2014 (P69/2013) in December 2013, the States agreed the allocation of the central growth allocation for 2014 and 2015 of £2,210,000 and £1,460,000 respectively.

Article 11(3) of the Public Finances (Jersey) Law 2005 allows the allocation of future year's growth where this is recurrent.

Figure 9.1 shows the allocations of recurrent funding for 2015 agreed in the 2014 Budget. These allocations to departments total the available central growth allocation provided in the MTFP for 2015. There is no further allocation of central growth available in 2015 and therefore no proposals in this year's Budget.

Figure 9.1 – Central Growth Allocation agreed for 2014 and 2015

Growth bids agreed for departments 2014/15		Dept	2013 £'000	2014 £'000	2015 £'000
33	External Relations: International meetings, monitoring and visitors dignitaries	CMD	0	160	160
34	External Relations: External specialist advice	CMD	0	100	100
52	CSR: Fund permanent members of the CSR delivery team	CMD	0	150	150
			0	410	410
43	Marine Response Team	HA	0	25	25
43a	Increased running costs of new prison facilities	HA	0	25	25
18	Private Sector Rental Support	SSD	0	750	1,000
49	Treatment and disposal of ash	TTS	0	1,000	0
	Total		**0**	**2,210**	**1,460**

External Relations: International meetings, monitoring and visitors dignitaries – (CMD) - £160,000 for 2014 and 2015

External Relations was established using non-recurring funding sources. During 2010 and 2011 this cost was met from Fiscal Stimulus. This budget has been reduced from £260,000 in 2011 after agreeing joint monitoring contracts with Guernsey from 2012 onwards, closing the London office space used previously by the Director International Finance and cancelling the Paris monitoring contract. Whilst there is now a recurring budget for the 6 core staff and office expenses, the international operations programme is not funded. The international operations programme requires a recurring budget of £160,000 from 2014.

External Relations: External specialist advice (CMD) - £100,000 for 2014 and 2015

Since its establishment with non-recurring funding, External Relations has needed to commission specialist technical advice. Currently, technical expert advice from the London School of Economics Trade Policy Unit is required, for example, on the extension of the UK membership of the World Trade Organisation to include Jersey. £100,000 will buy on average 2 to 3 specialist reports per annum and recurring funding is required from 2014.

CSR: Fund permanent members of the CSR delivery team – (CMD) - £150,000 for 2014 and 2015

This team previously undertook the role of CSR Delivery Team but has now become the PSR Programme Office. The budget for the two members of staff was funded from the Restructuring Provision during the CSR process (2011-13) but now requires permanent funding of £150,000 from 2014 to support the Public Sector Reform programme. It is anticipated that this may need to be supplemented with additional temporary resource as required.

Private Sector Rental Support – (SSD) - £750,000 in 2014 and £1.0 million for 2015

One impact of the proposed Housing incorporation and subsequent adjustment to social housing rental will be a likely knock on effect in private sector social housing rents. The affect of increased income support due to these rent increases will be recovered from both the new housing association and existing housing trusts. However, there will be an increase to those private sector social housing rents through income support which will not be recoverable. This could be in the order of £1 million. The increase in housing rents to 90% of market value is proposed to be introduced from April 2014.

Marine Response Team (MRT) – (HA) - £25,000 for 2014 and 2015

The funding for a UK Maritime off-shore ship firefighting capability has not been re-instated by either the UK Department for Transport or the Department of Communities and Local Government. There remains no UK provision to assist with emergency firefighting, industrial accidents or chemical incidents at sea. Many UK Fire and Rescue Services and their Authorities with notable maritime risk have taken the decision to fund the shortfall in order to maintain such a capability in and around their coastal waters.

The States of Jersey Fire and Rescue Service has developed and implemented a comprehensive local Marine Response Strategy, supported by capability, tactics and operations. These have been incorporated into Jersey Coastguard and Condor Marine Services Emergency Response Plan.

Central Growth allocation is required in order that the States of Jersey Fire and Rescue Service can maintain its capability to deal with fires, chemical release or industrial accidents on a vessel in Channel Island waters. This will also enable Jersey Fire and Rescue Service to access mutual assistance from those Services that have a maritime response capability, if required.

Increased Running Costs of New Prison Facilities – (HA) - £25,000 for 2014 and 2015

The prison was designed in the late 1960s and was opened in 1974. A programmed redevelopment (Masterplan) commenced in 2003 to address some of the prison estate's shortcomings which were reinforced in previous inspections. The first five phases of the Masterplan have been delivered or are currently on site.

The construction of a new visit room and staff facility (phase four) opened in April 2013 and construction work on a new stores and engineers' facility (phase five) commenced in May 2013 with a target completion date of February 2014. In addition, a new classroom, boiler house and greenhouse have now been constructed in the horticultural area of the prison.

These new facilities have increased the running costs of the prison which cannot be accommodated within the Home Affairs Department's net revenue expenditure.

Treatment and disposal of incinerator ash – (TTS) - £1,000,000 for 2014 only

Currently bottom and fly ash (APC residue) are disposed of in fully lined ash pits built to a specification to store the hazardous and non hazardous ash. There is increasing pressure to find sustainable methods for disposal or recycling of both bottom and fly ash. These pressures will require investment in new infrastructure in order to implement alternative disposal / recycling methods which will also increase the life of La Collette. The capital costs of these infrastructure improvements are currently estimated at £1,500,000 and are not included in the revenue figures below. Estimated revenue costs going forward are as follows:

- *2014 £1,000,000 APC Off Island disposal for current ash*
- *2015 £1,000,000 APC Off Island disposal for current ash,*
- *2015 £700,000 to clear backlog of ash*
- *2015 £300,000 On Island recycling of bottom ash*

Growth funding of £2 million from 2015 was approved as part of the Transport and Technical Services Department spending limit in the MTFP.

PART E – FINANCIAL FORECASTS

10. Financial Forecast

The financial forecasts have been reviewed since the 2014 Budget to reflect; the 2013 Outturn, current in-year position and the latest economic assumptions.

The main change as a result of the review is in respect of income tax. The Income Tax Forecasting Group (ITFG) originally reviewed the forecasts in April 2013 and identified a potential shortfall in income tax revenues against the MTFP forecasts. However, at that time the in-year forecasts in 2013 were more encouraging and as a result the 2014 Budget was prepared using the MTFP forecasts, adjusted only for the impact of budget measures.

The original ITFG forecasts (April 2013) were incorporated into the ongoing work on the Long Term Revenue Plan (LTRP) 2013-2020 as part of the framework for the next MTFP.

The current review of income tax by the ITFG in April 2014 has forecast a further decline in income tax revenues from 2014 compared to MTFP. These forecasts are significantly below the MTFP forecasts to the extent of £31 million in 2014 and £45 million in 2015, after adjusting for 2014 budget measures. The forecasts take into account a number of factors which are explained in the detailed ITFG paper at Appendix F. The revised forecasts have been incorporated in the 2015 Budget and necessitate the identification of proposed measures to maintain a positive balance on the Consolidated Fund, should actual income tax revenues fall to these levels.

A review of other States income forecasts have also been carried out as part of the annual update to the Long Term Revenue Plan (LTRP). The latest forecasts of other States income indicate a potential shortfall against the MTFP adjusted forecasts of £3.8 million in 2014 and £6.2 million in 2015. The main changes are a shortfall in stamp duty and GST revenues offset by improvements in investment returns.

The financial forecasts have also been revised since the 2014 Budget to reflect the States decisions to progress with the “Reform of Social Housing” and the creation of Andium Homes Ltd from 1 July 2014. The associated changes to the MTFP States income targets and States net revenue expenditure were agreed in P59/2014 and are reflected in the revised forecasts.

The latest States income forecasts would result in projected deficits for 2014, 2015 and beyond. Section 11 of this report outlines the proposed measures that would be required in 2014 and 2015 to ensure the Consolidated Fund remains in surplus. This is a requirement of the Finance Law.

The LTRP will consider the measures that are required to deliver a balanced budget for the next MTFP 2016 to 2019.

Figure 10.1 - Financial Forecast 2013-2015 (July 2014)

Outturn	Financial Forecast (incl. budget measures)	Budget 2014 (Dec 2013)			Budget 2015 (Jul 2014)	
2013 £'000		2013 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000
	States Income					
451,661	Income Tax	454,965	474,965	499,475	444,000	455,000
77,603	Goods and Services Tax	79,761	81,955	84,508	79,107	80,650
54,320	Impôts Duty	54,534	54,903	55,012	55,613	55,649
17,370	Stamp Duty	24,529	27,402	28,961	22,730	24,203
24,093	Other Income	20,545	21,926	24,764	38,842	57,175
11,641	Island Rate	11,670	12,032	12,453	11,956	12,219
636,688	**States Income**	**646,004**	**673,183**	**705,173**	**652,248**	**684,896**
	States Expenditure					
636,186	Departmental Net Revenue Expenditure	626,224	661,966	673,194	675,800	702,666
	Central Allocations	7,547	7,633	17,963	7,633	17,963
636,186	**Total Net Revenue Expenditure (excl: Depn)**	**633,771**	**669,599**	**691,157**	**683,433**	**720,629**
502	**Forecast Surplus/(Deficit) for the year**	**12,233**	**3,584**	**14,016**	**(31,185)**	**(35,733)**
12,566	Net Capital Expenditure Allocation	12,566	2,049	11,062	2,049	3,463
(12,064)	**Forecast Surplus/(Deficit) for the year after Capital**	**(333)**	**1,535**	**2,954**	**(33,234)**	**(39,196)**
Proposed measures:						
	Contributions from States strategic investments				8,000	3,000
	Available balances on other funds to offset expenditure				12,500	1,100
	Proposed savings				6,000	20,070
	Other measures if required				5,000	8,967
Total Proposed Measures					31,500	33,137
Forecast Surplus/(Deficit) after proposed measures		(333)	1,535	2,954	**(1,734)**	**(6,059)**

Further measures which improve the Consolidated Fund balance are identified in Figure 11.1 to accommodate these projected deficits

1.In the 2013 Budget, the States decision not to approve the increases in Impôts duty on fuel was partly offset by additional increases on tobacco resulting in a reduction of £1.04 million in the MTFP States income targets.

2. In the 2014 Budget, there were only minor amendments to the proposals, which as amended resulted in additional revenues of £6,000 in 2014. In 2015, the financial effect of the agreed Income Tax proposals, principally a reduction in the marginal rate of tax from 27% to 26%, will result in a reduction in tax revenues of £5,484,000.

3. The draft 2015 Budget proposals would result in an increase in States revenues of £962,000 if approved by the States. In 2016, the effect of the Income tax proposals would further increase States revenues and the full effect of the budget proposals would generate additional revenue of £2.662 million. These figures are included in the Financial Forecast in Figure 10.1.

4. The draft 2015 Budget forecasts of States income are the result of the work of the Income Tax Forecasting Group (ITFG) and the latest "in-year" forecasts for all other States income. Proposed measues to maintain a positive balance on the Consolidated Fund have been identified should these lower levels of income come to fruition.

5. Other Income and Department net revenue expenditure have both increased by £13.8m and £29.4m in 2014 and 2015 respectively, to reflect the agreed budget changes following P59/2013 and the establishment of Andium Homes Ltd.

11. Proposed measures to manage the Consolidated Fund

Article 10(8) of the Public Finances (Jersey) Law 2005 requires the Minister for Treasury and resources to lodge a Budget where the Consolidated Fund is balanced. The forecast of States income in 2014 and 2015 necessitates measures to be proposed to maintain a positive balance on the Consolidated Fund, should actual income tax revenues fall to the levels now forecast. The proposed measures are shown in Figure 11.1

Figure 11.1 - Proposed measures to balance the Consolidated Fund

	2014 £'000	2015 £'000
Consolidated Fund balance from 2013 Outturn	**316**	**985**
Income Tax (ITFG) forecast (May 2014)	**(30,965)**	**(44,475)**
GST forecast (May 2014)	(2,848)	(3,858)
Impots forecast (May 2014)	710	-
Stamp Duty forecast (May 2014)	(4,672)	(5,083)
Other Income (May 2014)	3,006	2,705
Total Other income potential forecast	**(3,804)**	**(6,236)**
Total Projected Income Shortfall (excluding Budget 2015 measures)	**(34,769)**	**(50,711)**
Projected Consolidated Fund balance - pre Budget proposals	**(34,453)**	**(49,726)**
Impact of proposed 2015 Budget measures included in financial forecast		
Income Tax - amend double tax credit provision		
Income Tax - reduce MITR cap to £15,000		
Income Tax - increase exemption thresholds by 1.7%		
Impôts duty increases		637
Reduce Stamp Duty on borrowing to £400k		(532)
Increase Stamp Duty rates > £1 million		857
Total 2015 Budget measures	-	**962**
Changes to Capital Programme included in financial forecast		
Increased Consolidated Fund allocation		**(1,297)**
Proposed measures to balance Consolidated Fund included in Financial Forecast		
Apply Jersey Post and Jersey Water to reduce Consolidated Fund Captal Allocation		11,800
Rephasing of unspent capital approvals - reallocated in 2015		(3,220)
Projected Consolidated Fund balance - after Budget proposals	**(34,453)**	**(41,481)**
Proposed measures that would affect the Financial Forecast		
Contributions from States Strategic investments		
Proposed Jersey Post Extraordinary Dividend	5,000	
Possible Jersey Telecom Payment of deferred Gigabit Dividend	3,000	3,000
Utilising available balances on Funds and Reserves		
Transfer from Court and Case Costs Contingency	3,600	
Transfer from Insurance Fund	2,500	
Utilisation of available Drug Trafficking Confiscation Funds		1,100
Utilisation of available Criminal Offences Confiscation Funds	6,400	
Proposed savings		
Proposed savings from ALL departments 1% pay budgets		3,640
Proposed savings from ALL departments 1% on gross non pay budgets		2,395
Proposed reduction in 2014 carry forwards of ALL departments	5,000	
Reduce Contingency allocation to FoI funding by £1m		1,000
Further savings		
PECRS - delay increased repayment of pre 1987 debt	1,000	2,000
Proposed savings from ALL departments of a further 1% pay budgets		3,640
Proposed savings from ALL departments of a further 1% on gross non pay budgets		2,395
Proposed reduction in 2015 carry forwards of ALL departments		5,000
Other measures if required		
Proposed deferral/reduced contribution to Long Term Care Fund (LTCF)	5,000	5,000
Further rephasing of capital, increased shareholder contributions and savings		3,967
Proposed Measures that would affect the Consolidated Fund balance		
Contributions from States Strategic investments		
Proposed redemption of Jersey Water preference share		6,800
Apply Redemption of Jersey Water preference share		(6,800)
Apply Jersey Post Extraordinary Dividend		(5,000)
Utilising available balances on Funds and Reserves		
Proposed transfer from Housing Development Fund (HDF) to Consolidated Fund	6,120	
Proposed transfer from Dwelling Houses Loans Fund (DHLF) to Consolidated Fund	2,000	
Proposed transfer from Stabilisation Fund to Consolidated Fund	1,058	
Rephasing of Unspent capital approvals - return to Consolidated Fund	7,119	
Consolidated Fund c/fwd		**13,344**
Projected Consolidated Fund balance after Proposed Measures	**13,344**	-

Additional income to the Consolidated Fund
Improvements have been agreed to the investment strategy for the Consolidated Fund and Currency Fund which are forecast to result in improved returns to the Consolidated Fund from 2014, beyond those forecast in the MTFP.

Financial impact of proposed Budget measures 2015
The financial impact of the proposed 2015 Budget measures is an increase in States revenues in 2015 of £962,000, with the proposed 2015 Budget income tax measures generating an additional £2,662,000 from 2016. These measures if approved will improve the Consolidated Fund position in the long term.

Proposed Redemption of Jersey Water Preference Share
The States has been asked to consider the redemption of the preference shares held by the States in Jersey New Waterworks Company Limited at a fair market value. This will be subject to the States and then shareholder approval. The proposal is for this income to be used to fund capital expenditure in 2015 and reduce the required allocation from the Consolidated Fund.

Proposed Jersey Post Extraordinary Dividend
There is an opportunity for an extraordinary dividend from Jersey Post in 2014. The proposal is for this income to then be used to fund capital expenditure in 2015 and reduce the allocation required from the Consolidated Fund.

Proposed payment from Jersey Telecoms of deferred dividends
As part of the support to Jersey Telecoms in financing their Gigabit Jersey project, an agreement to reduce three years of dividends by £3m in each year was made. The Shareholder is able to ask Jersey Telecoms to make these payments now that the project is well underway and financing is arranged.

Special Funds and other Fund balances
There are a number of special and other funds that have unallocated balances and are either no longer making payments or they have balances that could be utilised, such as the Dwelling Houses Loan Fund and the Stabilisation Fund.

The funds that have been confiscated and are held in the Criminal Offences Confiscation Fund (COCF) and Drug Trafficking Confiscation Fund (DTCF) could be allocated to capital schemes that fit the rules set on the use of these balances allowing the allocated consolidated fund element to be released.

The Insurance Fund has accumulated balances that are in excess of the amount likely to be required to meet the States obligations, these amounts could be used to pay for the storm damage incurred by departments where they have currently funded these exceptional costs from their existing cash limits but fit in with parameters of the fund.

Returning unused contingency balances
Court and Case costs are an extremely difficult cost to predict and historically the Law Officers' and other affected Departments have felt exposed ensuring they have sufficient budgets to carry out the work whilst also not wanting to request excessive base budgets. This resulted in an agreed reserve being held where significant successful income claims could be held centrally and made available when needed. The balance in this reserve could be returned to the Consolidated Fund so long as sufficient balance remains available in the COCF for contingency purposes.

Unspent Capital Approvals
The States currently approves the full cost of a capital project in the year in which the project is due to start regardless of the year that funds will be spent. This means that there is at any one time a significant allocated but unspent cash balance in the Consolidated Fund, over £150 million at March 2014. Although this is appropriate under the current provisions of the Finance Law due to changing circumstances there are instances where funds are allocated but not required until a later year and could be returned to the Consolidated Fund in the short-term. A number of schemes including E-Government projects, the Limes, Sandybrook and IT projects have budgets allocated and unspent which are not required until 2015 or 2016. These allocations are proposed to be reallocated accordingly to improve the Consolidated Fund position in the short-term, withdrawing the funding in 2014 and requesting the funding to be allocated again in 2015.

Departmental contributions towards the forecasted reduced income levels
Departments could be asked to reduce their expenditure to reduce the draw on the consolidated fund both in 2014 and 2015. In 2014 departments could be asked to review their carry forward proposals and only carry forward expenditure budgets for items that have been delayed and do not have a budgeted allocation in 2015. This would ensure that departments are only carrying forward budgets that are required to deliver services that have been delayed but are still required and do not have the necessary funding in 2015. In 2015, departments could also be asked to make savings on both staff and non-staff budgets. These savings could be met by means of recruitment freezes and purchasing contract negotiations whilst RPI levels remain relatively low.

Reduce the amount allocated to Freedom of Information
In order to get ready for enactment of the Freedom of Information Law in 2015 a significant amount of the allocated budget was set aside for the recruitment of staff to work through department policies and procedures. The recruitment of these staff members has proved to be difficult with the levels of knowledge and experience available, which has meant that departments have had to use existing staff and knowledge. An element of the budget allocated to Freedom of Information could, therefore, be returned to the consolidated fund.

Delay the accelerated payment of the PECRS Pre 1987 debt
The States is currently accelerating its repayment of the PECRS Pre 1987 debt. A decision could be made to maintain the level of repayments made at 2013 levels. This would reduce the budgeted repayments for 2014 and 2015. A decision could then be made on how the debt should be met once the new CARE scheme rules are in place.

Proposed deferral of contribution to Long Term Care Fund in 2014
There is currently a proposal for an element of the forecast underspends in Social Security budgets to be transferred to supplement the contributions to the Long Term Care Fund in 2014 and 2015. These proposals are intended to ensure there is sufficient funding for the Long Term Care scheme from July 2014, ahead of the introduction of the new Long Term Care contributions starting at 0.5% in 2015. Consideration will be given to deferring the transfer of this funding in 2014 providing sufficient funds exist in the Long Term Care Fund to manage expected commitments in 2014 and 2015.

Other measures if required
Other measures would be taken if the need arose. These measures might include further re-phasing of capital schemes, increased shareholder contributions and increased savings targets.

12. The Indicative Economic Impact of the Financial Forecasts - Additional Information requested by the Fiscal Policy Panel

The Fiscal Policy Panel (FPP) has commented in its annual reports that it would be more informative if the presentation of the financial forecasts was adjusted to attempt to assess the underlying economic impact of the proposals.

The 2015 Budget includes forecasts of States income. These forecasts are informed by the work of the ITFG. A draft Long Term Revenue Plan (LTRP) is being prepared to inform the 2015 Budget debate in September 2014. The LTRP will then be further developed to inform the next Strategic Plan and next MTFP for 2016-2019.

The 2015 Budget forecasts for 2013-2015 are shown in Figure 12.1 and illustrate the projected deficits in 2014 and 2015 arising from the latest income forecasts and also include the impact of the proposed 2015 budget measures. Figure 12.4 includes an adjustment for the proposed measures that would be required if the forecast levels of income actually occur to ensure the Consolidated Fund remains in balance.

The 2011 to 2013 figures are actuals and show an operating surplus of £1m at the end of 2013. After allowing for a capital allocation there is a small deficit in 2013 as a result of a shortfall in States income against MTFP. This is principally because of a shortfall of £7m in stamp duty and income tax was down £2m against a budget of £452m.

Figure 12.1 – Revised Financial Forecasts (July 2014)

MTFP Financial Framework	2011 Actual £m	2012 Actual £m	2013 Actual £m	2014 Forecast £m	2015 Forecast £m
General Revenue Income	587	628	637	652	685
Department Income	126	130	128	116	104
Total Consolidated Fund Income	713	758	765	768	789
Gross Department Revenue Expenditure	717	730	764	791	807
Fiscal Stimulus Revenue Expenditure	8	1	-	-	-
Central Allocations	-	-	-	8	18
Total Consolidated Fund Revenue Expenditure	725	731	764	799	825
Operating Surplus/(Deficit)	**(12)**	**27**	**1**	**(31)**	**(36)**
Net Capital Allocation 2013-2015	13	14	13	2	3
Additional Housing Capital Allocation		27			
Surplus/(Deficit)	(25)	(14)	(12)	(33)	(39)

The 2011 and 2012 figures include the remaining tranches of the Fiscal Stimulus programme which provided over £40 million of discretionary economic stimulus via additional funds into the economy from the Stabilisation Fund over the period 2009-2012. This was in addition to over £100 million provided to cover the impact of the economic downturn by supporting reduced income and increased expenditure on items such as income support – known as “automatic stabilisers.”

Figure 12.1 also shows the additional capital allocation to Social Housing projects of £27 million, which was a further injection and stimulus into the economy in 2012.

The FPP requested that a calculation of the "current" expenditure financial position of the States be provided, by excluding the capital commitments over the MTFP period. Capital is excluded as the benefit of this expenditure lasts more than one financial year. The purpose of the "current" expenditure position is to provide a measure of the sustainability of States finances in the medium term.

Figure 12.2 – Projected "current" financial position (July 2014)

	2011 Actual £m	2012 Actual £m	2013 Actual £m	2014 Forecast £m	2015 Forecast £m
General Revenue Income	587	628	637	652	685
Department Income	126	130	128	116	104
Total Consolidated Fund Income	713	758	765	768	789
Gross Department Revenue Expenditure	717	730	764	791	807
Fiscal Stimulus Revenue Expenditure	8	1			
Central Allocations	-	-	-	8	18
Total Consolidated Fund Revenue Expenditure	725	731	764	799	825
Operating "Current" Surplus/(Deficit)	**(12)**	**27**	**1**	**(31)**	**(36)**
"Current" Carry Forward Adjustments	-	-	-	(31)	-
Revised "Current" Surplus/(Deficit)	**(12)**	**27**	**1**	**(62)**	**(36)**

The Public Finance Law requires the full amount of funding for a capital budget to set aside at the time that the project is agreed. The economic impact of these capital allocations is not felt until the "funding" is actually spent. As a consequence, so as to assist the FPP, analysis has then been carried out to estimate the actual timing and profile of capital projects.

The quarterly capital monitoring information from departments provides an up to date position for capital schemes, including those approved in prior years but unspent and the new allocations for 2014. This amounts to over £100 million and include the balance of the additional £27 million allocated for social housing schemes.

The intention is that work will be progressed to improve the profiles of the future capital schemes amounting to £77 million excluding Housing, which will be allocated in the 2015 Budget. Where detailed information is not yet available it is assumed that these projects will be delivered within 3 years of allocation.

Significant additional economic impact will be generated by the three major capital projects for the future hospital, social housing and the liquid waste strategy at the time that allocations are approved in the annual Budgets. Cash flow projections of these schemes are shown in Figure 12.3.

When comparing capital spending across the period 2009-2013, it is important to recognize both the extraordinary level of capital spending on the EFW capital project and the additional capital expenditure from Fiscal Stimulus.

Figure 12.3 – Profile forecast for Capital expenditure projects to 2015 (July 2014)

	2009 Actual £m	2010 Actual £m	2011 Actual £m	2012 Actual £m	2013 Actual £m	2014 Forecast £m	2015 Forecast £m
Capital Expenditure Outturn - FR&ACs	(36)	(27)	(42)	(33)	(40)	-	-
Energy from Waste Plant - Major Project	(67)	(34)	(13)	-	-	-	-
Fiscal Stimulus Capital Expenditure	(1)	(7)	(9)	(1)	(3)	-	-
Current Allocations (cashflow)	-	-	-	-	-	(55)	(69)
Major Projects - (Cashflow basis)					-		
- Future Hospital	-	-	-	-	-	(3)	(30)
- Liquid Waste Strategy	-	-	-	-	-	(2)	(31)
- Social Housing	-	-	-	-	-	-	(27)
- Social Housing - Pending Island Plan Review	-	-	-	-	-	-	(6)
Future Allocations - 2014/15 (Approvals basis)	-	-	-	-	-	-	(7)
Sub-Total Capital Profile forecast	(104)	(68)	(64)	(34)	(43)	(59)	(171)
Traders							
- Current allocations - (Cashflow and tender assess)	(19)	(6)	(10)	(4)	(8)	(14)	(19)
- Future allocations - (Approvals basis)	-	-	-	-	-	-	(2)
	(19)	(6)	(10)	(4)	(8)	(14)	(21)
Total Capital Profile forecast	**(123)**	**(74)**	**(74)**	**(38)**	**(51)**	**(73)**	**(193)**

There are a range of timing adjustments that need to be made in order to illustrate the economic impact of our spending. These are shown in Figure 12.4 below and illustrate the effect of carry forwards, both revenue and capital, plus adjustments for the latest financial position from the Q1 March 2014 monitoring report. The figures also include adjustments for the proposed measures that would be necessary to balance the Consolidated Fund as a result of the 2015 Budget income forecasts for 2014 and 2015. The exact timing of the various proposed measures will vary as the income projections become more certain for both 2014 and 2015. At this stage the current assumptions of timing are indicated to approximate the economic impact.

Figure 12.4 - Timing adjustments to the projected financial surplus/(deficit)(July 2014)

MTFP Financial Framework	2011 Actual £m	2012 Actual £m	2013 Actual £m	2014 Forecast £m	2015 Forecast £m
Consolidated Fund - Surplus/(Deficit) - Fig 12.1	(25)	(14)	(12)	(33)	(39)
Timing Adjustments to Surplus/(Deficit):					
Add back: Capital Allocation 2013-2015	13	14	13	2	3
Add back: Additional Housing Capital Allocation		27			
Carry Forward Adjustments	-	-	-	(37)	-
2014 Exptre Outturn Forecast	-	-	-	10	-
2014/2015 Proposed measures	-	-	-	43	33
2011/12/13 Capital Expenditure Outturn	(42)	(33)	(41)	-	-
Energy from Waste Plant - Major Project	(13)	-	-	-	-
Fiscal Stimulus Capital Expenditure	(9)	(1)	(3)	-	-
Capital Expenditure Profile adj 2013-2015	-	-	-	(59)	(171)
Economic Input	(76)	(7)	(43)	(74)	(174)
Trading Fund Capital Expenditure	(10)	(4)	(8)	(14)	(21)
Near cash surplus/(deficit) on Trading A/cs	12	13	14	14	14
Consolidated Fund - Economic Impact	(74)	2	(38)	(74)	(181)

A further consideration is to assess the States' overall fiscal position including the Consolidated Fund, Social Security Fund and Health Insurance Fund. Consideration has also been given to the effect of the "net contribution" from other States funds to the economy. Figures have been produced to illustrate the impact of the Currency Fund infrastructure investment in Gigabit Jersey, the net movements on Dwelling Houses Loans Fund and Assisted House Purchase and other similar funds. The Currency Fund investment in the Liquid Waste Strategy is included in the major projects analysis in Figure 12.3.

The position on the Social Security Fund has been updated based on the latest actuarial report. The Health Insurance Fund is unchanged from the analysis last year, as the most recent actuarial assessment has not been completed at this time. The Health Insurance Fund surplus/(deficit) includes the proposed transfers to the Consolidated Fund for primary health expenditure for 2013-2015 which were approved as part of the MTFP.

Figure 12.5 shows the estimated overall States net fiscal position after taking into account the net contribution from other funds. The economic impact assesses how much more the States will actually put into the economy in expenditure and benefits than it is taking out in taxes and contributions.

Figure 12.5 – Overall States of Jersey Financial Position (July 2014)

MTFP Financial Framework	2011 Actual £m	2012 Actual £m	2013 Actual £m	2014 Forecast £m	2015 Forecast £m
Consolidated Fund - Surplus/(Deficit)	(25)	(14)	(12)	(33)	(39)
Consolidated Fund - Timing Adjustments	(49)	16	(26)	(41)	(142)
Consolidated Fund - Economic Impact	(74)	2	(38)	(74)	(181)
Other Funds:					
Currency Fund - Infrastructure Investment					
- Gigabyte Jersey £10m	-	(5)	(5)	-	-
- Parish Loan £6m	-	-	(5)	(1)	-
DHLF/AHP/AHP/HDF	-	-	-	-	-
- Net (advances)/repayments	2	2	1	1	1
Deposit Loan Scheme	-	-	-	-	-
- Net (advances)/repayments	-	-	(2)	(1)	(0)
Social Security Fund	-	-	-	-	-
- Net Surplus/(Deficit)	24	24	11	7	4
Health Insurance Fund	-	-	-	-	-
- Net Surplus/(Deficit)	(5)	3	6	3	2
Overall States - Economic Impact	**(53)**	**26**	**(31)**	**(65)**	**(174)**

The Treasurer of the States has also requested that the position on the PECRS and JTSF pension funds are considered. The employer contributions to these funds are included in the "current" surplus/(deficit) of the Consolidated Fund. However, these schemes make significant annual payments to scheme members. Further work has been carried out to identify the net payments specifically to Jersey residents and these estimates are shown in figure 12.6.

Figure 12.6 – Estimate of Public Sector Pension Schemes on the local economy

	2013 £ million	2014 Forecast £ million	2015 Forecast £ million	2016 Indicative £ million	2017 Indicative £ million
PECRS					
Pension payments to Jersey residents	53	56	60	63	67
minus employee contributions	(14)	(14)	(18)	(22)	(26)
	40	42	42	41	41
JTSF					
Pension payments to Jersey residents	13	14	15	16	16
minus employee contributions	(3)	(3)	(3)	(3)	(4)
	10	11	11	12	13
Total	50	53	53	**53**	**53**

Figures based on 2010 actuarial valuation assumptions for earnings and inflation.

Beyond 2015 - MTFP 2016-2019 and LTRP 2013-2020

A significant amount of work has been carried out since the MTFP on both a Long Term Revenue Plan (LTRP) for 2013-2020 and a Long Term Capital Plan (LTCP) for 2013-2037. This work has incorporated the proposals for sustainable funding options for the three major projects for the future hospital, social housing and the liquid waste strategy. In addition work on the LTCP is progressing to identify proposals for the funding of all other capital requirements for the States in the next MTFP 2016-2019.

The LTRP is considering the revised forecasts of States income through to 2020 and the forecast assumptions for updating States revenue expenditure as well as initial growth and savings proposals from States departments.

Once these capital and revenue expenditure proposals are completed the draft LTRP will provide a framework for the next MTFP and enable an early view of the potential impact of the next MTFP on the Island's economy for 2016-2019.

The current assumption is that the next MTFP will follow the strategy of balanced budgets, which is a decision for the next Council of Ministers and States Assembly. The base financial position is assumed to be balanced and the assessment of the economic impact at this time is forecast to be largely influenced by the cash flows forecast from the capital programme. The movement on other funds is very small and the latest actuarial assessments of the Social Security Fund and Health Insurance Fund are likely to show these at breakeven over the next MTFP period. Table 12.7 shows an indicative economic impact extending to 2017 as requested by the FPP.

Figure 12.7 – Overall States of Jersey Financial Position (July 2014)

MTFP Financial Framework	2011 Actual £m	2012 Actual £m	2013 Actual £m	2014 Forecast £m	2015 Forecast £m	2016 Indicative £m	2017 Indicative £m
Consolidated Fund - Surplus/(Deficit)	(25)	(14)	(12)	(33)	(39)	-	-
Consolidated Fund - Timing Adjustments	(49)	16	(26)	(41)	(142)	(208)	(125)
Consolidated Fund - Economic Impact	(74)	2	(38)	(74)	(181)	(208)	(125)
Other Funds:							
Currency Fund - Infrastructure Investment							
- Gigabyte Jersey £10m	-	(5)	(5)	-	-	-	-
- Parish Loan £6m	-	-	(5)	(1)	-	-	-
DHLF/AHP/AHP/HDF	-	-	-	-	-	-	-
- Net (advances)/repayments	2	2	1	1	1	-	-
Deposit Loan Scheme	-	-	-	-	-	-	-
- Net (advances)/repayments	-	-	(2)	(1)	(0)	(0)	-
Social Security Fund	-	-	-	-	-	-	-
- Net Surplus/(Deficit)	24	24	11	7	4	2	-
Health Insurance Fund	-	-	-	-	-	-	-
- Net Surplus/(Deficit)	(5)	3	6	3	2	-	-
Overall States - Economic Impact	**(53)**	**26**	**(31)**	**(65)**	**(174)**	**(206)**	**(125)**

Appendix 1

Figure 12.8 - Detailed Economic Impact – 2011-2017 (July 2014 including draft 2015 Budget proposals)

MTFP Financial Framework	2011 Actual £m	2012 Actual £m	2013 Actual £m	2014 Forecast £m	2015 Forecast £m	2016 Indicative £m	2017 Indicative £m
General Revenue Income	587	628	637	652	685	707	742
Department Income	126	130	128	116	104	107	109
Total Consolidated Fund Income	713	758	765	768	789	814	851
Gross Department Revenue Expenditure	717	730	764	791	807		
Fiscal Stimulus Revenue Expenditure	8	1					
Central Allocations				8	18		
Total Consolidated Fund Revenue Expenditure	725	731	764	799	825	794	831
Operating Surplus/(Deficit)	**(12)**	**27**	**1**	**(31)**	**(36)**	**20**	**20**
Net Capital Allocation 2013-2015	13	14	13	2	3	20	20
Additional Housing Capital Allocation		27					
Surplus/(Deficit)	(25)	(14)	(12)	(33)	(39)	-	-
Timing Adjustments to Surplus/(Deficit):							
Add back: Capital Allocation 2013-2015	13	14	13	2	3	20	20
Add back: Additional Housing Capital Allocation		27					
Carry Forward Adjustments			-	(37)	-	-	-
2014 Exptre Outturn Forecast				10			
2014/2015 Proposed measures				43	33		
2011/12/13 Capital Expenditure Outturn	(42)	(33)	(41)				
Energy from Waste Plant - Major Project	(13)						
Fiscal Stimulus Capital Expenditure	(9)	(1)	(3)				
Capital Expenditure Profile adj 2013-2015				(59)	(171)	(198)	(131)
Economic Impact	(76)	(7)	(43)	(74)	(174)	(178)	(111)
Trading Fund Capital Expenditure	(10)	(4)	(8)	(14)	(21)	(30)	(14)
Near cash surplus/(deficit) on Trading A/cs	12	13	14	14	14	-	-
Consolidated Fund - Economic Impact	(74)	2	(38)	(74)	(181)	(208)	(125)
Currency Fund - Infrastructure Investment							
- Gigabyte Jersey £10m		(5)	(5)				
- Parish Loan £6m		-	(5)	(1)	-		
DHLF/AHP/AHP/HDF							
- Net (advances)/repayments	2	2	1	1	1	-	
Deposit Loan Scheme							
- Net (advances)/repayments			(2)	(1)	(0)	(0)	
Social Security Fund							
- Net Surplus/(Deficit)	24	24	11	7	4	2	
Health Insurance Fund							
- Net Surplus/(Deficit)	(5)	3	6	3	2	-	
Overall States - Economic Impact	**(53)**	**26**	**(31)**	**(65)**	**(174)**	**(206)**	**(125)**

Appendix 2

Figure 12.9 - Capital Expenditure Profiles 2014 – 2020 using cash flows and future profile assumptions (July 2014)

	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	Total £'000
Current Allocations (Cashflow)								
Forecast (including current year spend) **1**	40,577	60,813	31,834	-				**133,224**
Forecast Housing (including current year spend)	13,940	8,279	245					**22,463**
TOTAL Current Allocations	**54,516**	**69,092**	**32,079**	-	-	-	-	**155,687**
Future Programme (Allocations)								
Departmental Programme (excl. Housing)	-	28,188	70,832	43,717	33,779	39,970	27,499	**243,985**
Assumed 3 year cashflow adjsutment **3**		(21,141)	(39,030)	9,675	14,232	(2,158)	7,805	**(30,617)**
TOTAL Future Programme	-	**7,047**	**31,802**	**53,392**	**48,011**	**37,811**	**35,305**	**213,368**
Major Projects (Cashflow)								
Future Hospital	2,970	30,430	55,900	41,400	41,300	28,900	28,900	**229,800**
Liquid Waste Strategy	1,841	31,275	40,644	416	416	416	-	**75,008**
Social Housing	-	27,030	31,321	28,855	28,743	32,708	16,845	**165,502**
Social Housing - Pending Island Plan Review	-	6,240	6,555	6,870	7,215	7,575	-	**34,455**
TOTAL Major Projects	**4,811**	**94,975**	**134,420**	**77,541**	**77,674**	**69,599**	**45,745**	**504,765**
TOTAL CAPITAL ECONOMIC INPUT	**59,327**	**171,114**	**198,301**	**130,933**	**125,685**	**107,410**	**81,050**	**873,820**

Notes:

Excludes Housing repayment of previously advanced funds for Le Squez Phase 2a, Pomme D'Or Farm and P.40 Projects (£38,488k)

Traders Capital Expenditure 2014 - 2020

	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	Total £'000
Current Allocations (Cashflow)								
Forecast	13,952	19,122	9,929					**43,003**
TOTAL Current Allocations	**13,952**	**19,122**	**9,929**	-	-	-	-	**43,003**
Future Programme (Allocations)								
Traders Programme		9,251	19,984	13,812	20,871	23,480	23,859	**111,257**
Assumed 2 year cashflow adjsutment **3**		(6,938)	(13,831)	(5,548)	(8,931)	(11,548)	(9,742)	**(56,538)**
TOTAL Future Programme		**2,313**	**19,984**	**13,812**	**20,871**	**23,480**	**23,859**	**54,718**
TOTAL CAPITAL ECONOMIC INPUT	**13,952**	**21,435**	**29,913**	**13,812**	**20,871**	**23,480**	**23,859**	**147,322**
TOTAL COMBINED ECONOMIC INPUT	**73,280**	**192,548**	**228,213**	**144,745**	**146,556**	**130,890**	**104,909**	**1,021,142**

Notes/Assumptions:

[1] All projects have been allocated across years using a combination of forecast spend profile provided by the responsible departments or in the absence of such information, an application of assumptions of spend profiles based on prior year trends has been used. Further work is being done by departments to establish a more accurate cash flow.

[2] £38.488 million of the £250 million Social Housing funding requirement will be used to pay back previously advanced funds for P.40 projects £27.1 million, Le Squez - Phase 2a £8,138 million and Pomme D'Or Farm £3,250 million. It has therefore been removed (2014) as it will be returned to the Consolidated Fund and therefore is not deemed to have an economic input.

[3] An assumption has been made that new allocations will be spent within 3 years of being approved. All future allocations have therefore been split by one quarter anticipated spend in year one, two quarters in year two and one quarter in year three.

PART F – THE ECONOMIC CONTEXT

13. The Economic Context

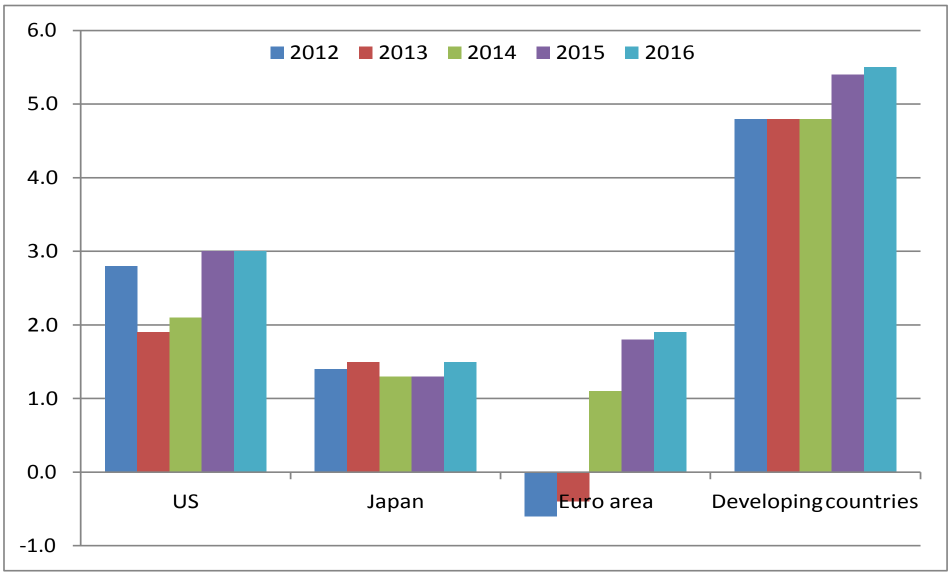
Global outlook

Confidence in the global economy has been growing over the last twelve months as performance has improved markedly in most of the developed economies. While some headwinds have been encountered in 2014, such as adverse weather in the US and political tensions in Ukraine and the Middle East, global growth is expected to pick up in the remainder of this year and accelerate further in 2015 and 2016. The World Bank has stated that,

> *"The bulk of the acceleration will come from high-income countries (notably the U.S. and the Euro Area). A reduced drag on growth from fiscal consolidation, improving labour market conditions and a steady release of pentup demand in these countries are projected to overcome first quarter softness and lift high-income GDP growth".*

Figure 13.1: Growth trends in the key economies

Annual % change in real GDP



Source: World Bank Global Economic Prospects June 2014

Risks remain however, not least the potential for ongoing civil tensions to derail the recovery - for example through an increase in the oil price resulting from political uncertainties in Iraq. In the medium term the World Bank has identified challenges which still need to be met by the advanced economies such as sustainability of public finances, normalisation of monetary policy, deflation risks in the euro area and the need for structural reforms to boost productivity growth.

The UK has been one of the strongest performing of the advanced economies, growing at an annualised rate of more than 2% in each quarter since the beginning of 2013. Employment is at a record high and a record number of jobs were added in the three months to April. Unemployment has fallen to its lowest rate for more than five years. There are risks, however, around the potential for a housing bubble in the South East, ongoing concerns about both consumer debt and sovereign debt, and concerns over the timing and pace of the normalisation/tightening of monetary policy.

The emerging economies have yet to match the acceleration seen in the advanced economies but also have a number of mostly medium-term risks. These risks vary between countries such as high inflation and poor infrastructure (India), concerns over financial systems (China) and the fallout from regional political tensions (Russia). Growth in the advanced economies, however, is expected to stimulate global demand and spur further growth in the emerging economies.

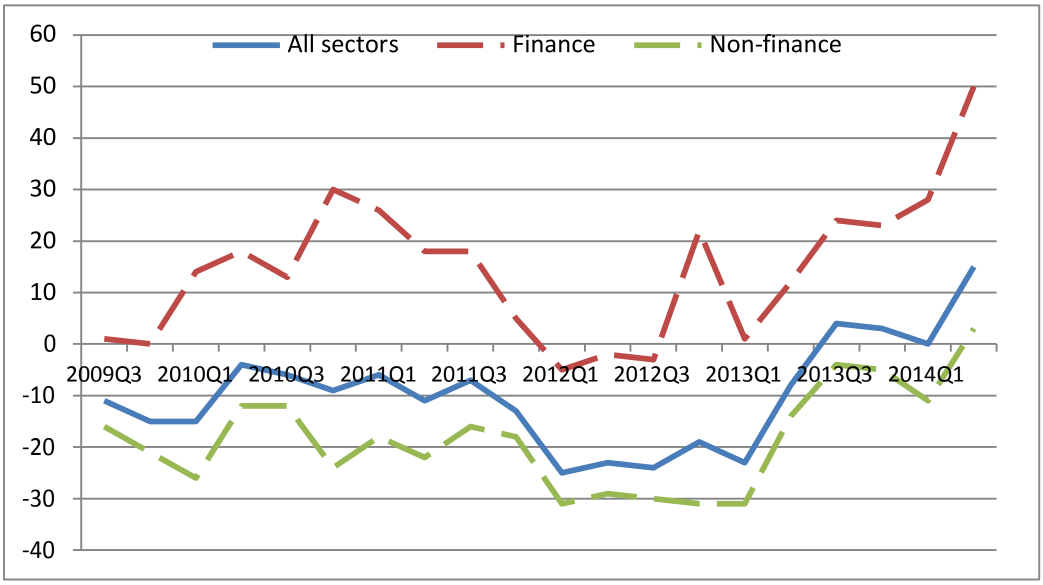
Jersey trends

The headline indicator of output, GVA, was last published in September 2013 and showed economic activity fell in 2012 by 4% in real terms. Data have been published for the finance sector for 2013, showing that while gross operating surplus declined by 5%, expenditure on employment increased by 3%. With the finance sector representing approximately 40% of GVA, this performance is largely in line with the FPP's latest forecast that real GVA growth in 2013 would be relatively flat.

More recently, Business Tendency Survey data has been encouraging. The headline business activity indicator has recorded its highest positive value since the survey began in 2009. The business activity indicator has continued to strengthen for the finance sector while the indicator for non-finance has improved considerably over the last twelve months. Looking at the wider survey responses, nine of the ten indicators have improved from a year previous, with business optimism and new business showing the most significant improvements.

Figure 13.2: Latest trends in economic activity

% weighted balance of respondents, business activity indicator



Source: States of Jersey Statistics Unit

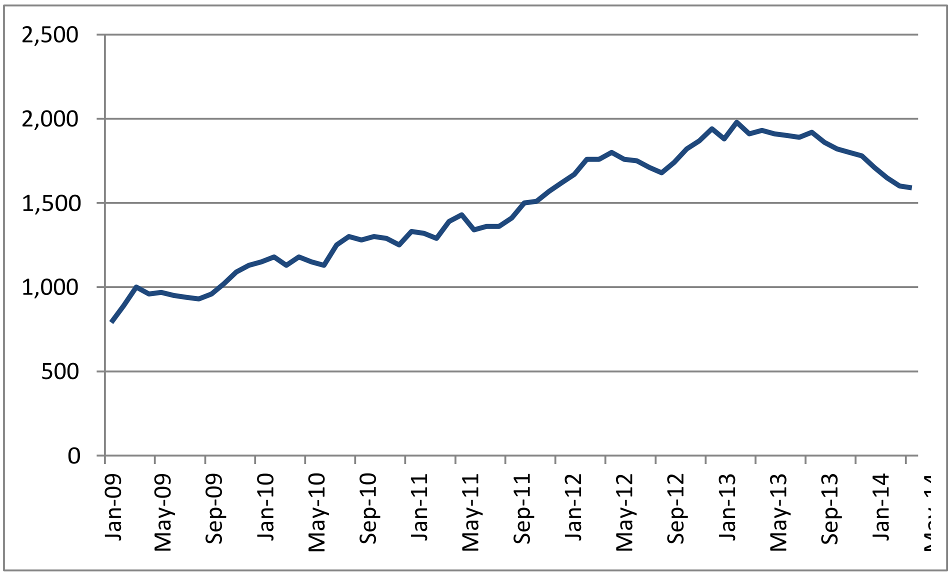
As the UK economy continues to strengthen the likelihood increases that base interest rates will rise although the minutes of the Monetary Policy Committee of the Bank of England from early June state that “It still seemed likely that when Bank Rate began to rise, it would do so gradually and to a level below its pre-crisis average rate”. This will help alleviate some of the downward pressure on the profitability of our banking sector which has been the largest contributor to the fall in GVA in recent years. This must, however, be balanced against the international regulatory environment which continues to evolve post crisis.

2013 saw average earnings in Jersey grow by more than inflation for the first time since 2009, although this partly reflects the low level of inflation last year. Inflation has remained low throughout 2013 and into the start of 2014 and any increase is expected to be muted for the remainder of the year. The Economics Unit forecasts inflation to increase to approximately 3% next year, though this depends on how quickly interest rates might increase.

There have been sustained reductions in the number of people registered as actively seeking work this year with the total number in May 2014 at its lowest level since late 2011. The number of young people registered has fallen by over 50% from its peak while the number of long-term unemployed has fallen by 25%.

Figure 13.3: Actively seeking work

Number registered as actively seeking work, seasonally-adjusted

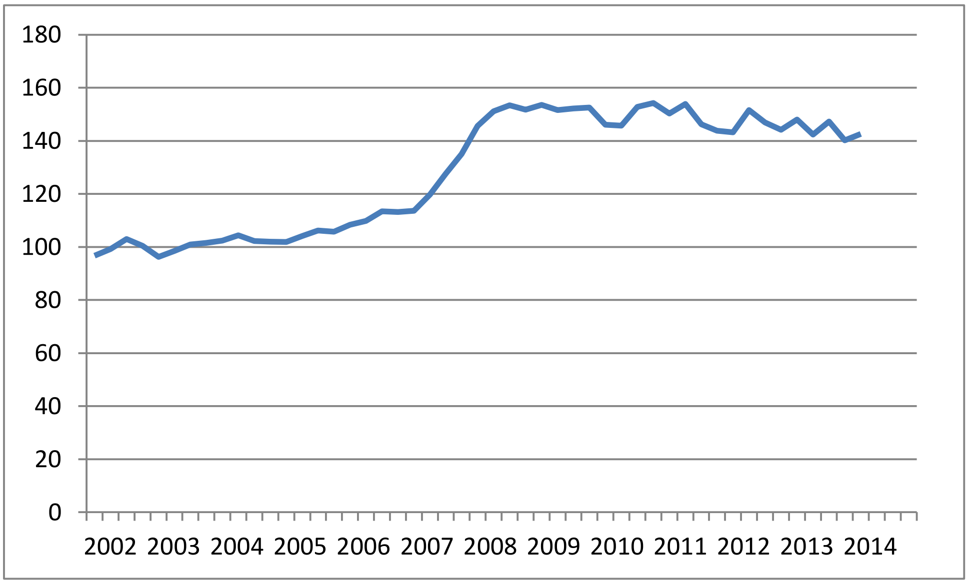


Source: States of Jersey Statistics Unit

House prices in 2013 were 1% lower than in 2012, following three previous years of slightly declining prices. On a rolling four-quarter basis, quarter 1 of 2014 saw a further 1% fall. House prices have fallen back to close to their 2008 level. Turnover also fell slightly in 2013.

Figure 13.4: House price index

Seasonally adjusted, 2002=100



Source: States of Jersey Statistics Unit

Fiscal Policy Panel

The Fiscal Policy Panel (FPP) revised their growth forecast slightly upwards in their 2013 Annual Report, forecasting GVA growth of between -2% and +2% in 2013 and between -2% and +3% in 2014, with the potential for more upside if the global recovery gains traction.

The FPP advice is an important independent assessment of our fiscal policy. The Treasury and Resources Department place considerable worth on their recommendations and this year have committed to issuing a formal response to the recommendations in each of their reports. The FPP's 2014 Annual Report will be published and shared with States Members later this month so that everyone is fully aware of their advice in advance of the Budget 2015 debate.

The 2013 Annual Report included a number of recommendations, the main ones being:

- The States should ensure that the planned fiscal stimulus is delivered in 2013 and 2014, and that where possible additional expenditure should be brought forward to compensate for likely delays in other expenditure.

- The Treasury and Resources department should be proactive in
    - Identifying and resolving any bottlenecks and barriers in delivering capital projects
    - Ensuring there is flexibility to bring forward (and potentially delay) capital projects
    - Managing the capital programme in a similar way to the £44m fiscal stimulus programme in 2009.

- The States should make contingency plans for an improvement in economic conditions and reduction in spare capacity from 2015.

- Further work should be undertaken on the nature of the capital programme, in particular distinguishing between spending to maintain and renew existing infrastructure and spending on new or enhanced infrastructure.

The 2015 Budget

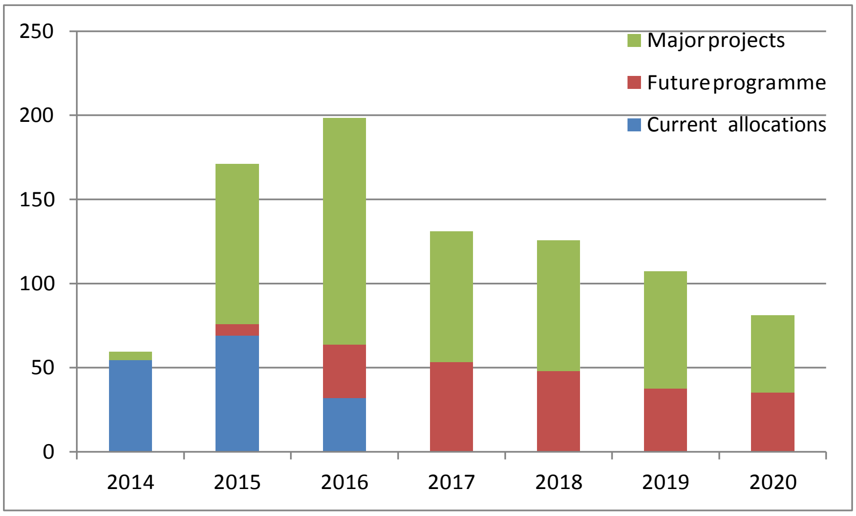
This Budget is informed by the economic context, both globally and locally, and by the advice from the FPP in their recent reports. While it is the final Budget in the current Strategic Plan period, this Budget continues to be informed by the Strategic Plan 2012 commitment to use taxpayers' money wisely to support our economy. Our key economic objectives have not changed – namely to support the economy in the short-term through fiscal stimulus, to create new employment opportunities and to lay the foundations for economic growth whilst committing to essential investment in our infrastructure.

The contingent measures set out in Budget 2015 are designed to ensure that we can continue to support the economy into next year. While income tax revenues are expected to fall below the levels anticipated in the MTFP, this partly reflects a weaker than expected economy last year so these contingent measures aim to avoid any significant reduction in public expenditure (or increase in taxation) which would threaten to disrupt the recovery path of the economy. Therefore, this Budget proposes measures to continue to provide much needed support in the short-term while preparing the ground for the adjustments which will take place over the life of the next MTFP to secure our public finances in the medium term.

In addition, the 2015 Budget indicates significant capital expenditure out to 2020. In line with the FPP's recommendations this Budget sets out the economic impacts of capital expenditure in each year and shows that the States anticipates £870 million of investment over the 2014-2020 period which will help support the economy while delivering the infrastructure the Island requires, including significant investment in a new hospital, liquid waste and social housing. A further £150m of capital expenditure is anticipated from States Trading Operations which will bring the total investment to over £1billion over seven years. This is in addition to over £350million of capital expenditure over the years 2009 to 2013.

Figure 13.5: Capital expenditure

Breakdown of capital expenditure 2014-2020, £m



There have been job losses in the construction sector in recent years and recent survey evidence suggests that just below 30% of construction businesses were working below capacity in the second quarter this year. The 2015 capital programme includes a number of projects which will support the sector while also investing in key public services such as health, infrastructure, education and home affairs. The capital programme includes:

- £23m for preliminary work for the new hospital
- £25m for Phase 1 of the Liquid Waste Strategy
- £11m for investment in TTS infrastructure

- £2m for Health and Social Services for the Limes Refurbishment
- £2m for phase 2 of additional primary school accommodation
- £2m for a replacement MRI scanner
- £1m for the final year of the three year School ICT programme.

The FPP's recommendations have been acted upon regarding the risks about future capital spending and local capacity, particularly in construction. Work is underway to assess the combined public and private sector construction workflow in future years and how that might compare to likely future capacity of the local industry. In addition, we are starting to plan for how we might manage the public sector workflow should capacity problems become apparent.

In addition to the support from the capital programme, in 2015 we will continue to support business through the recently published Financial Services Policy Framework and the new Enterprise Action Plan. The £5m Jersey Innovation Fund is up and running and will continue to provide funding to innovative projects with financial support delivered directly to local firms. Success in these areas is vital if we are to achieve sustained growth based on productivity improvements.

Support continues to be provided to the Back to Work programme, which has continued to look at new initiatives and schemes to help those registered as actively seeking work to get back into employment. 2013 saw over 1,800 offers of paid work as a result of Back to Work schemes, and the Back to Work Hospitality Campaign and Youth Incentive have both launched successfully this year. The Social Security Minister's decision to increase the earnings disregard for Income Support has been complementary to the activities of Back to Work, by increasing the incentives of employment.

The protection provided by the new Long-Term Care Scheme have been available to eligible applicants since 1 July this year and this will provide reassurance that help will be provided for those that need it. However, to prevent taking further money out of the economy, Treasury and Social Security worked together to ensure that the 1% contribution rate would not be collected in 2014 but would instead be funded from reallocation of existing Social Security budgets. This prevented a further squeeze on Islanders' disposable incomes. Budget 2015 continues to provide funding in this way and the contribution rate will be introduced gradually at 0.5% in 2015.

The States have taken difficult decisions in the past and we have a long history of prudent management of public finances which has allowed us to navigate the aftermath of the global financial crisis with our finances in good health. This allowed us to cut the marginal rate of income tax from 27% to 26% in Budget 2014 and put money back into the pockets of the vast majority of tax payers. Budget 2015 builds on these decisions by setting out the contingent measures that will allow us to continue to support the economy into next year, securing the vital investment needed in coming years while keeping States finances on a sustainable path. At the same time we continue to progress our economic growth, enterprise and financial services strategies, laying the foundations for future growth.

PART G – SUMMARY TABLES

Summary Table A – States Income 2015

Outturn	States Income	Budget 2014 (Dec 2013)			Budget 2015 (Jul 2014)	
2013 £'000		2013 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000
	Income Tax					
356,663	Personal Income Tax	377,000	394,000	414,510	364,000	373,000
98,472	Companies	79,965	82,965	86,965	83,000	85,000
(3,475)	Provision for Bad Debt	(2,000)	(2,000)	(2,000)	(3,000)	(3,000)
451,660		454,965	474,965	499,475	444,000	455,000
77,603	**Goods and Services Tax (GST)**	79,761	81,955	84,508	79,107	80,650
	Impôts Duties					
4,510	Impôts Duties Spirits	4,161	4,747	4,724	4,924	4,858
7,231	Impôts Duties Wine	7,256	7,626	7,891	7,549	7,677
986	Impôts Duties Cider	1,040	829	902	1,005	1,113
5,087	Impôts Duties Beer	5,738	5,575	5,601	5,334	5,194
15,048	Impôts Duties Tobacco	14,004	14,789	14,236	15,563	15,316
20,385	Impôts Duties Fuel	21,135	20,263	20,584	20,157	20,395
234	Impôts Duties Goods (Customs)	150	150	150	200	200
839	Vehicle Emissions Duty (VED)	1,050	924	924	881	896
54,320		54,534	54,903	55,012	55,613	55,649
	Stamp Duty					
14,019	Stamp Duty	20,478	23,127	24,598	18,837	20,499
2,390	Probate	2,500	2,500	2,500	2,488	2,200
961	Stamp Duty on Share Transfer (LTT)	1,551	1,775	1,863	1,405	1,504
17,370		24,529	27,402	28,961	22,730	24,203
600,953	**TotalTaxation Revenue**	613,789	639,225	667,956	601,450	615,502
	Other States Income					
3,341	Net Investment Income	3,721	3,679	4,356	8,135	9,107
11,127	Dividends and Returns	8,319	11,186	13,287	8,284	10,503
3,792	Jersey Financial Services Commission Fees	3,700	3,700	3,700	3,700	3,700
2,468	Returns from States Trading Operations	1,691	1,731	1,771	1,691	1,671
	Return from Andium Homes				13,834	29,472
1,939	EUSD Retention Tax	1,500	-	-	1,712	1,200
749	Income Tax Penalties	1,071	1,071	1,071	1,043	1,071
677	Fines and Other Income	543	559	579	443	451
24,093		20,545	21,926	24,764	38,842	57,175
11,641	**Island Rate Income from Parishes**	11,670	12,032	12,453	11,956	12,219
636,687	**Total States Income**	**646,004**	**673,183**	**705,173**	**652,248**	**684,896**

1.In the 2013 Budget, the States decision not to approve the increases in Impôts duty on fuel was partly offset by additional increases on tobacco resulting in a reduction of £1.04 million in the MTFP States income targets.

2. In the 2014 Budget, there were only minor amendments to the proposals, which as amended resulted in additional revenues of £6,000 in 2014. In 2015, the financial effect of the agreed Income Tax proposals, principally a reduction in the marginal rate of tax from 27% to 26% will result in a reduction in tax revenues of £5,484,000.

3. The draft 2015 Budget proposals would result in an increase in States revenues of £962,000 if approved by the States. In 2016, the effect of the Income tax proposals would increase States revenues and the full effect of the budget proposals would generate additional revenue of £2.662 million.

4. The draft 2015 Budget forecasts of States income are the result of the work of the Income Tax Forecasting Group (ITFG) and the latest "in-year" forecasts for all other States income. Proposed measues to maintain a positive balance on the Consolidated Fund have been identified should these lower levels of income come to fruition.

5. Other Income has increased by £13.8m and £29.4m in 2014 and 2015 respectively, to reflect the agreed budget changes following P59/2013 and the financial return to be received following the establishment of Andium Homes Ltd.

Summary Table B – Summary of Growth Allocations for 2014 and 2015 agreed in the 2014 Budget (December 2013)

Growth bids agreed for departments 2014/15		Dept	2013 £'000	2014 £'000	2015 £'000
33	External Relations: International meetings, monitoring and visitors dignitaries	CMD	0	160	160
34	External Relations: External specialist advice	CMD	0	100	100
52	CSR: Fund permanent members of the CSR delivery team	CMD	0	150	150
			0	410	410
43	Marine Response Team	HA	0	25	25
43a	Increased running costs of new prison facilities	HA	0	25	25
18	Private Sector Rental Support	SSD	0	750	1,000
49	Treatment and disposal of ash	TTS	0	1,000	0
	Total		**0**	**2,210**	**1,460**

Summary Table above shows that there is no new growth in 2015. Rather, the growth for 2015 is simply a continuation and consolidation of the growth agreed by the States for 2014.

Summary Table C – Proposed Capital Programme for 2015 (funding sources)

	£'000 2015
Departmental Capital Programme	**76,382**
Funding Sources	
Consolidated Fund	(3,463)
Strategic Reserve	(22,700)
Contribution from Currency Fund	(25,494)
JPH receipts	(9,140)
Housing Repayment	(528)
Repayment of JT Preference Shares	(1,757)
Repayment of Jersey Water Preference Shares	(6,800)
Jersey Post Extraordinary Dividend	(5,000)
Funded from the Central Planning Vote	(1,500)
Funding Available	**(76,382)**
Social Housing Programme*	-
Housing Funding Sources*	-
TOTAL CAPITAL EXPENDITURE	**76,382**
Funding from Consolidated Fund (Main allocation)	**3,463**
Funding from Other Sources (Income to Consolidated Fund etc)	**72,919**
Housing Funding	**-**
TOTAL FUNDING	**76,382**

*The Housing department was incorporated as Andium Homes Ltd on 1st July 2014 so the Social Housing capital programme has been excluded on that basis.

Summary Table D – Proposed Capital Programme for 2015

	£'000 2015 Budget
Chief Minister's	
E Government	320
JDE Development and Upgrade	1,238
Payroll Replacement	1,000
Chief Minister's total	**2,558**
Education, Sport and Culture	
School ICT	1,000
Additional Primary School Accommodation (Phase 2)	2,134
Sports Strategy Infrastructure (Phase 2)	1,450
Education, Sport and Culture total	**4,584**
Health & Social Services	
Future Hospital (Phase 2)	22,700
Replacement of MRI Scanner	2,277
Replacement of RIS/PACS	1,567
Refurbishment of Limes	1,662
Health & Social Services total	**28,206**
Transport and Technical Services	
Infrastructure Rolling Vote	11,097
Liquid Waste Strategy (Phase 1)	25,494
EFW Plant La Collette Replacement Assets	681
Road Saftey Improvements	635
Transport and Technical Services total	**37,907**
Vehicle Replacement (additional from consolidated fund)	**300**
Replacement Assets	**2,827**
Total Projects - Capital Allocation	**76,382**
Housing	
Social Housing Programme *	-
Total Programme	**76,382**

* The Housing department was incorporated as Andium Homes Ltd on 1st July 2014 so the Social Housing capital programme has been excluded on that basis.

Replacement Assets	
Health and Social Services	2,595
Home Affairs	-
Transport and Technical Services	232
Total	**2,827**

Summary Table E – Proposed Capital Allocation to States Trading Operations for 2015

	£'000 2015 Budget
Arrestor Bed Refurbishment	200
Fire Tenders	195
Grass Management	200
ILS 26/08A	775
Minor Capital Assets	300
Public Address/Fire Alarm System	450
Vehicle Fleet Replacement	273
Jersey Airport	**2,393**
Minor Capital Assets	250
Piers and Quays Infrastructure	350
StHM Marina Pontoons Replacement/Enhancement	320
Replacement West Berth Ro-Ro Ramp/Walkw ays & Future Refurb	450
Road Re-building	300
Jersey Harbours	**1,670**
Car Park Maintenance and Refurbishment	
Jersey Car Parking	**583**
Vehicle and Plant Replacement	
Jersey Fleet Management	**1,418**

Summary Table F – Consolidated Fund Forecast for 2015

Outturn	Consolidated Fund (including Budget measures)	Budget 2014 (Dec 2013)			Budget 2015 (Jul 2014)	
2013 £'000		2013 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000
31,160	**Opening Balance**	**31,160**	**12,099**	**5,421**	**7,494**	**13,344**
	MTFP Proposals					
	- Other Fund Adjustments - Return of Housing Capital		27,000		27,000	
	- Other Fund Adjustments - Allocation to Capital Programme		(26,472)	(528)	(26,472)	(528)
	- Other Fund Adjustments - Repayment of Le Squez and Pomme D'Or Farm		11,250		11,250	
	- Other Fund Adjustments - Allocation to Capital Programme		(11,250)		(11,250)	
(8,500)	- Other Fund Adjustments - JT Preference Share to fund Capital Programme	(8,500)	(4,743)	(1,757)	(4,743)	(1,757)
	- Other Fund Adjustments - Allocation to Innovation Fund	(5,000)			(5,000)	
(7,000)	- Other Fund Adjustment - Earmarked Carry Forward from 2012 to Fund Capital	(7,000)				
3,300	- Other Fund Adjustment - Earmarked Carry Forward from 2013 to Fund Capital	3,300	(3,300)		(3,300)	
(1,528)	- Other Fund Adjustment - Jersey Post Special Dividend 2012 to Fund Capital	(1,528)	(698)		(698)	
	2014 Budget proposals					
	- Other Fund Adjustment - Apply Strategic Reserve contribution to Hospital Replacement Project Phase 1		(10,200)		(10,200)	
	- Other Fund Adjustment - Apply Currency Fund contribution to Liquid Waste Strategy Phase 1		(3,000)		(3,000)	
	- Proposed Transfer from Strategic Reserve	-	10,200	-	10,200	-
	- Proposed Transfer from Currency Fund		3,000		3,000	
2,126	Other Fund Adjustments	-	-	-	1,000	-
	Further transfer from Currency Fund Surplus				3,500	
	2015 Draft Budget proposals					
	- Other Fund Adjustment - Apply Strategic Reserve contribution to Hospital Replacement Project Phase 2					(22,700)
	- Proposed Transfer from Strategic Reserve					22,700
	- Other Fund Adjustment - Apply Currency Fund Infrastructure Investment funding to Liquid Waste Strategy Phase 2					(25,494)
	- Proposed funding from Currency Fund Infrastructure Investment					25,494
(12,064)	Forecast Surplus/Deficit for the year from Financial Forecast	(333)	1,535	2,954	(33,234)	(39,196)
	Proposed measures for reduced income forecasts (see Figure 11.1)					
	- Proposed Measures affecting the Financial Forecast				31,500	33,137
	- Proposed Measures affecting the Consolidated Fund				16,297	-
	- Other Fund Adjustment - Jersey Water Preference Shares to Capital					(6,800)
	- Other Fund Adjustment - Jersey Post extraordinary Dividend to Capital					(5,000)
	- Proposed repayment of Jersey Water Preference Shares					6,800
7,494	**Estimated Consolidated Fund Balance**	**12,099**	**5,421**	**6,090**	**13,344**	**0**

1.In the 2013 Budget, the States decision not to approve the increases in Impôts duty on fuel was partly offset by additional increases on tobacco resulting in a reduction of £1.04 million in the MTFP States income targets.

2. In the 2014 Budget, there were only minor amendments to the proposals, which as amended resulted in additional revenues of £6,000 in 2014. In 2015, the financial effect of the agreed Income Tax proposals, principally a reduction in the marginal rate of tax from 27% to 26% will result in a reduction in tax revenues of £5,484,000.

3. The draft 2015 Budget proposals would result in an increase in States revenues of £962,000 if approved by the States. In 2016, the effect of the Income tax proposals would increase States revenues and the full effect of the budget proposals would generate further additional revenue of £2.662 million. These figures are included in the Financial Forecast in Figure 10.1

4. The draft 2015 Budget forecasts of States income are the result of the work of the Income Tax Forecasting Group (ITFG) and the latest "in-year" forecasts for all other States income. Proposed measues to maintain a positive balance on the Consolidated Fund have been identified should these lower levels of income come to fruition.

PART H – APPENDICES

APPENDIX A

Hospital Project – The Current Position

Health and Social Services – A New Way Forward

The Health and Social Services Report and Proposition P.82/2012, approved by the States Assembly on the 23rd October 2012, sets out the vision of an integrated care model and a programme of change that will meet the challenges facing the Island's future Health and Social Services.

Central to the development of this vision is the need to have an acute general hospital which is fit for purpose, capable of sustaining the acute care provision requirements for the population and complements the integrated care strategy being developed for Jersey.

Consultation showed that Islanders want Health and Social Services that are:

'Safe'	while many health interventions involve inherent levels of risk, that patients and service users should not be exposed to an undue level of risk.
'Sustainable'	that services should be organised in a way that is not vulnerable to change in the short term.
'Affordable'	that the model of services represents value for money relative to other potential models.

This rubric provides the vision to inform all Future Hospital feasibility study proposals.

P. 2/2012 made clear that new hospital capacity will be required within 10 years. In fact, bed space is already too constrained and winter pressures could lead to the cancellation of appointments as early as winter 2014. *(HSSD to confirm*)*

The Council of Ministers is of the opinion that, given the long lead in time needed to develop new and replacement facilities, construction work should begin without delay in the best interests of protecting the health and safety of Islanders. Jersey Property Holdings were therefore commissioned to undertake a spatial assessment for new Hospital capacity to inform P.82/2012.

Strategic Outline Business Case Conclusions

Following extensive evaluation work in 2012, a Strategic Outline Business Case was developed in 2013. The Strategic Outline Case confirmed that:

- The total floor area of the combined hospital buildings is about 60% of that needed for a full new hospital to modern standards.
- A condition assessment carried out in 2008 assessed the majority of the building as needing significant investment or replacement.
- Poor configuration and/ or condition meant that some of the existing buildings have limited potential for clinical use or development in a future hospital.

- The layout of the hospital means that there is little opportunity to intensify uses on the current plot and any development would need to be in a phased manner.

- Assuming current demographic projections and proposals within P.82/2012 are successfully implemented, new hospital capacity of circa 300 beds will be required.

- Pressures on bed numbers will grow before new hospital capacity is available such that by 2017 up to 50 additional beds will be required to avoid permanent bed crisis.

The Strategic Outline Case concluded that a complete redesign and increase in the size of the existing Hospital is required, not only to meet the future acute clinical needs of the growing population of Jersey, but also to address the increase in space standards required to meet current best clinical, spatial and operational practices.

The States of Jersey's Planning and Environment Geographical Information System was employed for the subsequent site search.

- A cross-Departmental Officer group reviewed 24 potentially suitable sites and identified a long-list of 11 sites for review by WS Atkins International – a respected hospital master-planning consultant.

- All sites of sufficient footprint (18,000m2) within or adjacent to the Built Up Area were reviewed against set criteria including green and brownfield sites.

- Potential sites suggested by the Minister for Planning and Environment were also reviewed.

- Potential sites were drawn up and evaluated by WS Atkins using cost, benefit and risk criteria. WS Atkins recommended a short-list of 3 sites.

The Ministerial Oversight Group for health transformation, having considered all of the alternatives, accepted the Officer recommendation that the existing general hospital site offered the best location for key investment in future hospital capacity.

Refined Pre-Feasibility Concept

An Addendum to the Strategic Outline Business Case was developed later in 2013 and set out a proposed Dual Site concept to maximise the value of the investment made in the existing general hospital and provide a safe, sustainable and affordable long-term solution to meet the current and future pressures facing our Health and Social Services.

The Design Champion appointed to develop the future hospital identified that there is insufficient footprint on the current hospital site to develop all of the new services needed. Planning restrictions are in place – for example on the listed Granite 1860's Hospital Building - and massing restrictions limit the ability to develop the larger building needed. Investing in one site would also not maximise the benefit of the available investment and would result in a lengthy complicated construction programme that would cause considerable inconvenience to patients.

A new model of care is therefore proposed that would separate emergency / in-patient overnight care from out-patient day care. A brand new out-patient building would be developed at the Overdale Hospital integrated with the existing rehabilitation and social services to form a Westmount Health Quarter. This would free up vital space to allow new theatre, bed, Accident and Emergency and children's bed capacity at the existing hospital site.

Future Hospital Project - Funding Requirements

Budget 2014 (P.122/2013) set out the need for improvement in current Hospital facilities and the funding options available.

In approving P.122/2013, the States Assembly approved that the Strategic Reserve Fund could be used to enable the creation of new hospital services as part of the proposals agreed by the States on 23rd October 2012 in adopting the proposition "Health and Social Services: a new way forward" (P.82/2012).

The States Assembly also agreed, as an exception to the approved policy for the use of the Fund, that the Fund may be used for the planning and creation of new hospital services in the Island, and approved the transfer of an initial sum of £10.2 million from the Strategic Reserve Fund to the consolidated fund in 2014 so as to provide for these purposes, in accordance with the provisions of Articles 4(3) and 10(3)(f) of the Public Finances (Jersey) Law 2005.

Budget 2014 (P.122/2013) proposed that the funding for the hospital scheme of an estimated £297 million to be spent over the years 2014 to 2024 should be drawn down from the Strategic Reserve Fund thereby meeting the cost of the hospital from the investment returns on the Fund.

The agreed funding route means that:

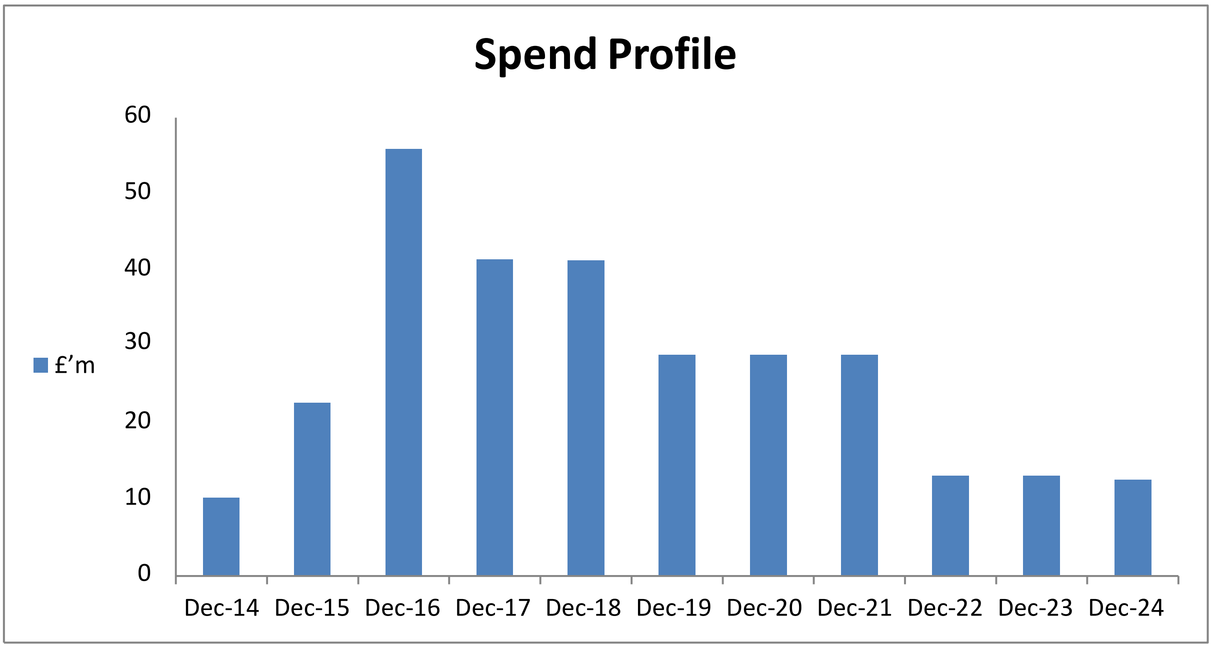
- The Hospital costs can be fully met over the 10 years of development from the Strategic Reserve;
- There will be no debt for future generations;
- There will be no new cost to the taxpayer;
- The cost of the Hospital will be funded from the Investment Returns of the Strategic Reserve Fund; and
- The funding remains in the Strategic Reserve until it is needed and is fully invested so as to maximise investment return and minimise cost.

The Future Hospital project remains forecast to spend over 10 years from 2014 to 2024.

The chart below shows the estimated cost of the hospital project and the estimated spend profile based upon an option which informed the development of the Future Hospital Strategic Outline Business Case in September 2013. Further work has been undertaken to develop the Future Hospital Feasibility Concept during 2013 and 2014. The current option is summarised in Appendix * at the end of this Section.

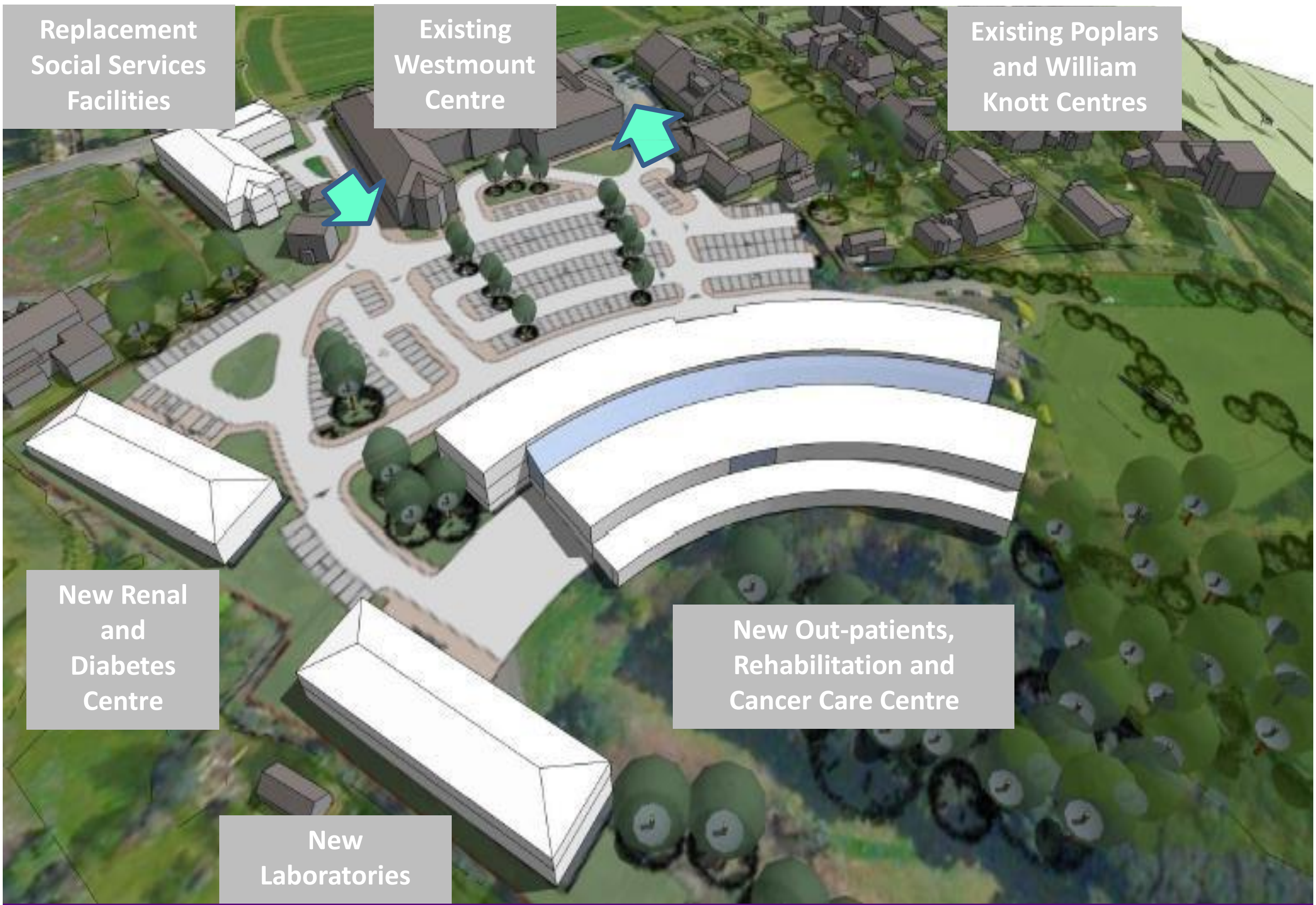
In brief, the current option remains a dual site solution. This involves the development of some new works and refurbishment of buildings with continuing utility at the existing General Hospital Gloucester Street site and, in addition, development of a substantial new Ambulatory Care and Diagnostic Centre for the treatment of out-patients and those with long term conditions at Overdale.

The dual site solution has the potential to maximise the value of the investment made in the existing general hospital and provide a safe, sustainable and affordable long-term solution to meet the current and future pressures facing our Health and Social Services.



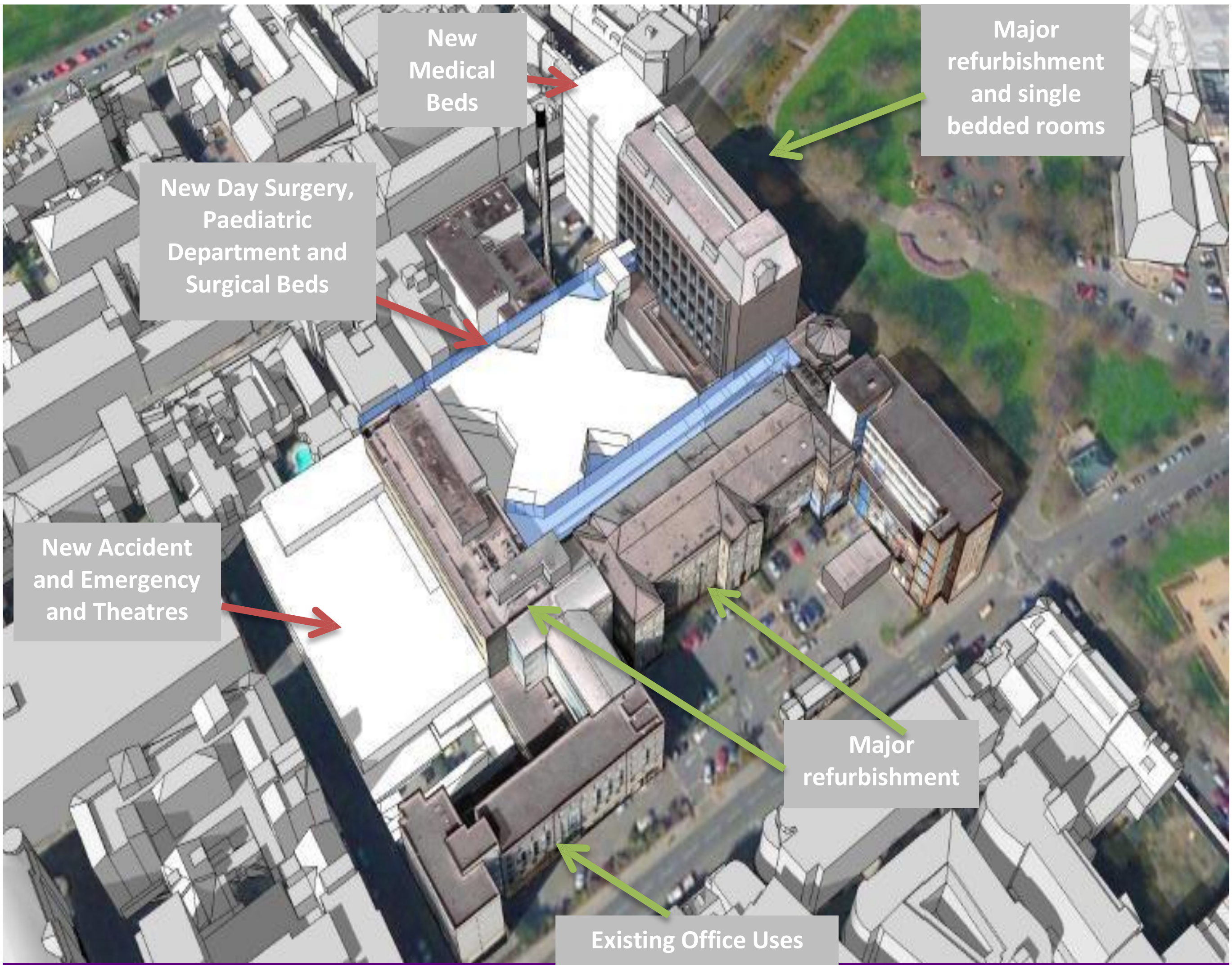
	Dec 2014	Dec 2015	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Dec 2021	Dec 2022	Dec 2023	Dec 2024	Total
£'m	10.2	22.7	55.9	41.4	41.3	28.9	28.9	28.9	13.1	13.1	12.6	297

Future Hospital: Westmount Health Centre



The design of the Westmount Health Centre aims to achieve a modern, high quality out-patients building within the excellent healing environment at Overdale. The existing Westmount Centre,

Future Hospital: St Helier General Hospital



The design of the future St Helier General Hospital is for a new build development on the western perimeter of the existing site and extensive sensitive refurbishment of those buildings suitable for

Funding

A completely new hospital development on the current General Hospital site would be unaffordable at circa £450 m.

Therefore a £297m target project budget has been set as one that was prudent in the current economic conditions. The new Westmount Health Quarter and St Helier General Hospital can be developed within that budget. Funding has been identified for a radiotherapy department within the St Helier General Hospital meaning cancer patients can receive treatment on island. Proposals for short term theatre and bed capacity have been funded and some social services functions at Overdale will also be re-provided within this funding envelope of £297m.

Feasibility Study Progress

Following the approval of Budget 2014 (P.122/2013), work on the Future Hospital Feasibility Study formally commenced in January 2014. At the time of writing (April 2014) the following feasibility work has been completed:

An Acute Service Strategy has been developed in consultation with clinical and hospital leadership. Acute Service Plans are in development for each of the Service Departments and support services which will inform the Health and Social Services brief for Future Hospital capacity.

Negotiations have commenced with owners of land required for the Future Hospital capacity to complete site acquisition to enable enabling works to be undertaken. Surveys on bed usage have been undertaken which have confirmed the potential for admissions avoidance. Design work on transitional bed capacity has commenced and reviews of alternative strategies for community bed capacity have been completed.

Appointment of the Independent Client Advisory Team will shortly take place who will assist in undertaking the feasibility studies and options appraisals, submission of Outline Planning for the Feasibility Design Concept and development of the Outline and Full Business Cases for Future Hospital development. Market engagement with local and international suppliers to inform an outline procurement strategy has been initiated.

Environmental Impact Assessment screening and scoping work has commenced. Feasibility studies have been commissioned. Design work has commenced for enabling and relocation works, with consideration also being given to design proposals to address issues raised following consultation work with key stakeholders.

During the remainder of 2014, further feasibility studies will be undertaken and an options appraisal process completed to inform the development of a detailed procurement strategy, Outline Business Case and Project Execution Plan for construction of the Future Hospital Capacity. Following the 2014 States Assembly Elections, proposals for the feasibility concept will be considered by the Ministerial Oversight Group for Health and Social Service transformation with a view to submitting an Outline Planning Application for the Future Hospital feasibility design concept.

APPENDIX B

Liquid Waste Project – The current position

As part of the Transport and Technical Services Department's 20 year Waste Water Strategy, it is proposed that a new sewage treatment works be constructed at Bellozanne to replace the old, inefficient and failing existing plant, which has been in operation since the late 1950's.

The cost of the provision of a new STW at Bellozanne has been estimated at £75m at 2012 prices. The Waste Water Strategy, P39/2014, was debated by the States in June 2014. Members supported part (a) of the proposition, adopting the principles of the Water Framework Directive as part of the regulatory framework for the management of St Aubin's Bay, and approving the construction of a new sewage treatment works at Bellozanne. In part (b) of the proposition, the Minister for Treasury and Resources was asked to bring forward for approval the funding arrangements for the estimated £75m required for the project.

Aside from the costs of constructing the new STW, this sum includes funding for the construction of a new Clinical Waste Incinerator in the Energy from Waste building at La Collette, which was due for replacement in 2016 and for a £1m allocation for the relocation of the Household Recycling Centre (HRC) from Bellozanne to La Collette. Both of these projects are required to enable space to be created to construct the new plant.

The £75m also allows for the costs of hillside excavation to create additional room for the new plant, service diversions, demolition of existing structures and other accommodation works required to enable the new plant to be constructed, rehabilitation of the existing outfall which carries treated effluent to sea, professional fees, TTS costs and contingencies.

The Treasury and Resources Department's proposed funding mechanism for the allocation of these monies was identified in the budget debate in early December 2013 and is as follows:

- Fund partly from the TTS existing annual capital budget for Infrastructure - £12m
- Fund partly from the main Capital programme - £31m
- Fund partly from the Consolidated Fund in 2014 - £3m
- Fund partly from an infrastructure investment of the Currency Fund (2015 and 2016) at a fair interest rate - £29m

The proposed funding profile for the anticipated duration of the project is set out in the following table;

Item Description	**Funding £m**							
Year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
STW site works incl. construction, and TTS & professional fees for prelim. works	0.5	9.44	12.564	31.446	0.0	0.0	0.0	53.950
Effluent outfall	0.0	0.16	2.590	0.0	0.0	0.0	0.0	2.750
Contingencies	0.0	0.0	5.135	6.295	0.005	0.005	0.005	11.445
Professional Fees (for STW)	0.0	0.0	4.80	0.0	0.0	0.0	0.0	4.800
TTS Costs	0.0	0.0	0.411	0.411	0.411	0.411	0.411	2.055
TOTAL	**0.5**	**9.6**	**25.5**	**38.152**	**0.416**	**0.416**	**0.416**	**75.000**

New STW Funding Profile

The initial tranche of funding of £10.1m has already been allocated to this project in the 2014 Capital programme (£6m for the CWI re-location, £1m contribution for the HRC re-location and £3.1m for STW preliminary works including associated TTS and professional fees).

The 2015 Capital Programme request concerns phase I of the construction of the new sewage treatment works, consisting of inlet works, primary settlement tanks, storm tanks and some of the final settlement tanks, sludge storage and administration building. Once these works are built, connected to the existing sewage treatment works and commissioned, phase II of the works can be commenced, which will involve removing the existing inlet works, primary settlement and sludge areas and constructing the new ASP lanes, remaining final settlement tanks and new UV treatment. In order to permit an efficient tendering and construction programme, the phase II budget allocation will be required in 2016. Whilst phase I of the works will be capable of running without phase II, the major benefits to efficiency and treatment will not accrue until construction of both phases is complete.

Repayment by TTS of the principal sum and interest from the Currency Fund investment of £29m will ultimately be at a rate of approximately £1.7m per annum on completion of the project, monies which will be generated predominantly by savings in operational costs of the new STW plant as a result of more efficient processes and from other efficiency improvements within the Department.

Of significant note is the fact that, under this proposal, no additional charges in the form of a Liquid Waste charge are currently envisaged to fund these works. However, it should be noted that these savings will be challenging for the Department in the face of requests to make further revenue savings as part of any future States initiatives that may be introduced.

APPENDIX C

Housing Development Fund

1 – The purpose of the Housing Development Fund

Introduction

1.1. The Housing Development Fund ("the Fund") was approved in principle by the States in 1999, under P.74/1999: Social Rented and First Time Buyer Housing: Proposal for Future Funding. The States then approved P.84/1999: Establishment of Housing Development Fund, which authorised powers to borrow commercially to finance the acquisition and development of sites by Housing Trusts, the Housing Committee or any other such body as the States may agree as suitable to undertake such activities. The proposals provided a robust and flexible funding solution to the urgent social and first-time buyer needs of the island, without jeopardising the States' Capital Programme or Strategic Reserve.

1.2 In accordance with Article 3(3)(a) of the Public Finances (Jersey) Law 2005, the Housing Development Fund was established as a special fund for specific purposes. The States acting through the Minister for Treasury and Resources fully administers the Housing Development Fund. As a special fund, only the States may, on a proposition lodged by the Minister of Treasury and Resources, vary the purposes of a fund so established.

1.3 The States in approving the Budget 2014 agreed in part (e) of the Proposition:-

(i) that following the approval by the States on 16th May 20213 of the proposition "The Reform of Social Housing" (P.33/2013) and in accordance with the provisions of Articles 10(3)(b) and 21 of the Public Finances (Jersey) Law 2005, the States to be authorised to borrow up to a maximum £250 million in 2014 for housing purposes and that, in accordance with the provisions of Article 10(3)(f) of the Public Finances (Jersey) Law 2005, the amount borrowed by the States be transferred from the consolidated fund to the Housing Development Fund;

(ii) In accordance with Article 3(3)(b) of the Public Finances (Jersey) Law 2005 that the purposes of the Housing Development Fund ("the Fund") be varied to enable the further provision and development of housing in Jersey and that –

(A) The Fund be permitted to lend money up to a maximum £250 million to Housing Trusts/Associations/Companies or bodies with the same purpose registered in Jersey in order that they can provide for islanders , on terms and conditions to be agreed, after consultation with the Minister for Housing, between the Minister for Treasury and Resources, and the aforementioned Housing Trusts/Associations/Companies;

(B) all administrative costs associated with the operation and maintenance of the activities of the Fund to be paid out of the Fund;

(C) the fund to be invested through the Common Investment Fund in accordance with its own published investment strategy."

(D) all money due to the Fund, including any loan repayments and interest due from Housing Trusts /Associations/ Companies, to be credited to the Fund;

(E) money credited to the Fund does not form part of the annual income of the States.

2. - The powers and limitations placed on the Fund by the Law

2.1 The Public Finances (Jersey) Law 2005, ("the Law"), Article 23 sets the parameters within which States money may be lent to third parties – all lending requires approval by the States, although Regulations have also been approved by the Assembly, in accordance with the Law, which set prescribed limits within which the Minister for Treasury and Resources is able to lend**.**

2.2. In response to the proposals approved by the States in the Budget 2014 authorising specific loans for housing purposes in the name and on behalf of the States up to £250 million, the Draft Public Finances (Amendment of Law No.1) (Jersey) Regulations 201- increased the amount that the States may lend. The total lending permitted at any one time was increased from 15% of the estimated income of the States derived from taxation during the previous financial, to 60% of that estimated income.

2.3 To ensure that the correct checks and balances are in place before authorising any loan, the Treasurer of the States will issue a Financial Direction specifying the procedures to be followed prior to any loan or advance being made.

3 – Those empowered to carry out actions on behalf of the Fund

3.1 The Treasury and Resources Minister may make loans for housing purposes from the Housing Development Fund and may make transfers from it. In particular the Treasury and Resources Minister may make a transfer of £6.12 million from the Housing Development Fund to the Consolidated Fund so as to close the old balance remaining on the Fund prior to receipt of Monies from the bond issuance.

3.2 The Comptroller and Auditor General (C&AG) has a duty under the Public Finances (Jersey) Law 2005, Section 46 to provide the States with independent assurance that the public finances of Jersey are being regulated, controlled and supervised and accounted for in accordance with the Law. This will include the operation of the Housing Development Fund.

3.3 The Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (hereafter referred to as "the Regulations") (Chapter 2 – Investment of money owned or controlled by the States) requires the Minister for Treasury and Resources to develop and keep under review an investment strategy for money to which Article 6 of the Law applies (Regulation 3), which includes the Housing Development Fund. The investment strategy must be presented by the Minister to the States (Regulation 4). Once presented this empowers the Minister and the Treasurer of the States to carry out the required transactions necessary to invest the money of the Housing Development Fund in accordance with the investment strategy.

3.4 The Accounting Officer of the Housing Development Fund is the Treasurer of the States, who is personally accountable for the proper financial management of the Fund in accordance with Article 38 (A) (2) of the Law

3.5 The Treasurer must ensure compliance with the investment strategy (Regulation 5) and is responsible for appointing investment managers and other qualified persons (Regulation 6).

4 – Housing Development Fund investment structure

4.1 In line with the investment strategy set by the Minister for Treasury and Resources (see section 3.2) in order to meet the purpose of the Fund, the entire investment portfolio of the Housing Development Fund is invested through the Common Investment Fund (CIF).

4.2 A copy of the investment strategy is attached as Appendix 1. This was presented to the states on 30th June 2014. (R.087-2014)

5 – The use and operation of the Housing Development Fund

5.1 The purpose of the Housing Development Fund is to fund the Social rented and first-time buyer Housing development programme. It allows the Minister for Treasury and Resources to borrow commercially, through the Fund, to finance the acquisition and development of sites.

5.2 A copy of the original terms of operation, "Operation of the Housing Development Fund (HDF)" from P.84/1999: Establishment of Housing Development Fund is attached as Appendix 2. These original terms will continue.

5.3 These terms were formally extended by the States in Budget 2014 to include the £250 million borrowed to lend to Housing Trusts/Associations/Companies or bodies with the same purpose registered in Jersey in order that they can provide housing for islanders, on terms and conditions to be agreed, after consultation with the Minister for Housing, between the Minister for Treasury and Resources, and the aforementioned Housing Trusts/Associations/Companies. In the case of Andium Homes Ltd it also allows for the redevelopment and refurbishment of existing sites and properties. These revisions are to be incorporated into the operation of the Housing Development Fund.

5.4 Of the £250 million borrowed, £207 million is planned to be allocated to Andium Homes Ltd to meet their specific identified requirements and £43 million is available to fund schemes proposed by other approved providers (but is also potentially available to Andium Homes Ltd in respect of additional schemes proposed).

5.5 Borrowing by the Trusts/Associations/Companies will be repaid by the rental income gained from the new units to be developed or improved.

5.6 Any loans made from the Housing Development Fund shall be in accordance with Article 23 of the Public Finances (Jersey) Law 2005 and Financial Direction No. 3.3

5.7 Specifically, any loan made from the Housing Development Fund will be made on the basis of a Draft Model Loan Agreement which will be approved by a Ministerial Decision signed by the Minister for Treasury and Resources.

5.8 Loans will be made for "Agreed Projects" which are defined as, a project in Jersey selected by the Housing Trust/Association /Trust and approved by the Minister for Treasury and Resources as part of an agreed Business Plan or otherwise. The Ministers approval will take into account the financial viability of each scheme and the ability to repay the loan requested.

5.9 Loans will be made on a project by project basis with a separate loan agreement for each project.

5.10 Each loan agreement will be authorised by a Treasury and Resources Ministerial Decision and will be signed by the Treasurer of the States in accordance with the signed Ministerial Decision.

5.11 All loans will be charged a rate of interest to be agreed between the parties.

5.12 A loan repayment schedule will be agreed and will form part of the loan agreement. This will detail the amounts of interest and principal to be repaid over the period of the loan. Repayments will be made quarterly in arrears by the borrower.

5.13 The terms of each loan agreement will be agreed based on a business case**.** Issues that will be subject to agreement are:-

- Loan amount
- Loan period
- Timing of drawdown of funds
- Terms relating to method and timing of repayment of principal

5.14 Andium Homes will pay the full cost of the "set up" charges for the £207million allocated to them when they take up their first loan. The share of the "set up" costs on the remaining £43 million will be allocated on a pro rata basis to each loan made from this element.

6 - Governance

Legal Responsibilities

6.1 Details of those empowered under the Public Finances Jersey (2005) Law and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 to carry out actions on behalf of the Housing Development Fund are covered in section 2.3 of this Financial Direction.

6.2 As required by the Public Finances (Jersey) Law 2005 the Minister for Treasury and Resources will ensure that all approved lending is reported to the States in the six-monthly Financial Update report.

Scheme of Delegation

6.3 Where the Minister and / or Treasurer delegate their financial authority, a Scheme of Delegation must be documented. The Scheme must detail what authority has been delegated to whom and any limits placed on that delegation.

FOR INFORMATION ONLY

APPENDIX 1

Investment Strategy Extract:

Below is an extract from the States of Jersey Investment Strategy Document presented to the States on 30th June 2014 (R.087-2014).

The report summarises the Investment Strategy for the Housing Development Fund as advised by Aon Hewitt.

HOUSING DEVELOPMENT FUND INVESTMENT STRATEGIES

Purpose of the Fund

On the 22nd of June 1999, the States approved P79/1999 and created the Housing Development Fund in order to:

"*help meet the requirements for the development of social rented and first-time buyer homes as identified in the Planning for Homes Report.*"

On the 16th of May 2013, the approval of P.33/2013 enabled the Housing Department to become incorporated into a wholly States owned Housing Company. The key objective of the Housing Company is construction of new housing and completion of improvement works to ensure that the housing stock meets the requirements of the Decent Homes Standard within 10 years.

In June 2014 the States of Jersey leveraged its strong balance sheet to issue a £250 million bond with a 40 year maturity at superior low rates of interest relative to borrowing which could be achieved by the Housing Company.

The proceeds of the Bond issuance are to be placed in the Housing Development Fund and £207 million will be loaned to the Housing Company to fund construction and improvement works, in line with the defined purpose of the Fund, the remaining value of the bond is to be used for the provision of affordable house.

The drawdowns and repayments shall be made in accordance with underlying loan agreements in accordance with the construction/renovation timetable of the Housing Company. The Housing Company will also pay interest on the loans into the Fund in accordance with the loan agreements. The Housing Company will fund required capital repayments and interest from income generated by the new and refurbished properties that the loan will fund.

Strategy

The strategy of the Fund seeks to protect the capital value of the Fund which will be required to repay the issued bond on maturity. The Fund will also seek to generate sufficient returns, taking into account receipt of interest from the loans to the Housing Company, to meet Bond Coupon payments.

In order to meet the purpose of this fund the Minister has set a strategic aim of investing 25% in growth assets and 75% non-growth assets as detailed below:-

	Strategic Aim %	**Range %**
Growth assets		
Equities	12.5	7.5 – 17.5
Absolute Return*	10	5 – 15
Property	2.5	N/a
	25%	
non-growth assets		
Gilts	45	40 - 50
Cash	7.5	2.5 – 12.5
Corporate Bonds	22.5	17.5 – 27.5
	75%	

*Absolute return includes allocations to the Absolute Return Bond Pool, considered a fixed income class pool.

Property and Absolute Return are considered part of the alternative asset class. The Property asset class may suffer from liquidity constraints which prevent immediate rebalancing and movement to the strategic range. Consequently short term allocations to this class may fall outside the prescribed range as positions are built or sold down. In cases where positions are being built, allocations to this class will be held in existing asset classes until they can be fully allocated.

Transitional arrangements

The Housing Development Fund expects an imminent drawdown by the Housing Department which will be used in part to repay monies owing to the States of Jersey. On receipt, these funds will be invested in line with the Investment Strategy of the Consolidated Fund. To avoid unnecessary transaction cost, which would otherwise be incurred in transitioning between the two strategies, the proportion of the Housing Development Fund portfolio expected to be drawn and immediately repaid to the States is to be invested in line with the Consolidated Fund Strategy, the ultimate destination, pending completion of the transfer.

Investment Structure

The Fund can carry out its investments through the Common Investment Fund.

Investment in Jersey

Investment is not generally made in Jersey, or in Jersey quoted companies. This is to ensure that as far as possible, the assets are diversified away from the effects of the Jersey economy.

Controlling Interest

The States of Jersey will not acquire share holdings greater than 3% of the issued share capital in UK companies.

Investment Strategy- Social Housing Fund

Executive Summary

For this paper we have modelled a number of investment strategies with a range of allocations to growth and non-growth assets to assist us in choosing a suitable investment strategy for the Fund. Our recommendation is for States of Jersey (States) to adopt the investment strategy below:

- A 25%/75% allocation to growth and non-growth assets using only asset classes within the Common Investment Fund (CIF)
- On privatisation of Andium, we expect the States of Jersey to receive a payment in respect of monies owed to it. To avoid unnecessary transaction costs, we propose that this transitional amount be invested in line with the Consolidated Fund's long term investment strategy as the ultimate destination.

This strategy is expected to generate sufficient return, with low risk (as measured by standard deviation) and to remain solvent with a high degree of certainty over the next 10 years. The strategy is re-balanced on an annual basis.

Our modelling results show that the strategy has a low chance (less than 5% on a cumulative basis) of being insolvent over the next 10 years. This covers the period when all of the outflows are expected to be paid out to the housing projects.

Given that the outflows are material in size relative to the initial Fund value we have also taken into consideration the probability that the Fund value will fall under -£10 million during the next 10 years. This is necessary since our definition of insolvency includes any positive fund value, regardless of the absolute amount. The strategy has a 1.2% chance that the fund value is less than -£10 million after 10 years.

The strategy has a substantial allocation to liquid growth assets, gilts and cash. Liquidity might be higher in practice since the strategy will be using CIF asset classes and managers. This would allow other CIF participants to provide liquidity if required.

We have not modelled the strategies over the entire life of the bond given the need to concentrate on the near-to-medium term when the large outflows occur and because the purpose and the objectives of the Fund are likely to be different than today over the long term.

Given the large outflows in the first 7 years we would recommend that the progress of the strategy is reviewed quarterly and decisions made to react to the actual progress of the strategy versus forecast.

We would also recommend that the strategy of the Fund is revised close to the time when all the housing payments have been made. The revised strategy would take into account the State's objectives of the Fund and the value of the Fund at that time.

Introduction

The States are issuing a bond to finance a number of social housing projects. Aon Hewitt has been asked to recommend an investment strategy for the proceeds of the issue which, with a high degree of certainty, has the objectives of:

- covering the bond's coupon and expense payments;
- meeting the expected cash flows of the housing projects;
- using asset classes within the CIF; and
- selecting low risk strategies (as defined by standard deviation of returns).

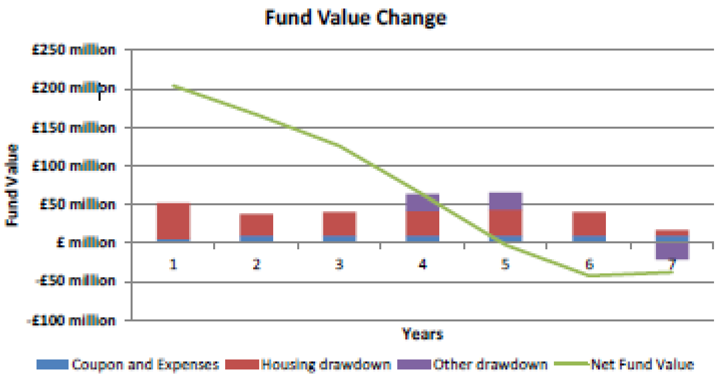
This paper sets out our recommendations. Due to the size of the outflows over the next 7 years and the uncertainty around how the States will use the Fund in the future, we have focused on providing a strategy which will meet the Fund's objectives over the next 10 years.

Approach and Investment Universe

The Model

Our starting point when approaching the strategy was building a bespoke Excel model which could integrate the cash flows supplied by the States with our internal modelling assumptions. The model is able to project the returns and the Fund values for a range of strategies over the life of the bond. Each strategy was simulated 5,000 times to produce our analytics.

The cash flows for the first 7 years are shown in the chart below (beyond this horizon the only outflows are the bond coupon and associated expenses).



The blue bars represent coupon payments, red bars represent the net outflows to the housing projects and the purple bars represent 'other project' cash flows.

The green line on the chart tracks the total value of the Fund assuming a zero investment return and no interest received from the housing loans– i.e. the Fund's value only changes over time due to the net cash flows.

The chart indicates that a non-zero investment return is needed to keep the Fund solvent since more cash is removed from the Fund than is initially raised by the bond issuance (plus the additional £6 million buffer).

Initial Conditions and Starting Point

The magnitude of the total outflows including coupons, expenses and other projects during the first 7 years (larger than the initial Fund value) means the results of our modelling will be very sensitive to the realised investment return and the path the assets follow in any one simulation.

This is an important consideration because the investment strategy will need to balance expected return with down-side risk; if the returns are lower than expected during the first few years, or if there is a large single loss, there is chance that the Fund will be insolvent.

Given these considerations we have used the cumulative probability of being insolvent over the next 10 years as an additional risk metric to be used alongside volatility (the standard deviation of returns). Following discussions with the States we have used a 15% level as the acceptable upper limit for the cumulative probability of being made insolvent.

It should be noted that within this definition, a minimum fund value of just -£1 would be considered insolvent and similarly, a minimum fund value of £1 would be considered solvent. As such, we have also looked at the probability that any strategy would fall below a £10 million threshold value at the end of 10 years.

For the modelling we have relied on cash flows and assumptions supplied by the States.

Liquidity

Liquidity has also been an important consideration within the strategy given the large expected outflows. We have assumed that all the assets within the Fund could be fully liquidated within a year, with the majority of the assets over a much shorter period.

Asset Classes Considered

As far as possible we have used asset classes which are already within the CIF. If the same managers are appointed it would have the effect of simplifying the implementation of the strategy and also potentially the CIF participants could be used to improve liquidity. These asset classes are:

- Absolute return targeted strategies;
- Active global equity;
- Passive global equity;
- Corporate bonds;
- Government bonds; and
- UK Property.

Given the need to preserve capital while still generating a meaningful return due to the large outflows, absolute return strategies will play an important part in the strategy.

Currently only absolute return bond strategy funds (ARBS) are available within the CIF. We have therefore modelled the absolute return allocation as ARBS.

Growth and Non-Growth Allocations

The growth and non-growth portfolios sub-allocations are given in the table below:

Portfolio Type	Allocation
Growth	
Absolute return	40%
Active global equities	33%
Passive global equities	17%
Property	10%
Non-Growth	
Cash	10%
Short-term gilts	60%
Corporate bonds	30%

Cash in the non-growth portfolio is included as a liquidity buffer as well as a buffer against drawdowns. Although we have included property in the growth portfolio, the initial allocation is c. £7.5 million and the CIF could offer liquidity as required.

Strategies Modelled

In total we analysed 21 different investment strategies, increasing the allocation split between growth and non-growth in 5% steps between 0% allocated to growth to 100%.

Modelling Results and Recommended Strategy

Our modelling has identified a number of strategies which meet the 15% insolvency limit and also have a low chance of the Fund falling below -£10 million over the 10 years. For the latter metric, we have taken 5% as a low probability number.

All the strategies modelled have less than 15% chance of being insolvent over 10 years although the results show that the strategies with lowest and the highest allocations to growth assets have the highest insolvency rates.

The strategies with very low allocations to growth assets risk not generating enough return to overcome the large outflows, while the strategies with very high allocations to growth assets run the risk of large losses which increase the chance of insolvency.

When choosing an appropriate strategy, our starting point was selecting a low risk portfolio with the smallest allocation to growth assets which would meet the Fund's objectives. **We recommend a strategy with a 25% allocation to growth assets**. Our recommend strategy which has the lowest chance of being insolvent and the lowest chance of the fund value falling below -£10 million (among the portfolios analysed) is given on the following page. Due to the unique requirements of the Fund, the strategy has a very different composition to participants within the CIF.

25% Allocation to Growth Assets					
10 year annualised figures		Cumulative Insolvency Prob.		Prop. Of falling below -£10 million within 10 years	Lowest Asset Value (10th percentile)
Return	Vol.	7 yr	10 yr		
4.5%	5.1%	4.9%	4.9%	1.2%	£6 million

In addition to looking at the chance that the fund value is below -£10 million in 10 years' time, we have also looked at lowest asset value over the 10 years at various percentiles. The recommended strategy's 10th percentile asset value is £6 million; this means that 90% of all the simulations run for the recommended strategy never fell below £6 million in any single year. All the modelling results can be found in the Appendix (which also includes looking at the lowest asset values on the 1st and 10th percentiles).

<u>Transitional Cash</u>

On privatisation of Andium, we expect the States of Jersey to receive a payment in respect of monies owed to it. To avoid unnecessary transaction costs, we propose that this transitional amount be invested in line with the Consolidated Fund's long term investment strategy as the ultimate destination.

Risks of Proposed Strategy

It is important to highlight the risks associated with our recommended strategy and the other strategies we have modelled.

Typically we would refer to low risk strategies as those exhibiting low volatilities either in absolute terms or relative to a benchmark, but given how the Fund is being used, the 'low risk' strategies might have a relatively high risk of insolvency (or producing very low Fund values).

We have therefore outlined the specific risks associated with the Fund below:

Insolvency in the first 10 years. The large outflows (relative to the starting Fund value) during the early years mean that there is a chance of insolvency over this time period. This would be caused by lower than expected investment returns or changes to the size or timing of the outflows (i.e. actual housing payments being larger or sooner than expected).

Further, there is a risk that even in the event that insolvency is avoided, the asset base falls to a very low value which would jeopardise the State's future plans for the Fund (for example to fund other projects or payback the face value of the bond). We have therefore looked at the probability that the value of the Fund falls below £10 million in 10 years.

Implementation

Manager Allocations

The table on the below sets out the manager allocations assuming that CIF managers will be used. These are in line with the recommendations we have given previously for the CIF. This allocation excludes the transitional cash intended for the Consolidated Fund strategy:

Asset Class	CIF Manager	Allocation (% of total assets)
Growth		
Absolute return (ARBS)	PIMCO	6.7%
	Insight	3.3%
Global active equities	Majedie	1.6%
	Longview	2.2%
	Walter Scott	2.2%
	Baillie Gifford	1.1%
	Schroder	1.1%
Passive Equities	LGIM	4.3%
Property	BlackRock	0.8%
	Threadneedle	0.8%
	Lothbury	0.8%
Non-Growth		
Cash	RLAM	7.5%
Short-term gilts	LGIM	45.0%
Corporate bonds	PIMCO	11.3%
	Insight	11.3%

Asset Allocation Ranges

The strategy has been modelled to be rebalanced on an annual basis. However during the course of the year we would recommend rebalancing if the allocation back to the central case if the growth and non-growth asset allocations are greater than +/- 10% compared to the 25%/75% split. This would need to be done alongside the monitoring of the progress of the strategy (see section below) to ensure that the objectives of the Fund can still be made.

We would also recommended rebalancing any individual asset class allocation if it is greater than +/- 10% away from the central case (for example if absolute return funds were greater than 50% of the growth portfolio).

On-going Monitoring

Given the large outflows from the Fund over the first few years, we believe it will be important to measure progress of the chosen strategy on a regular basis and make changes as required.

During the initial years when there are large outflows from the Fund, we would recommend this is done quarterly.

The four moving parts which will need to be monitored are:

- the actual asset return versus the expected return;
- changes to expected asset returns / views on asset classes;
- the realised cash flows versus the expected cash flows; and
- changes to future expected cash flows.

How these parts move together will influence future strategic decisions. For example, if the actual returns have been higher than expected with no other changes, it might be prudent to reduce the allocation to growth assets to produce a buffer against losses and lower the chances of such loses in the future.

When deciding whether a change needs to be made, we would recommend continuing to use the 15% insolvency probability limit.

This strategy has focused on the period over which the housing outflows occur, albeit with an eye on yet to be decided future objectives by looking at probabilities around minimum fund asset values. We would recommend revisiting the investment strategy nearer the time when all the housing cash flows have been made to take into account the circumstances of the Fund at that time (i.e. the asset values) and the State's objectives for the Fund.

Appendix – Modelling Results

Portfolio Type	Growth %	Liquid %	Return p.a. (%)		Vol p.a. (%)	Prob Cashflow Insolv Within				Prob Total Insolv Within				Probability of being falling below -£10m within 10 years	Lowest Asset Value Over 10 Years (£m) - Percentiles		
			7 yrs	10 yrs	10 yrs	2 yrs	4 yrs	7 yrs	10 yrs	2 yrs	4 yrs	7 yrs	10 yrs		1.00%	5.00%	10.00%
CIF assets with	0%	100%	2.9%	3.3%	5.2%	0.0%	0.1%	13.1%	13.1%	0.0%	0.1%	13.1%	13.1%	4.3%	-23.0	-8.8	-2.4
40% allocation to	5%	100%	3.1%	3.5%	5.0%	0.0%	0.0%	9.6%	9.6%	0.0%	0.0%	9.6%	9.6%	2.9%	-19.5	-5.5	0.3
absolute return in	10%	100%	3.4%	3.8%	4.9%	0.0%	0.0%	7.3%	7.3%	0.0%	0.0%	7.3%	7.3%	2.3%	-15.5	-3.1	2.8
growth portfolio	15%	100%	3.6%	4.0%	4.9%	0.0%	0.0%	5.7%	5.7%	0.0%	0.0%	5.7%	5.7%	1.6%	-12.6	-1.1	4.4
	20%	100%	3.9%	4.3%	4.9%	0.0%	0.0%	5.2%	5.2%	0.0%	0.0%	5.2%	5.2%	1.3%	-10.9	-0.2	5.5
	25%	100%	4.1%	4.5%	5.1%	0.0%	0.0%	4.9%	4.9%	0.0%	0.0%	4.9%	4.9%	1.2%	-11.6	0.3	6.0
	30%	100%	4.4%	4.8%	5.4%	0.0%	0.0%	5.0%	5.0%	0.0%	0.0%	5.0%	5.0%	1.4%	-12.4	0.0	6.6
	35%	100%	4.6%	5.0%	5.7%	0.0%	0.0%	5.6%	5.6%	0.0%	0.0%	5.6%	5.6%	1.7%	-13.8	-0.7	6.7
	40%	100%	4.9%	5.3%	6.1%	0.0%	0.0%	6.1%	6.1%	0.0%	0.0%	6.1%	6.1%	1.9%	-16.5	-1.8	6.3
	45%	100%	5.1%	5.5%	6.5%	0.0%	0.0%	6.4%	6.4%	0.0%	0.0%	6.4%	6.4%	2.5%	-18.8	-3.0	5.9
	50%	100%	5.4%	5.7%	7.0%	0.0%	0.0%	7.0%	7.0%	0.0%	0.0%	7.0%	7.0%	2.8%	-22.2	-4.5	5.2
	55%	100%	5.7%	6.0%	7.5%	0.0%	0.0%	7.8%	7.8%	0.0%	0.0%	7.8%	7.8%	3.6%	-25.0	-6.2	4.6
	60%	100%	5.9%	6.2%	8.0%	0.0%	0.1%	8.4%	8.4%	0.0%	0.1%	8.4%	8.4%	4.2%	-27.9	-7.8	3.5
	65%	100%	6.2%	6.4%	8.5%	0.0%	0.1%	8.8%	8.8%	0.0%	0.1%	8.8%	8.8%	4.8%	-31.4	-9.5	2.1
	70%	100%	6.4%	6.7%	9.1%	0.0%	0.2%	9.5%	9.5%	0.0%	0.2%	9.5%	9.5%	5.4%	-34.8	-10.6	0.8
	75%	100%	6.6%	6.9%	9.7%	0.0%	0.2%	10.2%	10.2%	0.0%	0.2%	10.2%	10.2%	6.0%	-38.1	-12.6	-0.6
	80%	100%	6.8%	7.1%	10.3%	0.0%	0.4%	10.7%	10.7%	0.0%	0.4%	10.7%	10.7%	6.7%	-41.9	-14.6	-1.4
	85%	100%	7.0%	7.3%	10.9%	0.0%	0.5%	11.3%	11.3%	0.0%	0.5%	11.3%	11.3%	7.4%	-45.8	-17.0	-2.9
	90%	100%	7.3%	7.5%	11.5%	0.0%	0.7%	12.0%	12.0%	0.0%	0.7%	12.0%	12.0%	8.0%	-50.3	-19.2	-4.2
	95%	100%	7.5%	7.6%	12.1%	0.0%	1.0%	12.6%	12.6%	0.0%	1.0%	12.6%	12.6%	8.5%	-53.9	-21.7	-5.7
	100%	100%	7.6%	7.8%	12.8%	0.0%	1.2%	13.2%	13.2%	0.0%	1.2%	13.2%	13.2%	9.1%	-57.1	-23.9	-7.4

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APPENDIX 2

Operation of the Housing Development Fund (HDF) (From P.84/1999)

1. The current Housing Development Scheme is an ongoing fund set up to provide the Housing Committee with bridging finance to develop properties for onward sale. The Scheme bears the cost of land acquisition and development, which is then recovered on the disposal of completed sites.

2. The HDF would extend the Housing Development Scheme to include funding for the development of social rented housing as well as for first-time buyer properties.

3. The HDF would provide a mechanism for funding housing developments undertaken by the States, as well as providing subsidies (where necessary) for developments undertaken by other providers of social rented housing (such as Housing Associations) and, if necessary, for certain private sector "first-time buyer schemes".

4. The nature of the HDF's operation is such that funds would flow out of the account in the early years to be repaid over the longer term, leaving the Fund initially in a deficit position. This deficit would require financing and it is proposed that this is achieved through –
   - refinancing the Dwelling Houses Loans Fund (DHLF), to release cash of some £22m (based on the DHLF's 1998 balance), which could be used in the short-term;
   - direct external borrowing (the extent of this would depend upon the level of involvement from Housing Associations in the development programme).

5. The existing agreement with Housing Trusts provides an interest subsidy that caps the repayment rate for Trust borrowing at four per cent per annum. Capital development subsidies are also made where rental levels are too low to sustain the scheduled repayment. For this reason funding, in addition to that raised from rental income gained on the new housing units, will be required to ensure the fund is fully repaid. It is proposed that these subsidy arrangements are extended to include developments undertaken by the Housing Committee as well as those undertaken by Housing Trusts.

6. The forward financial forecast presented to States' Committees on 20th May 1999 includes a preliminary allocation of £10m per annum to be added to the amount available for capital expenditure. This amount, or such other amount as the Finance and Economics Committee considers appropriate, is to be earmarked for transfer to the HDF.

7. The borrowing liability of the HDF would then need to be repaid. The funding to meet the repayments would be realised from a number of sources -
   - allocations from the Capital Fund as earmarked and referred to in paragraph 6 above;
   - an annual transfer from the Housing Committee Revenue Budget, based on a proportion of the rental income gained from the new units to be developed and added to that Committee's stock;
   - any 'surpluses' from first-time buyer sales. Where a first-time buyer development is undertaken on land already in States' ownership, the sale price for those properties may exceed the cost of development. It is proposed that, in such cases, the net 'surplus' be allocated to the HDF to offset schemes where a development subsidy is required;
   - the HDF develops, the Finance and Economics Committee would consider such alternative means of funding as may be considered appropriate.

APPENDIX D

Rules for the future Operation of the Strategic Reserve Fund

1. SUMMARY AND OBJECTIVE

1.1 The Treasury and Resources Minister in his response to the Fiscal Policy Panel 2013 Report proposed before the 2015 Budget "to set out a strengthened definition of capital within the Strategic Reserve…" and "…provide greater clarity for States members before further funds are withdrawn to invest in our new hospital." (R.149-2013)

1.2 Therefore, it is proposed that a Financial Direction be issued under Article 34 of the Public Finances Jersey (2005) Law (hereafter referred to as "the Law") and applies to all States funded bodies as defined in the Law.

1.3 The purpose of this report is to set out the mandatory requirements in relation to the Strategic Reserve Fund. Specifically it includes:

- The purpose of the Strategic Reserve Fund
- The powers and limitations placed on the Fund by the Law
- Those empowered to carry out actions on behalf of the Fund
- Strategic Reserve Fund investment structure
- The use of the Strategic Reserve Fund

1.4 **Who should I contact if I have a question / need further guidance?**

Further information and guidance can be obtained from your departmental finance team in the first instance, then if necessary finance may need to contact:

2. SPECIFIC REQUIREMENTS

2.1 – The purpose of the Strategic Reserve Fund

Introduction

2.1.1 The Strategic Reserve Fund ("the Fund") was established by the States in 1986 with an initial capital injection of £10 million to provide the Island with some level of insulation from external shocks.

2.1.2 The Fund was enshrined in law as a permanent reserve on the enactment of the Public Finances (Jersey) Law 2005. Article 4(3) of the Public Finances (Jersey) Law 2005, requires that the Strategic Reserve Fund cannot be used for any other purpose than specifically recommended by the Minister for Treasury and Resources and approved by the States (see section 2.2.2).

2.1.3 The States' Economic Growth Plan sets out the importance that macroeconomic stability has in creating the conditions for economic growth and low inflation. One key requirement for economic growth is the need to provide a stable economy for businesses and consumers to make decisions in. The credit-rating agency Standard and Poor's awarded the States of Jersey a long-term credit rating of AA+ with a stable outlook in 2014.

P.133/2006

2.1.4 The policy for the use of the Strategic Reserve Fund was approved by the States in P.133/2006[1], which states that "…the capital value is only to be used in exceptional circumstances to insulate the Island's economy from severe structural decline such as the sudden collapse of a major industry or from major natural disaster".

2.1.5 An example of severe structural decline would be the financial services industry becoming uncompetitive and leaving Jersey. P.133/2006 states that "for the Island to deal with that and to try to smooth the process, £450 million is only a few years' worth of insulation against the loss of tax revenue." P.133/2006 further states that a …"suitable long-term aspiration is to grow the Strategic Reserve…to a minimum level of around £600 million."

2.1.6 P.133/2006 policy for the Strategic Reserve Fund, further says that the States may decide to sell assets currently outside the Strategic Reserve Fund e.g. privatisation and add the revenue received to the Fund. The income stream from the assets (e.g. past dividends) may have funded States' expenditure. The Minister for Treasury and Resources could use this as an opportunity to invest the income stream back into the Strategic Reserve Fund, or transfer the return (preferably in real terms) into the Consolidated Fund. Under P.133/2006, this is the only payment possible from the Strategic Reserve Fund to the Consolidated Fund (outside of conditions being met for the use of the Strategic Reserve Fund.)

P.84/2009

2.1.7 The States subsequently approved P.84/2009[2], in which they agreed to vary the policy approved in 2006:

"…to enable the Strategic Reserve Fund to also be used, if necessary, for the purposes of providing funding for the Bank Depositors Compensation Scheme to be established under the Banking Business (Depositors Compensation) (Jersey) Regulations 200-; and to agree that monies from the Strategic Reserve Fund, up to a maximum combined[3] total not exceeding £100 million, should be made available if required to meet the States contribution to the Bank Depositors Compensation Scheme and/or to meet any temporary cash flow funding requirements of the Scheme".

2.1.8 Under P.84/2009, if the Fund makes a loan to the Bank Depositors Compensation Scheme "…it is envisaged that the loan will be repaid with interest and terms and conditions agreed by the Minister for Treasury and Resources".

P.122/2013

2.1.9 A fourth use of the Fund was approved by the States under P.122/2013[4], which agreed that:

"…the Fund could be used…in order to enable the creation of new hospital services as part of the proposals agreed by the States on 23rd October 2012 in adopting the proposition 'Health and Social Services: a new way forward' (P.82/2012) – to agree, as an exception to

[1] P.133/2006 'Establishment of a Stabilisation Fund and Policy for Strategic Reserve', approved by the States on 5 December 2006.
[2] P.84/2009 'Strategic Reserve Fund: Use for Bank Depositors' Compensation Scheme', approved by the States on 6 November 2009.
[3] P.84/2009 capped the total cost of the proposed Scheme at £100 million, regardless of the number of banks operating within the Island which may fail.
[4] P.122/2013 'Draft Budget Statement 2014'.approved by the States on 5 December 2013.

the approved policy for the use of the Fund, that the Fund may be used for the planning and creation of new hospital services in the Island, and to approve the transfer of an initial sum of £10.2 million form the Strategic Reserve Fund to the Consolidated Fund in 2014 so as to provide for these purposes, in accordance with the provisions of Article 4(3) and 10(3)(f) of the Public Finances (Jersey) Law 2005".

2.1.10 The States have approved the cost of the new hospital services of an estimated £297 million will be financed from the investment returns of the Fund.

2.2 - The powers and limitations placed on the Fund by the Law

2.2.1 Under Article 4(1) of the Law, the Strategic Reserve Fund "…shall not be used to defray directly expenditure of the States".

2.2.2 In accordance with Articles 4 (2) and 4 (3) of the Law, transfers to or from the Fund must be approved by the States through a proposition lodged by the Minister for Treasury and Resources.

2.3 – Those empowered to carry out actions on behalf of the Fund

2.3.1 The Accounting Officer of the Strategic Reserve Fund is the Treasurer of the States, who is personally accountable for the proper financial management of the Fund in accordance with Article 38(A)(2) of the Public Finances (Jersey) Law 2005.

2.3.2 Under Article 56C of the Law, the Fiscal Policy Panel (FPP) is required to prepare and publish an annual report upon the state of the economy in Jersey and the States finances. The Article 56C(2) Law states that the matters commented upon in the report must include:

a) the strength of the economy in Jersey;

b) the outlook for the economy in Jersey and, generally, world economies and financial markets;

c) the economic cycle in Jersey;

d) the medium and long-term sustainability of the States finances, having regard to the foregoing matters; and

e) transfers to or from, the Strategic Reserve Fund and Stabilisation Fund, having regard to the foregoing matters.

2.3.3 The Comptroller and Auditor General (C&AG) has a duty under the Law (Article 46(2)(a)) to provide the States with independent assurance that money withdrawn from the Fund has been used for the purpose for which it was authorised to be withdrawn.

2.3.4 The Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (hereafter referred to as "the Regulations") (Chapter 2 – Investment of money owned or controlled by the States) requires the Minister for Treasury and Resources to develop and keep under review an Investment Strategy for money to which Article 6 of the Law applies (Regulation 3), which includes the Strategic Reserve Fund. The Investment Strategy must be presented by the Minister to the States (Regulation 4). Once presented this empowers the Minister and the Treasurer of the States to carry out the required transactions necessary to invest the money of the Strategic Reserve Fund in accordance with the Investment Strategy.

2.3.5 The Treasurer must ensure compliance with the Investment Strategy (Regulation 5) and is responsible for appointing investment managers and other qualified persons (Regulation 6).

2.4 – Strategic Reserve Fund investment structure

2.4.1 In line with the Investment Strategy set by the Minister for Treasury (see section 2.3.4) and Resources[5] in order to meet the purpose of the Fund, the entire investment portfolio of the Strategic Reserve Fund is invested through the Common Investment Fund[6].

2.4.2 The financial implications of P.84/2009 include the need for the Strategic Reserve Fund to hold £100 million in readily marketable assets if the Fund is to provide a source of funding to support the Banking Business (Depositors Compensation) (Jersey) Regulations 200-. This is within the scope of the current Investment Strategy.

2.5 – The use of the Strategic Reserve Fund

Definitions

2.5.1 For the purpose of interpreting this report, the following definitions apply:

- **Initial Capital Invested**: the cumulative net capital invested in the Strategic Reserve Fund from inception (1986) to 31 December 2012 (£117,175,224). (Capital In – Capital Out = Net Capital Investment)

- **Investment Returns**: the actual or forecast cumulative investment returns on initial capital settled into the Strategic Reserve Fund. Investment returns are achieved based on the current Investment Strategy in operation at that time.

- **Total Fund Value**: the initial capital invested plus investment returns, i.e. the Net Asset Value (NAV).

- **Initial Capital Invested in real terms**: the initial capital invested increased by annual Jersey RPI(Y) increases, using 31 December 2012 Fund value as a base (£651 million).

- **Real Investment Returns**: the difference between the total Fund Value and the Initial Capital Invested in real terms.

The Strategic Reserve Fund balance of £651 million is defined as the Capital value of the Strategic Reserve Fund. The Capital Value of the Strategic Reserve Fund will be maintained in real terms using the Jersey RPI(Y) for the Inflationary factor.

Use of Real Investment Returns for the New Hospital Services

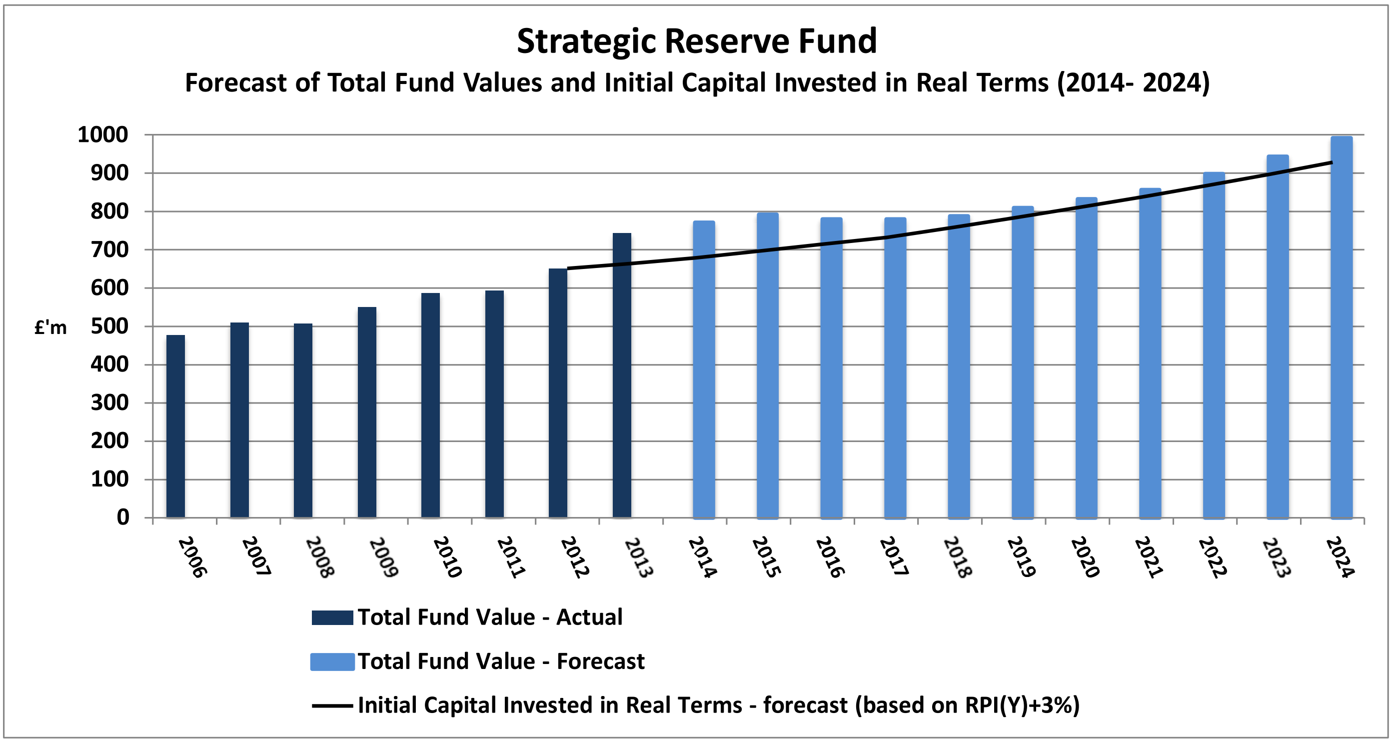
2.5.2 Any future Real Investment Returns of the Strategic Reserve Fund from the 1 January 2013 onwards will be used to fund the costs of the new hospital services. The States have agreed to the draw down up to £297 million from the Strategic Reserve Fund for this purpose..

2.5.3 For calculation purposes, all Real Investment Returns will be accumulated from 1 January 2013 going forward, for future years. The Total Fund Value as at 31 December 2012 of £651 million will be used as the start position for the calculation of forecast Real Investment

[5] R.139/2013 States Investment Strategies, presented to the States on 11 November 2013.
[6] R.139/2013 States Investment Strategies, presented to the States on 11 November 2013.

Returns for future years. The Real Investment Returns will then be available to be drawdown to meet the total costs of the project up to £297 million. Cash-flows will be drawn down in line with the project cash-flow requirements.

2.5.4 The following chart and supporting information, forecasts the Real Investment Returns for years 2014 to 2024. This includes the latest assumptions available for future forecast Investment Returns (based on RPI(Y) +3%) and RPI(Y) as at June 2014.



£'million	**2013 Actuals**	**2014 F'cast**	**2015 F'cast**	**2016 F'cast**	**2017 F'cast**	**2018 F'cast**	**2019 F'cast**	**2020 F'cast**	**2021 F'cast**	**2022 F'cast**	**2023 F'cast**	**2024 F'cast**
Total Fund Value Actual / Forecast - opening	651.0	743.1	771.3	791.9	779.5	779.8	787.8	809.2	832.0	856.2	898.3	943.2
Estimated Growth @ 3% p.a above RPI(Y)	92.1	38.4	43.3	43.5	41.7	49.3	50.3	51.7	53.1	55.2	58	60.9
Net Growth - Hospital Allocation (2013 onwards)		-10.2	-22.7	-55.9	-41.4	-41.3	-28.9	-28.9	-28.9	-13.1	-13.1	-12.6
Total Fund Value Actual / Forecast - closing	**743.1**	**771.3**	**791.9**	**779.5**	**779.8**	**787.8**	**809.2**	**832.0**	**856.2**	**898.3**	**943.2**	**991.5**
Inflation - RPI(Y)	-13.0	-14.5	-18.0	-18.1	-17.3	-24.9	-26.0	-26.9	-27.8	-29.1	-30.1	-31.2
Net Growth after inflation	79.1	23.9	25.3	25.4	24.4	24.4	24.3	24.8	25.3	26.1	27.9	29.7
Net Growth Cumulative	*79.1*	*103.0*	*128.3*	*153.7*	*178.1*	*202.5*	*226.8*	*251.6*	*276.9*	*303.0*	*330.9*	*360.6*
Net Cumulative Growth - Hospital Allocation	0.0	-10.2	-32.9	-88.8	-130.2	-171.5	-200.4	-229.3	-258.2	-271.3	-284.4	-297.0
Cumulative Net Growth left not allocated to Hospital	**79.1**	**92.8**	**95.4**	**64.9**	**47.9**	**31.0**	**26.4**	**22.3**	**18.7**	**31.7**	**46.5**	**63.6**
Forecast Investment Return assumptions (p.a)	14.1%	5.2%	5.7%	5.7%	5.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Forecast RPI(Y) assumptions (p.a)	2.0%	2.2%	2.7%	2.7%	2.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

2.5.5 **The Forecasts above are estimates based on the actual forecast information available as of today therefore actual results are likely to vary from the above.**

2.5.6 The Treasury Department is responsible for tracking the actual level of Investment Returns available for drawdown from the Fund. They will prepare a schedule on a quarterly basis which shows the actual amount of returns available for use.

2.5.7 A Treasurer's Decision is required to transfer funds from the Strategic Reserve Fund to the Consolidated Fund as and when monies are required to be withdrawn from the Fund.

3. GOVERNANCE

Legal Responsibilities

3.1 Details of those empowered under the Public Finances Jersey (2005) Law and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 to carry out actions on behalf of the Strategic Reserve Fund are covered in section 2.3 of this report.

Scheme of Delegation

3.2 Where the Minister and / or Treasurer delegate their financial authority, a Scheme of Delegation must be documented. The Scheme must detail what authority has been delegated to whom and any limits placed on that delegation.

Required / Assumed Knowledge of this report

3.3 **Accounting Officers: All**

Finance Directors: All

Treasury Officers: Directors

APPENDIX E

Rules for the Operation of the Stabilisation Fund

1. SUMMARY AND OBJECTIVE

1.2 The Treasury and Resources Minister in his response to the Fiscal Policy Panel 2013 Report proposed before the 2015 Budget "to set out ... confirmation of the role of the Stabilisation Fund and how it should be replenished." (R.149-2013)

1.3 Therefore, it is proposed therefore that a Financial Direction be issued under Article 34 of the Public Finances Jersey (2005) Law (hereafter referred to as "the Law") and applies to all States funded bodies as defined in the Law.

1.4 The purpose of this report is to set out the mandatory requirements in relation to the Stabilisation Fund. Specifically it includes:

- The purpose of the Stabilisation Fund;
- The powers and limitations placed on the Fund by the Law;
- Those empowered to carry out actions on behalf of the Fund;
- Stabilisation Fund investment structure and
- The use of the Stabilisation Fund.

1.3 **Who should I contact if I have a question / need further guidance?**

Further information and guidance can be obtained from your departmental finance team in the first instance, then if necessary finance may need to contact:

2. SPECIFIC REQUIREMENTS

2.1 – The purpose of the Stabilisation Fund

Introduction

2.1.1 The Stabilisation Fund ("the Fund") was established by the States under P.133/2006 ("Establishment of a Stabilisation Fund and Policy for Strategic Reserve,") on 5 December 2006 with an initial capital injection of £32 million transferred into the Fund to make Jersey's fiscal policy more countercyclical in order to create a more stable economic environment with low inflation.

2.1.2 The Fund was enshrined in law on the enactment of the Public Finances (Jersey) Law 2005. Articles 4A (1) and (2) of the Public Finances (Jersey) Law 2005, requires that the money shall not be withdrawn from the Stabilisation Fund otherwise in accordance with a decision of the States, made on the recommendation by the Minister for Treasury and Resources and provided it is credited to the Consolidated Fund (see section 2.2.1).

2.1.3 The States' Economic Growth Plan sets out the importance that macroeconomic stability has in creating the conditions for economic growth and low inflation. One key requirement for economic growth is the need to provide a stable economy for businesses and consumers to make decisions in. The credit-rating agency Standard and Poor's awarded the States of Jersey a long-term credit rating of AA+ with a stable outlook in 2014.

P.133/2006

2.1.4 The establishment of the Stabilisation Fund was approved by the States in P.133/2006[7], which stated that " a special fund, to be known as the Stabilisation Fund, be established, with (a) the purpose of the Fund being to make fiscal policy more countercyclical and create in the Island a more stable economic environment with low inflation. (b) the Minister for Treasury and Resources to be responsible for proposing to the States the transfers between the Consolidated Fund and the Stabilisation Fund having regard to the advice of a new independent Fiscal Policy Panel appointed by the States…(c) the fund to be set up with the transfer of £32 million surplus funds currently available from the Dwelling House Loans Fund."

2.1.5 In relation to the operations of the Fund, when the economy is performing strongly money should be paid into the Stabilisation Fund and when the economy is performing more weakly then money should be withdrawn from the Fund, approved by the States.

2.1.6 P.133/2006 further states that a …" A suitable target level (guideline rather than a cap) for the Fund would be 15-20% of total States net expenditure, equivalent in today's money of £75-£100 million.."

2.1.7 P.133/2006 policy for the Stabilisation Fund, further says that "Once the framework has been established and is in operation its effectiveness should be reviewed by the Economic Adviser (seeking input from Fiscal Policy Panel members and the Treasury and Resources Minister). It is important that as experience is gained in the operation of the framework then where possible it is strengthened and improved. Developing the right macroeconomic policy framework for Jersey will be a process of evolution but implementing these recommendations will be a big step forward for the Island."

States Propositions

2.1.8 Since the establishment of the Fund, it has continued to operate in line with the purpose as defined under P.133/2006. With States approval granted for fund flows into and out of the Fund. P.179/2009 is an example of the States approving, a budget transfer from the Stabilisation Fund of £37 million to replace the States fall in States Revenues in 2010 and to enable a working balance of £20 million to be maintained in the Consolidated Fund in 2010.

Fiscal policy Panel 2010 report

2.1.9 **Jersey's Fiscal Policy Panel Annual Report 2010, recommended that the economy appeared to continue to operate below its potential capacity. In further recommended that it was appropriate to use the Stabilisation Fund to cover the deficits in the near term. The panel project that the Fund would be exhausted by the end of 2011.**

[7] P.133/2006 'Establishment of a Stabilisation Fund and Policy for Strategic Reserve', approved by the States on 5 December 2006.

2.2 - The powers and limitations placed on the Fund by the Law

2.2.1 In accordance with Article 4A(1) and (2) of the Law, transfers to or from the Fund must be via the Consolidated Fund and must be approved by the States through a proposition lodged by the Minister for Treasury and Resources.

2.3 – Those empowered to carry out actions on behalf of the Fund

2.3.1 The Accounting Officer of the Stabilisation Fund is the Treasurer of the States, who is personally accountable for the proper financial management of the Fund in accordance with Article 38(A)(2) of the Public Finances (Jersey) Law 2005.

2.3.2 Under Article 56C of the Law, the Fiscal Policy Panel (FPP) is required to prepare and publish an annual report upon the state of the economy in Jersey and the States finances. The Article 56C(2) Law states that the matters commented upon in the report must include:

f) the strength of the economy in Jersey;

g) the outlook for the economy in Jersey and, generally, world economies and financial markets;

h) the economic cycle in Jersey;

i) the medium and long-term sustainability of the States finances, having regard to the foregoing matters; and

j) transfers to or from, the Strategic Reserve Fund and Stabilisation Fund, having regard to the foregoing matters.

2.3.3 The Comptroller and Auditor General (C&AG) has a duty under the Law (Article 46(2)(a)) to provide the States with independent assurance that money withdrawn from the Fund has been used for the purpose for which it was authorised to be withdrawn.

2.3.4 The Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (hereafter referred to as "the Regulations") (Chapter 2 – Investment of money owned or controlled by the States) requires the Minister for Treasury and Resources to develop and keep under review an Investment Strategy for money to which Article 6 of the Law applies (Regulation 3), which includes the Stabilisation Fund. The Investment Strategy must be presented by the Minister to the States (Regulation 4). Once presented this empowers the Minister and the Treasurer of the States to carry out the required transactions necessary to invest the money of the Stabilisation Fund in accordance with the Investment Strategy.

2.3.5 The Treasurer must ensure compliance with the Investment Strategy (Regulation 5) and is responsible for appointing investment managers and other qualified persons (Regulation 6).

2.4 – Stabilisation Fund investment structure

2.4.1 In line with the Investment Strategy set by the Minister for Treasury and Resources[8] (see section 2.3.4) in order to meet the purpose of the Fund, the investment portfolio of the Stabilisation Fund can carry out is investments through the Common Investment Fund[9].

2.4.2 The Fund has a long term strategic aim for the investment of monies not needed in the short/medium term, whilst the remainder of funds are held in cash and cash equivalents. The cash holdings in the Fund are subject to the same restrictions placed on the cash in the Consolidated Fund.

2.5 – The use of the Stabilisation Fund

Definitions

2.5.1 For the purpose of interpreting this report, the following definitions apply:

- **Initial Capital Invested**: the cumulative net capital invested in the Stabilisation Fund from inception (2006) to 31 December 2011
 (£-7.0million). (Capital In – Capital Out = Net Capital Investment)

- **Investment Returns**: the actual or forecast cumulative investment returns on initial capital settled into the Stabilisation Fund. Investment returns are achieved based on the current Investment Strategy in operation at that time.

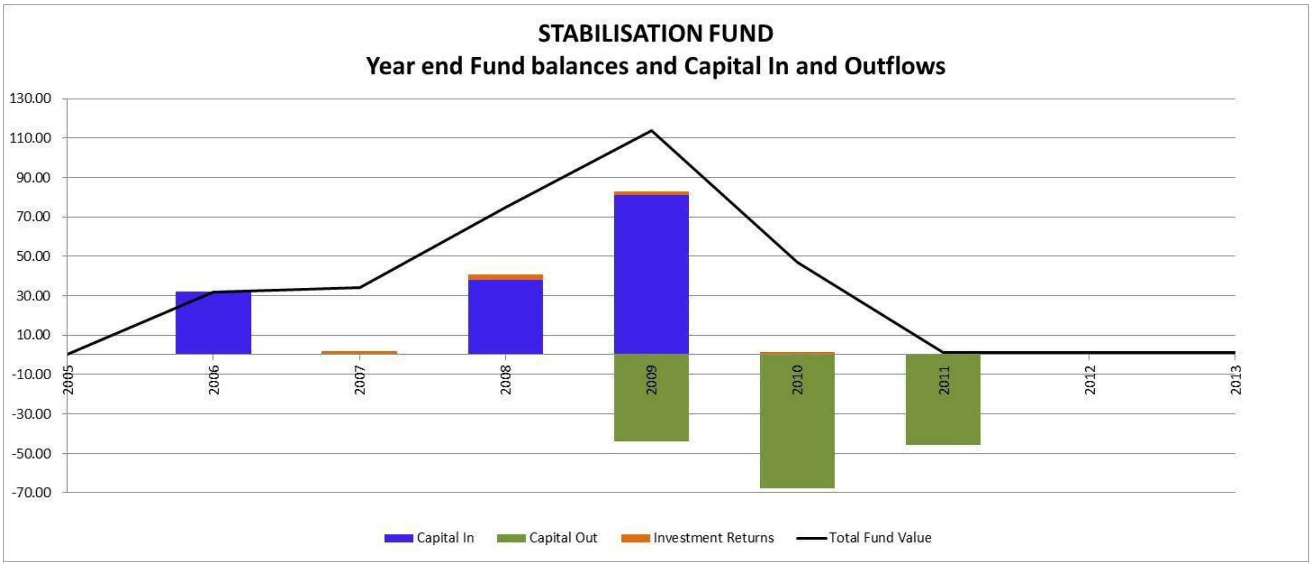
- **Total Fund Value**: the initial capital invested plus investment returns, i.e. the Net Asset Value (NAV).

The Total Fund Value (NAV) as at 31 December 2013 was £1.059 million available for use in line with the purpose of the Fund. **The Fiscal Policy Panel Annual Report 2010 assumed that all monies would have been exhausted by the end of 2011 to help the economy, as referred to in paragraph 2.1.9.**

2.5.2 A summary of the Capital in and outflows to the Fund since inception of the Fund are shown in the table and graph below. The Total Fund Value (NAV) as at 31 December 2013 was £1.059 million available for use in line with the purpose of the Fund.

[8] R.139/2013 States Investment Strategies, presented to the States on 11 November 2013.
[9] R.139/2013 States Investment Strategies, presented to the States on 11 November 2013.

Balance as at 31st December	Opening Fund Balance	Capital In	Capital Out	Investment Returns	Closing Fund Balance
	£'m	£'m	£'m	£'m	£'m
2005	-	-	-	-	-
2006	-	32.000	-	-	32.000
2007	32.000	-	-	1.855	33.855
2008	33.855	38.000	-	2.889	74.744
2009	74.744	81.000	(44.000)	1.955	113.699
2010	113.699	-	(68.000)	1.298	46.997
2011	46.997	-	(46.000)	0.009	1.006
2012	1.006	-	-	0.044	1.050
2013	1.050	-	-	0.009	1.059
		151.000	(158.000)	8.059	1.059



2.5.3 The Treasury Department is responsible for tracking the actual level of Investment Returns available for drawdown from the Fund.

3. GOVERNANCE

Legal Responsibilities

3.1 Details of those empowered under the Public Finances Jersey (2005) Law and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 to carry out actions on behalf of the Stabilisation Fund are covered in section 2.3 of this report.

Scheme of Delegation

3.2 Where the Minister and / or Treasurer delegate their financial authority, a Scheme of Delegation must be documented. The Scheme must detail what authority has been delegated to whom and any limits placed on that delegation.

Required / Assumed Knowledge of this report

3.3 Accounting Officers: All

Finance Directors: All

Treasury Officers: Directors

APPENDIX F

Proposed repayment of all of Jersey New Waterworks Limited's Fifth Preference Share, Class of Share Capital

Summary of the Proposals are as follows:-

A. As part of the 2015 Budget, the States are recommended to approve that the Treasury and Resources Minister request for The Jersey New Waterworks Company Limited, a public company limited by shares, incorporated in 1882 and operating under the Companies (Jersey) Law 1991, to ask the shareholders of the company to pass a special resolution for the following:-

   a. Alter The Jersey New Waterworks Company Limited's Memorandum of Association by special resolution, to reduce its share capital – by removing the Fifth Preference Share, class of share capital.
   b. To repay the States of Jersey, the sole shareholder of the all the Fifth Preference Shares, a fair market value for the shares (estimated at £7.4 million). The shareholding represents 900,000 issued and fully paid 10% cumulative fifth preference shares of £5 with a par value of £4.5 million.

B. Under Article 10 of the Company's Articles of Association of the Company may by special resolution reduce its share capital in any way. Under Article 90 of the Companies (Jersey) Law 1991 a majority to pass a special constitutes two-thirds of the shareholders. The States of Jersey currently holds 83.33% of the voting rights in the Company.

C. The share capital of the company is made up of The Ordinary Shares, 'A' Ordinary Shares, Preference Shares, Second Preference Shares, Third Preference Shares, Fourth Preference Shares and Fifth Preference Shares. The States of Jersey owns all the 'A' Ordinary shares, 50% of the Ordinary shares and all of the Fifth Preference Shares.

D. This transaction does not transfer the shares to a 3rd Party but instead represents the repayment in full by The Jersey New Waterworks Company Limited for all the 10% Preference shares held by the States.

E. This will not dilute the States of Jersey's voting rights held in the Company.

Impact on the States of Jersey's voting rights held

A. The States owns all the 4,620,000 (100%) of the 'A' Ordinary Shares, 2,520,000, (50%) of the Ordinary shares and 900,000 (100%) of the 10% Cumulative Fifth preference shares.

B. Under Article 34.1(b) of the Company's Articles of Association:-

C. *"on a poll every holder of shares who is present in person or by a duly appointed proxy shall have one vote for each Ordinary Share held by him and one vote only for all the preference shares held by him irrespective of the number and class of such preference shares save that so long as the States of Jersey hold all the 'A' Ordinary Shares they shall on a poll at all* *general meetings of the Company be entitled to so many additional votes as shall bring the total number of votes attaching to the said 'A' Ordinary Shares to twice the total number of votes cast in respect of all other shares."*

D. In the Company's, Annual Report and Financial States for the Year ended 31 December 2013 – the States of Jersey was reported as a significant shareholder, holding 83.33% of the voting rights of the Company.

E. The removal of the Fifth preference share has one vote attached to this share class therefore it will not dilute the States of Jersey's percentage voting rights – it is estimated to continue to remain at 83.33%, as the Preference Shares hold only one vote.

F. The following table is our estimate of the current and future voting rights to be held:-

Share Capital	shares of £0.5 each	2013 Par Value £	Total votes	Maximum States of Jersey Element		Estimated States votes Post Share repayment	
Equity Share Capital							
Ordinary shares	5,040	2,520	5,040	2,520	(50%)	2,520	(50%)
A' Ordinary shares ([1])	4,620	2,310	4,620	4,620	(100%)	4,620	(100%)
Maximum voting adjustment for A ordinary shares			5,460	5,460	(100%)	5,460	(100%)
	9,660	£ 4,830	15,120	12,600		12,600	
Preference share capital							
5% cumulative preference shares of £5	17,261	86		-			
3.5% cumulative second preference shares of £5	17,402	87		-			
3% cumulative third preference shares of £5	23,509	118		-			
3.75% cumulative third preference shares of £5	16,036	80		-			
5% cumulative third preference shares of £5	11,400	57		-			
2% cumulative fourth preference shares of £5	90,877	454		-			
10% cumulative fifth preference shares of £5	900,000	4,500		-	(100%)		(0%)
		£ 5,382	1	1		-	
Total possible votes			15,121	12,601		12,600	
				83.33%		83.33%	

[1] A Ordinary shares carry twice the number of votes cast in respect of all other shares. The number of votes attaching therefore varies depending on the number of votes cast by other classes.

Proposed value for repayment

G. The 10% Cumulative Fifth preference shares are currently valued in the States of Jersey's 31 December 2013 balance sheet as part of the Strategic Investments, at £7.4 million. This represents Fair Value under our accounting treatment.

H. This 10% Cumulative Fifth preference share is valued in the States' accounts using a Dividend Valuation model which applies a discounted cash flow methodology to the dividends expected to be received in relation to the shares. The discount rate applied for the valuation is set by the Treasurer of the States currently at 6.1%.

I. Therefore whist the par value of the Shares is £4.5 million; the States currently values this investment at £7.4 million for accounting purposes, reflecting the Dividend return at 10% per annum well exceeding the current discount rates of 6.1%.

J. It is proposed therefore that the Shares be repaid at a fair market value to be determined and agreed between the Company and the Treasury and Resources Minister acting on behalf of the States. The Fair Market value to be in excess of the par value (estimated at £7.4 million).

Allocation of receipt of monies and impact on States Income

A. In order to actively manage the Balance Sheet and improve the financial position for the States, the monies to be received in 2014 therefore improving the States cash balances.

B. The States currently receives £450,000 dividend returns per annum from the 10% cumulative fifth preference shares. This dividend will impact returns for 2014 onwards, as included in the Medium Term Financial Plan.

C. A Summary of the Impacts on the Consolidated Fund are as follows:-

Impacts on the Consolidated Fund	2014 £'000	2015 £'000
Receipt of Monies from the Repayment	-	7,400
Dividend Foregone for the Preference Share (2014 representing a half year)	-	(450)
Adjustment for non- cashflows (20% Income Tax on dividend)	-	90
Impact on Consolidated Fund	**-**	**7,040**
Impact on Other Income	0	(450)

A. Other Information

The main reasons for the proposed redemption of these shares are as follows:-

- This will help The Jersey New Waterworks Company Limited to revise their capital structure for the Company in line with current financing market rates. The intention is to continue to maintain and deliver long term growth in shareholder value for the States.
- This transaction will not dilute our Voting rights in The Jersey New Waterworks Company Limited.
- By asking the Company to pass resolutions to repay the Fifth Preference Share and to cancel this class of share capital, it ensures that this shareholding will be transferred to another organisation outside of the States at a coupon rate of 10%, above current levels of investment returns.
- Under the Public Finances (Jersey) Law 2005, Article 68 – the Minister will act as a responsible shareholder, protecting the States financial interest in the company, by encouraging its growth and development, in line with Industry peers.
- This transaction will reduce the States of Jersey's shareholder value in the Company by £7.4 million, in comparison to the 2013 financial accounts, instead similar funds being received in the States cash balances.

APPENDIX G

Allocation of funding from the proposed shareholder returns

As part of the Budget 2015, The States are asked to approve the redemption of all the Fifth Preference Shares in The Jersey New Waterworks Company, the fair value of which at the end of 2013 was £7.4 million. Based on this valuation, it is assumed that £6.8 million is an achievable cash receipt.

It is also anticipated that Jersey Post will pay an Extraordinary Dividend of £5 million to the States of Jersey in 2014.

These additional monies from States of Jersey shareholdings, totalling £11.8 million, will be spent on specific capital projects which form part of the 2015 Capital Programme as detailed below.

In the event that the Proposition to redeem The Jersey New Waterworks Company Preference Shares is not approved and the Jersey Post dividend does not materialise, alternative funding sources will have to be identified in order that the projects listed can proceed.

Capital Projects included within the Combined Capital Programme	£'000 2015
Chief Ministers	
Payroll replacement	1,000
Education Sport & Culture	
School ICT	1,000
Additional Primary School	63
Sports Strategy Infrastructure	1,450
Health and Social Services	
Replacement of MRI Scanner	2,277
Replacement of RIS/PACS	1,567
Transport and Technical Services	
EFW Plant La Collette Replacement assets	681
Road Safety Improvements	635
Jersey Fleet Management	
Vehicle replacement	300
Replacement Assets	
Health and Social Services	2,827
Total	**11,800**