DRAFT
MEDIUM TERM FINANCIAL PLAN ADDITION for 2017-2019

Council of Ministers

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

Proposition

Medium Term Financial Plan Addition 2017 - 2019

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

following the States' approval of the Draft Strategic Plan 2015 – 2018, P.27/2015, as amended, adopted on 30th April 2015, and of the total income targets and total States' net expenditure limits for 2016 – 2019 in the Medium Term Financial Plan 2016 – 2019, P.72/2015, as amended, adopted on 8th October 2015, to receive the draft Medium Term Financial Plan Addition 2017 – 2019 and, in accordance with the provisions of Articles 8 and 8A of the Public Finances (Jersey) Law 2005 –

(a) to approve the following amounts (not exceeding in aggregate the total amount of States' net expenditure for financial years 2017 to 2019 which were approved in P72/2015 as amended) –

(i) the appropriation of an amount to a revenue head of expenditure for each States funded body (other than the States trading operations) being the body's total revenue expenditure less its estimated income, including the in principle approval of the new user pays proposals, commercial liquid and solid waste charges, as set out in **Appendix 1**, for the financial years 2017 to 2019 set out in **Summary Table B**, with in relation to the head of expenditure of the Health and Social Services Department, the approval of £5,000,000 in each of the financial years 2017 to 2019 dependent in accordance with Article 16(4) of the Public Finances (Jersey) Law 2005, on the approval by the States of the transfer of these sums from the Health Insurance Fund to the Health and Social Services Department;

(ii) the amount to be allocated for Contingency for the financial years 2017 to 2019 as set out in **Summary Table C;**

(iii) the amount to be appropriated to Growth expenditure for the financial years 2018 and 2019, as set out in **Summary Table D;**

(b) to approve the following, as set out in **Summary Table E**, in respect of the Jersey Car Parking and Jersey Fleet Management States trading operations for the financial years 2017 to 2019 –

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

(c) to approve, in principle and in accordance with P82/2012, the introduction of an income-based Health Charge to raise £7,500,000 in 2018 and £15,000,000 in 2019, with details of the charging mechanism and legislation to be proposed and debated as part of the Budget 2017;

(d) to endorse the total estimated non-cash net revenue expenditure for depreciation for States funded bodies (other than the States trading operations) for the financial years 2017 to 2019 as set out in **Summary Table B.**

COUNCIL OF MINISTERS

Notes:

Notwithstanding the expenditure proposal for the States payment of rates from 1st January 2017, the Minister for Treasury and Resources will defer bringing forward details for a funding mechanism and legislation until the Budget 2018 to deliver £900,000 from 2018. This will maintain the Strategic Plan requirement to deliver an equivalent funding mechanism and importantly allow more time for consideration with the Comité des Connétables and Parish Officials.

As previously indicated in the MTFP 2016 - 2019 (P72/2015) as adopted on 8th October 2015, the Council of Ministers and the Minister for Treasury and Resources will bring a separate proposition and relevant legislation forward to the Assembly to enable the Office Modernisation Project to progress and the relevant funding to be allocated in the 2017 - 2019 period.

The Council of Ministers has a preferred site for the future hospital provision for the Island and will be considering the options for funding such a project. A Proposition will be brought to the Assembly, for debate alongside the MTFP Addition in September 2016, with proposals for the approval of the preferred site and funding for the feasibility work. A final Proposition for the future hospital and proposed funding of such facilities will be brought forward in the first half of 2017.

To facilitate the phased introduction of an income based Health Charge, legislation changes will be brought forward to allow the Health Insurance Fund to make a contribution to Health expenditure of £5 million in each of the years 2017 to 2019 and proposals will be required from the Minister for Social Security to be debated alongside the draft MTFP Addition in September 2016.

The Minister for Social Security will also be bringing forward proposals for a targeted Christmas bonus and to continue the provision of the food costs bonus.

The Minister for Infrastructure will be bringing forward proposals for the introduction of Concessionary travel for people with disabilities, following the States unanimous adoption of P140/2015, for debate alongside the draft MTFP Addition, with the proposed funding to be made available from the Car Parks Trading Fund, consistent with the remit of the Fund agreed by the States on 19th October 2004 with the adoption of the proposition: Car Parking Charges: allocation of additional income to the funding of transport initiatives (P.147/2004).

The MTFP Addition also includes ***as Appendix 13*** *estimates of the various Social Security Funds as recommended by the Comptroller and Auditor General in R.38/2015 "Review of Financial Management".*

Contents

REFERENCES

Pxx/2016 (Add) – Department Annex to the MTFP Addition 2017-2019 (June 2016)
Pxx/2016 (Add(2)) – Distributional Analysis of the MTFP Addition 2017-2019 (June 2016)
Pxx/2016 (Add(3)) – Detailed Income Tax Forecast Note for the IFG (May 2016)
P127/2015 – Budget 2016 (December 2015)
P.27/2015 – Strategic Plan 2015
P.27/2015(Add) – Resources Statement to the Strategic Plan – Update of Public Finances
R107/2015 – Fiscal Framework for the Medium Term Financial Plan 2016-2019 and Beyond
R.133/2014 – Long Term Tax Policy
P72/2015 - Medium Term Financial Plan 2016-2019
P72/2015 (Add) - Medium Term Financial Plan - Department Annex for 2016
P.76/2015 – Strategic Reserve Transfers – COI and MTFP funding
FPP – Pre MTFP Report (January 2015)
FPP Annual Report for 2015 (September 2015)

1. Council of Ministers' Foreword

The States Strategic Plan set a clear direction for government: investment should be allocated to the agreed priority areas of health, education and St Helier, while also upgrading our essential infrastructure, supporting the economy and keeping spending under control.

The package of proposals in this Medium Term Financial Plan aims to keep Jersey successful by planning prudently for the future. Its strategy is to focus the available funds on priority areas and balance budgets by 2019, as advised by the Fiscal Policy Panel.

It concentrates on improving Islanders' lives by investing in key public services. It also recognises the need to boost economic growth and diversification, essential for creating the jobs and income we need to pay for services.

Last year we published proposals for total annual income and spending from 2016 - 2019 and detailed departmental spending for 2016. Now we are proposing detailed departmental spending for 2017-2019. We said last year that a two stage plan would give us time to ensure our Public Sector Reform programme was changing the way we deliver services and that our savings and efficiencies proposals were making permanent reductions to base budgets.

Since becoming Chief Minister in November 2011, through the Comprehensive Spending Review, successive budgets and public sector reform - £85 million has been taken out of department budgets. £38 million of that was permanently removed from budgets in 2016.

In 2015 we saw a net reduction of 165 full time equivalent posts, and 114 people have left the organisation through voluntary redundancy since the scheme opened in 2015. This facilitates our continued focus on reducing headcount as we restructure the public sector.

Every department is doing its bit for Jersey by reprioritising, finding efficiencies, making sure our organisation is working as well as it can for our long term future. As part of our reform programme Lean techniques have been used to streamline services. We have been bringing our staff together to enable better cooperation between departments. We are turning around the long term underinvestment in our essential infrastructure and we have transformed an outdated social housing model so islanders can enjoy more secure, affordable housing. In 2015 Andium built 88 new homes and will be investing more than £200 million over the coming years, improving people's lives and transforming areas of St Helier.

Crime continues to fall and we are getting islanders back to work. Since last year we have seen the highest ever number of people in paid work. We have invested money into the economy, spending more on services and capital projects than we take out in tax. Anti-discrimination legislation has come into force, Freedom of Information is firmly established, we have been developing a new Mental Health Law, a Capacity and Self-Determination Law, and a new Mental Health Strategy for Jersey.

And latest indicators show the island is recovering from the global downturn. In 2014 our economy grew by nearly 5%, GDP per head went up 3% and average earnings were up by 0.9 percentage points more than inflation between June 2014 and 2015.

This financial plan moves funds into the agreed priority areas. Health and Social Services will be receiving additional annual funding of almost £40 million by 2019; education will be receiving £11 million of additional funding every year from 2019. £168 million has been allocated to capital projects over the four years of the plan, including £55m for school buildings, £43m for sewage works and £21m for IT systems. And we are investing in the economy through initiatives that will have a positive effect on economic growth or productivity.

The Fiscal Policy Panel has validated our approach - supporting the economy in the short-term, investing in the services and infrastructure that support growth in the medium-term, and balancing our books at the right time.

As a result of the vote by the people of the United Kingdom to end their membership of the European Union there is likely to be a period of some uncertainty across the UK and Europe, but Jersey is well placed to weather the effects of this change.

Jersey's Government and industry have been busy establishing the foundations for the Island's future prosperity by diversifying our economy into new service sectors such as digital, and growing and strengthening our links with dynamic markets around the world, in areas like the Middle East, Asia and Africa. This clear plan, together with substantial reserves and a prudent approach to our finances, means that Jersey is in a strong position to take action to stimulate its economy if needed, and to secure our long-term economic future. We have planned for many months for the outcome of this referendum and will continue to promote Jersey's interests and work to protect our position as the UK negotiates its exit from the EU.

This financial plan will embed the changes we have set in motion and put Jersey on a path to secure and sustainable finances. Targeted investment will help develop the skills our children need to achieve fulfilling careers and it will prepare our health service for the challenges ahead. We will continue to encourage innovation in island businesses and inward investment, so we can sustain a healthy job market, low unemployment, high quality public services and an island with strong public finances that islanders are proud to call home.

Senator I.J. Gorst

Chief Minister

2. Council of Ministers' Executive Summary

Our Plan

Background

Jersey is one of the world's most successful small jurisdictions. It is a great place to live and work, and compares extremely well with other places in the OECD's Better Life Index for things like overall life satisfaction, personal safety and social support networks.

As we enter a period of increased uncertainty as a result of the UK's decision to leave the EU our economy is performing well and our public finances are in a much stronger position than most other places. We have considerable reserves, minimal debt and assets of nearly £6 billion.

Jersey is in this position because we have consistently looked ahead and prepared for the future, and we want to keep it that way. The States Strategic Plan and the Medium Term Financial Plan set out how Jersey can meet the challenges and opportunities of a changing world and maintain this success for future generations.

Priorities

This plan supports our priorities. It invests in the health and social care we need as our society ages, and it funds improvements in our education system so all our children can reach their potential and develop the skills they need to achieve fulfilling lives and careers. It will keep Jersey special by improving our town, preserving our outstanding natural environment, and investing in our infrastructure.

In order to achieve this we are creating the right environment for economic growth, increasing productivity and efficiency, reducing costs, reprioritising our spending and introducing some user pays charges. These measures will enable the investment we need, while also remaining within our agreed spending limits and balancing our books by 2019.

Two stage plan

We have presented this plan in two stages. Last year we agreed the total annual spending limits from 2016 - 2019 and departmental spending for 2016. This is the second stage, which proposes detailed departmental spending from 2017-2019. This process has allowed time to assess the impact of the proposals on Islanders, to ensure that the States' reform programme is changing the way services are delivered and that our savings measures are making sustainable reductions in budgets: £38 million has already been removed from departments' budgets in 2016.

This second part of the plan, the 'MTFP Addition', takes into account the impact of the measures implemented in the past year, the information contained in the States Accounts, the revised economic assumptions and recently updated income forecasts.

Headline figures

This plan maintains focus on the priorities agreed by the States Assembly and responds positively to the challenges we face.

- In order to invest in our priority areas of health, education, St Helier and economic growth we are bringing forward a package of measures to reprioritise spending and balance our budgets by 2019: we are finding staff and non-staff savings of **£73 million**; introducing user-pays charges of **£4 million**; containing benefit spending to save **£10 million**; raising **£15 million** per year by 2019 through a new health charge; and introducing charges for the disposal of commercial refuse and liquid waste to raise **£11 million** per year by 2019.

- These figures differ from last year as the financial position has improved. Income in 2015 was higher than forecast, partly due to a change in accounting policy and this effect will continue into future years. This, and the 2016 budget measures, have enabled us to reduce the amount that needs to be raised through a health charge from **£35 million** in 2019 down to **£15 million**.

- In 2016 we invested an extra **£26 million** to deliver our priority services. This will increase to almost **£70 million** per year by 2019.

- As we are all living longer we want to stay healthy throughout our lives, so we are allocating almost **£40 million** of additional annual funding by 2019 to transform health and social care.

- Jersey needs to remain globally competitive with a highly skilled workforce. We are preparing for demographic changes by extending some of our schools, and ensuring our young people can reach their potential. We are providing almost **£11 million** of growth funding for education by 2019 – that's **£2 million** more than was allocated last year. **This extra funding will be used to help more young people access higher education**.

- The transformation of the public sector continues. To balance our budget over the life of this plan, and to ease the impact on Islanders, we are following the advice of our economic advisers to use some reserves to support the economy in the early stages of recovery. We will use the **£70 million in 2015 and 2016** as agreed from the Strategic Reserve and a further **£30 million** over the period of the MTFP Addition to fund items like our capital spending programme. We will also transfer **£5 million** per year from the Health Insurance Fund in 2017-2019 to fund primary health care delivered by Health and Social Services while the health charge is being introduced.

- We are spending **£168 million** for capital projects from 2016-19, including more than **£56 million** for Les Quennevais, Grainville and St Mary's Schools.

Improving health and well-being

By 2035, there will be sixty-five per cent more people over the age of 65 than there are today, and twice as many people over 85. It's good news that people are living longer and it is our responsibility to care for islanders as they age, playing our part now and not expecting future generations to pick up the bill.

As the number of people in Jersey aged over 65 increases from 17,000 today to a projected 28,000 by 2035, our income will come from a smaller proportion of working age people. We will need to fund complex new health technology, and drugs and treatments to keep islanders healthy. We will need to spend more on helping people to stay well, and more on the early years of life which are so important to lifelong health and well-being. We are also investing more in mental health services as a person's quality of life is about more than their physical health.

We are allocating £40 million of additional annual funding for health and social care by 2019. This includes £19 million more each year to meet increased demand and to respond to changes in standards of care, £4.5 million to support vulnerable families, safeguard children and improve the first critical 1001 days of a child's life. This will involve improved antenatal preparation, perinatal mental health care and early literacy, as well as health promotion campaigns on breastfeeding and avoiding alcohol during pregnancy.

There will be £1.5 million more for mental health services, £4 million more to treat people at home and in community settings, and £8 million more each year to redesign services at the hospital so emergency patients can be treated safely on the same day, avoiding unnecessary admission to hospital and reducing the length of stay for those who do need to be admitted.

This spending will be supported by the introduction of a new health charge which will be phased in, raising £15 million per year by 2019 (as explained in **Section 12).**

We have identified a preferred site for a new hospital. Further proposals will be lodged with the States Assembly, together with outline funding proposals, before the end of 2016.

We are proposing that funds from the Car Park Trading Fund be used to help with transport costs for people with disabilities. A separate proposal will be lodged with the States Assembly.

Improving education

We are committed to helping all our children to reach their full potential. Over the last ten years Jersey's academic performance has plateaued, so we have refocussed our work on four priorities; raising standards, updating the curriculum, supporting families and giving head teachers more freedom. A key project is the Jersey Pupil Premium, which will help children who are at risk of under-achieving in their education. Alongside this we are ensuring we have sufficient places for pupils in our schools and we are building stronger links with businesses, so young people can leave school ready for the world of employment or their next steps in education.

We will allocate nearly £11 million of growth funding for education by 2019. As well as the Pupil Premium, that includes extra funding for IT education and £2 million to help more families with the cost of higher education. We are continuing to invest in our school infrastructure with more than £55 million for Les Quennevais, Grainville and St Mary's Schools. We have just built a new primary school for St Martin and six primary schools have been extended or improved to meet the need for places as numbers rise – d'Auvergne, Plat Douet, Springfield, Trinity, Bel Royal and Mont Nicolle.

Improving St Helier

We are regenerating our capital, St Helier, so it is a great place to live and work. We are making sure that quality public space is included in new town developments and we are working closely with the Parish to improve services. That includes paying rates on States properties from 2017.

Andium is investing more than £200 million in new and improved homes over the coming years, improving people's lives and transforming areas of St Helier. In 2015 Andium built 88 new homes and refurbished existing homes at developments like Hampshire Gardens to meet the Decent Homes Standard. In the coming years they will be building much needed new homes, for instance at Ann Court and Summerland, and refurbishing sites such as Convent and Caesarea Courts.

The States of Jersey Development Company plans to invest more than £150 million in St Helier over the period of the plan - building grade A office space to meet the demand of expanding businesses and to ensure that we can attract valuable inward investment business. These new office developments free up older office buildings to be transformed into homes, a process that has already begun in some areas of St Helier. The SOJDC is also providing 40 affordable one-bedroom shared equity apartments as part of the College Gardens development, currently being built on the site of the old Jersey College for Girls.

Improving infrastructure

We are continuing to invest in vital public infrastructure, much of it in St Helier. We are spending £168 million on capital projects in the four years of the plan. The largest expenditure over the period will be:

- £43.4 million for the Department for Infrastructure, much for a new sewage works
- £55.7 million for Les Quennevais, Grainville and St Mary's Schools;
- £21 million to replace essential IT systems and enable the modernisation of public services
- £14.3 million for replacement of equipment operated by the Department for Infrastructure
- £14 million for replacement of equipment operated by Health and Social Services
- £8.2 million for next phase of prison refurbishment (when available through Criminal Offences Confiscation Fund)
- £5 million for minor capital requirements
- £3.5 million to extend Jersey Archive
- £1.2 million to replace fleet vehicles (such as ambulances)
- £1.7 million to complete refurbishment Sandybrook residential home

We are also planning for the impact of climate change, the biggest global threat to all aspects of life.

Supporting economic growth

We are following FPP advice to support the economy in the short term to sustain the economic recovery we have seen developing in the last two years. When capital expenditure is taken into account the net impact of States spending will be to add 4%-6% of GVA over the 2016-19 period. The plans to invest a significant amount in our infrastructure will also help to lay the foundations for future economic growth.

We are continuing to help create the right environment to boost our economy through diversification and productivity improvements, to provide extra revenue for our public services. We will sustain our programme of investment in infrastructure, in the Jersey International Finance Centre and Social Housing through arms-length, self-financing organisations. We are attracting new business through active inward investment and promotional activities supported by high standard regulatory regimes.

Last year we set aside £5 million for targeted measures in 2016 that could demonstrate that they would improve economic growth, productivity, skills and job opportunities. We have set aside a further £13.5 million for the period 2017-19.

£3 million of this has been used to protect the budgets of External Relations, financial services, digital, innovation and competition. Maintaining Jersey's reputation abroad and in key international organisations is vital to ensure the long term health of the financial services industry, particularly as the UK and EU enter a period of uncertainty created by the decision to leave the EU.

The remainder of this funding will be allocated to specific projects across all sectors of the economy that can contribute to economic growth and productivity improvements. Allocation will be subject to a strict governance structure.

The top priority of the first Medium Term Financial Plan 2013-15 was to get people into work. Funding of £7 million per year went on reducing unemployment, extra support for apprenticeships and increased student numbers at Highlands College. Funding was provided to organisations like Jersey Finance, Jersey Business and Digital Jersey to grow the economy, and to establish a London office to build Jersey's international profile.

The *Back to Work* programmes have been successful in getting islanders into employment, so we are proposing to maintain much of this funding despite falling unemployment. As the economy improves, *Back to Work* services are being rolled out to additional groups, who may face extra barriers to work.

Economy

International developments

The global economy has entered a new period of heightened uncertainty and financial market turbulence following the decision of the UK to leave the European Union. The implications for the UK economy in both the short and long term remain unclear and the Bank of England has already stated that some "market and economic volatility can be expected" and that it "will not hesitate to take any additional measures required".

Even before these new developments, the OECD highlighted in their June Economic Outlook that "Eight years after the financial crisis, the recovery remains disappointingly weak" and that the global economy is expected to grow by 3% in 2016 (similar to that in 2015) and with only a slight improvement in 2017.

Global trade growth is also very subdued, with the emerging economies having lost momentum and a modest upturn in the advanced economies held back by slow wage growth and weak investment.

The OECD concludes that growth rates will be much weaker than anticipated and well below pre-crisis levels. They highlighted a number of risks to the global economy and these risks will have been compounded following the UK's decision on EU membership.

Jersey Economy

The Jersey economy goes into this period of heightened uncertainty in a stronger position than most jurisdictions and we are well placed to deal with many of the risks, including those that could emerge as a result of the decision of the UK to leave the EU.

Average earnings have exceeded inflation for three consecutive years. In 2014 Jersey's economy grew by nearly 5% and GDP per head went up 3%. From June 2014 to June 2015 average earnings were up by 0.9 percentage points more than inflation and housing market activity was up 11% in the first three months of 2016 compared to the same period a year earlier. The combination of real growth in earnings and strong growth in employment is a sign of real economic growth in the Jersey economy.

Early indicators of financial services performance in 2016 show positive trends, with increases in both regulated funds and banking deposits. Latest figures saw total employment up more than a thousand over the previous year, and seasonally adjusted figures saw 20 fewer people looking for work than a year earlier.

We are, to a large degree, maintaining existing budgets for tourism, agriculture and other business sectors, reflecting their important contribution to our economy and island life.

The Fiscal Policy Panel refreshed its 2015 analysis of the Jersey economy in March 2016. At that time they expected the economy to return to capacity between 2017 and 2019 and they reiterated their advice that the MTFP should address any structural imbalance in States finances by 2018/2019. We have followed advice to use a small proportion of our considerable reserves during the early years of the MTFP to minimise the risk to the economic recovery.

The FPP has also consistently highlighted concerns about Jersey productivity performance. The latest data shows that productivity increased in 2014 as a result of an increase in financial services productivity, with the non-finance sector seeing a slight fall in productivity. We aim to build on these improvements with the investment allocated to support productivity growth.

The decision by the UK to leave the EU and its implications for the UK and Jersey economies are still unclear but they place even greater emphasis on the FPP's advice to ensure that the plan is flexible enough to deal with changing economic circumstances. Accordingly the Treasury and Resources Minister has asked the FPP for updated advice by mid-July.

We are following FPP advice to support the economy in the short term and the proposals in the plan will see an extra 4-6% added to our GVA between 2016 and 2019. The Council of Ministers is ready to respond if the external economic environment starts to deteriorate and FPP advise a different approach.

There are a number of ways to support the local economy:

- Allow income tax and benefit spend to adjust automatically to help islanders and reduce any impact on the economy
- the Council of Ministers can place funding in the Stabilisation Fund if needed, from contingencies or reserves, to be used in a timely, targeted and temporary way to support the economy
- the Economic and Productivity Growth Drawdown Provision is in place to support policies that can help bolster economic growth. Proposals to use this funding to mitigate the economic impacts of the UK's withdrawal from the EU would potentially be in scope for this funding.

Income forecasts

The remit of the Income Forecasting Group was expanded in 2015 and its membership strengthened with two external advisers. It aims to provide balanced and prudent forecasts and this plan is based on the latest forecasts produced in June 2016. The forecasts now take into account the latest economic assumptions from the FPP (March 2016), the encouraging financial results from 2015, the spending limits agreed in the MTFP 2016-2019 and the funding measures required to achieve balanced budgets by 2019.

The economic forecasts have fallen slightly since September 2015, and partly offset the improved income in 2015.

The main changes are increased revenue from personal income tax balanced against a small net reduction in forecast tax from companies and impots. Overall the impact is to increase income by £7 million per year by 2019.

The forecasts are provided as a range but the Income Forecasting Group stresses the risks are on the downside of the central scenario due to the uncertainties in the global economy and economic outlook. They endorse the views of the FPP that the plan must include appropriate flexibility. The response to any variations in income depends on the scale of change.

Improving efficiency and reducing costs

Reforming the public sector

Reform of the public sector is essential if we are to fund our priority areas while also balancing the books by 2019. Many governments are adopting new ways to provide services and we must demonstrate our own capacity to innovate, learn and adapt. We risk wasting resources if we maintain 20th Century ways of working while the world around us changes radically.

That is why we are re-thinking what we do and how we do it so that every pound counts towards securing Jersey's future. It means embracing innovation and new models of service delivery. It means examining how we use, deliver and interpret technology and data. It requires new ways of working with partners and the public to achieve our goals, so whoever can deliver outcomes most efficiently and effectively provides the services, whether that's the private, public or voluntary sector. Services will change, some may be delivered by other organisations, and some services will cease.

Savings and efficiencies

Departments have been asked to find efficiencies, which come from thinking creatively, using Lean techniques and providing services in a more efficient way, while also improving customer service.

Last year we set ourselves a target of £90 million in savings and efficiencies. It became clear that delivering such a target over this time frame would have a disproportionate impact on the community. We took these concerns into account, as well as the better than forecast income in 2015 and the likely distributional impact of the planned proposals. We decided to extend the time frame to enable departments to find efficiencies to meet the target, thereby helping to minimise the impact on islanders. This means departments will continue to restructure and reduce costs but over a longer period. Service reviews are still underway and further efficiencies will come as the public sector adopts a culture of continuous improvement and reaps the benefits of technological change and office rationalisation.

We will deliver £73 million in staff and non-staff savings by the end of 2019, most of which is being delivered through efficiencies, workforce modernisation and pay restraint.

We anticipate that the next Medium Term Financial Plan will still require efficiency savings in order to continue to meet the rising costs of an ageing population. This will be an important aspect of a culture of modernisation across the public sector.

In seeking savings and efficiencies throughout the public sector, departments are working to:

- focus on priority services
- provide services more efficiently and cost effectively
- simplify processes
- restructure and merge departments
- remove unnecessary regulations
- maintain pay restraint
- invest in e-Government

To support this effort over the period of the plan £40 million has been allocated to transform the public sector, invest in e-government and improve customer services, as well as funding workforce modernisation, staff redundancies and severance. Our emphasis is on voluntary programmes, using the 6% staff turnover rate to manage vacancies and reducing headcount naturally as staff leave.

Workforce modernisation

We value the contribution of our public sector workforce and recognise the importance of developing a fair pay structure through Workforce Modernisation. We also have to recognise that staff costs represent more 50% of our budgets and we must keep the same tight rein on the pay bill as on the rest of our resource, to deliver best value for money.

We have been designing a new pay structure that will help us change the way we provide services. This new structure will integrate the variations in terms and conditions that exist across the organisation and will be simpler and fairer, ensuring equal pay for work of equal value. It will also make it easier for employees to move around the public sector in response to changing customer and service needs.

We have been applying a policy of pay restraint across the public sector since 2012, to help keep the public sector pay bill within the agreed limits and support investment in our strategic priorities. This policy will need to be maintained for the period of this plan and will contribute significantly to the spending target.

Staffing

Our employees are the organisation’s most valuable asset and we know they value job security. However the public sector has to react to changing circumstances. We have agreed to reduce the number of staff as we restructure the organisation and make the most of rapidly developing technology. Overall we will see fewer staff in some areas, but numbers will rise in priority areas of health and education.

Officers are working with staff and their representatives to redesign the way we provide services. Until reviews are concluded later this year we cannot say precisely what the figures will be.

The continued focus on restructuring services and reducing headcount has seen 162 applications for voluntary release approved since 2015, which has produced annual savings of £5.5 million per year.

Benefit changes

The Social Security Department provides more than £350 million worth of benefits every year. This includes £167 million for old age pensions and £75 million for Income Support, as well as funding for GP and drug subsidies, incapacity allowances, long term care and cold weather payments.

Benefit changes of nearly £10 million were agreed last year as part of the first stage of the Medium Term Financial Plan, to support extra investment in health and education spending.

The changes were chosen with an emphasis on ensuring that the benefit system is fair, encourages financial independence, and to ensure that public money is well targeted. As far as possible, the effects on individuals are being minimised by spreading the impact across larger groups of claimants.

A new targeted Christmas bonus and an expanded health scheme for people over 65 will provide extra support to key groups.

Distributional analysis

One of the ways we can assess the impact of spending and savings proposals is to research their impact on various households with different levels of income. This kind of assessment is not the only way to inform policy decisions. It has to be balanced against other priorities like the health of the economy and other ways of regarding fairness.

The distributional impacts of policy changes are complex and not always clear cut, especially where changes in expenditure are included. Even where it is possible to consider the impact of measures on households of different income this may only be looking at part of the picture. To fully understand the situation it would also be necessary to take account of wider impacts in terms of wealth, welfare and impacts over people's lifetime which are difficult to assess.

Health and social services

Spending on health and social services is generally considered to benefit all, but particularly those in lower income groups. The Institute for Fiscal Studies concludes that the largest item of public spending, health, benefits lower income groups as that is where ill health is concentrated.

Education

The impact of education spending on different households is less clear. However, a large proportion of the increase in education spending is on the Jersey Pupil Premium, with a further increase in secondary education. This suggests that the increase in education spending will benefit those in lower income groups. We are also increasing funds by £2 million to help more people on lower incomes access Higher Education.

Benefits

A number of benefit changes were agreed last year as part of the first stage of the Medium Term Financial Plan. These changes were made up of £8.3 million from Income Support and £1.6 million from removing the previous Christmas bonus.

Income Support is paid almost entirely to people on lower incomes. Changes were designed to target spending more carefully and to encourage claimants to move towards financial independence. They affect about 6,500 households who are mainly towards the lower end of the income distribution. These changes do not affect about 36,500 households who do not claim Income Support, and these households range from the low end to the top end of the income distribution.

The previous Christmas bonus provided nearly £85 to about 19,000 households (mainly pensioners) irrespective of wealth. By introducing a new, means tested, Christmas bonus and by providing an expanded health scheme for people over 65, much of the impact of this change will be offset, and vulnerable households at the lower end of the income distribution will not be affected.

Other spending

The distributional impact of spending outside health, education, social housing and welfare is not straightforward. Likewise the beneficiaries of capital spending are not always clear.

Distributional impacts need to be balanced against other ways to assess fairness, for instance inter-generational fairness, and against other objectives such as the efficiency of public services, the competitiveness of the economy and the requirement to put finances on a sustainable footing to help secure economic growth and future prosperity.

It is also important to put it in the context of the impact of government policy as a whole, and to consider the options for compensating measures to offset any impacts thought to be unfair**. However, the Council of Ministers has taken into account the distributional analysis undertaken and adjusted its plans accordingly**. (**see Section 14 for a Summary**)

User pays charges

Health

As sustainable savings are now being delivered, we have agreed the form of a new funding mechanism to help pay for the significant investment in health and social care. The original plan was that this new charge would raise up to £35 million per year by 2019. Given time to reflect on the better than expected financial position in 2015 and improved income forecasts for 2016-2019, we are proposing to introduce an income-based charge which would raise £7.5 million by 2018, increasing to £15 million in 2019. Further details will follow in the Budget 2017.

This financial plan proposes efficiencies and savings. It also asks Jersey businesses to pay their way, acknowledging the fact that many local firms do not pay tax and have enjoyed public services subsidised by personal taxpayers for many years.

Waste

We have been looking at introducing user pays charges for waste disposal, as is done everywhere else. The intention was to raise up to £10 million to pay for services, improve environmental outcomes and manage demand. We have agreed to introduce charges for the disposal of commercial waste as these services have, up to now, been paid for out of general tax revenue rather than by the companies themselves. This means individual taxpayers have been subsidising business costs.

The Council of Ministers has reviewed the £10 million target and raised it by £1 million, so the Infrastructure Department will bring detailed proposals to the Assembly in 2017 to raise £3 million in 2018 and £11 million in 2019. The phased introduction of these waste charges will result in businesses budgeting for their own refuse and liquid waste disposal.

Other User Pays

There are a number of other charges that help to make up the £4.6 million of user-pays charges.

An extra £0.1 million is being allocated to the Nursery Education Fund to provide States funded places for children in nurseries to cater for high birth numbers in 2010-12. However, higher income families will receive less support as a result of means-testing access to 20 free hours of pre-school education for households earning more than £85,000.

The Education Department will review the fee-paying sector to ensure full value for money and that the service is in line with the Department's key priorities. Subsidies are likely to be reduced by 1% in 2018 and 3% in 2019, subject to States approval.

Businesses will pay for the cost of their fire certification, a service that is currently subsidised by tax payers, and the work of the explosives officer will be covered by charges to those that use the service.

Strategic and Long Term vision

Over the next 20 years our community will face unprecedented changes. Like many other places Jersey is experiencing an ageing population; growing health challenges; increasing resource pressures; the need to respond to climate change; and rapid technological innovation changing the way we live and work. How we adapt will determine the future wellbeing of our Island.

Managing a successful future will require strategic direction and investment over many years, so the Council of Ministers has reviewed the way Jersey's government plans for the long term and is introducing a new approach that reflects international advice and well established practice. Its key elements are to focus on outcomes, on the impact policy changes have on people's lives and on government working together with the private, voluntary and community sectors to tackle the biggest challenges facing our Island.

The focal point of this new approach is a long term Island Vision that describes what we, as a community, believe Jersey can achieve over the next 20 years. The Council has launched a ten month consultation designed to help develop this new 20-year Island Vision.

The new approach will set a clear direction for the future and set the framework for how to get there. It will enable the government to sequence policy, investment and funding priorities so that short and medium term plans serve as stepping stones towards the agreed long term outcomes. This plan is an important step in that direction.

Conclusion

Jersey has a clear plan to tackle the issues that are also facing many advanced economies. Our society is ageing, global competition is intensifying, and we are seeing rapid technological and environmental change. Unlike many other places Jersey starts from a position of considerable strength with little debt, significant reserves and a proven track record of fiscal discipline and remaining nimble in the face of rapid change.

This plan explains how we will prioritise our available resources to achieve our strategic goals of investment in health, education, St Helier, economic growth and maintaining our vital infrastructure, while delivering balanced budgets by 2019. At the same time we are ready and able to act on the basis of FPP advice should there be any impacts on the local economy from the UK's decision to leave the EU.

It highlights our strategy for seizing opportunities and maintaining our success as a community in a fast changing world.

3. Strategic and Long Term Vision

Our Purpose

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

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

Our Strategic Goals

The Council has a collective responsibility to deliver better lives for Islanders and a better future for Jersey. Ministers are the custodians of a range of social, environmental and economic Strategic Goals which are currently organised around Ministerial portfolios:[1]

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

[1] *The Strategic Goals have been given a reference number to assist cross-referencing against change projects listed in the summary information for each department in the MTFP Addition Annex*

The Strategic Plan process

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

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

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

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

Prioritisation does not automatically mean additional funding. In some areas, targeted growth has been agreed to invest in new initiatives or respond to increasing demand but prioritisation is also about transforming the way we develop services, processes - and even strategy.

Changing World, Changing Island

Over the next 20 years, Jersey like all countries around the world will need to revise their policies to accommodate unprecedented changes to the economic, social and environmental conditions we've become accustomed to.

These challenges will transform Jersey as we know it today. Jersey has always been able to adapt to address economic and financial challenges and changed through time and the Island is more than capable of meeting the challenges of tomorrow. The responsible policy approach is to create a business environment which meets these changes along with an ever increasingly skilled workforce equipped to compete in the changing world.

Experience shows that taking decisions early will always secure a better outcome. Jersey distinguishes itself from other jurisdictions in already having taken difficult decisions that others have put off and need to take today.

The changing age and health profiles of our population will change the nature of our community and increase demand on our services. New technology is already changing our homes, the jobs we do, the ways we socialise and the ways we shop. A changing climate will impact on our environment, our businesses and our way of life. Jersey is already experiencing increasing air and sea temperatures, more frequent severe weather events and rising sea levels. Climate change impacts will have a significant implications for our environment, our businesses and our way of life. There are very real risks but also clear opportunities for Jersey to differentiate itself as a secure, resilient Island.

How we adapt to all these changes will determine the future wellbeing of our Island and because we have already taken certain difficult decisions early, particularly related to our ageing population the Island is now in a position of strength.

Preparing for the Future

The 2015 Strategic Plan and the MTFP represent this Council's medium-term plan to help prepare Jersey for the challenges and opportunities we will face, as a community, in this changing world.

The MTFP represents one step on a journey, but a single term of office is too short a period in which to introduce new policies and demonstrate their true impact. Shaping and securing our future will require strategic direction and investment of effort over many years.

This is why the Council of Ministers has reviewed the way Jersey's government plans for the future and is introducing a new approach that reflects international advice and well established practice.

The key elements of this new approach are:

- a focus on outcomes – results which people can identify with such as living longer, healthier lives or getting good jobs – which are designed to stay in place for the long term rather than a single election cycle;
- indicators which show the change we want to bring about and let us know if we are succeeding;
- a focus on the impact on people's lives– not about how things are delivered, the amount of money spent or the number of programmes that have been introduced; and
- an opportunity for government to work together with the private, voluntary and community sectors on the development of plans and actions to tackle the biggest challenges facing our Island.

The focal point of this new approach will be a long term Island Vision that describes what we, as a community, believe Jersey can achieve over the next 20 years and defines the level of change required. That means understanding where we are now, what we value most about Jersey today and agreeing our shared aspirations for the future.

Consultation

In June 2016, the Council launched a consultation to help develop this new 20-year Island Vision. This is a ten month project organised in three phases:

Phase One: 'Share' (June to July 2016):
Gather ideas from residents about their vision for the future of Jersey.

Phase Two: 'Shape' (July to December 2016)
Consider the feedback from Phase 1, take into account evidence about key social, economic and environmental trends and invite further debate on specific issues. Consider best practice from elsewhere, discuss potential trade-offs and how we can work together to bring an Island Vision to life. This phase will produce a draft Island Vision for discussion.

Phase Three: 'Agree' (January to April 2017)
Provide opportunities for Islanders and stakeholders to review the draft Vision and consider if it's heading in the right direction.

The new approach will set a clear direction for the future, define what we believe Jersey can achieve, and set the framework for a coherent set of delivery strategies designed to get us there.

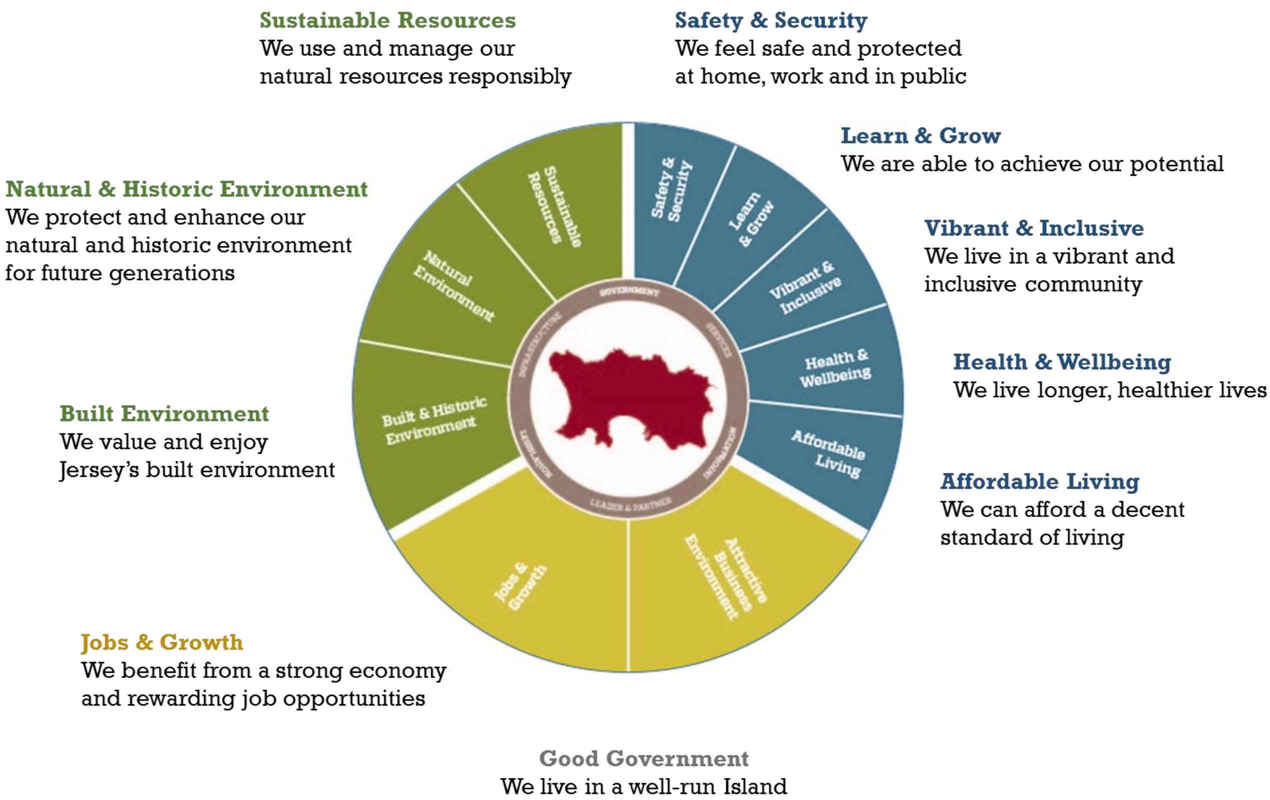
The Vision Framework

Around the world, strategic planning is often based on three core themes of community, economy and environment. This approach recognises that achieving a balance between these themes is key to making a place attractive to live, invest or visit.

If we are to organise a broad-ranging conversation about Jersey's future that addresses each of these themes and defines what we hope to achieve, we need a coherent structure to collate and interpret Islanders' views.

This is the purpose of the Vision Framework. We built it by drawing on local experience and best practice elsewhere, then tested and refined it in workshops with members of the public, politicians and officers

Figure 1: The Vision Framework



Each Goal breaks down into a set of **Outcomes**. These are the 'things that must go well' if it is to be achieved. So for example, the Safety and Security Goal cascades into outcomes about crime, fire safety, health and safety, road safety and emergency planning. These five outcomes are all essential to the safety of people and property in Jersey.

The Outcomes are the fundamental building blocks of the Island Vision. They are about the wellbeing of the Island. As such, they require the participation of the whole community, public and private partners to make a difference.

The Island Vision

The Island Vision will define our shared ambitions for each of the community, economic and environmental outcomes. It will become the cohesive document that *'sets the signposts for the future'* as envisaged by the States in 2012.[2]

It will:

- provide clarity about Jersey's future ambitions for its economy, community and environment and the level of change required to get us there;

- clearly identify key inter-dependencies and where difficult choices need to be made. It ensures that the options are more explicit and makes it easier to resolve trade-offs;

- stimulate discussion on the resource prioritisation and different ways of working needed to deliver the required levels of change;

- provide a clear mandate for the ongoing development of joined-up delivery strategies designed to put Jersey on a course to achieve these agreed outcomes;

The Island Vision will also provide transparency on what the States is working to achieve, not just during one political term of office, but over the longer term.

Measuring Jersey's Progress

The next key component of the Framework is a core set of 'headline' Indicators that measure Jersey's progress as a whole, rather than Ministerial or departmental performance.

These Island Indicators will be collated and published in an accessible, transparent way so they can be used to understand Jersey's progress and inform strategic planning. Setting the Island Indicators is the first step in the development of a new, comprehensive performance management framework for government and its partner agencies.

Wherever possible, the proposed Island Indicators have been chosen because they are already in use locally and are widely represented in similar indicator systems adopted across the world.

[2] P.28/2012 Strategic Plan, p12

Reviewing the Vision

The Island Vision will provide an overarching brief to set direction, guide decisions and ensure delivery strategies, policies and services are properly aligned. Of course, it cannot be completely fixed with certainty from the outset. It is, after all, created at a particular moment in time on the basis of the available information. It must evolve in response to circumstances and learning along the way.

Each incoming Council will have the right to review and refresh the Vision. It will need to undertake a strategic assessment that takes into account progress towards, and achievability of, the Vision in the light of changing circumstances.

This will help incoming Councils recalibrate the Island Vision, identify the pressing priorities of the day and develop their own medium-term plans to keep Jersey on course.

Four Year Focus – the Common Strategic Policy

By Law, each new Council of Ministers is required to produce *'a statement of their common strategic policy'* within four months of their appointment.

The 'common strategic policy' will become a four-year Priority Plan that enables *'each new States Assembly to make informed decisions on their priorities'* in the context of the Island Vision.[3] It defines what each new Council will do during its tenure, taking into account the issues and resource capacity identified in the strategic assessment**.** The Priority Plan informs –

- recalibration of the Delivery Strategies designed to help achieve Jersey's desired long term outcomes;
- a Medium Term Financial Plan which aligns funding of departments and delivery strategies accordingly;
- a Corporate Delivery Plan which collates the major change projects that departments will deliver during the Council's term of office. These change projects will align to the Delivery Strategies or the corporate services (human resources, information technology, etc) that support their delivery;
- the development of integrated departmental plans which identify their role in the delivery of the Island Vision, the change projects they own, how the services and infrastructure they manage contribute to the Delivery Strategies and how their performance will be measured and improved.

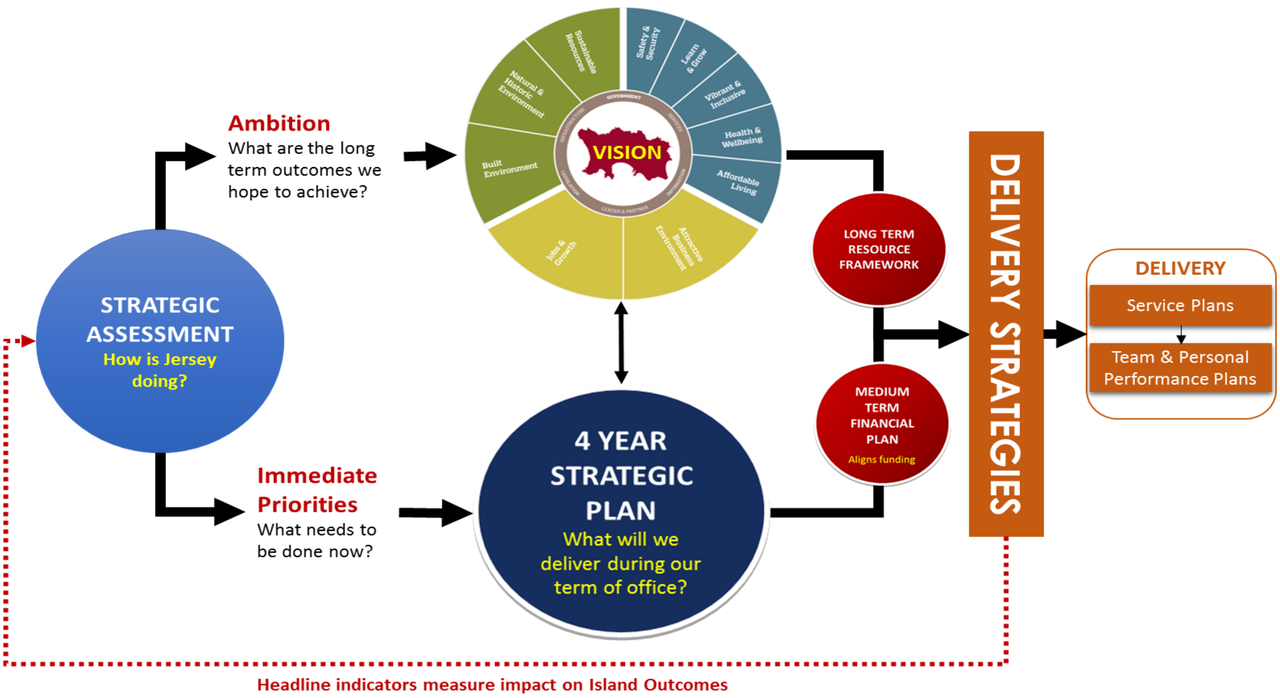
This new approach will facilitate improved integration of all aspects of the planning system, including performance and risk management. It will also promote an improved approach to strategy design and co-ordination.

[3] P.28/2012, p.12

An important feature of the framework is that it can be reviewed through different lenses. Addressing issues such as social exclusion, climate change or the key determinants of health require a focus on different Goals from across the framework and the interplay between them. The framework provides the enduring framework against which cross-cutting issues can be tested and evaluated.

Figure 2 summaries the proposed new strategic planning system.

Figure 2: The Strategic Planning Process



Public Sector Reform

The public sector will play an important part in helping deliver many of these outcomes. No other organisation has the same capacity to deliver social, economic and environmental change in the Island. Setting an Island Vision requires government to step back and think about the role it expects the public sector to play and the capacity of the organisation to respond to emerging challenges and opportunities. Ensuring that the public sector is ready for the challenges that lie ahead is, above all else, what public sector reform is about. More information on the Public Sector Reform Programme is provided at **Section 11.**

4. Development of Medium Term Financial Plan Addition

The Medium Term Financial Plan process

The Medium Term Financial Plan (MTFP) sets out the States' overall tax and spending envelope for the period 2016 - 2019. The MTFP 2016 -2019 was split into two stages to allow more time to develop the detailed department expenditure proposals for 2017-2019, recognising the scale of the reform of public expenditure required because of the reduction in income forecasts and the uncertainty over the MTFP period.

In the first stage of the process, the MTFP 2016 - 2019 (P72/2015) approved in October 2015, set the financial framework and limits within which the detailed income and expenditure proposals for 2016 - 2019 were to be developed and the States agreed:

- Total States income targets for 2016-2019;
- Total maximum expenditure allocations for each year 2016 – 2019;
- Total net capital expenditure allocations for each year 2016 – 2019;
- Department spending limits, central contingencies, savings and other measures for <u>2016 only.</u>

The MTFP 2016 - 2019 also provided indicative capital expenditure programmes for 2016 - 2019 and the intended transfers to and from the Strategic Reserve for 2016 - 2019, the latter were subsequently approved by the States.

MTFP Addition

The MTFP Addition 2017 - 2019 is the second stage of the process and provides the detailed revenue expenditure proposals for 2017 - 2019 representing:

- Individual Departmental spending limits, central contingencies, savings for 2017 – 2019;
- Central Growth allocation for 2018 and 2019;
- Total depreciation estimates for 2017 - 2019;
- Expenditure, income and minimum contributions, if any, from States Trading Operations for 2017-2019.

The above figures have to be set within the maximum expenditure limits set in the MTFP 2016 – 2019.

In addition the Council of Ministers is proposing, in principle, a funding mechanisms for Health, which will be finalised in the Budget 2017 and new "user pays" charges including for waste. In order to provide a more inclusive picture of States resources and following input from the Comptroller and Auditor General forecasts for the funds administered by Social Security are also provided in the Addition.

The structure of the Medium Term Financial Plan provides that it is traditionally split into two parts and the format for the MTFP 2017 -2019 Addition is no different:

- The formal lodged report and proposition which provides background to the States financial and economic position, the revenue and capital expenditure proposals and details of the measures that are proposed to maintain a balance on the Consolidated Fund, supported by proposals to actively manage the balance sheet to deliver balanced budgets by 2019.
- A detailed Annex which provides summary information and detailed financial information for each department, describing the department's purpose and responsibilities and the major changes planned to support the Council of Ministers' priorities and government's broader Strategic Goals for 2017 – 2019 including:
    - detail of how the proposed department expenditure limits will be allocated to services in each year;
    - a summary service analysis for the department for each year, including manpower levels;
    - a reconciliation of the changes in expenditure allocations for each year; and
    - details of the individual savings, efficiencies and user pays proposals by department for each year

5. Resource Principles and Fiscal Framework

Sustainable Public Finances

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

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

Resource Principles for Spending and Taxation

The MTFP 2016-2019 was developed in line with the Resource and Taxation Principles reviewed and agreed as part of the Strategic Plan (April 2015). Together with the MTFP 2016-2019, the MTFP Addition 2017-2019 aligns resources to priorities, maintains core services and meets government's statutory responsibilities. The Plans are supported by the new Fiscal Framework which sets out a clear and transparent decision making process. It will assist in making fiscal decisions that support the Island's economic objectives as set out in the Strategic Plan and underpins medium-term fiscal sustainability.

The Resource Principles agreed in the Strategic Plan are:

Spending

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

Taxation

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

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

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

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

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

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

Fiscal guidelines

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

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

Rules for the key funds

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

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

The Fiscal Policy Panel

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

The Annual and Medium-Term budgetary framework

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

Further development

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

6. Economic Background and Outlook

International developments

The global economy has entered a new period of heightened uncertainty and financial market turbulence following the decision of the UK to leave the European Union. The implications for the UK economy in both the short and long term remain unclear and the Bank of England has already stated that some “market and economic volatility can be expected” as result of the decision and the process to leave unfolds. The Bank has also indicated that in the future it “will not hesitate to take any additional measures required”.

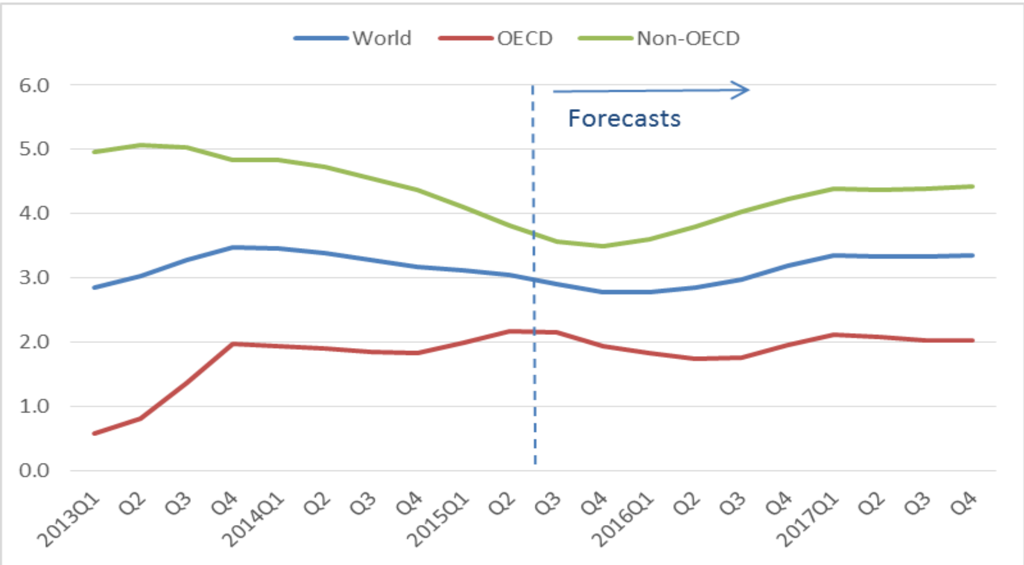
Even before these new developments, the OECD highlighted in their June Economic Outlook that “Eight years after the financial crisis, the recovery remains disappointingly weak” and that the global economy is expected to grow by 3% in 2016 (similar to that in 2015) and with only a slight improvement in 2017. They also stressed that the EU referendum in the UK had raised uncertainty and that “an exit would depress growth in Europe and elsewhere substantially”.

Global trade growth is also very subdued, with the emerging economies having lost momentum and a modest upturn in the advanced economies held back by slow wage growth and weak investment. Low commodity prices and interest rates will continue to offer support to many countries although this will be offset by volatile financial market conditions.

The combination of all these factors leads the OECD to conclude - even before the UK referendum - that growth rates would be much weaker than anticipated a few years ago and well below pre-crisis levels. In addition, such an extended period of low growth is likely to have damaged the supply-side potential of economies.
The OECD highlight that risks persist with financial instability in emerging markets and difficulties in agreeing effective policy responses to the economic challenges in many economies, particularly in Europe. These risks will have been compounded following the UK’s decision on EU membership.

Figure 3: World economic growth

quarter-on-quarter % changes at annual rates



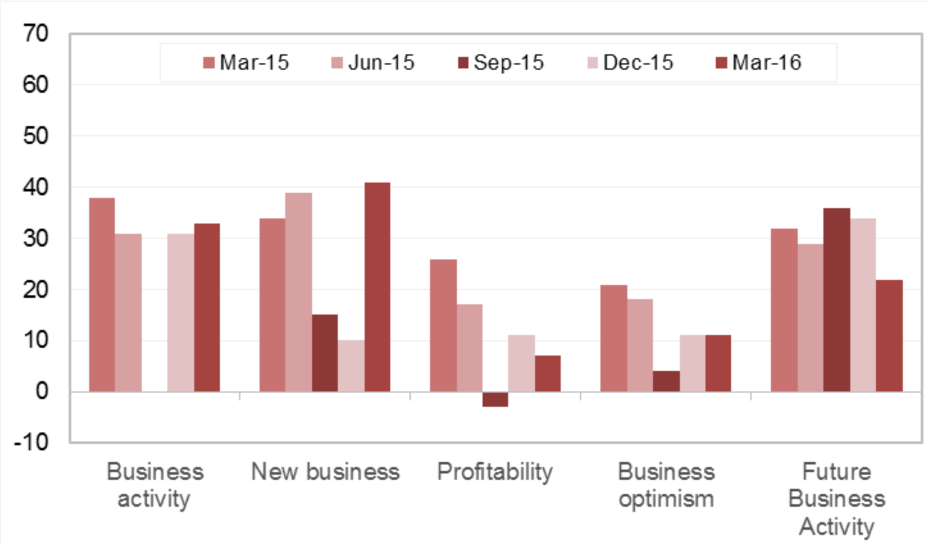
Source: OECD Economic Outlook 2016/1

Jersey Economy

Despite the uncertainty at the global level the most recent data on the performance of the Jersey economy in the period before the UK referendum remains positive. The Business Tendency Survey (BTS) for 2016Q2 showed that the headline all sector business activity remains positive although below the levels seen through most of last year. The results for the whole economy showed eight indicators were essentially unchanged compared with the previous quarter, whilst those for business activity and future employment declined. Seven of the ten indicators remained positive.

Figure 4 shows that in the finance sector conditions appear to have improved in the last two quarters of 2016 after indications of a slight dip in performance in 2015Q3. In the latest quarter two of the indicators improved compared with the previous quarter, three declined and five were largely unchanged. The new business indicator saw the greatest improvement, returning to the strongly positive level seen in the first half of 2015, while that for future employment saw the largest decline (moving from strongly positive to marginally positive).

Figure 4: Finance business tendency results
% balance of respondents

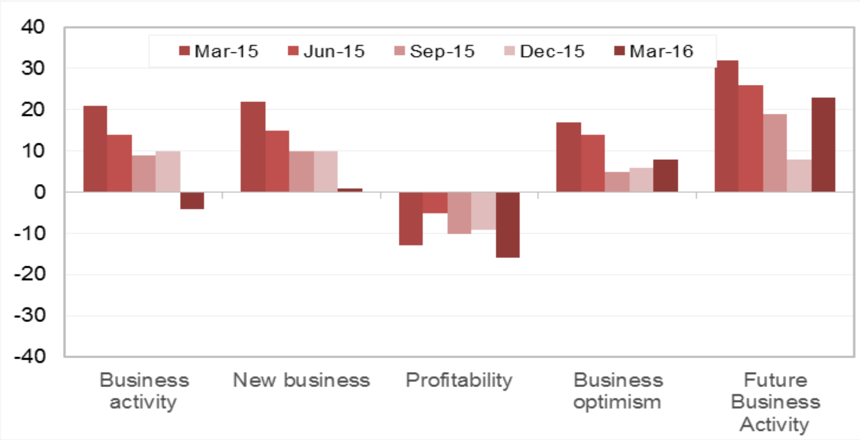


Source: States of Jersey Statistics Unit

In the non-finance sector eight of the ten indicators were essentially unchanged and while future business activity improved that for current business activity declined, becoming negative for the first time in two years. Within the non-finance sector the construction sector reported a generally more negative perspective than in the previous quarter and in wholesale and retail two of the ten indicators improved and four declined in the latest quarter.

Figure 5: Non-finance business tendency results

% balance of respondents



Source: States of Jersey Statistics Unit

In its March 2016 letter to the Treasury Minister the FPP indicated that they had refreshed the analysis they undertook as part of the 2015 Pre-MTFP Report and looked again at the issues of trend growth and spare capacity in the Jersey economy. The Panel concluded that although this analysis is fraught with difficulty it still expected the economy to return to capacity between 2017 and 2019. However, this assessment is subject to great uncertainty dependent on:

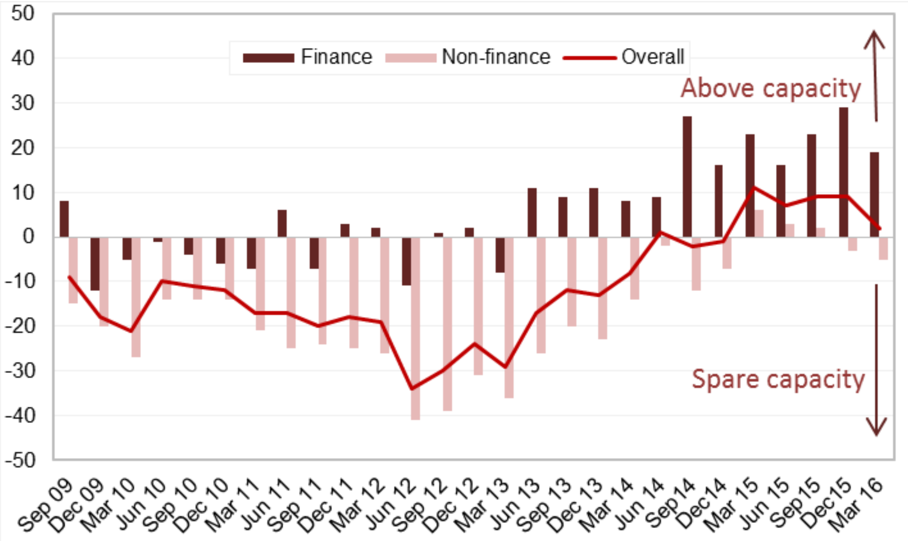
- the speed and stability of global economic growth
- the competitiveness of Jersey financial services
- and the ability of businesses to employ people with the right skills

It is clearly very important under these circumstances to monitor the degree of spare capacity on an ongoing basis. An important qualitative indicator is the Business Tendency Survey (BTS) question about the extent to which businesses in Jersey are working above and below capacity. The chart below shows that the BTS indicator moved positive in the finance and non-finance sectors in the first two quarters of 2015 and has remained so since. However, in the first quarter of 2016 it appears to have eased back slightly.

As the BTS has only been in existence since the onset of the financial crisis this indicator does need careful consideration alongside other indicators. To fully assess the degree of spare capacity it will be important to monitor other indicators including global economic growth, the competitiveness of financial services, trends in Jersey GVA, labour market trends and the ability of businesses to employ people locally. The FPP is likely to cover such issues in its 2016 Annual Report.

Figure 6: Capacity utilisation

% balance of respondents above/below capacity

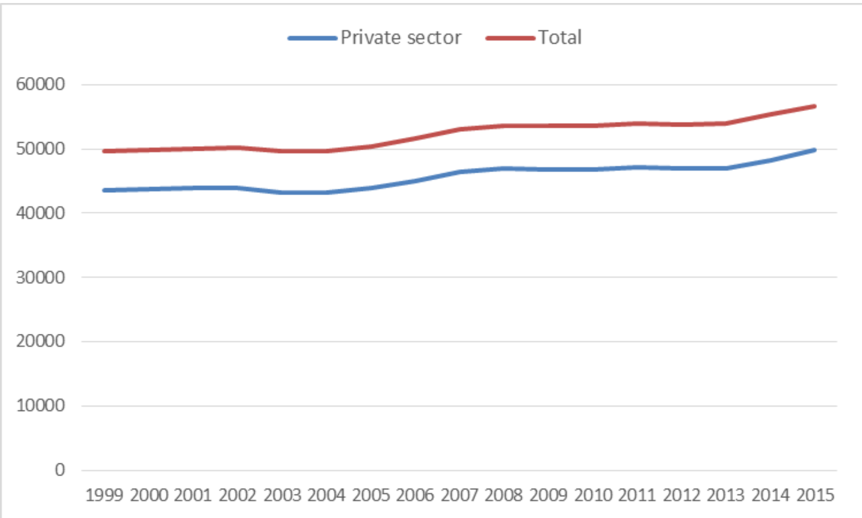


Source: States of Jersey Statistics Unit

Other indicators tend to point to a consistent picture of continued growth in the economy in 2015 and into 2016. They also suggest that the signs in the BTS that the economy is beginning to use up spare capacity in the economy are reflecting the actual experience in the economy. As **Figure 7** below shows, total employment in December 2015 was at the highest level on record, as was private sector employment. The numbers actively seeking work were 1,440 on a seasonally adjusted basis in May 2016, compared with the peak of 1,970 in April 2013.

Figure 7: Employment trends in Jersey

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

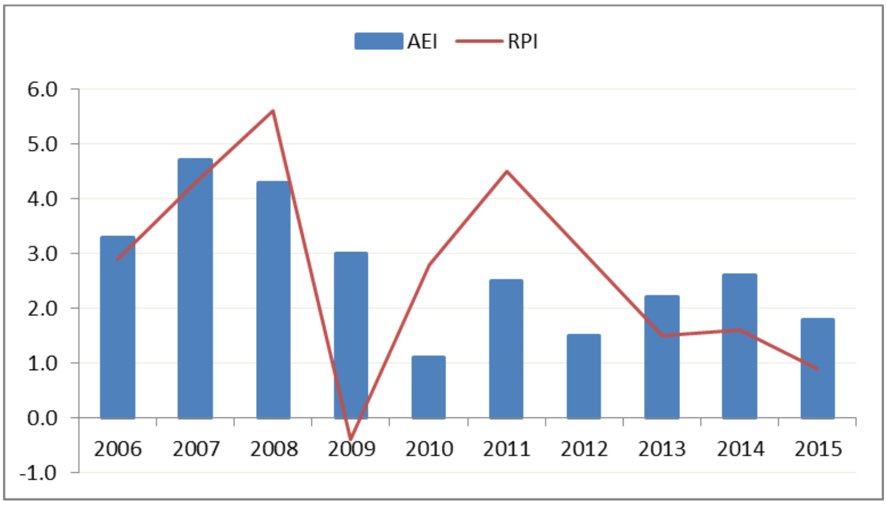


Source: States of Jersey Statistics Unit

In the immediate years after the global financial crisis Jersey households (like those in many other economies) experienced a squeeze in incomes as unemployment rose and earnings growth tended to be lower than inflation (in 4 out of 5 years between 2008 and 2012). The chart below shows that these trends reversed in 2013 and that average earnings in Jersey has exceeded inflation for three consecutive years. The combination of real growth in earnings and strong growth in employment is a sign of real economic growth in the economy. However, with indications that capacity in the economy is being used up it will be important that wage pressures do not build up to the extent that they outpace productivity improvements and undermine the competitiveness of Jersey businesses.

Figure 8: Earnings growth and inflation

% change in average earnings and retail prices index



Source: States of Jersey Statistics Unit

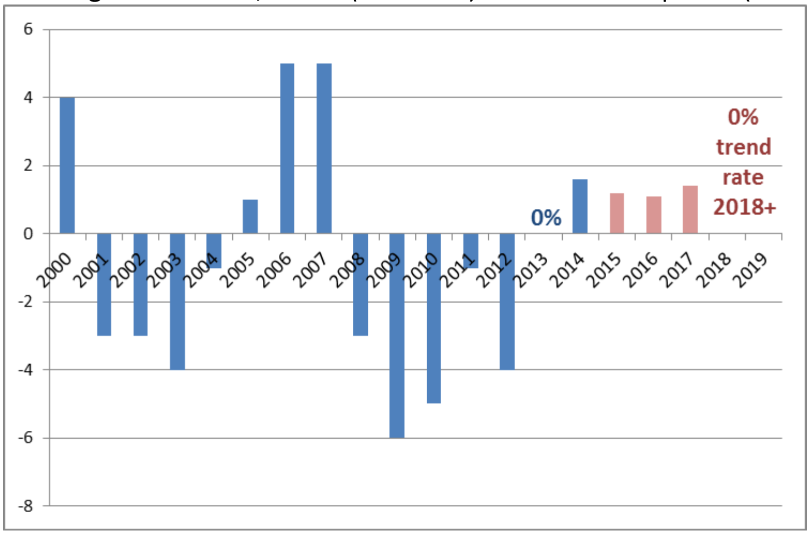
Drawing on all the trends within the local and global economies the FPP expect that the economy has continued to grow in 2015 and into 2016 and that moderate growth will continue until 2018 when the economy is likely to return to capacity. However, in their letter to the Treasury and Resources Minister in March they also highlighted that the risks to the global economy "have, if anything, increased still further. In these conditions, it is important to ensure that the MTFP Addition has sufficient flexibility to adapt to changing economic circumstances. Also these assumptions should be used with more than the usual caution."

The UK referendum decision means that the risk of changing economic circumstances has increased significantly although at this stage it is still unclear what the impacts will be on the UK economy, financial markets and hence the Jersey economy.

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

Figure 9: GVA trends

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

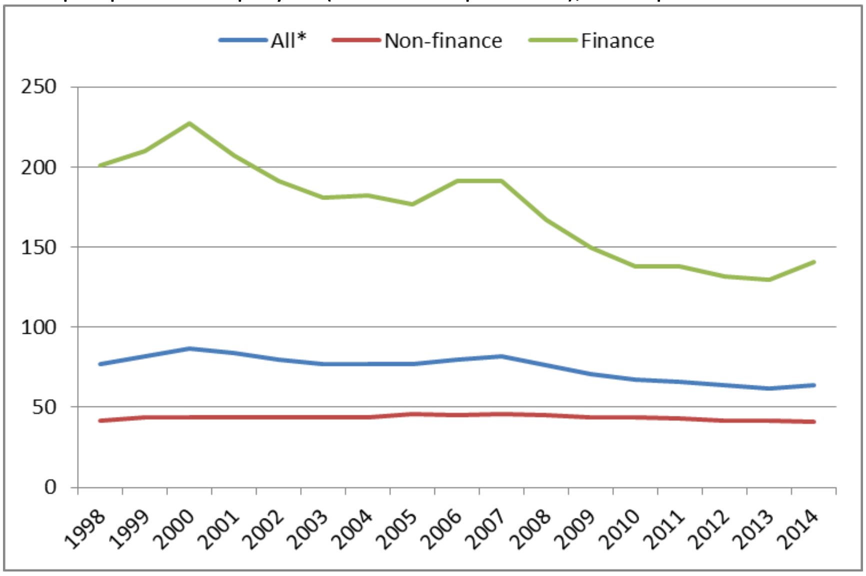


Source: Fiscal Policy Panel

The FPP have also consistently highlighted concerns about Jersey productivity performance in recent years. While there are general concerns about productivity performance in many economies since the financial crisis, Jersey's productivity trends have been weaker for a longer period. The latest data on productivity performance (as measured by GVA/fte) shows that productivity increased in 2014 across the economy as a whole, although this was a result of an increase in financial services productivity with the non-finance sector seeing a slight fall in productivity. The increase in financial services productivity will have been driven by the sharp rise in financial services profitability which was partly due to one-off factors. It will be important that these improvements are repeated in coming years and across the economy as a whole if Jersey is to improve its productivity trends and start to see an underlying improvement in its economic performance. The fact that the UK will be leaving the EU if anything places even greater emphasis on the need to deliver these improvements in productivity and economic performance.

Figure 10: Productivity growth in Jersey

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



*All sectors and non-finance exclude rental

Source: States of Jersey Statistics Unit

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

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

As well as investing in health, education, St. Helier and the need to maintain in the Island's infrastructure as set out in the MTFP 2016-2019, the Strategic Plan sets out how Council of Ministers will rectify this productivity performance and optimise economic growth by:

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

Jersey's fiscal position

Having updated their analysis of trend growth and the economic outlook in March 2016, the FPP reiterated their previous advice that:

> *"….the focus of the MTFP should be to address any structural imbalance in States finances by 2018/2019 whilst ensuring that the range and timing of the measures minimises the risk to the economic recovery. This continues to mean that in the early years of the MTFP it may be appropriate to use the States' reserves to strike the right balance."*

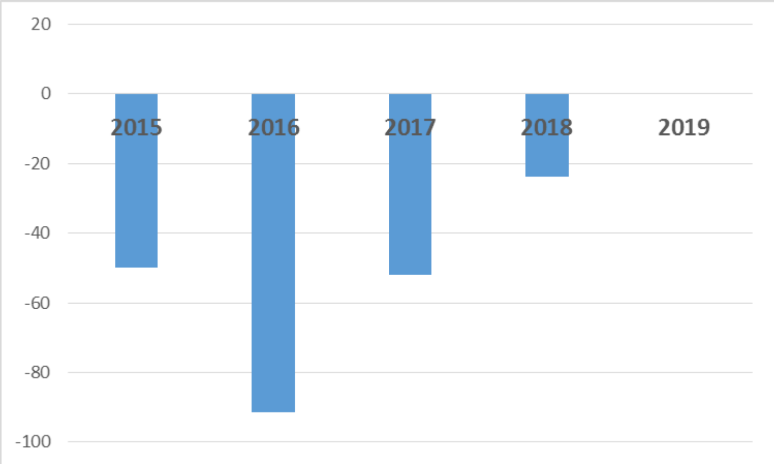
The Council of Ministers has framed the MTFP and the MTFP Addition to follow this advice in terms of addressing any structural imbalance and being careful about the impact on the economic recovery. In addition, they have followed the FPP's advice that the overall approach for fiscal policy over the life of the MTFP should be:

> *Once Jersey is on a sound path to structural fiscal balance, the States should aim to balance its tax revenues and current expenditure over the economic cycle, including an appropriate allowance for depreciation.*

Figure 11 shows that after all the measures proposed in the MTFP Addition the current budget (including depreciation) will move from a deficit of £90m in 2016 to near balance by 2019. On the basis of the FPP advice this suggest that any underlying structural mismatch as a result of growth in funding of strategic priorities between revenue and expenditure will have been actively addressed by 2019.

Figure 11: States current budget position

£m

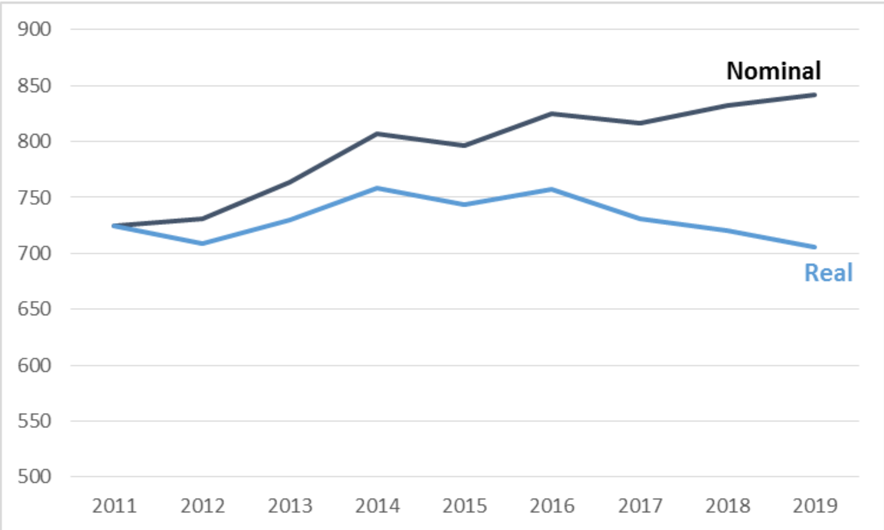


Source: Treasury and Resources Department

Underpinning these trends are a period of more gradual growth in Consolidated Fund net revenue expenditure (includes expenditure gross of departmental income) which will increase at a much slower rate over the 2015-19 period of about 1.5% p.a. compared with just under 2.5% over the 2011-15 period. **Figure 12** also shows that in real terms Consolidated Fund net revenue expenditure will be largely flat over the 2011-19 period following a period of growth in 2011-14 and a period of decline 2016-19.

Figure 12: Trend in total Consolidated Fund revenue expenditure

£m, real in 2011 prices



Source: Treasury and Resources Department

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

Figure 13 shows how the calculation can be built up. Firstly the initial operating balance is adjusted for the best estimate of the capital expenditure profile. There are large adjustments to account for the scale of capital expenditure on key projects such as social housing, sewage treatment works, a new school, a new hospital and by the subsidiary companies SoJDC, Andium Homes and Ports of Jersey (and the fact that a large part of the expenditure is not financed from tax or other revenue taken from the economy in the year of the spend). On this basis the net fiscal position moves from one of moderate deficits (moving to surplus) to one of significant deficits throughout the 2017-2019 period. [The final adjustment to include the position on the trading, Social Security and Health Insurance Funds is relatively minor and does not alter this profile significantly].

Figure 13: Adjusted fiscal position

£m	2015	2016	2017	2018	2019
Operating surplus/deficit	-5.3	-46.5	-8.1	25.5	54.7
Surplus/deficit after adj for cap x*	-59	-191	-260	-313	-284
Adjusted for trading fund	-56	-186	-260	-310	-275
Adjusted for Soc Sec and HIF	-42	-163	-256	-315	-289

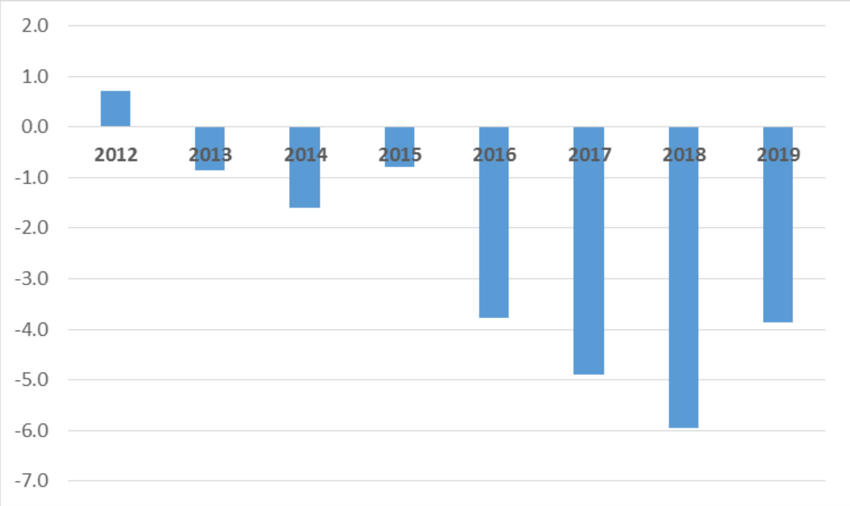
*includes hospital and office modernisation

Source: Treasury and Resources Department

These adjusted deficits are large relative to the size of the economy in the later years, suggesting that significant fiscal support could be added to the economy in the 2017-19 and at a time when the FPP currently expect the economy to be returning to capacity. Adjusted deficits rise from just less than 1-2% of GVA in 2013-15 to between 6-7% in the 2017-19. However, this does include two large projects of which the timing of delivery is still uncertain – the hospital and office modernisation. If these projects are excluded from the analysis the chart below shows that the adjusted deficits are about 4-6% of GVA in 2017-19. Nonetheless, this does suggest that significant fiscal support will remain in place while the economy is expected to be performing below capacity. It also suggests that there may be increased risks about the scale of fiscal support in the later years if the economy continues to recover and spare capacity is used up. Whether the economy remains on the path currently expected will now largely depend on any impacts of the UK's decision to leave the EU on the local economy, which is covered more below.

Figure 14: Adjusted fiscal position

% of GVA, excluding hospital and office modernisation capital expenditure



Source: Treasury and Resources Department

This is a high level assessment and it will be important to consider how capital expenditure and construction related spend actually impact on the economy. For example, whether there are large projects that may spend a high proportion on imported capital equipment and/or a high proportion on employment in the Jersey economy. In addition there could be delays in key projects and/or some could be brought forward which could significantly alter the profile of capital expenditure.

The economic implications of the profile will be kept under review to determine whether adjustments or compensating measures could be required in future years. If the economy is close to capacity and the State's capital programme combined with private sector activity risks a build-up of inflationary pressure then this will be carefully managed to limit the demands on local resources and ultimately the impact on the economy. FPP advice in future reports will be instrumental in determining what approach is required to ensure that the important investment planned in the Island and the benefits it will bring are achieved without any negative consequences for the local economy and Islanders.

The decision by the UK to leave the EU and its implications for the UK and Jersey economies are at this stage unclear but they place even greater emphasis on the FPP's advice to ensure that the MTFP Addition has flexibility to deal with changing economic circumstances. The Council of Ministers has heeded this advice and can adapt the MTFP if necessary in light of the UK's pending exit from the EU.

The Treasury and Resources Minister has already written to the FPP to seek an update on their March advice. In particular, whether in their view there is a reason to change their advice at this stage in terms of the economic outlook, the need to continue to support the economy in the short-term and to aim to balance our books by 2018/19.

The Jersey economy goes into this period of heightened uncertainty in a strong position and we are well placed to deal with any fallout. As already highlighted in this section, economic indicators were pointing to a period of continued growth and record employment before the UK referendum. Public finances are strong, not least with net assets of over 100% of GVA.

The Council of Ministers retains the flexibility to alter the MTFP and subject to further advice from the FPP. It is far from apparent that a change of course is required as the MTFP was already following FPP advice to support the economy in the near term. When capital expenditure is taken into account the net impact of States spending will be to add 4%-6% of GVA over the 2016-19 period. However, the Council of Ministers is ready and able to respond should the external economic environment start to deteriorate and FPP advice be to adopt a different approach. Nonetheless, it is also just as important now for Jersey to address any structural imbalance in public finances as before the EU referendum.

If uncertainty results in the external economic environment deteriorating and the FPP advice is to adopt a different approach then there are a number of routes open to support the local economy:

- Allow the automatic stabilisers to adjust and help smooth any impacts on the economy. This is where elements of spending (such as those on benefits) may rise and parts of revenue fall as the economy slows.
- If economic conditions and FPP advice merit discretionary action then Council of Ministers are ready to place funding in the Stabilisation Fund if needed. This funding could come from contingencies or reserves and be used in a timely, targeted and temporary way to support the economy if required.
- Finally, the Economic and Productivity Growth Drawdown Provision is already in place to support policies that can help bolster economic growth. Proposals to use this funding to mitigate the economic impacts of the UK's withdrawal from the EU would potentially be in scope for this funding.

FPP advice in future reports will be instrumental in determining what approach is required to ensure that the important investment planned in the Island and the benefits it will bring are achieved without any negative consequences for the local economy and Islanders. This includes, if necessary, putting in place an appropriate and targeted response to mitigate any impacts on the local economy of the UK's withdrawal from the EU.

7. Financial Forecast 2016 - 2019

Summary of Financial Forecast for draft MTFP Addition 2017-2019

The draft MTFP Addition 2017-2019 is proposed on the basis of States income and expenditure forecasts as at **June 2016**. The forecasts take into account the latest economic assumptions from the FPP **(March 2016)**, the expenditure limits agreed in the MTFP 2016-2019 (P72/2015) and the funding measures required to achieve balanced budgets by 2019. The next income forecasts will be prepared by the Income Forecasting Group (IFG) and presented to the Council of Ministers in October 2016 to inform the 2017 Budget. The current income forecasts and underlying economic assumptions were prepared before the UK decision to leave the EU. The impacts of uncertainty surrounding a "BREXIT" were identified in the forecasts and that uncertainty remains.

Figure 15 summarises the forecast position and proposes a return to balanced budgets by 2019, including depreciation, in accordance with the recommendations of the Fiscal Policy Panel. The proposed sustainable savings and funding measures are described in **Section 10** and **Section 12** the measures to manage the balance on the Consolidated Fund in the short-term are outlined in **Section 13.**

Figure 15 – Summary of Financial Forecast for draft MTFP Addition 2017-2019

2015 Outturn £'000	Financial Forecast		Forecast (June 2016) 2016 Forecast £'000	MTFP Addition Proposals (June 2016) 2017 Forecast £'000	2018 Forecast £'000	2019 Forecast £'000
	States Income					
457,583		Income Tax	467,000	487,000	514,000	538,000
85,042		Goods and Services Tax	83,334	84,968	85,779	86,609
54,147		Impôts Duty	56,106	55,584	55,338	55,332
29,032		Stamp Duty	26,216	27,968	29,504	30,115
11,928		Island Wide Rate	12,142	12,458	12,832	13,217
14,023		Other Income (Dividends)	11,461	8,703	14,517	9,744
12,506		Other Income (Non-Dividends)	9,710	10,151	9,697	10,285
27,483		Other Income (Return from Andium)	27,805	28,371	29,173	30,158
691,744		**States Income**	**693,774**	**715,203**	**750,840**	**773,460**
		Proposed Mechanism to offset States Payment of Rates		-	900	900
-		Proposed Sustainable Funding Mechanism for Health		-	7,500	15,000
691,744		**Total States Income - incl: Proposed Health Charge**	**693,774**	**715,203**	**759,240**	**789,360**
	States Expenditure					
697,031		Departmental Net Revenue Expenditure	697,377	700,637	697,627	686,100
		Central Contingency Allocations	42,940	23,650	25,904	28,212
		Central Growth Allocations		-	10,424	20,533
697,031		**Total Net Revenue Expenditure (excl: Depn)**	**740,317**	**724,287**	**733,955**	**734,845**
(5,287)	**Forecast Operating Surplus/(Deficit)**		**(46,543)**	**(9,084)**	**25,285**	**54,515**
44,676		Departmental Depreciation	44,800	40,600	45,500	53,000
(49,963)	**Forecast Deficit after Depreciation**		**(91,343)**	**(49,684)**	**(20,215)**	**1,515**

States Income Forecasts 2016-2020

Background

The forecasts for all States income derived from taxation and duty have been reviewed and agreed by the new Income Forecasting Group (IFG). The IFG forecasts are summarised here with further details in the Appendices to the MTFP Addition report. The detailed Income Tax Forecast update prepared for IFG is published by the Minister for Treasury and Resources **as an Addendum to the MTFP Addition** (P.XX/2016(Add2)).

The States income forecasts have been revised from those forecasts published for the Budget 2016 based on:

- Updated Fiscal Policy Panel endorsed economic assumptions for 2015-2017 from the Panel's letter to the Treasury Minister, 11 March 2016, which show a slight reduction in the assumptions over the forecast period.
- The financial outturn for 2015 for all States income and detailed income tax data for year of assessment 2014. The financial performance in many areas show improvement on the forecasts in September 2015.
- Updated data on personal and corporate tax for year of assessment 2015 and initial data for other income areas for the first quarter of 2016.

The forecasts of States income are a critical component of the States medium and long term financial planning. They are also required as part of an annual Budget and MTFP, alongside forecasts of States revenue and capital expenditure, to assess the projected balance on the Consolidated Fund. This is a requirement of the Minister for Treasury and Resources in accordance with the Public Finances (Jersey) Law.

Summary

The forecasts of States income are presented as a range and within the context that, if anything, uncertainty in the economic outlook has increased since the Budget 2016. This uncertainty has been emphasised by the IFG in its current report and by the FPP in its correspondence with the Treasury and Resources Minister in March 2016.

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

- income tax from shareholder income,
- the combined impact of future changes in fiscal policy such as public sector reform and future capital expenditure,
- the impact of the UK banking reforms,
- the impact on business decisions of the UK referendum on its future relationship with the EU and the uncertainties surrounding Brexit issues.
- the impact of international-tax developments and the international response to the "Panama Papers".
- prospects for the global economy highlighted by the FPP and the IMF for a loss of momentum in advanced economies, transition in China and risks to emerging economies.

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

Movement in forecasts since Budget 2016

The draft forecast for the draft MTFP Addition 2017-2019 show a number of variations compared to the Budget 2016 forecast position.
The main variations which are described in more detail in the individual Appendices to this report can be summarised as follows:

- Improvements in personal income tax:
    - Improved 2015 outturn and 2014 year of assessment
    - Improvements indicated in 2015 IT IS data
    - Faster growth in pension income
    - Improvements in personal tax yield assumptions from 2014 YOA and 2016 budget measures
    - Partly offset by the impact of reduced economic assumptions

- A small net reduction to corporate income tax forecasts:
    - Improvements in 2014 YOA and 2015 outturn
    - Improvements more than offset by indications from 2015 YOA provisional assessments for the Top 88 company tax payers showing a 4% reduction in tax collectable – extrapolating this variation across all company tax results in a net reduction in forecasts from 2016.
    - Previous adjustments reflecting knowledge of significant anticipated changes for corporate taxpayers have been re-assessed and are maintained.

- Reductions in Impots duty forecasts reflecting the 2015 outturn in relation to alcohol commodities and the revised forecasts for tobacco duty adjusted for the impact of the bonded warehouse. The forecasts are also reduced for the slight drop in future RPI assumptions.

- An improved base from the 2015 outturn is more than offset from 2017 by a more prudent approach to stamp duty from higher value properties, reducing future uprating, to recognise that these transactions do not necessarily follow the general housing market trends.

- A range of small negative variations, resulting in the most part from the remodelling of income forecasts using the revised FPP economic assumptions from March 2016.

- The latest forecasts of the requirements from a funding mechanisms for health (£15 million) and rates (£900,000) have been included at reduced levels than previously considered, based upon the latest forecasts of income and in light of the potential need to raise further revenue to fund a new hospital.

- In addition and to enable the Department of Infrastructure to fund proposals for a Concessionary travel scheme for people with disabilities and to allow flexibility to meet the departments significant savings targets, the annual; return from the Car Parking trading Fund to General Revenues is being phased out.

Draft MTFP Addition forecasts 2016-2020 **(June 2016)**

Figure 16 – States Income Forecasts for draft MTFP Addition 2017-2019 (June 2016)

	MTFP Addition 2017-2019 Forecast				
Central Forecast from Range (June 2016)	**2016**	**2017**	**2018**	**2019**	**2020**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
States General Revenues Income					
- Income Tax	467,000	487,000	514,000	538,000	565,000
- GST	83,334	84,968	85,779	86,609	87,458
- Impôt Duties	56,106	55,584	55,338	55,332	55,159
- Stamp Duty	26,216	27,968	29,504	30,115	30,745
Income from Taxation and Duty	632,656	655,520	684,621	710,056	738,362
- Other Income	61,118	59,682	66,220	63,403	66,244
Total States Income - before proposed funding mechanisms	693,774	715,203	750,840	773,460	804,606
Variation to Budget 2016 (excluding funding mechanisms)	10,359	4,533	3,217	7,000	
MTFP Addition forecast with proposed funding mechanisms	693,774	715,203	759,240	789,360	820,506
Budget 2016 forecast with proposed funding mechanisms	683,415	710,670	756,023	782,360	-

Further details of the States income forecasts in **Figure 16** are provided in **Appendices 4 to 10** of this report and at **Figure 19**.

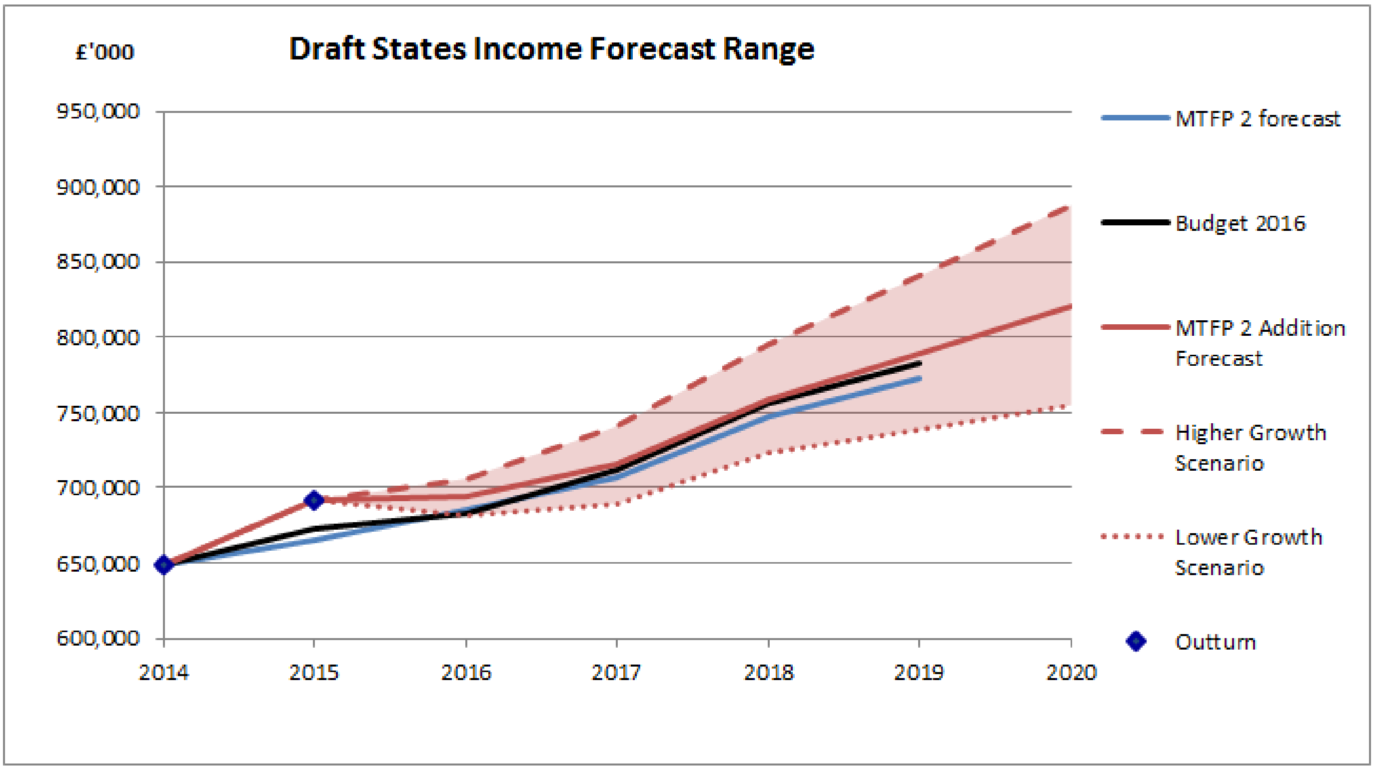
Overall range of forecasts

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

The proposed range in the forecasts by 2020 is **over £130 million** between the higher and lower scenarios which represents broadly +/- 9% around the central scenario. The proposed range represents a funnel around the central scenario as can be seen in **Figure 17** and includes the proposed mechanism to offset the States payment of rates and a funding mechanism for health.

The central scenario is broadly the mid-point of the range but as proposed by the IFG there are risks on the downside of the central scenario and the proposals for the MTFP Addition must consider and include appropriate flexibility within this range, particularly on the downside. The response to any variations in income will vary depending on the scale of change but the Council of Ministers has identified contingency plans at **Section 15** depending on the scale of variation.

Figure 17 – Forecast range of States Income to 2020 (June 2016)



The States income forecasts have been extended to 2020 for the first time and the intention is to include indicative expenditure forecasts in the draft Budget 2017 as part of the rolling approach to financial forecasts to maintain a five-year outlook.

Summary of Economic assumptions for the draft MTFP Addition 2017-2019

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

Changes in assumptions 2016 Budget to MTFP Addition (June 2016)

The economic assumptions were shared with the Minister for Treasury and Resources and with States Members on 11 March 2016. The FPP's letter to the Minister can be found on the FPP web-site www.gov.je/fiscalpolicypanel

When compared to the previous (September 2015) assumptions, the main changes are:

- Financial services profit growth – now expected to have been higher in 2015 given the latest expectations in the Business Tendency Survey.
- Inflation – expectations for 2015-2017 are lower than previously assumed. This reflects lower than expected outturns and results in lower expectations for average earnings in 2016 and 2017.
- Employment growth – now expected to be somewhat slower in 2015, due to revisions of past data.
- UK policy interest rates – now expected to be lower throughout the forecast period, reflecting changes in market expectations.

The changes in these assumptions have had knock-on effects on the nominal and real economic growth (GVA) assumptions, with real growth expected to be somewhat faster in 2015 but somewhat slower in 2016. There are no changes to the trend assumptions for any of the economic variables in 2018 and 2019. A report has been prepared for IFG by the Economics Unit and is included in the detailed Income Tax Report (published as an Addendum to the MTFP Addition).

The economic assumptions factor in the latest local and international developments. The full range of assumptions are included at **Appendix 11.**

Figure 18 – Economic Assumptions (March 2016) for draft MTFP Addition 2017-2019

FPP central scenario March 2016					Return to trend		
	2014	2015	2016	2017	2018	2019	2020
Real GVA	4.9	2.3	1.4	1.4	0.0	0.0	0.0
RPI	1.6	0.6	1.8	2.6	3.3	3.3	3.3
RPIY	1.6	0.6	1.8	2.4	3.0	3.0	3.0
Nominal GVA	6.6	2.9	3.2	3.8	3.0	3.0	3.0
Company profits	10.5	2.5	3.1	3.4	3.0	3.0	3.0
Financial services profits	19.4	2.1	3.1	3.3	3.0	3.0	3.0
Compensation of employees(a)	4.9	3.3	3.3	4.1	3.0	3.0	3.0
Employment	2.3	1.5	0.5	0.5	0.0	0.0	0.0
Average earnings	2.6	1.8	2.8	3.6	3.0	3.0	3.0
Interest rates (%)	0.5	0.5	0.5	0.7	0.9	1.5	1.5
House prices	3.0	4.2	4.0	5.0	3.0	3.0	3.0

The next income forecasts will be prepared by the IFG to inform the 2017 Budget.

Figure 19 – Detailed Forecasts of States Income for the draft MTFP Addition 2017-2019 (May 2016)

Outturn	States Income	Forecast (June 2016)	MTFP Addition Forecasts (June 2016)			Forecast (June 2016)
2015		2016	2017	2018	2019	2020
£'000		£'000	£'000	£'000	£'000	£'000
	Income Tax					
370,806	Personal Income Tax	382,000	402,000	427,000	448,000	472,000
89,437	Companies	87,000	87,000	90,000	93,000	96,000
(2,660)	Provision for Bad Debt	(2,000)	(2,000)	(3,000)	(3,000)	(3,000)
457,583		467,000	487,000	514,000	538,000	565,000
	Goods and Services Tax (GST)					
71,687	Goods and Services Tax (GST)	70,647	72,060	72,637	73,218	73,804
4,154	Import GST	3,687	3,908	4,142	4,391	4,654
9,201	ISE Fees	9,000	9,000	9,000	9,000	9,000
85,042		83,334	84,968	85,779	86,609	87,458
	Impôts Duties					
4,529	Impôts Duties Spirits	4,611	4,506	4,439	4,401	4,331
7,638	Impôts Duties Wine	7,721	7,859	8,063	8,330	8,538
1,003	Impôts Duties Cider	1,069	1,108	1,159	1,223	1,278
5,078	Impôts Duties Beer	5,112	5,049	5,024	5,034	5,006
13,606	Impôts Duties Tobacco	13,915	13,457	13,118	12,873	12,535
21,406	Impôts Duties Fuel	22,084	22,084	22,084	22,084	22,084
144	Impôts Duties Goods (Customs)	145	145	145	145	145
743	Vehicle Emissions Duty (VED)	1,449	1,376	1,306	1,242	1,242
54,147		56,106	55,584	55,338	55,332	55,159
	Stamp Duty					
25,821	Stamp Duty	22,465	24,069	25,474	26,034	26,610
1,883	Probate	2,300	2,300	2,300	2,300	2,300
1,328	Stamp Duty on Share Transfer (LTT)	1,451	1,599	1,730	1,782	1,835
29,032		26,216	27,968	29,504	30,115	30,745
625,804	**Total Taxation Revenue**	632,656	655,520	684,621	710,056	738,362
11,928	**Island Rate Income from Parishes**	12,142	12,458	12,832	13,217	13,613
14,023	**Other States Income - Dividends**	11,461	8,703	14,517	9,744	10,117
12,506	**Other States Income - Non Dividends**	9,710	10,151	9,697	10,285	11,327
27,483	**Other States Income - return from Andium Homes**	27,805	28,371	29,173	30,158	31,186
65,940	**Total Other States Income**	61,118	59,682	66,220	63,403	66,244
691,744	**Total States Income**	**693,774**	**715,203**	**750,840**	**773,460**	**804,606**
	% increase on previous year	*0.3%*	*3.1%*	*5.0%*	*3.0%*	*4.0%*
-	Proposed Mechanism to offset States Payment of Rates	-	-	900	900	900
-	Proposed Funding Mechanism for Health	-	-	7,500	15,000	15,000
691,744	**Total States Income - including additional proposals**	**693,774**	**715,203**	**759,240**	**789,360**	**820,506**

States Revenue Expenditure Forecasts

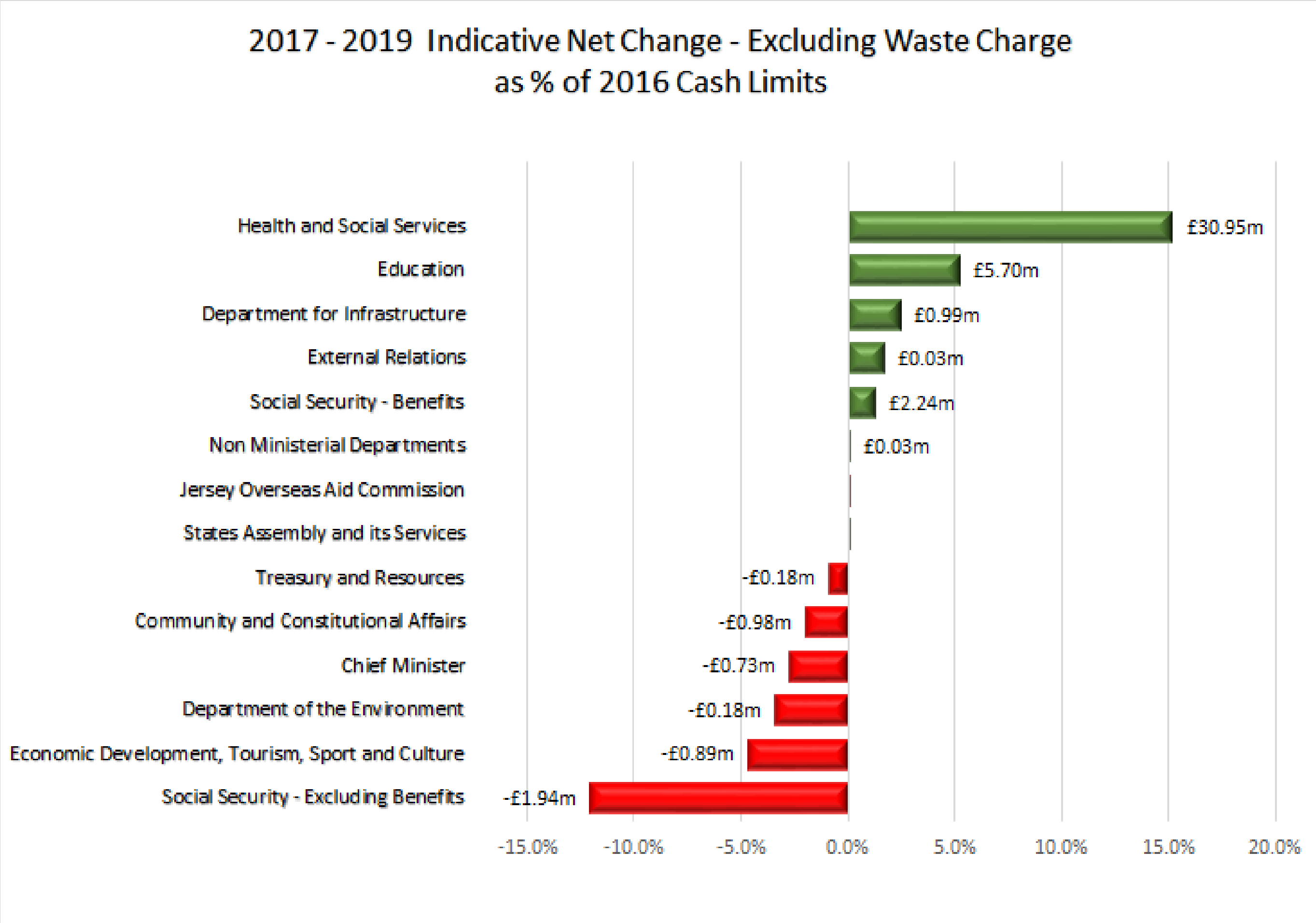
The detailed expenditure allocations for 2016 and the total States expenditure limits for 2017-2019 were agreed in the MTFP 2016-2019 in October 2015. The proposed detailed expenditure proposals for 2017-2019 at Summary Table B, represent the outcomes of the further spending and savings review of the Council of Ministers since the MTFP in October. The detailed department and central expenditure allocations are within the total spending limits agreed. **Figure 20** shows indicative department expenditure limits allowing for the allocation of pay and growth provisions which will initially be held centrally for 2017-2019.

Figure 20 – Total Indicative States Net Revenue Expenditure Forecasts for 2016-2019
Indicative cash limits include the estimated allocation of pay and central growth provisions to Departments

States Funded Bodies	Approved Total Net Expenditure Revised 2016 £'000	Indicative Total Net Expenditure 2017 £'000	Indicative Total Net Expenditure 2018 £'000	Indicative Total Net Expenditure 2019 £'000
Ministerial Departments				
Chief Minister	26,860.1	26,664.9	26,677.5	26,134.7
- Jersey Overseas Aid Commission	10,337.7	10,339.6	10,341.3	10,342.4
External Relations	1,740.7	1,752.9	1,763.1	1,770.1
Community and Constitutional Affairs	49,270.5	49,131.8	49,069.9	48,288.0
Economic Development, Tourism, Sport and Culture	19,144.4	19,287.3	18,656.8	18,257.1
Education	103,660.1	106,671.7	108,231.7	109,098.4
Department of Environment	5,205.4	5,953.1	5,643.7	5,029.4
Health and Social Services	203,776.8	209,763.5	225,190.8	234,722.6
Infrastructure	40,137.1	40,302.0	36,544.7	30,125.0
Social Security	189,479.2	186,348.4	187,866.5	189,777.1
Treasury and Resources	20,976.7	21,592.4	21,345.6	20,793.6
Total Ministerial Departments	670,588.7	677,807.6	691,331.5	694,338.5
Non Ministerial States Funded Bodies				
- Bailiff's Chamber	1,563.9	1,696.3	1,719.9	1,740.6
- Law Officers' Department	7,797.8	7,597.7	7,420.8	7,225.8
- Judicial Greffe	6,616.1	6,589.4	6,574.9	6,538.5
- Viscount's Department	1,320.6	1,356.8	1,389.3	1,400.3
- Official Analyst	604.8	606.0	616.1	592.0
- Office of the Lieutenant Governor	738.4	742.6	745.3	743.1
- Office of the Dean of Jersey	25.8	27.1	27.4	27.8
- Office of the Data Protection Commissioner	267.4	376.5	444.8	513.2
- Probation Department	1,990.5	2,040.0	2,084.6	2,114.5
- Comptroller and Auditor General	777.2	805.5	820.0	834.9
States Assembly and its Services	5,086.2	5,076.2	5,093.0	5,086.6
Total Non Ministerial Departments	26,788.7	26,914.0	26,936.1	26,817.4
Total Departmental Net Revenue Expenditure	**697,377.4**	**704,721.6**	**718,267.6**	**721,155.8**
Central Contingency Allocations	42,939.9	19,565.4	15,687.4	13,689.2
Central Growth Allocations		-	-	-
Total Net Revenue Expenditure	**740,317.3**	**724,287.0**	**733,955.0**	**734,845.0**
Net Capital Expenditure Allocation - Annual Programme	25,691.0	26,273.0	35,000.0	32,975.0
Net Capital Expenditure Allocation - Other Projects	1,000.0	39,000.0	8,233.0	-
Total States Net Capital Allocations	**26,691.0**	**65,273.0**	**43,233.0**	**32,975.0**
Total States Net Expenditure Allocations	**767,008.3**	**789,560.0**	**777,188.0**	**767,820.0**
For Information:				
Departmental Depreciation	*44,800.0*	*40,600.0*	*45,500.0*	*53,000.0*

Indicative Cash Limits including Pay Awards and Central Growth Allocations

Figure 21 – Movement in Indicative Department Expenditure Limits



Figures 20 and 21 have been included to summarise the detailed expenditure allocation to departments and are extended to illustrate the indicative allocations from the pay and central growth provisions in future years. The allocation of the pay provisions and central growth allocation to give a much clearer illustration of the final anticipated budgets for departments.

In particular, the Health Cash Limit would increase by £31 million from 2016-2019 and the Education cash limit would increase by £6 million over the same period. Indeed, the Health expenditure would be a further £5 million higher if it were not for the proposed transfer from the HIF in 2017 to 2019. The graph also removes the £11 million of proposed commercial waste charges.

Without these indicative allocations the full extent of the allocations in line with strategic priorities is not clear.

A summary of the individual cash limit movements are shown in **Appendix 3** and full details of all department's expenditure limits and the detailed allocations to service areas are provided in MTFP Addition Department Annex, provided as an **Addendum to the MTFP Addition**.

The States Assembly at this stage is asked to approve department cash limits before the allocation of pay provision and central growth allocations for 2017 to 2019. The Annual Updates to the Department Annex for 2018 and 2019 will reflect these decisions in due course.

Depreciation

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

Recognising depreciation in this way provides a closer proxy of the estimated expenditure required to renew and replace States' assets.

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

The principle of including depreciation in the measure of expenditure was reiterated by the Comptroller and Auditor General in the 'Review of Financial Management' report issued in April 2015. The recommendation to include depreciation in the measure of expenditure for which funds are allocated by the States Assembly has been accepted and as a movement towards full implementation of that recommendation the MTFP Addition Proposition asks States Members to endorse the total amount of non-cash net revenue expenditure for 2017-2019.

The forecast increase in depreciation over the MTFP period 2016 – 2019 is directly correlated to the indicative capital programme over the same period with the increase predominantly related to the increase in the Infrastructure Rolling Vote; all expenditure on infrastructure assets, with the exception of the creation of additional assets, is recognised as depreciation in the year it is incurred.

The forecasts for 2017-2019 have reduced slightly in the MTFP Addition compared to those presented in the MTFP 2016-2019 last year as the phasing of the individual capital projects have been updated by departments.

Analysis of cash flow forecasts for capital expenditure as opposed to sums allocated for depreciation is provided at **Appendix 12.**

8. Central Contingency Allocations 2017-2019

Central contingencies are a fundamental part of the Medium Term Financial Plan as it gives the States a degree of flexibility to manage its finances over a longer time period. The main contingency for DEL is for urgent and unforeseen items of expenditure and for AME is to provide provision for unpredicted fluctuations in benefits expenditure which are difficult to forecast.

The States have also established contingency provisions to support one-off expenditure for specific programmes like Public Sector Reform, Pay, Pensions, Workforce Modernisation and the Economic and Productivity Growth Provision. The Council of Ministers is also proposing a new provision for initiatives to support vulnerable children.

The States allocate funding to these contingency provisions for the period of the MTFP but this funding by its very nature may remain unspent and can be returned to the Consolidated Fund depending on the financial position. If contingency is unspent it can also be carried forward to provide greater flexibility in the following year. The Council of Ministers has provided carry forwards from 2015 to enable funds to be provided for certain commitments and emerging pressures. This funding and that currently uncommitted in 2016 will enable resources to be set aside quickly to respond to the BREXIT decision. In the event this proves necessary, the Council of Ministers is also proposing that current underspending on Social Security benefits is earmarked to be carried forward, to help manage within expenditure limits in future years and minimise the impact of the required expenditure measures on the economy, allowing efficiencies to be delivered over a longer timeframe.

Types of Central Contingency Allocation

Central Allocation - DEL Contingency

Departmental Expenditure Limit (DEL) Contingency is provided for urgent and unforeseen items of expenditure. A DEL Contingency of £5 million is proposed for each of 2017-2019 which represents 1% of DEL expenditure across the various departments.

The intention is that contingencies would not be spent unless there are more urgent and unforeseen pressures than could be met from existing department cash limits.

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

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

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

P.72/2015.Amd(11), approved by the States Assembly during the MTFP debate on 6th – 8th October 2015, resulted in an increase to the net revenue expenditure limit for Education of £263,200 which is funded by a decrease in Central Contingency Allocations of an identical amount. The DEL Contingency was therefore reduced by £263,200 in 2016. This adjustment has been reversed in 2017 and a DEL Contingency of £5 million is proposed for each of the years 2017-2019.

Central Allocation - AME Contingency

Annually Managed Expenditure (AME) is defined as expenditure which cannot be controlled by the department and where the influences on the level of expenditure are not predictable and typically significant demand-led spending such as welfare, benefits and pensions.

Within the States of Jersey, the AME Contingency is set aside to provide a 2% contingency for un-forecast variations in Income Support and other tax funded benefits which are in excess of the 1% contingency provided for by the Social Security Department within its annual cash limit. The level of Income Support and benefits is difficult to forecast and significantly influenced by the performance of the economy. Variations in economic forecasts lead to different levels of benefit spending. At a level of £2 million the central AME contingency provides a further 2% cover for this area of expenditure and or alternatively provides some contingency for higher education grants. This is another budget where there could be significant uncertainty over the period of the MTFP 2016-2019 and is dependent on the policies adopted by the UK government and UK universities.

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

Use of 2016 underspend to be earmarked and carried forward

The principle of unspent AME contingency being carried forward is being applied in 2016 where the Social Security department at Q1 are reporting a significant forecast underspend. This means that as well as an underspend on the AME budgets in Social Security of almost £5 million the AME Contingency in 2016 will not be required. The Council of Ministers is proposing to earmark these sums amounting to £6 million to fund the required provisions for AME Contingency in 2017-2019.

Central Allocation - Restructuring and Redundancy Provision

The Council of Ministers proposes to combine the Restructuring and Redundancy provisions which will provide greater flexibility across Public Sector Reform initiatives. The Council of Ministers is also proposing to carry forward the unspent and uncommitted balance of redundancy provision from 2016 to reduce the level of allocation required from expenditure limits for the new joint provision in 2017 to 2019. It is currently estimated that an element of the £22 million originally provided for Redundancy will be uncommitted at the end of 2016 due to reduced levels of staff savings, vacancy management and natural attrition.

Restructuring

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

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

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

Redundancy

The voluntary release scheme provides a mechanism for employees who wish to volunteer to leave the organisation through redundancy or early retirement to receive a redundancy payment or immediate pension. The scheme has been made available to all employees in 2015 and 2016.

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

The Council of Ministers identified £2 million in 2015 and the States agreed a further £4 million to be allocated in 2015 and £16 million in 2016 to the central redundancy provision as part of the amendments to MTFP 2016-2019.

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

At the time of lodging the MTFP Addition £6 million had been allocated from the provision with further sums to be committed in 2016. Departments have also identified further commitments for 2017-2019 as part of their savings returns but at this stage the committed and estimated sums fall short of the £22 million set aside.

Carry forward of uncommitted sums

The Council of Minister is proposing to earmark the uncommitted redundancy funding at the end of 2016 and carry this forward to reduce the required provision for the Restructuring and Redundancy Provision in future years, see **Figure 22.**

Central Allocation – Pay, PECRS and Workforce Modernisation Provision

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

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

Provision is made for pay for 2017-2019 in addition to the awards agreed for 2016 but we need to continue the policy of pay restraint, to help keep the public sector pay bill within the agreed limits and support investment in our strategic priorities. This policy will need to be maintained for the period of this plan and will contribute significantly to the spending target. Pay restraint is an important element of the total savings delivery required to balance the books and provide funding required for the essential investment in health and education.

The new PECRS CARE scheme was open to new starters from 1 January 2016 and to existing staff from 2019. The increased employer contributions for new starters are included from 2016 and the full employer costs of the new scheme will be phased in at £2 million p.a. over 3 years from 2019. Provision is also proposed for the increases in the cost of the PECRS pre-1987 debt over the period 2017-2019.

Central Allocation - Economic and Productivity Growth Drawdown Provision

The MTFP 2016-2019 established the Economic and Productivity Growth Drawdown Provision (EPGDP), which is designed to support new initiatives that will have a positive impact on economic and productivity growth but cannot be funded from within existing budgets.

To qualify for funding from the EPGDP, proposals must be capable of offering cost effective demonstrable impacts in terms of economic growth and/or increases in productivity alongside a strong rationale for government intervention.

Financial management of the allocations is through the Minister for Treasury and Resources subject to oversight and recommendations from the Economic Policy Political Oversight Group (EPPOG) – a sub-group of the Council of Ministers. Further details of the Provision were made available to States members in MTFP 2016-2019.

Work to begin supporting economic and productivity growth has commenced in 2016, robust governance procedures have been established and a project manager has been appointed to manage the allocation process and work with departments who are preparing applications for the Provision. So far 6 applications are in varying stages of development and 2 are currently being reviewed by the EPPOG. The 2 proposals being reviewed by Ministers entail digital skills courses to respond to an identified shortage of locally qualified workers in the digital sector, measures to enhance the capacity of the Digital Jersey Hub to provide co-working facilities and a proposal to enable the Island to respond to the threats and opportunities presented by changes to European data protection legislation. Pending bids include funds to implement the outcomes of a review of the Competition and Regulatory Framework in Jersey and the view of Professor Sir John Vickers conducting the review is that ”Conducting competition and regulatory policy well is hard, but the economic benefits can be substantial. I hope this review will help Jersey continue to improve what its institutions do so that residents and businesses can benefit from a more efficient and effective economy”.

MTFP 2016-2019 set funding levels for the EPGDP at £5m in 2016 and envisaged similar levels of funding for 2017-2019. Whilst a number of worthwhile proposals are being developed, the volume and quantum of applications has been lower than initially anticipated when the EPGDP was first proposed. At this stage is appears unlikely that the £5m available in 2016 will be fully allocated during the year. It has also been recognised that the best economic outcomes may be achieved by preserving capacity to fund existing economic initiatives

Proposals to use this funding to mitigate the economic impacts of the UK’s withdrawal from the EU would potentially fit the scope for this funding.

The Council of Ministers concluded that a proposal to protect from an element of savings the base budgets of the External Relations Department and the Digital, Innovation, Financial Services and Competition Team within Chief Minister’s Department was likely to offer better support for the economy than likely new initiatives from these areas. It was similarly recognised that the growth bid in respect of the implementation of the McKinsey recommendations was well aligned with the criteria of the EPGDP and should be prioritised over any new bids.

As a result of this exercise, the current experience of volume of bids and the pressures on expenditure limits the Council of Ministers is proposing that the EPGDP Provision be used to fund the items described.

The remit of the EPGDP already extends to assist initiatives that arise in response to BREXIT and if required funding can be transferred from other contingencies to support these initiatives as well as from EPGDP.

Central Allocation – Earmarked Provision for initiatives to support vulnerable children

As part of the overall review of growth requirements by departments a number of pressures were identified in respect of investment in initiatives that support vulnerable children including:

- additional capacity in the Law Officers' Department, Children's and Family division;
- continued development of family centres and early intervention initiatives;
- development of the Youth Enquiry Service;
- additional child protection officers and other enhancements to work on safeguarding;
- support towards a sexual assault referral centre;
- continuing development of support for pre-school special needs children, and
- fulfilling our commitment to the 1001 critical days agenda - a twenty point action plan has been drawn up which includes initiatives to improve antenatal preparation, perinatal mental health care and early literacy. There are also plans to promote breastfeeding and a public health campaign to focus on avoiding alcohol during pregnancy.

These initiatives include currently undelivered recommendations arising from previous reports/inspections. The need for any additional future investment will be assessed once the Independent Jersey Care Inquiry has made its final report and recommendations.

Central Growth

Proposals for the Central Growth allocation for 2018 and 2019 are detailed in **Section 9.** The proposed allocations are and required by the "Finance Law" to be proposed separately in the main proposition.

Figure 22 – Summary of Proposed Central Contingency Allocations for 2017-2019

Proposed Central Contingency Allocations	2017 Proposed Allocation £'000	2018 Proposed Allocation £'000	2019 Proposed Allocation £'000
Central Allocation - AME Contingency	2,000.0	2,000.0	2,000.0
less: earmarked carry forwards for AME Contingency	(2,000.0)	(2,000.0)	(2,000.0)
Net Central Allocation - AME Contingency	-	-	-
Central Allocation - DEL Contingency	5,000.0	5,000.0	5,000.0
Central Allocation - Pay, PECRS and Workforce Modernisation	5,643.7	12,293.7	17,606.7
Central Allocation - Restructuring and Redundancy Provision	12,000.0	7,600.0	8,300.0
less: earmarked carry forwards for committed Redundancy	(5,000.0)	(600.0)	(3,300.0)
less: earmarked carry forwards for Restructuring and Redundancy		(3,836.0)	(3,045.0)
Net Central Allocation - Restructuring Provision and Redundancy Provision	7,000.0	3,164.0	1,955.0
Central Allocation - EPGDP	5,000.0	5,000.0	3,548.0
less: prioritised funding from base budgets	(644.0)	(1,204.0)	(1,548.0)
Net Central Allocation - EPGDP	4,356.0	3,796.0	2,000.0
Central Allocation - Earmarked for Initiatives to support vulnerable children	1,650.0	1,650.0	1,650.0
Total Proposed Central Allocations	**23,649.7**	**25,903.7**	**28,211.7**

The planned carry forward of funding of contingencies for AME, Redundancy and Restructuring and reducing the sum available for EPGDP over the period, contribute to enabling expenditure to be met within the limits set by the States Assembly, and for growth allocations to be increased for 2017-2019 above previous plans.

Annual AME Contingency would have to be re-instated in 2020 however EPGDP funding was always intended to be limited to the current period and it is anticipated that lesser sums would be provided for future reform programmes, given what will be delivered by the end of this MTFP period.

Rules of Operation

The operation and management of central contingencies is covered by Financial Directions which require all departments, in the first instance, to demonstrate that contingency requests cannot be funded from within existing cash limits.

A business case is then submitted, with the support of the Accounting Officer, for consideration by the Treasurer of the States. The Treasurer will advise the Minister for Treasury and Resources who in turn will consult the Council of Ministers before making a decision on the allocation of funds.

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

9. Additional Funding for Pressures, Demographics and Growth

Background

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

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

The bids were categorised as:

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

Strategic Priorities

The Strategic Plan (P27/2015) clearly identified the strategic priorities:

<u>Funding the increasing cost of health and social care</u>

In line with the decision taken in previous Business Plans and the MTFP 2013 – 2015, there is a continued commitment to the policy of investment in health and social care service standards and healthcare inflation. It is recognised that new developments (eg new treatments and drugs) and healthcare inflation require funding in order to allow Jersey to continue to provide health and social care at a comparable standard to neighbouring jurisdictions.

In P82/2012 'Health and Social Services: A New Way Forward', the Assembly also recognised the need to transform services in order to meet the demands of the ageing demographic in Jersey, and to ensure that the size of the new Hospital can be appropriately contained through the delivery of more services in community settings.

The Health and Social Services Department undertook a full review of the next phase of the P.82 proposals affecting 2016 and 2017 as part of the MTFP 2016-2019. As indicated at that time, a further review of the detailed business cases has been undertaken in preparation for the MTFP Addition which in turn has considered the phasing of 2018 and 2019 and given initial consideration to 2020. MTFP 2020 – 2023 will consider the third phase of the 10 year investment plan envisaged in P82.

The proposals in the MTFP Addition maintain the £25 million P82 and service standards funding from the MTFP 2013-2015. Furthermore the 2016 additional funding of £8 million for service standards and additional P82 funding is also being maintained. The review has enabled a re-phasing and reprioritisation of the proposed additional P82 funding for 2017-2019 leading to a reduction of £1 million funding by 2019 reflecting a commitment to deliver further efficiencies from within the programme itself.

The Health and Social Services Department continues to participate in the corporate commitment to deliver savings through efficiencies and review of services. As part of that the Department put forward a range of savings options and user pays charges. Over the past year there have been a series of workshops and reviews that have considered these options and refined the proposals included in this MTFP Addition. Furthermore, the corporate Distributional Analysis and Ministerial review of strategic priorities considered the impact and level of the proposed savings and user pays charges and proposed a reduction in the initial savings proposals by £1.5 million in 2019, reflecting the strategic priority of Health and the potential distributional impact of the savings on individuals. These amended proposals are also intended to make the package of measures more progressive.

The provision of modern, safe and appropriate health and social care services is predicated on the delivery of the whole transformation programme – as is the size of a hospital required in the future. Key aspects of this programme of change have already been implemented in accordance with the States decision to support P.82/2012. It is important that this change continues if health and social care services are going to be adequate to meet the needs of the ageing demographic into the future. Funding to support this change is included in this MTFP Addition – in Health and Social Services for 2017 and held in the central growth provision for 2018 and 2019. The allocation of this funding is dependent on achievement of savings targets and income forecasts for the States as a whole and will be proposed in the annual Budget and approved by the Assembly in the relevant years.

This need to invest in health and social care services must also be balanced against the need to deliver sustainable and affordable health and social care and the MTFP Addition proposes the introduction of an income based "Health charge" from 2018.

The additional funding currently proposed for Health and Social Services amounts to £38.5 million p.a. by 2019, in addition the Council of Ministers is proposing a further £1.65 million p.a. from 2017 to be available through the contingency process to appropriate departments in an earmarked provision for initiatives to support vulnerable children.

<u>Funding for strategic priorities in Education</u>

Education is another one of the four main strategic priorities of the Council of Ministers. Additional funding was proposed and prioritised in MTFP 2016-2019 to address raising standards, support and improve the ICT investment in schools and to address the demographic pressures from early years through to post-16 education.

A further review of growth in preparation for the MTFP Addition has maintained the original additional funding for Education with a small reprioritisation to enable the crucial work on improving standards in three main areas:

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

- The expansion of the School Achievement and Standards Team to include two additional Professional Partners. This is the most effective and economical means of expediting the changes necessary to raise standards.

The level and profile of additional funding and level of proposed savings was subject to the corporate Distributional Analysis and Ministerial review for the MTFP Addition. As a result of this review Council of Ministers is proposing additional funding for higher education of £2 million by 2019 and also a reduction in the Education savings target, this aligns with States strategic priorities and will also make the Council's package of measures more progressive.

The additional funding for these important measures currently proposed for Education now amounts to £10.6 million p.a. by 2019.

Funding to maintain support of the economy

The MTFP 2013-2015 provided significant funding to support the strategic priorities of economic growth and getting people into work. This important injection of funding was allocated across a range of projects in different departments and amounted to £14 million per annum by 2015.

As part of the spending review, the majority of this investment is being maintained from 2016 where it continues to provide effective investment in the ongoing priorities, or will be reprioritised towards other measures to grow the economy.

The Council of Ministers has also made provision centrally for funding of economic and productivity growth initiatives which cannot be met from the resources in base budgets with £5 million allocated in 2016. This funding has been reviewed as part of the MTFP Addition proposals and the level of bids currently received for 2016. As a result of this review the proposal is to divert some of this funding to largely protect the base budgets of key areas like Digital, innovation, Competition and External Relations and to reduce the original funding proposals over the MTFP period reflecting the level of bids currently proposed and the importance of protecting and prioritising existing base budget funding. **(see Section 8).**

Funding for other priorities and pressures

All areas of additional funding have been reviewed as part of the MTFP Addition and most of the original proposals are being maintained but some areas have been able to be reduced from those original allocations.

Proposals for new additional funding since MTFP 2016-2019

The review of additional funding identified further requirements for growth, which are summarised in **Figure 23.** These requests were considered and prioritised alongside the existing growth requests and the savings proposals to ensure the funding was not only prioritised against strategic priorities but also against existing base expenditure and funding pressures. Some of the areas are unavoidable arising out of pay agreements and insurance provisions and include the prioritisation of £2 million by 2019 for Higher Education and £1.65 million for improvements in child protection and policy. In total the additional proposals will amount to £7.8 million p.a. by 2019.

Figure 23 – Summary of additional funding proposals in the MTFP Addition 2017-2019

Summary of Additional Funding Proposals	2016 Approved £'000	2017 Proposed £'000	2018 Proposed £'000	2019 Proposed £'000
Additional funding proposed in MTFP 2016-2019	21,869	12,587	15,808	10,998
Reductions in MTFP 2016-2019 Additional Funding requirement		(709)	(440)	(183)
New Additional Funding Proposed in MTFP Addition		5,608	1,089	1,196
Total Additional Annual Funding Proposed in MTFP Addition 2017-2019		**17,486**	**16,457**	**12,011**
Total Additional Cumulative Funding Proposed in MTFP Addition 2017-2019			33,943	45,954
Total Additional Funding Proposed in MTFP over the period 2016-2019	**21,869**	**39,355**	**55,812**	**67,823**

Note; In addition the Minister for Infrastructure will be proposing £0.6m from the Car Parking Trading Fund for a new Concessionary Travel Scheme for people with disabilities for 201.

Allocation of Growth proposed for 2016 and 2017

Additional funding for 2016 was incorporated in Departments' cash limits in the MTFP 2016-2019 last year and it is proposed to incorporate the 2017 additional funding into Departments' cash limits in the same way, subject to States approval. The proposals for 2017 additional funding are shown in **Figures 24 and 26.**

Proposals for a Central Growth Allocation for 2018-2019

Although growth for 2016 and 2017 is allocated to departments, the intention is to use a central growth allocation for 2018 and 2019 as part of the proposals for the MTFP Addition. This would be consistent with provisions in the "Finance Law" and the principles adopted in MTFP 2013-2015.

This will provide an important part of the Council of Ministers contingency planning and allow the level of additional funding and growth envisaged for 2018 and 2019 to be agreed in the annual Budgets for 2018 and 2019 on the basis that the savings targets and/or projected income levels are achieved. If either savings or income forecasts fail to reach the proposed targets the level of additional funding will need to be revisited. The total spending limits for the four years cannot be exceeded, other than in exceptional economic or environmental circumstances, and the financial position needs to be broadly balanced by 2019.

The levels of health growth in 2018 and 2019 could also be reviewed pending the approval by the States of a funding mechanism for Health to be proposed in the 2017 Budget.

A certain element of the 2018 additional funding is the recurrent full year effect of proposals from 2017 and these amounts are proposed to be incorporated into 2018 and 2019, see **Figure 24**. This is particularly the case with the Education proposals and an element of the Health P82 funding. After adjusting for these amounts the proposed level of additional funding to be held as central growth would be £10.4 million in 2018 and a further £10.1 million in 2019, **Figure 26.**

Process for monitoring growth

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

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

Figure 24 – Balance of Original Additional Funding for Growth Proposals for 2017-2019 (excluding items proposed for Central Growth Allocation 2018-2019)

Dept	Original Proposals for Additional Funding	2016 Approved £'000	2017 Proposed £'000	2018 Proposed £'000	2019 Proposed £'000
HSS	2% Investment in Service Standards and Healthcare Inflation	4,175	4,615	250	
	P82/2012 - Health Transformation (White Paper)				
HSS	Acute Service Strategy	1,601	2,131	1,516	
HSS	Healthy Lifestyles	-	22	48	
HSS	Mental Health	-	522	426	
HSS	Out of Hospital	301	1,157	1,814	
HSS	Services for Children (Early Interventions)	1,870	426	125	
HSS	**Total Growth Proposed for Health 2017-2019**	**7,947**	**8,873**	**4,178**	-
Edu	Nursery Education Fund	376	-213	-145	56
Edu	Primary School Demographics	745	487	709	410
Edu	Secondary School Demographics	1,313	188	-93	144
Edu	Revenue consequences of capital scheme - ICT skills strategy	750	19	19	20
Edu	Revenue consequences of capital schemes - New schools	100	25		
Edu	Raising Achievement Funding - (UK Pupil Premium Equivalent)	837	1,060	253	338
Edu	Provision of a Data Team	120	2	3	2
Edu	Extending Professional Partnering	288	6	6	6
Edu	Early Years (SEN)	278	6	5	6
Edu	**Total Growth Proposed for Education 2017-2019**	**4,807**	**1,580**	**757**	**982**
CMD	Financial Services / McKinsey Implementation	523	10	11	11
CMD	Freedom of Information - Central Unit	100			
CMD	Information Services Dept - increased revenue budget for support/licences	355	131	4	57
CCA	Revenue consequences of capital scheme - new Police Station & Prison Ph 6	95	31	140	-
CCA	Joint Safeguarding	125	3	3	2
DfI	Energy From Waste - Shortfall in Income (JEC/waste volumes)	1,121	48	49	49
DfI	Energy From Waste - No Guernsey Waste Income	1,530	31	30	33
DfI	Bus Contract - Main Contract and School Bus Service shortfall	278	10	12	11
DfI	Payment of Rates on States Properties		900	-	-
DfI	Additional Property Maintenance - HSSD Properties	4,000			
DPC	FOI - Office of the Data Protection Commissioner	60			
LOD	Law Officers Revised Pay and Rewards Structure	209			
LtG	Lt Governor's Office - Cadet and Military Support Officer	42	1	1	1
SSD	Child Personal Care Benefit level 2 & 3	477	10	9	10
T&R	Asset Valuation	-	250	-250	-
T&R	Strengthening the Shareholder Relationship Resources	200			
Other	**Revised Total Proposed for Other Departments**	**9,115**	**1,425**	**9**	**174**
Total	**Revised Total Proposed for All Department**	**21,869**	**11,878**	**4,944**	**1,156**

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

Figure 25 - Proposals for Additional Funding for Growth since the MTFP 2016-2019

Dept	New Proposals for Additional Funding	2017 Proposed £'000	2018 Proposed £'000	2019 Proposed £'000
EDTS&C	**Sports Strategy Funding**	**450**	-	-
Edu	**Higher Education Funding**	**600**	**874**	**526**
H&SS	Increase in existing general insurance policy premium from 2016	**200**		
DfI	Increase due to reduction in JEC price for electricity generation*	**220**	**10**	**10**
DfI	Increase in existing general insurance policy premium from 2016	**98**		
DFfI	**Total DfI New Bids Proposed**	**318**	**10**	**10**
SSD	New Means Tested Christmas Bonus	440	-	-
SSD	Continuation of Food Cost Bonus	360	-	-
SSD	**Total SSD New Bids Proposed**	**800**	-	-
T&R	Increase in existing general insurance policy premium from 2016	**202**	-	-
Non Mins				
DPC	Possible impact FoI and new EU Directions	100	60	60
BC	Possible security and Health and Safety issues	103	-	-
Non Mins	**Total New Bids Proposed**	**203**	**60**	**60**
	Contingency - Pay and Pension Provision			
Cont	- Inflation on PECRS Pre 1987 Debt Repayment	145	145	150
Cont	- Doctors, Consultants and Junior Doctors Pay Provision 2015/2016	1,040	-	-
Cont	**Total New Pay And Pension Contingency pressures**	**1,185**	**145**	**150**
	Earmarked Contingency - Initiatives to support vulnerable children			
Cont	**Combined bid for investment in initiatives to support vulnerable children**	**1,650**	-	-
Total	**Total New Bids Proposed by Departments**	**5,608**	**1,089**	**746**

Figure 26 – Proposals for Central Growth Allocation 2018 - 2019

Dept	Proposals to be held in Central Growth Provision	2017 Proposed £'000	2018 Proposed £'000	2019 Proposed £'000
HSS	2% Investment in Service Standards and Healthcare Inflation		4,714	5,253
	P82/2012 - Health Transformation (White Paper)			
HSS	Acute Service Strategy		**2,705**	**703**
HSS	Healthy Lifestyles		**324**	**37**
HSS	Mental Health		**540**	**-60**
HSS	Out of Hospital		**768**	**1,561**
HSS	Services for Children (Early Interventions)		**615**	**378**
HSS	**Proposed Central Growth Allocation for Health**	-	**9,666**	**7,871**
Edu	Revenue consequences of capital schemes - New schools		360	40
Edu	**Proposed Central Growth Allocation for Education**	-	**360**	**40**
SA	States Members' Pensions (as amended)	-	58	42
SA	**Proposed Central Growth Allocation for States Assembly**	-	**58**	**42**
DFI	Tipping Fees Shortfall*	-	340	456
DFI	Revenue consequences of capital schemes - new Sewage Treatment Works	-	-	1,700
DFI	**Proposed Central Growth Allocation for Infrastructure**	-	**340**	**2,156**
Total	**Total Proposed Central Growth Allocation for 2018 and 2019**		**10,424**	**10,109**

Narrative for All Addition Funding for Growth

Strategic Priority for Health

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

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

HSS White Paper funding – P.82/2012 Health Transformation
HSS Acute Services Strategy £1.6m in 2016 £8.7m by 2019

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

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

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

HSS Healthy Lifestyles £0.4m by 2019

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

HSS Mental Health Services £0.5m in 2017 £1.4m by 2019

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

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

HSS Out of Hospital Services £0.3m in 2016 £5.6m by 2019

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

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

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

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

HSS Services for Children (Early Interventions) £1.9m in 2016 £3.4m by 2019

Investment in early intervention can have a profound impact on a broad range of socio-economic, health and wellbeing factors. This includes future development, learning, behaviour, health and the ability to build positive, secure attachments. It can also affect truancy, conduct disorder and risk-taking behaviours such as substance misuse and mental illness. UK studies have shown that each child with untreated behavioural problems costs statutory services an average of £70,000 a year by the time they reach 28 years old, the average cost of an individual spending a lifetime on benefits is £430,000 not including lost tax revenue. Returns of up to 3 to 7 times the original investment can be achieved by the time the young person is 21 years old. Investment in 2013 – 15 was targeted in this way, with funding for new services such as Sustained Home Visiting, and increased services such as Mellow Parenting.

Investment in service redesign is needed in order to:

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

Strategic Priority for Education

EDU Primary School Demographics £0.7m in 2016 £2.4m by 2019

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

EDU Secondary School Demographics £1.3m in 2016 £1.5m by 2019

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

EDU Nursery Education Fund £0.4m in 2016 £0.1m by 2019

High birth numbers in 2010-12 will result in more children requiring States funded places in private or voluntary nurseries provided through the Nursery Education Fund (NEF). This provides parents with the opportunity to access 20 hours per week (term time) of early years' education at a registered private or voluntary sector nursery for children aged 4, and works in conjunction with the proposed means testing as part of the department's saving measures.

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

The IT strategy was launched in October 2012 to provide the best IT education possible and a workforce fluent in technology. The initial £3 million funding from 2013-2015 provided better infrastructure and saw schools developing solutions that meet the needs of their pupils, provide teachers with continual professional development and develop the IT skills that are important in the 21st century. Funding of £750,000 from 2016 onwards will meet the increased cost of the fibre infrastructure, together with continued investment in training and physical IT within schools.

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

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

EDU Raising Achievement Funding £0.8m in 2016 £2.5m by 2019

Academic outcomes for Jersey students have plateaued in recent years and are now trailing the UK. If young people in Jersey are to meet and exceed outcomes of their peers in neighbouring jurisdictions a local equivalent to the UK's 'Pupil Premium' is required. This provides targeted funding to address low performance among pupils vulnerable to lower attainment. Growth funding will provide disadvantaged pupils in our schools with comparable help to those with identical disadvantages in the UK. The department will select from a range of methods that have been evaluated as successfully raising standards. These are likely to include booster classes, 1:1 tuition, peer mentoring, teacher training and teaching assistants.

EDU Provision of a Data Team £0.1m in 2016 £0.1m by 2019

An enhanced data insight team to provide the kinds of analytical tools available to the education services in the UK, is essential if young people in Jersey are to meet and exceed outcomes of their peers in neighbouring jurisdictions. Better data would enable the current Professional Partner team to support schools more effectively and ensure the focus remains on raising standards. It would also enable continued long term planning in a period of constantly changing demographics. This team does not only provide schools' data, but also has an important link to the Statistics Unit and population predictions.

EDU Extend Professional Partnering £0.3m in 2016 £0.3m by 2019

The success of the Island's schools has a clear link with engagement with high quality school self-evaluation under the Professional Partner scheme, established in 2009-10. The Professional Partner programme has ensured rigour in pupil assessment and improvements in teaching, learning, care and curriculum provision. To improve attainment, schools and colleges must become more accountable for outcomes. With greater autonomy comes an increased need for enhanced accountability, evaluation and inspection. The expansion of the School Achievement and Standards Team, encompassing two additional Professional Partners, is the most effective and economical means of expediting essential change and raising standards.

EDU Early Years (SEN) £0.3m in 2016 £0.3m by 2019

In 2012-2013 a working group reviewed the Island's Early Years' provision and highlighted the need for a coherent support system for children and families from pre-birth to five. Pre-school provision is not statutory in Jersey and, unlike the UK, receives no funding from the States. Multi-agency work has clearly identified all the under-fives with special educational needs in States nurseries and pre-school. Working with this group ensures the children get the best possible start to their education and that they are better able to access school when they start. Research shows early intervention is key.

EDU Higher Education Funding £0.6m in 2017 £2.0m by 2019

Council of Ministers agreed an additional £2 million per year by 2019 following the Distributional Analysis of spending proposals and the Ministerial review of savings and growth. The proposals include using the £2 million to provide more financial support so more students to access University. In particular, the household income threshold for receiving a full student grant will be raised and the maximum amount paid for living expenses through the maintenance grant will increase, helping people on lower incomes. Other higher education initiatives will also be investigated.

Funding for Other Priorities

BC Security and Health and Safety in Royal Court £0.1m in 2017 £0.1m in 2019

A Health and Safety report has identified deficiencies in the current security measures for the Royal Court. The improvements to the security measures proposed are to include "on entry search facilities" which will also require increased staffing. With the savings measures required the additional funding could not be found from within existing Non Ministerial budgets.

CMD Financial Services/McKinsey Implementation (EPGDP) £0.5m in 2016 £0.5m in 2019

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

This growth funding is being offset by a reduction in the EPGDP Provision, reflecting the importance of this funding for economic and productivity growth.

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

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

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

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

As staff increasingly prefer to use their own tablets and smart phones to access corporate data extra funding is needed to ensure the security of that data.

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

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

JD Edwards is expected to reach the end of its life in 2020 and a replacement is essential to ensure we can support the organisation as it responds to changing requirements.

CCA Revenue consequences of capital schemes – New Police-Station and Prison Phase 6 £0.1m in 2016 £0.3m by 2019

The 2016–2019 MTFP included details of additional funding required for the revenue consequences of capital schemes – New Police Station and Prison Phase 6. These requirements have been reviewed in the light of more detailed information and the revenue consequences of the New Police Headquarters have been reduced. The revenue consequences of the next Phase of the Prison will not be required until 2020 due to the anticipated timing of the project.

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

An Adults' Safeguarding Board was established in 2014, bringing together agencies that work with adults who are, or may be, vulnerable and unable to take care of, or protect, themselves from significant harm or exploitation. The Board was initially funded from contingency funds with a commitment to establish funding in base budgets in MTPF2. The Board develops policies and procedures which help protect those adults. If someone does suffer harm the Board investigates and recommends action to help prevent a reoccurrence. In an ageing society, where more adults are cared for in different settings, it is important that steps are taken to help ensure their safety. Failure to do so has considerable consequences, first and foremost in human and social terms, but also economically as recently experienced in relation to the historic abuse of children.

DfI Energy from Waste – shortfall in income £1.1m in 2016 £1.5m in 2019

Since the commissioning and operation of the new Energy from Waste (EfW) plant at La Collette, the unit rate received from the Jersey Electricity Company for power has steadily reduced, mainly due to European energy market conditions (down 43% in 2016 compared to 2012). In addition, the economic downturn and success of the Island's recycling initiatives have reduced waste volumes. The assumptions used in calculating the cash limit have also assumed an increase in income of 2.5% per annum. The net effect of this is that the income budget is now unrealistically high. Projections at the time of the MTFP 2016-2019 indicated that the shortfall would be in excess of £1.26m for 2016 – 2019. The unit rate has reduced further since then and the latest forecast updated for the MTFP Addition require a further £220,000 in 2017 increasing to £240,000 by 2019 unless unit prices substantially increase.

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

In the 2013-15 MTFP, the Infrastructure Department's cash limit was reduced by £1.5 million to recognise the net anticipated effect of income from importing and treating Guernsey Waste. On 14 April 2016 it was announced that Guernsey would begin exporting their waste to Sweden for treatment from 2018, with a three year contract. With this announcement, it is now confirmed that this net income will not be forthcoming during the 2016-19 MTFP.

DfI Tipping fees shortfall £0.3m in 2018 £0.8m in 2019

Income is dependent on the level of construction and demolition activity in the Island and available locations for disposal or treatment of inert waste. Historically, tipping fee income has been on a downward trend and the availability of a new inert waste site which is due to open in 2018/2019 in St Peter's Valley is expected to have a further negative impact on income. The Infrastructure Department is not able to control this reduction in income and once La Collette inert waste site is full, the loss of all tipping income will create a pressure on income of approximately £1.3m. At the time of the MTFP 2016-2019 the estimated loss of income was £346,000 by 2019. A further review now estimates the potential shortfall to have increased to £796,000 by 2019.

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

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

DfI Revenue consequences of capital schemes – new Sewage-Treatment works (from 2019) **£1.7m in 2019**

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

DfI Additional Property Maintenance (HSSD Properties) **£4.0m in 2016** **£4.0m in 2019**

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

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

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

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

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

DfI Payment of Rates on States' Properties **£0.9m in 2017** **£0.9m in 2019**

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

At the time of the MTFP 2016 – 2019 it was estimated that a £1m allocation would be the likely additional cost of paying rates on States' properties. As further work has been carried out the estimate of the additional cost has been refined to its current estimate of £900,000. The Parish of St Helier will still be the main recipient of the States paying rates, estimated to be £611,000 or almost 70% of the total, with the Parishes of St Saviour (£153,000) and St Brelade (£67,000) being the other main recipients. In order to give effect to the proposal the necessary legislation, the Rates (Jersey) Law 2005, will be brought forward alongside the Budget 2017.

Further work and consultation with the Comité des Connétables and the Island's Rate Assessors is required to develop an equivalent funding stream through the Council of Ministers preferred funding route which is the non-domestic Island-wide rate. To allow time for these proposals to be developed appropriately the Council of Ministers is proposing that the States payment of Rates begin in 2017, but the equivalent income stream be deferred until 2018.

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

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

DPC Impact of EU Regulations £0.1m in 2017 £0.2m in 2019

The Data Protection Commission is budgeting this year for £120,000 of registration fee income, but new EU Regulations, in effect, prohibit the raising of registration fees. The local implementation date for a new DP Law to comply with these new EU Regulations is 2018, anticipated to be June.

That means a potential shortfall in 2018 of £60,000, and in 2019 of £120,000. It may be able to possible to identify alternative revenue streams to compensate, for example, charging for training or breach investigations, but at this stage that is purely speculative so an additional expenditure allocation is proposed.

In addition, the Data Protection Commissioner is currently estimating a requirement of £100,000 to cover permanent staff costs. This requirement will continue for 2018 and 2019, although the work planned to investigate additional income streams could look to recover these additional costs in due course.

EDTS&C Sports Strategy Funding £0.45m in 2017 £0.45m in 2019

In the run up to the 2015 NatWest Island Games, £750,000 of additional funding was provided for a sports strategy, which was also extended from one-off funding to 2016. Since taking over the sports strategy funding from Education, EDTS&C has conducted a rigorous prioritisation exercise of this funding. The revised proposals are to focus on those original service elements which are deemed most vital; Clubmark and Events, Community Sport, Inclusion, PE & School Sport, School Swimming and Exercise Referral. This reduces the requirement for growth funding to £450,000 for each of the years 2017-2019 and Council of Ministers is proposing to incorporate base budget funding for these elements from 2017.

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

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

LtG Cadet and Military Support Officer £0.04m in 2016 £0.04m in 2019

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

SA States Members' Pensions £0.05m in 2018 £0.1m in 2019

Following a recommendation made in 2014 by the States Members Remuneration Review Body (SMRRB), the Privileges and Procedures Committee members agreed that although the present financial situation of the

States remains challenging there is, in fact, unlikely ever to be a time when it would be easy or uncontroversial to introduce a pension scheme for States members, and therefore, it would be unfair on members to continue to ignore the recommendation of SMRRB.

As a result of the approval **of P.72/2015.Amd(7)** from the Council of Ministers, this funding has been deferred until at least May 2018, to allow any decision on States Members' pensions to be taken as part of a wider debate on the remuneration of States Members ahead of the new Assembly in May 2018.

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

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

SSD Targeted Christmas Bonus £0.4m in 2017 £0.4m in 2019

The Christmas Bonus (Jersey) Law 2011 has been annulled as part of the benefit changes approved under the MTFP 2016. However, the Council of Ministers has agreed that a targeted bonus should continue to be provided to support vulnerable income support claimants and lower income pensioners.

The bonus will continue to be available at its current value to the following groups:
- Income support claimants who are over state pension age (65), in receipt of a personal care component level two or three or in receipt of a carer's component. Low income older individuals and younger adults living with a significant disability or providing unpaid care have less opportunities to improve their own income and will benefit from an annual Christmas bonus, which will be provided automatically through their income support claim.
- Other pensioners who do not pay income tax and have limited savings (excluding the value of the family home) will also be able to apply for a Christmas bonus.

Regulations will be added to the Income Support Law and the Social Security Bonus Law to provide for these bonuses from December 2016

SSD Food Costs Bonus £0.4m in 2017 £0.4m in 2019

The regulations for the current Food Cost Bonus are set to expire at the end of 2016. The Council of Ministers deferred a decision on the future funding of the food costs bonus last year but has now allocated funding for the remaining three years of the MTFP to provide for one further renewal of the food cost bonus regulations. The bonus will continue to provide an annual cash payment at its current value of £226.95 to households with incomes above the level to qualify for income support but below that to have an income tax liability.

The existing triennial regulations will be renewed to provide for a bonus in 2017, 2018 and 2019.

T&R Asset Valuation £0.3m in 2017 only

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

T&R Strengthening Shareholder Relationship Resources £0.2m in 2016 £0.2m in 2019

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

H&SS/DfI/T&R - Increase in insurance premiums £0.5m in 2017 £0.5m in 2019

As a result of increased settlements in Health and Social Services and Infrastructure, review clauses have been triggered resulting in increased premiums from 2016. The current balance on the Insurance Fund and the levels of self-insurance managed would not allow these level of increases to be absorbed within the fund. The 2016 premiums will be covered through contingency requests and funding for the affected departments is required from 2017. This represents a provision for three departments of:

- Department for Infrastructure £97,500,
- Health and Social Services for £200,000, and
- Treasury and Resources for £202,500, in respect of all departments.

Additional funding to be allocated to Contingency

Combined bid for investment in initiatives to support vulnerable children £1.65m in 2017 £1.65m in 2019

Investment in initiatives that support vulnerable children including: additional capacity in the Law Officers' department - Children's and Family division; continued development of family centres and early intervention initiatives; development of the Youth Enquiry Service, additional child protection officers and other enhancements to work on safeguarding, support towards a sexual assault referral centre, and continuing development of support for pre-school special needs and the 1001 days initiative. These initiatives include currently undelivered recommendations arising from previous reports/inspections. The need for any additional future investment will be assessed once the Independent Jersey Care Inquiry has made its final report and recommendations.

Contingency – Additional Doctors Pay Award and PECRS Debt Repayment £1.2m in 2017 £1.48m in 2019

Since the MTFP 2016-2019 was agreed settlements for Doctors and Junior Doctors in the UK have been agreed and the States' Employment Board (SEB) have sought to negotiate pay awards with these employee groups in Jersey for 2015 and 2016. SEB has reached agreement with Doctors and Consultants and are progressing negotiations with Junior Doctors. These awards are beyond the original pay provision and Council of Ministers has agreed the additional funding required.

The agreed funding for the Doctors and Consultants award is allocated to Health and Social Services department but until the Junior Doctors negotiations are completed the additional funding will be held in the pay provision.

Additional funding has also been agreed to provide inflation to the central pre 1987 PECRS debt repayment budget recognising that this will need to increase notwithstanding the general savings target on non-staff inflation. This additional funding will also be held in the central pay provision and allocated as required.

Additional funding to be allocated from Jersey Car Park Trading Fund

Concessionary Travel Scheme for people with disabilities £0.6m in 2017 £0.6m in 2019

Following the unanimous adoption of P140/2015 "Concessionary Bus Fares for the Disabled" the Department for Infrastructure has been liaising with the Chief Minister's and Social Security departments to investigate the potential introduction of a concessionary travel scheme to assist people with disabilities. As a result the Minister for Infrastructure will be bringing forward proposals for establishing such a scheme in 2017 and proposing that this be funded from the Car Parks Trading Fund, given previous approvals (P147/2004) and (P104/2010) to use the fund for transport initiatives. Initial estimates are for funding at a level of £600,000 from 2017.

10. Sustainability in States Finances

Background

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

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

Given the States priorities of investing in health and social services, the education system, St Helier and the need to maintain the Island's infrastructure, and the associated funding pressures, the Council of Ministers adopted a three-part approach to balancing States' finances by 2019 which was outlined in the States Strategic Plan (P27/2015):

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

The investment in health services envisaged can only be approved with the agreement to additional funding being introduced, in accordance with previous decisions to ensure funding of health and social care going back to P82/2012.

Ministers originally set a target to deliver £145 million of savings, charges and other measures by 2019, in order that the investment in health and social care and the education service could be made and vital capital spending delivered. The target represented an initial plan and recognised that this would need to be continually reviewed over the MTFP period and adjusted for any variation in income forecasts, savings and funding measures.

Ministers have reviewed the central plan and held a number of workshops with the Corporate Management Board to adjust the package of measures to ensure the proposals for the MTFP Addition delivers the funding needed for investment in strategic priorities of health, education, St Helier and the need to maintain the Island's infrastructure and aims to deliver balanced budgets for 2019 which recognises:

- the improvements in the Consolidated Fund balance from the 2015 Outturn
- the slight improvement in income forecasts to 2020
- the additional funding proposals for 2017-2019
- reduced forecasts of benefit spend
- the outcomes of the spending review and savings proposals for 2017-2019, and finally
- the Distributional Analysis of the current package of measures.

The Council of Ministers has adjusted the package of measures:

- to maintain the focus on strategic priorities
- to reflect the outcomes of Ministerial reviews of the proposals
- to attempt to make the package of measures more progressive
- to minimise the risk to economic recovery, and
- to deliver balanced budgets and sustainable finances.

As well as adjusting the package of sustainable measures the proposals for short-term funding have been revised and rephased to reflect the latest balances on available funds and reserves and the revised proposals are outlined at **Section 13**.

Funding the shortfall to achieve balanced budgets by 2019

In order to ensure up-front investment continues in health and education and to proceed with the planned investment in infrastructure, sustainable measures are required over the period of the next MTFP 2016-2019 in order to return to balanced budgets.

In the MTFP 2016-2019, the Council of Ministers proposed additional funding for Health, Education and Other departments amounting to £61 million. In addition proposals for a base capital programme and an adjustment to reflect annual depreciation provisions indicated a target for sustainable funding measures of £145 million by 2019, in order to achieve balanced budgets.

Changes since the MTFP 2016-2019 (October 2015)

Since that time income forecasts have improved both in the 2016 Budget, largely due to agreed budget measures, and then again in the forecasts for the MTFP Addition. At the same time depreciation and benefit forecasts have been revised and the Council of Ministers is also proposing further additional funding of almost £8 million by 2019 beyond the growth included in the MTFP 2016-2019 last year.

The £33 million of savings and £5 million of benefit changes proposed for 2016 are now in place as a result of the approval of detailed expenditure allocations for 2016 in the MTFP 2016-2019 in October 2015. Together with the improvements in income the remaining target for sustainable funding measures is now in the region of £80 million per annum.

Distributional Analysis and Ministerial Reviews

The purpose of the MTFP Addition was to allow more time for the detail of the proposals for 2017-2019 to be worked through and as a result the balance of measures has been adjusted to take account of the slightly improved financial position, the distributional impact of the original proposals and Ministerial reviews to assess the allocation of resources in line with strategic priorities.

The Council of Ministers is aware of the FPP’s advice that the expenditure proposals should attempt to minimise the impact on the economy so as not impact the economic recovery.

Revised package of proposals

The Council of Ministers has therefore adjusted the package of measures for 2017-2019 and is proposing £77 million of savings, efficiencies and user pays by 2019 which is an additional £44 million over the £33 million savings agreed for 2015 and 2016.

Consideration has also been given to how the Plan is placed to address the result of the UK EU Referendum.

The Council of Ministers remains committed to continuing to strive for efficiencies and savings across Departments over this MTFP and for this culture to become part of our modernised, efficient and effective public sector delivering best value services in the future.

In order to ensure that expenditure limits established by the States Assembly are maintained, whilst efficiencies continue to be pursued, the Council of Ministers considered other measures and agreed the following proposals for inclusion in the MTFP Addition:

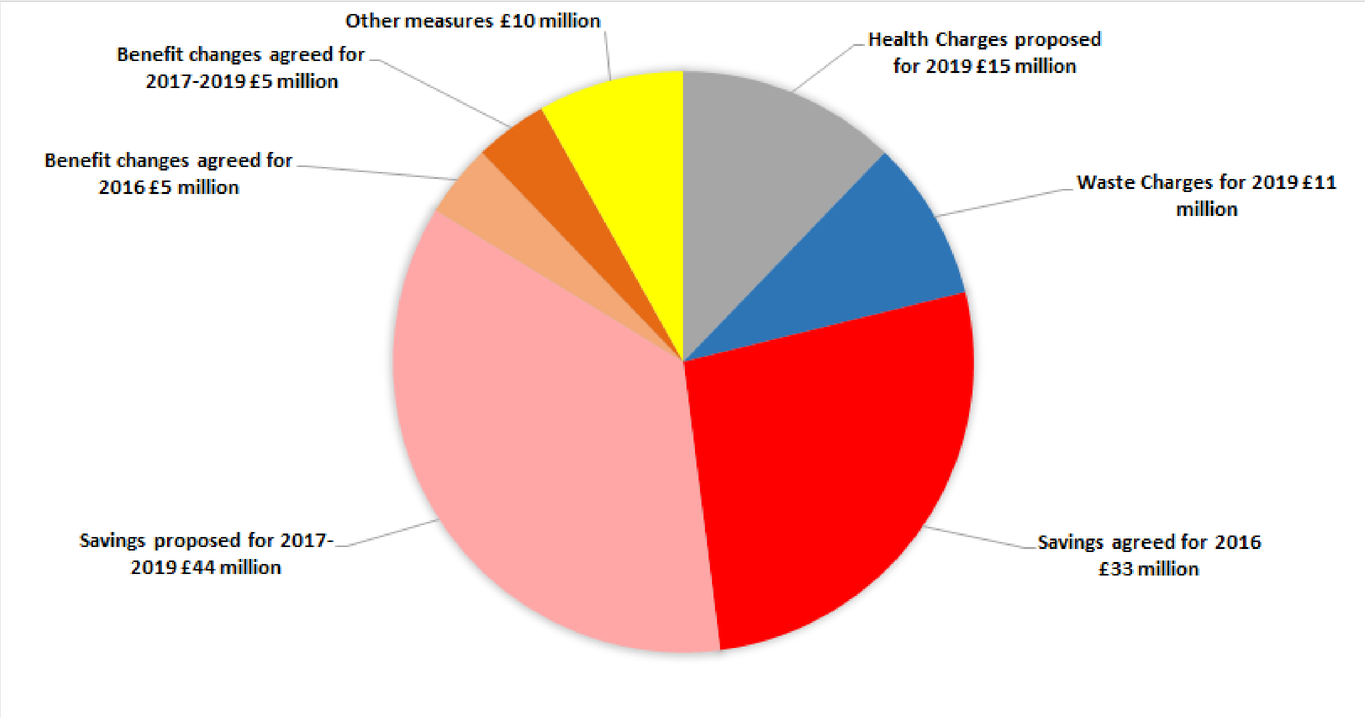
- an additional £1 million of waste charges by 2019
- £5 million a year is proposed to be transferred from the Health Insurance Fund to phase the introduction of the health charge and provide primary care funding for Health and Social Services for each of 2017-2019, this funding replaces £30 million previously proposed to be transferred from the HIF to the Consolidated Fund. Beyond 2019, this transfer should not need to recur as it is preferred that further efficiencies replace this funding in 2020.
- adjustments to the 2016 contingency provisions over the period of the MTFP reflecting the likely demands on these provisions as circumstances change and considering what will be sustainable provisions by 2019 and beyond.
- Uncommitted contingency funds in 2016 are earmarked to be carried forward to fund the AME contingency for 2017-2019
- The Redundancy and Restructuring Provisions are brought together to provide a single provision for Public Sector Reform over the period to provide not only for the voluntary release scheme but for all the many other public sector reform initiatives of eGovernment, Lean, service redesign and workplace modernisation.

The other proposals for funding mechanisms for health and rates have been revised as follows, particularly recognising the slightly improved financial position:

- The proposals are for a reduced income based Health charge from 2018 of 0.5% or £7.5 million, increasing to 1% or £15 million per annum by 2019 – a reduction of £20 million on the original proposals.
- The proposals for a funding mechanism for States payment of Rates of £900,000 have proved more problematic than initially anticipated and have been deferred until 2018.

Further details of both funding mechanisms can be found in **Section 12** and a summary of the revised package of measures to balance budgets by 2019 is shown in **Figure 27.**

Figure 27 - Summary of the revised package of measures to balance budgets by 2019



Summary of Approach

The combination of all these measures results in an operating surplus by 2019 of £55 million, at least sufficient to cover the forecast of depreciation for that year. This results in books being broadly balanced for 2019 and represents the substantial setting of finances on a sustainable basis. The Council of Ministers could have decided to reduce growth allocations to deliver spending within the limits agreed. However, the Council strongly believes it is preferable to extend the period to deliver the relatively small remaining expenditure measures and in the meantime use balances on the Health Insurance Fund to maintain health spending and carry forwards to maintain an appropriate provision for variations in Social Security benefits spending.

Sustainable Funding Measures

<u>Economic Growth</u>

The latest economic assumptions endorsed by the FPP show that the economy returned to real growth in 2014 and that growth is expected to continue in the 2015-17 period. The latest data, particularly on financial services profitability shows that the economy grew significantly more strongly than expected in 2014.

The investment in health, education, St Helier and the need to maintain the Island's infrastructure set out in this MTFP 2016-2019 will help to support the economy. In addition, the Strategic Plan sets out how existing policies on growth and productivity will be reviewed, refreshed and enhanced to help achieve the growth forecast in coming years but also quite critically achieve sustained productivity-led economic growth over future economic cycles. In particular:

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

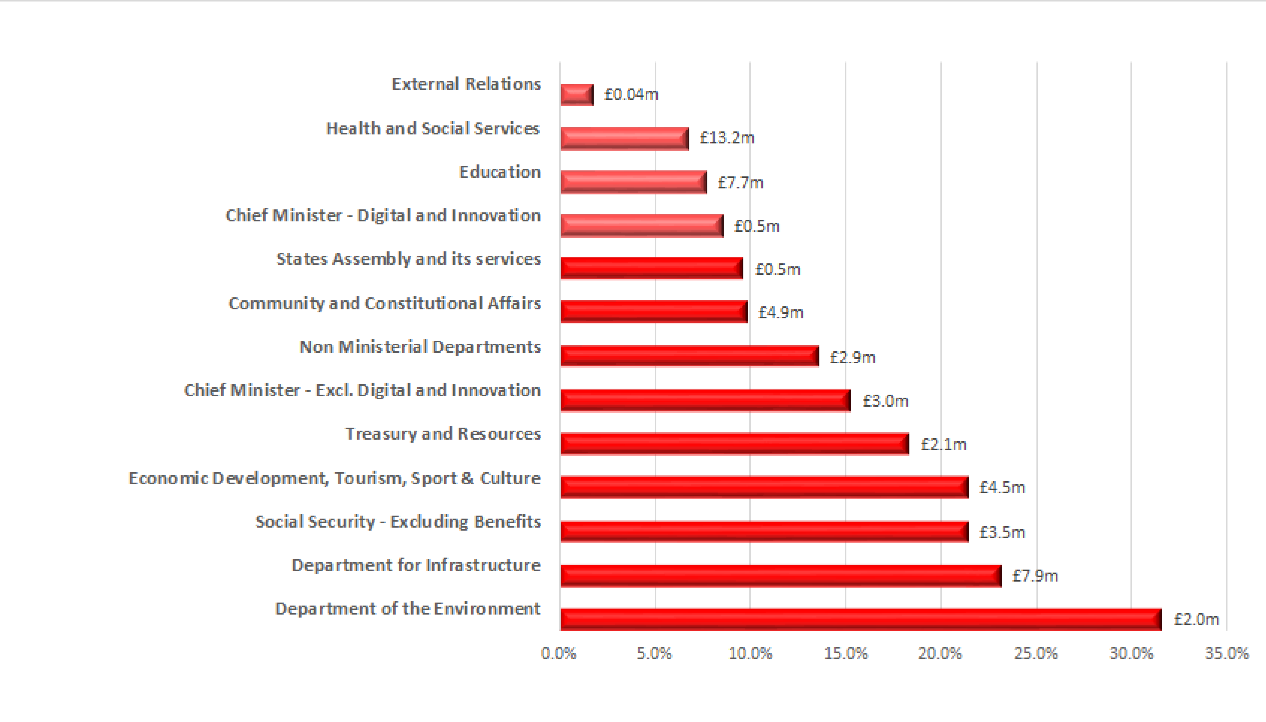
The total States expenditure limits agreed in the MTFP 2016-2019 maintained the majority of the £14 million investment from the first MTFP for getting people into work, back to work and employment initiatives, recognising the importance of investing in our economy and jobs.

MTFP 2016-2019 made an initial provision for £20 million funding for economic and productivity growth initiatives which cannot be met from the resources in base budgets of £5 million p.a. The proposals in the MTFP Addition maintain £18.5 million of this funding and proposals have already been made by departments for projects in 2016, see **Section 8**. Over the period 2017-2019, £3 million of this funding has instead been used to protect the budgets of external relations, financial services, digital, innovation and competition. Maintaining Jersey's reputation abroad and in key international organisations is vital to ensure the long term health of the financial services industry. The importance of this is underlined by the need to ensure Jersey's interests are maintained through these uncertain times, especially whilst the UK's withdrawal from the EU is negotiated.

The focus is to protect those services contributing to strategic priorities of health, education and economic growth and ensuring that existing base budgets are extensively reviewed to maximise efficiencies and reduce the level of savings which will result in a reduction in service to the public. Consideration has also been given to opportunities to fully recover the costs of appropriate services so that higher priority services can be protected.

Figure 28 shows how all departments have contributed to the expenditure measures but that the strategic priority areas of health and social services, education and areas contributing most to economic growth have been protected.

Figure 28 – Department Savings as a % of 2015 Cash Limits – illustrating Strategic Priorities



The review has also considered the distributional impact of the savings and been further informed by a series of Ministerial reviews of the final savings and growth proposals. As a result of the distributional analysis and Ministerial reviews a number of adjustments were proposed which reduced savings in priority areas or where the impact on the public or the level of service was deemed to be too high. The adjustments were also made to make the package of measures more progressive overall.

Savings, Efficiencies and User Pays

The original target for savings, efficiencies and user pays by 2019 was £90 million and following the prioritisation of funding to arrive at department allocations and contingency proposals for the MTFP Addition the proposed level is now at £77 million by 2019.

This is the maximum level of savings, efficiencies and user pays that the Council of Ministers considered could be proposed to be delivered by 2019 having considered the range of measures presented by departments.

The focus is to protect those services contributing to strategic priorities of health, education and economic growth and ensuring that existing base budgets are extensively reviewed to maximise efficiencies and reduce the level of savings which will result in a reduction in service to the public. Consideration has also been given to opportunities to fully recover the costs of appropriate services so that higher priority services can be protected.

The Council of Ministers has decided to extend the time frame to enable departments to find efficiencies to meet the target, thereby minimising any impact on islanders. This means departments will continue to restructure and reduce costs over a longer period. Service reviews continue and further efficiencies will come as the public sector imbeds a culture of continuous improvement and reaps the benefits of technological change and office rationalisation.

The Council of Ministers welcomes the extent to which the proposals are made up of efficiencies which should have little or no impact on the level of service provision experienced by the public. Efficiencies make up £71 million of the £77 million and further measures which result in small reductions in the Restructuring and EPGDP provisions by 2019 also avoid the need to reduce services further and stay within expenditure limits set by the States Assembly.

Figure 29 – Summary of cumulative expenditure measures

	2016	2017	2018	2019
	£'000	£'000	£'000	£'000
Savings	525	1,087	1,487	1,817
Efficiencies	21,793	29,244	38,020	46,317
Efficiencies - Pay Restraint	10,894	16,725	20,701	24,826
User Pays	695	1,181	2,661	4,575
Total Proposed Department Savings	**33,907**	**48,237**	**62,869**	**77,535**

Figure 29 shows that £1.8 million of the proposed measures are Savings and User Pays proposals of £4.6 million summarised at **Appendix 2.**

Pay Restraint

The Council of Ministers values and recognises the contribution of our public sector workforce and the importance of developing a fairer and more equitable remuneration structure through Workforce Modernisation. At the same time we also have to recognise that staff costs represent over 50% of our budgets and we must therefore keep the same tight rein on the paybill as we are on the rest of our resource to deliver efficiencies and best value for money. Alongside Workforce Modernisation, pay restraint will need to continue over the period of the MTFP and will contribute significantly to the overall target for expenditure measures.

User Pays

The Council of Ministers has been quite clear about its policy regarding sustainable measures which require departments to firstly demonstrate that every effort has been made to prioritise existing services, drive out savings and efficiencies and demonstrate that public services are efficient and providing value for money, before increasing or introducing new charge for services. As a result the proposed "user pays" measures only include £4.6 million of the £77 million total.

As required by P63/2003 all new user pays charges are proposed in principle in the proposition such that they can be included in department expenditure limits and brought forward with appropriate legislation in due course.

Details of the User Pays proposed for 2017-2019 are provided at **Appendix 1.**

Changes to Benefits

The MTFP 2016-2019 identified a target of £10 million in benefit changes in Social Security. The detail of the proposed benefit changes were detailed and the appropriate legislation was agreed at the time of the MTFP 2016-2019 debate. This included an amendment to maintain means tested free TV licences, reducing the savings by £157,000. The Social Security department will continue to implement the package of changes over the period of the MTFP to deliver £9.8 million by 2019.

The benefit changes were considered in detail using the following major themes:

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

Figure 30 – Summary of Benefit Changes

	2016	2017	2018	2019
	£'000	£'000	£'000	£'000
Benefit Changes	4,943	7,943	9,243	9,843

Waste Transformation and Waste charges

It is acknowledged that additional charges for services which have been previously funded by taxation is, at best, challenging. However the principle of user pays charges will significantly improve the environmental behaviours with respect to transport, solid waste and liquid waste. Charging for commercial solid waste transfers the direct cost from the taxpayer to business, many of whom do not pay income tax, and will also enable alternative business opportunities for recycling which are currently suppressed due to DfI's free disposal option.

DfI will embark on a number of changes over the coming years, not least of which will be the potential for some areas to become a trading or separate operation. Whilst investigations into the feasibility of such a move are currently at very early stages, it is intended that proposals be brought forward to the States in the next phase of the current MTFP period. Further details of the proposed waste charges are detailed in **Section 12.**

Figure 31 – Proposed Commercial Waste Charges

	2016	2017	2018	2019
	£'000	£'000	£'000	£'000
Proposed Commercial Waste Charges	0	0	3,000	11,000

Funding Mechanism for Health

The MTFP 2016-2019 identified a target of £35 million for a Health charge by 2019, starting with a charge for £15 million in 2018. The Council of Ministers had however stated that should the financial position improve through increased income that one of the considerations could be to review the level and timing of the Health charge.

The improved Consolidated Fund position has enabled the level of the Health charge to be reviewed and the view of the Council of Ministers is that this should be reduced to £7.5 million in 2018 and £15 million in 2019.

As part of that review of the overall financial position the Council of Ministers has also decided to reduce the extent to which the Health Insurance Fund (HIF) is used to facilitate the introduction of the Health charge and the value of the proposed transfers are reduced from £30 million to £15 million by 2019.

Details of the proposed funding mechanism for Health are included at **Section 12** and the Social Security Minister is asked to bring forward proposals for transfers to the Health and Social Services department from the HIF alongside the MTFP Addition debate in September. The transfers from HIF provide a short-term funding measure of £5 million p.a. for the years 2017-2019 and are conditional on the Health charge being approved.

Figure 32 – Proposed Funding Mechanism for Health

	2016	2017	2018	2019
	£'000	£'000	£'000	£'000
Proposed Sustainable Funding Mechanism for Health	0	0	7,500	15,000

Other measures

The overall target for sustainable funding measures has been reduced since the MTFP 2016-2019, largely as a result of an improvement in the income forecasts, financial position and Budget measures agreed in Budget 2016.

The Council of Ministers has therefore revised its package of proposals to deliver balanced budgets and also the expenditure measures required to remain within the agreed States total expenditure limits for 2017-2019, as these limits cannot be varied without a change to the Public Finances Law, other than in exceptional economic or environmental circumstances.

The Council of Ministers considered a number of options to manage within the overall expenditure limits. The other measures take account of the additional growth proposed and the variation in benefit forecasts.

The main proposals are the use of the Health Insurance Fund to provide a transfer of funding of £5 million per annum for primary care services for 2017-2019 and adjustments to central contingency provisions to recognise the levels anticipated to be required by 2019. The movements in central contingency provisions are shown in more detail in **Section 8.**

The transfers from the Health Insurance Fund will be brought forward by the Minister for Social Security alongside the MTFP Addition and will enable the phased introduction of the Health charge.

Summary

The advice of the Fiscal Policy Panel in its Pre-MTFP report was for the States to address any structural deficit with sustainable measures by 2018/2019. The Fiscal Policy Panel also advised that care should be taken to ensure that the range and timing of the measures minimises the risk to the economic recovery, which in the early stages, may involve using the States Reserves.

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

To ensure that much needed investment in health, education and other departments totalling £68 million per annum by 2019, whilst also ensuring the adequate and sustainable level of investment in infrastructure is maintained, the Council of Ministers proposes in the MTFP Addition that further expenditure measures of £59 million (including benefit changes and waste charges) are implemented by 2019, in addition to the £38 million already removed from department budgets by 2019. This plan with the commitment to deliver further savings during the next MTFP period will ensure that balanced budgets and sustainable finances are established from 2019.
The proposals for short-term measures, recognising the deficits in 2016-2018, are covered in the **Section 13**, together with considerations for contingency plans in **Section 15**, should the levels of income vary within the forecast range.

11. Public Sector Reform

Public Sector Reform

The main aim of the new strategic planning system is to help maintain or improve quality of life in Jersey in a changing world. It is designed to focus effort on, and demonstrate progress against, the key community, economic and environmental outcomes by which people judge Jersey as a place to live.

The public sector will play an important part in delivering many of these outcomes. Setting an Island Vision requires government to step back and think about the role it expects the public sector to play and the capacity of the organisation to respond to emerging challenges and opportunities. Ensuring that the public sector is ready for the challenges that lie ahead is what public sector reform is about.

The need for public sector reform

Governments everywhere are facing up to the difficult reality that future cost pressures will require them to rethink what they can afford to do and reprioritise their spending.

A higher proportion of older people will drive up demand for, and costs of services, particularly health, social services and pensions.

If we don't reprioritise spending, the public sector will continue to be buffeted by cost pressures and driven by necessity to offer fewer and more restricted services. To mitigate the impact of these emerging pressures, we will have to do things differently.

Customers are also increasingly wanting to use technology to interact with government, and many public authorities are adopting new models of service delivery. We must demonstrate our capacity to innovate, learn and adapt, otherwise we risk wasting resources by remaining largely unchanged from 20th Century structures and ways of working while the world around us changes.

That is why we are re-thinking what we do and how we do it so that every pound we spend counts towards securing Jersey's future. It means embracing innovation and new models of service delivery. It means examining how we use, deliver and interpret technology and data. It requires new ways of working with partners and the public to achieve our goals.

In order to deliver this, the Restructuring and Redundancy Provision is critical to enable Invest to Save and Invest to Change initiatives across all of the Public Sector.

The aims of public sector reform

The purpose of public sector reform is to help forge a more innovative, efficient and less expensive government which will increasingly be seen as a partner of the private sector in growing and diversifying the economy, delivering the community and environmental aspirations outlined in the Island Vision, as well as being a provider of essential public services.

Reform will also deliver a more flexible, efficient and sustainable public sector workforce which will be better able to meet the challenges Jersey will face over the next 10-20 years.

Reform is about changing how we deliver services which may save money, may avoid increasing costs or may mean costs increase less than they might otherwise have done.

How we are reforming

Reform has been designed to create the necessary conditions for far-reaching and sustainable change in the delivery of public services.

The programme focuses on four main elements, delivered through multiple projects and programmes:

- Service redesign
- eGovernment
- workforce modernisation
- workplace modernisation

Phase 1 of Reform 2012 to 2015

Work commenced in 2012 to start planning the reform portfolio, undertaking research and beginning to engage employees. By 2013, four main workstreams were mobilised to deliver the overall programme. These were, Lean (continuous improvement), workforce modernisation, eGovernment and people/culture and values

These workstreams were designed to help us build capability to drive change and redesign the way we work, as well as deliver services in new ways. We intensified our focus on involving employees through events and communication.

By 2014**, t**he office modernisation project was assimilated into the reform programme as it has a direct link to, and impact on, how we provide services to customers, use technology and organise ourselves internally.
We continued to drive the work that began in 2013. In particular, the job evaluation project (part of workforce modernisation) got into full swing. The focus on Lean and continuous improvement also continued, with employees across departments leading service improvement projects.

In 2015, we added a regulation workstream to the programme, to help us challenge and change laws that inhibit innovation and modernisation.

The identified gap in finances between now and 2019 means we needed to reprioritise our spending and focus on finding new ways of delivering services.

Continuing with public sector reform will help ensure value for money and, in some cases, support spending priorities initiatives. The reform programme continues with its original purpose unchanged, but has evolved to remain relevant to our changing needs.

Using the restructuring fund wisely to invest in savings activities, to invest in change activities and to invest in technology will be critical for the success of our reform work.

Savings
During 2015 departments reduced their spending by £12 million. By the end of 2016 this is expected to reach £33.6 million and £5 million on benefit changes.

These savings were made through:

- the voluntary release programme
- stringent vacancy management
- service redesign
- Lean

Service redesign

We are exploring a range of alternative business models, such as integration, shared services and joint ventures, as well as developing new commissioning and procurement tools.

A new primary care model has been set out for Health and Social Services. Its main aim is to get more services out into the community and to ensure that people only come into hospital if they really need to. This means linking up more formally with service providers, such as local charities, as we recognise their specialist knowledge in many areas.

A new operating model is being introduced by the States of Jersey Police based on THRIVE principles (Threat, Harm, Risk, Investigative Opportunities, Victim, Engagement Opportunities) to better match resources against demand and the investment in a mobile data solution will make the Force more efficient through use of IT and streamlining processes.

The Taxes Office and Social Security department are already working on a new system to transform the collection of taxes and contributions and other opportunities to work closer together.

The Ports of Jersey have been incorporated, allowing greater commercial freedom to drive revenue growth from new initiatives. This will guarantee their long term sustainability without the need for States subsidy.

We have transformed social housing with the incorporation of the housing department and its housing stock into Andium Homes; a financially sustainable model providing enough social housing for those in need.

Further service reviews will take place across:

- education
- infrastructure
- sports and culture
- justice
- support services
- economic development, external relations and financial services
- environmental services

Lean

To support the redesign of services, more than 700 employees have been trained to use Lean methodologies to problem solve and redesign processes to remove wasteful activities while ensuring customer focus. Across the organisation, improvement projects are becoming business as usual, bringing financial or time savings, as well as increasing customer satisfaction.

Lean is a methodology which gives us tools to drive change and puts the customer at the heart of service design. It creates a culture of continuous improvement, enabling employees to drive change from the bottom up.
Lean helps us identify and remove non-value adding steps from processes in order to provide slicker, more punctual and cost effective services with the minimum of waiting or queuing.
As the people who know those services inside out and the ones using them day in-day out, it’s essential that employees are able to initiate change in slow or cumbersome processes.

Learning Lean techniques has been a catalyst for change and improvement. It has helped instil new ways of working and a culture of continuous improvement. We have noticed that successful, employee-led change, whether using just a few or many Lean techniques, leads to an increased sense of pride and appetite for further improvements.

When processes are streamlined, the time savings create capacity for employees to focus on core tasks which are most valued by customers or to spend time on further improving services. This creation of spare capacity also supports our drive to reduce unnecessary recruitment, as vacant roles may not always need to be filled.

As at quarter one 2016, 136 projects were underway and 72 had been completed. Nearly £700,000 of value has been delivered as a direct result of Lean work by the start of 2016.

eGovernment
The eGov programme moves the States of Jersey towards a model of delivering services that puts customers first, are digital by default and aimed at a better user experience.

Although technology is a key feature of eGovernment, it is fundamentally about transforming how we deliver our services. It also encourages inter-departmental working and will help position the States as a progressive and forward-thinking government.

The programme objectives are:
- designing services around the user to be better, quicker, simpler (interactive)
- improving efficiency across the States (efficient)
- increasing transparency, visibility and accessibility of user information (transparent)
- supporting Digital Jersey in developing local digital market capabilities (digital)

Achievements
There are approximately 30 projects running across the States which are focusing on service enhancement and the application of technology. Of these 30 projects, ten are live, such as Track My Bus, Gazette and breast screening booking.

Work on the more complex elements of eGov, like online authentication and data management, are also underway.

Other areas of work underway include:
- design authority
- online authentication
- data management
- Tell Us Once

Design authority
In 2016, the eGovernment programme engaged with a supplier for a contract to set up and run a design authority.

The design authority will provide the design and governance mechanism for future service redesign and technology decisions, enabling a common approach across departments and improving our strategic decision-making.

The design authority's mandate covers:

- service design
- information and data management
- systems and applications
- technology
- security

The design authority has delivered:

- an understanding of current state
- a vision

The design authority will be expected to:

- design future state target models
- set frameworks to enable projects to move towards these target models
- support the procurement of products and services required as a consequence of its decisions

Online authentication

Also referred to as digital ID, the project to introduce a States-wide system for identifying people online when they deal with government, is in the options assessment stage.

We need to know who the customer is when we are dealing with them, so to be able to help them departments often ask for proof of identity. A States department can’t talk to a customer about the problem they’re experiencing and look up details on their screen until they’re sure who they are speaking with.

Data management

Data is currently collected and held multiple times in multiple places and rarely shared. Legislation, regulation and operating culture create actual or perceived barriers which prevent data sharing.

The eGovernment programme has established and implemented a data management strategy and framework, which is fundamental to delivery of the broader public sector reform programme.

Key appointments have been made and a data governance council has been established.

Work to create a ‘People Directory’ has identified common data sets for our customers and a pilot to test the concept of a single customer database has started.

Tell Us Once

The objective of Tell Us Once is that when we ask customers and partners for any piece of information, we share that information appropriately so that we never have to ask them again.

The “Us” includes all parts of the States of Jersey administration (States departments, parishes, agencies) and private entities, where appropriate.

Tell Us Once has delivered six new processes, bringing together different parts of the States and parishes along with the private sector (e.g. doctors) for:

- new resident registration
- new business registration
- registration of births
- registration of deaths
- cease trading
- registration of leavers

Now customers only go to one place to register these events and the information is shared with all relevant parties behind the scenes.

Tell Us Once will deliver further cross-departmental services, improving customer experience.

Online forms
We need to be able to deliver more services online once they have been simplified (by applying Lean processes).

The eforms team has implemented a multitude of new forms including:
- submit an FOI enquiry
- register your craft with the Coastguard Safety Identification Scheme
- apply for long term care
- electronic invoicing – Ports of Jersey
- report a defective vehicle
- Supply Jersey supplier registration
- paying Social Security contributions and instalments online

What else has been delivered?
In addition to the new Tell Us Once services, the following services have been delivered in collaboration with departments:

- Online breast screening bookings to invite the appropriate group of customers and improve attendance rates at screening programmes
- eParishes online rates
- Improved online GST payments
- An open government data site (opendata.gov.je) was launched in November 2015 and emphasis now moves to the publication of more data sets
- An online Gazette
- A car park availability mobile site (like an app, but more flexible) launched in December 2015

Workforce modernisation

The public sector will become an organisation that is flexible, resilient and has the capacity to meet any future demands. The current workforce modernisation programme (WFM) will enable this intent. As part of public sector reform, investment has been made in order to support the outcomes required.

The fundamental purpose of the programme is to build a unified and harmonised framework for pay, policies, terms and conditions that meet good practice and are compliant with the new (and imminent) legislation.

A new method of evaluating roles has been introduced, which has proven value in supporting large scale public workforces, to inform workforce pay in a more transparent, fair and consistent manner. This will replace the existing job evaluation methods which have not been reviewed for, in some cases, more than 30 years. It will also address the multitude of reward structures (reducing some 20 plus pay structures down to 5) and will simplify the ongoing maintenance, administration and interpretation of these areas. It is proposed that the new pay policy moves away from time-served incremental progression, and is better able to recognise and reward individual contribution and performance.

Similarly, harmonising policies, terms and conditions across the organisation will support more equal treatment of employees across our numerous workforces, all working for a single employer. This will also enable employees to move more freely around the States in response to changing customer and service needs by creating harmonised employment conditions to support excellent public services.

To date, the workforce modernisation programme has delivered on a number of key areas:

- A new way of working in partnership with our unions through the collective framework agreement which has created a more collaborative relationship, openly discussing ideas and working through problems. This has allowed a move away from the more traditional style of individual union negotiations to a single table bargaining forum for all key representative groups;
- More than 99% of roles in scope of WFM have been evaluated under the new job evaluation scheme, which has involved creating new job information templates (JITs) covering more than 2,000 posts for 6,000 employees;
- Executive jobs within the civil service have also been evaluated as part of the executive workforce modernisation (EWFM);
- More than 260 employees have been trained to use the new States of Jersey job evaluation scheme. This figure includes 97 union representatives;
- More than 660 job evaluation panels have taken place;
- The Job Evaluation team has received national recognition on their in-house developments of consistency checking job evaluation results;
- Extensive research has been carried out into industry best practice on pay, terms and conditions to inform evidence based decision making on new hours of work, annual leave, overtime payments, shift and unsocial hours payments, sick / accident leave at work and historic additional payments;
- In excess of 250 meetings have taken place relating to policies, terms and conditions in partnership with unions and line managers;
- We have rationalised and eliminated duplication of policies (ie, five maternity policies to one), with the aim of reducing 70 policies down to circa 30, reinforcing the harmonisation of a unified workforce;
- The in-house development of complex pay models have been externally audited, which has further facilitated discussions and negotiations.
- A performance management system has been developed in-house and piloted in Social Security and HR.

In 2016, WFM has continued to pick up pace, with ongoing workshops with our unions and line managers with the aim to gain agreement on a final pay, terms and conditions package for WFM by Q3 2016.

People, culture and values

<u>Values</u>

Refreshing our values means we have been able to collate a revised set of overarching statements about how we work together for the benefit of customers:

- **Customer focus**
  We should never forget that we are here to serve the public, develop services to meet their needs efficiently, and provide value for money.
- **Constantly improving**
  We should always aim to be better, challenge habits and learn from mistakes.
- **Better together**
  We should work across boundaries and departments to deliver a better future for Jersey.
- **Always respectful**
  We should care about people as individuals and always treat them with respect.
- **We deliver**
  We should take responsibility, act responsibly and always do what we say.

We developed these values in recognition of the need to have the right behaviours to meet the challenges of reform. They were co-created during workshops involving around 1,000 employees and a group of senior managers from across the organisation.

Refreshing our values also supports our drive for continuous improvement and encouraging people to work together across the organisation, rather than in separate departments. We are encouraging employees to work to shared values across all services, as well as individual departments.

Leadership

To succeed, we need leaders who are skilled at driving change. A new leadership development programme has been created to equip managers with the skills required to address future challenges and to be confident in delivering high quality public services. So far nearly 100 participants are enrolled.

These essential leadership principles are grouped into five areas:

- **Inspiring connectors**
  Leaders should be engaging, great communicators and listeners, authentic and open, and respectful to others.
- **Ambassadors for change**
  Leaders should advocate change, be resilient and agile, drive continuous improvement, and be courageous and bold.
- **Agile decision makers**
  Leaders should do things for the right reasons, empower others to make independent decisions, and be accountable.
- **People leaders**
  Leaders should motivate and support others, nurture talent, and be aware of their own strengths and areas needing development.
- **Performance driver**
  Leaders should be focused on outcomes, effective and efficient, work smarter not harder, and set and deliver ambitious goals for themselves and others.

In addition, we are launching with Highlands College in September 2016 a new management development programme for team leaders and managers to support the ongoing developments of individuals to be equipped to deliver future change and public services.

Employee voice (engagement)

We know our culture needs to change if we are to achieve the necessary transformation of the public sector. An important aspect of this is enabling front line autonomy and employee ownership.

The extent to which our employees are involved in service transformation activities and engaged with new ways of working will decide whether sustainable change is achievable.

We are using a wide range of channels to communicate with employees and receive feedback through surveys, focus groups, briefings with groups of staff, consultation sessions and staff events.

Developing and nurturing positive union relationships is also a key component of engagement.

To ensure employees feel valued and part of the change we are running a programme of events.

As well as holding workshops to encourage creative thinking, we continue to develop online forums where people can collaborate and share ideas.

Workplace (office) modernisation

An office modernisation project aims to ensure that office space can be used as efficiently and effectively as possible and modern office requirements implemented wherever possible.

Modernising our employees' working environment is an essential part of reform as it will enable us to transform the way we deliver services and create a more seamless customer experience.

Providing a modern and flexible environment and bringing more teams together will be crucial to this transformation process.

Work is already underway to improve the effectiveness of our buildings and workplaces, including the development of the new police station and investment in schools.

Progress

Since February 2014, a comprehensive approach has been taken to developing an overall strategy for the consolidation and modernisation of the States of Jersey office portfolio. This 18 month project has reviewed the existing office estate, considered the future requirements of departments, developed a range of options and scenarios for the future and developed a preferred option for the way forward, along with a supporting business case.

Crucial to this work has been developing an understanding of the needs of departments and their customers. The early phases of work involved extensive engagement with individuals and senior managers from the departments in scope.
This information enabled the development of a Statement of Business Needs and key principles and space standards which formed the basis for the evaluation of a range of options and scenarios for the future use of our offices.

In July 2015 the Council of Ministers agreed the overall strategy for the consolidation and modernisation of the States of Jersey's office portfolio. The agreed way forward identifies a programme of work to modernise the estate, centred on a consolidating c.750 office users and customer services into a 90,000 sq ft central administration building (CAB).

The development of the CAB and the associated other projects will enable the re-designation or disposal of 11 buildings (from 23 to 12 in scope), significantly reduce the overall demand for the portfolio (by c.90,000 sq ft) and provide an enhanced, modern environment for staff and customers.

The Council of Ministers has agreed that detailed planning activity for the early stages of the project should begin and a programme of feasibility activity has been initiated for:

- the central administration building
- Department for Infrastructure relocation
- the development of a funding model

This feasibility activity is expected to be completed by summer 2016.

Central administration building

A central building will help us maximise efficiencies and support flexible working so we can reduce costs and improve services for Islanders.

Following a comprehensive assessment process, Cyril Le Marquand House and Philip Le Feuvre House/La Motte Street had been shortlisted as potential sites for the development.

The Council of Ministers has recently agreed that the preferred site for the development of the building is likely to be the Philip Le Feuvre House/La Motte Street site. This site would provide an efficient modern office at lower cost and with less disruption to services than Cyril Le Marquand House.

A full feasibility study is now underway for this site, which is expected to be completed in the summer of 2016.

A vision statement for the future building has been developed, which sets out the main features of the building and the main aspirations in terms of the *environment* and *experience* it should provide for employees and customers.

Achievements so far

- Full engagement and development of Statement of Business Needs, including standards and principles for the future.
- Completed review of the current office estate.
- Completed a Strategic Business Case identifying options and scenarios considered and the costs and benefits of the implementation programme.
- Completed the modern office project which has provided a blueprint for all future office design within the States of Jersey.
- Overall agreement of a future strategy for the States of Jersey office estate which will enable the consolidation of the majority of office-based employees into one centralised administration building.
- Developed a standards document which will be used to guide all future office projects.
- Completion of concept scheme and site assessment process and agreement of the preferred site for the central administration building.
- Developed vision statement and overall statement of requirements for the new building and appointed architects to undertake feasibility study.

Alongside this, we have developed a comprehensive set of standards, which will guide all future office accommodation projects and reflect modern best practice, support flexible working and provide improved facilities for customers and staff.

Modern office project

Implemented in 2013, the modern office project was conceived as a template for how States of Jersey offices should be configured in the future and showcased the benefits that could be achieved from a new approach to office design. Jersey Property Holdings (JPH) moved from three sites into fully open plan accommodation at Maritime House, which provided a modern and flexible working environment, while at the same time reducing the area they occupied.

This was part of a series of moves which led to the release of existing office space for alternative use and disposal:

- space occupied by JPH reduced by around half
- space occupied by Customs and Immigration reduced by 3,000 sq ft
- the release of Picquet House (4,745 sq ft) for disposal (the States Assembly subsequently decided the building should be retained and reused)
- occupancy of Maritime House increased from c.110 to 147 people
- other vacated space (at d'Hautree and South Hill) used to meet critical business need and generate income

Ongoing activity: 2013 – 2015

A number of internal moves and relocations within our office buildings has enabled us to make better use of existing space and position some teams to be closer to colleagues they work with. These include:

- relocating the Human Resources Business Support Team to d'Hautree to provide space for the public sector reform team at Cyril le Marquand House (Nov 2014)
- internal moves within Morier House and the creation of shared meeting rooms, which has freed up space within the building for alternative use (throughout 2014)
- relocating Home Affairs to Cyril Le Marquand House (May 2015), leading to the freeing up of 23 Hill Street
- the temporary decant of Information Services from Cyril le Marquand House to Jubilee Wharf (November 2015)
- As a result of the move of Information Services to Jubilee Wharf, a series of moves involving the co-location and reconfiguration of teams across five floors of Cyril Le Marquand House has been undertaken which has implemented many of the key office modernisation project principles and standards.
- Schools improvement programme
- New Police Headquarters

A phased approach to reform and looking ahead

Phase one of reform created the enabling infrastructure to deliver sustainable change in the latter phases.

The second phase of the portfolio of change was predicated on using the enabling tools developed during phase one to redesign services to be modern, efficient and more customer focused.

Many departmental savings and service changes outlined in this MTFP will be facilitated by the tools we have adopted and a culture of continuous improvement which is now evident across the organisation.

In phase two we will see the fruition of a number of significant projects, including the delivery of a new pay and reward system for States employees, further use of technology, as well as service transformations resulting from large scale service reviews and departmental change programmes.

Reforming public services will continue to be of increasing importance. Reform will mean departments working together – as one organisation - to make Islanders' lives better, with an emphasis on online access and more seamless service provision.

We are now firmly in the phase of redesigning services. Changes we are making are now beginning to touch customers - whether that's through the Tell Us Once programme; more online forms, or improved internal processes which allow staff more time; or more effective contact with customers.

Taking the public service and the Island forward in the longer term means focusing on meeting the demands that demographic changes bring, meeting increasing pressures in health and education and delivering services using appropriate technology.

Investment will continue in infrastructure, the buildings which accommodate public services and the technology platforms being used.

Ensuring that services are designed to meet the demands of today and increasing pressures will be vital, as will the challenge to ensure that services are relevant for today's society.

12. Proposals for Fiscal Measures and Funding Mechanisms

Introduction

As part of the Council of Minister's three-part plan to deliver balanced budgets by 2019 certain charges and funding mechanisms were proposed in the MTFP 2016-2019. The Council of Ministers was however clear that these charges and funding mechanisms would be used to balance the plan once it was clearer what economic growth could be delivered and that the capacity to make further savings in the period had been exhausted.

The proposals in the MTFP 2016-2019 identified three primary charges and funding mechanisms which would be further developed and brought forward in this MTFP Addition:

- A funding mechanism for Health which was originally proposed to raise £15 million in 2018 increasing to £35 million by 2019
- As part of proposals agreed for the States to pay rates on its own properties the States agreed this would be contingent on an equivalent income stream or funding mechanism being identified. At the time of the MTFP 2016-2019 the level of the required funding mechanism was estimated to be £1 million from 2017; and
- As part of a transformation of the delivery of waste management and waste disposal proposals were to be developed to introduce charges for the disposal of both liquid and solid waste, most of which are currently provided without such a charge. The estimate of initial charges in the MTFP 2016-2019 period was to raise £3 million by 2018, increasing to £10 million by 2019 with further charges to be introduced with the objective of the costs of the Waste Management Service being largely or wholly recovered in due course.

In addition to these three main proposals departments would consider as part of the prioritisation of services and expenditure proposals the opportunity to increase or introduce charges to recover the costs of certain services as an alternative to removing or reducing these services. However, the Council of Ministers has been quite clear about its policy regarding sustainable measures which require departments to firstly demonstrate that every effort has been made to prioritise existing services, drive out all savings and efficiencies and demonstrate that public services are efficient and providing value for money, before increasing or introducing new charge for services.

A small number of user pays charges are proposed as part of the expenditure proposals and represent approximately £4.6 million of the £77 million expenditure measures. These user pays charges proposed for 2017-2019 are listed at **Appendix 1** and described in more detail in the departments' submissions. Departments' expenditure limits for 2017-2019 include these user pays charges which are proposed in principle at this stage and will be brought forward for introduction with the appropriate legislation, regulation etc.

Proposals for a Funding Mechanism for Health

Background

The Health and Social Services Minister (HSSD) issued a Green Paper in May 2011 for public consultation, enabling islanders to understand the challenges the Island is facing in the coming years in meeting the growing cost of healthcare and for them to express their preference over the three options available to find a solution. The option preferred by the public led to States approval for “Health and social services: a new way forward ” (P.82/2012), a strategy document which set out actions to be taken by HSSD and identified the need for a sustainable funding mechanism for health and social care.

Growth in HSSD spending

The MTFP 2016-2019 included proposals for almost £40 million per annum in additional funding for increased costs and new Health services by 2019. This additional funding represents continuing investment in the P82/2012 Health Transformation proposals but also to continue the policy of additional funding of 2% p.a. to maintain the ongoing investment in service standards and healthcare inflation.

Funding mechanism

In order to provide the additional funding proposed for Health the Council of Ministers had proposed that a total of £30 million of contributions from the Health Insurance Fund (HIF) were taken in 2017 and 2018, ahead of the proposed introduction of a health charge from 2018 onwards. It is now proposed that these contributions can be reduced to £15 million or £5 million p.a. over the period 2017 to 2019.

The improvement in the overall financial position of the States, as a result of measures taken in the 2016 Budget, the 2015 outturn and improved income forecasts has enabled the Council of Ministers to propose a reduction to the amount that needs to be raised from a health charge from the £15m in 2018 and £35m in 2019 that was outlined in the MTFP 2016-2019 to £7.5 million in 2018 and £15 million in 2019.

The Council of Ministers in making this decision was mindful of the potential for some further increases to taxation that may be required in order for the States to be able to afford a new hospital.

Despite the reduced revenue target for a health charge, there remain limited options for raising this amount of additional revenue within the existing framework of the Jersey tax system and without creating an unsustainable administrative burden. The Council of Ministers have considered the potential options for raising the additional revenue target, benchmarking those options against the five criteria against which revenue raising measures should be benchmarked (as identified in 2010 Fiscal Strategy Review), namely:

- Fairness
- Economic Efficiency
- Competitiveness
- Administration costs
- Revenue Stability

As part of the “fairness” benchmarking exercise the Council of Ministers have specifically considered the distributional analysis of the potential options across the income spectrum.

Furthermore, when considering the potential options the Council of Ministers have kept in mind the long term tax policy principles agreed by the States Assembly in the 2015-2018 Strategic Plan, namely:

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

Having considered the potential options the Council of Ministers has determined that the additional revenue required in 2018 and 2019 should be raised by the introduction of a new income based charge ("the health charge") which mirrors the long term care ("LTC") contribution currently levied by the social security department.

The proposed structure of the health charge is outlined below:

- Levied by the Treasury and administered/collected by the Taxes Office.
- Based on personal income tax principles: income for the purposes of the health charge will be determined by the individual's income for personal income tax purposes – it will therefore include investment income together with employment income/benefits in kind; prima facie it will also apply to all individuals regardless of age.
- Individuals will be entitled to the same exemptions, allowances and reliefs as are available in the personal income tax system – so consistent with the LTC contribution, if an individual does not pay personal income tax, because their income is less than the exemptions, allowances and reliefs to which they are entitled, they will not pay anything under the health charge. It is estimated that approximately 30% of the population with the lowest incomes do not pay personal income tax and hence will not pay anything under the health charge.
- The income assessable under the health charge will be subject to an upper cap in the same way as income is capped for the LTC contribution. In the context of married couples/civil partnerships who are jointly assessed for income tax purposes, this cap will be applied to each spouse's/partner's income separately.
- Where an individual has their income tax collected by way of ITIS, the health charge will also be collected by way of ITIS on a current year basis. Individuals who do not pay their income tax by way of ITIS will have the health charge collected through the payment on account mechanism.
- In order to raise the additional revenue required, the rate of the health charge will be set at 0.5% in 2018 and 1% in 2019 for standard rate taxpayers. For marginal rate taxpayers the effective rate of tax will be less than 0.5% in 2018 and less than 1% in 2019. Approximately 85% of taxpayers are marginal rate taxpayers and hence will pay the health charge at effective rates lower than 0.5% and 1%, in many cases, much lower.

If the health charge is introduced as outlined above it will have the following distributional impact across the income range4:

Figure 33 - Case study 1: individual – working age

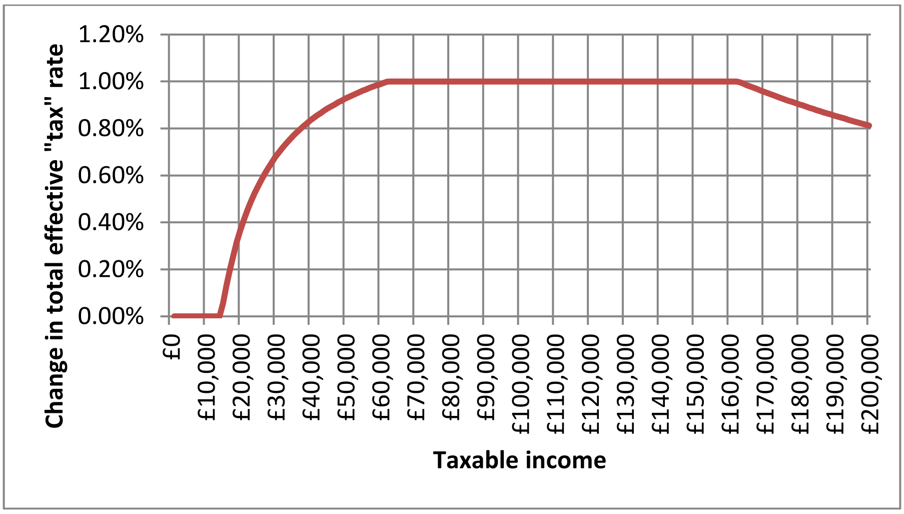
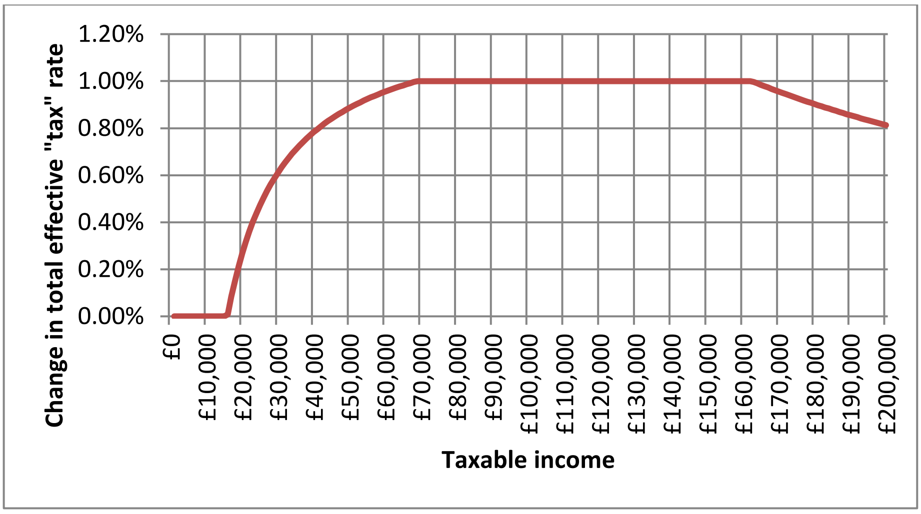


Figure 34 - Case study 2: individual – 65+



[4] The following assumptions have been utilised in the production of these case studies:

- health charge levied at rate of 1%
- income of married couples is split equally between the spouses
- entitled to no tax allowance other than (i) the applicable exemption threshold; and (ii) in the context of married couples, the application of the second earners allowance

Figure 35 - Case study 3: married couple – working age

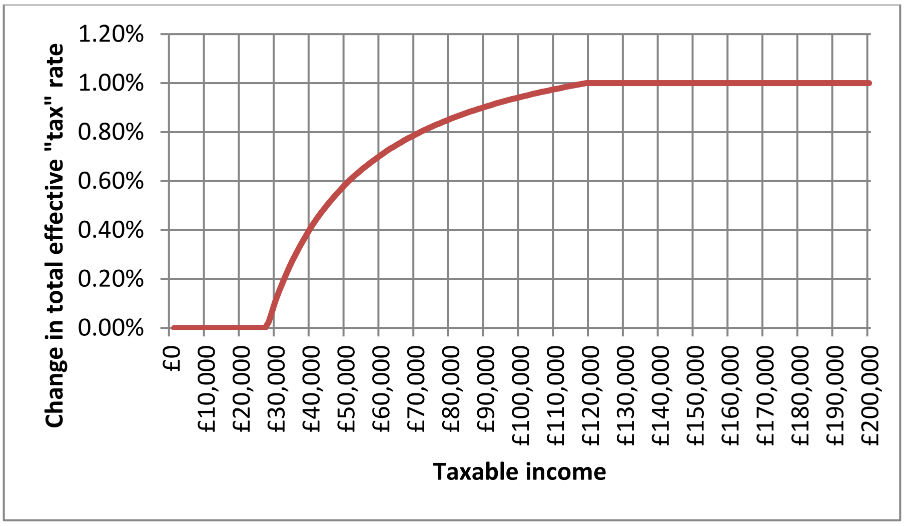
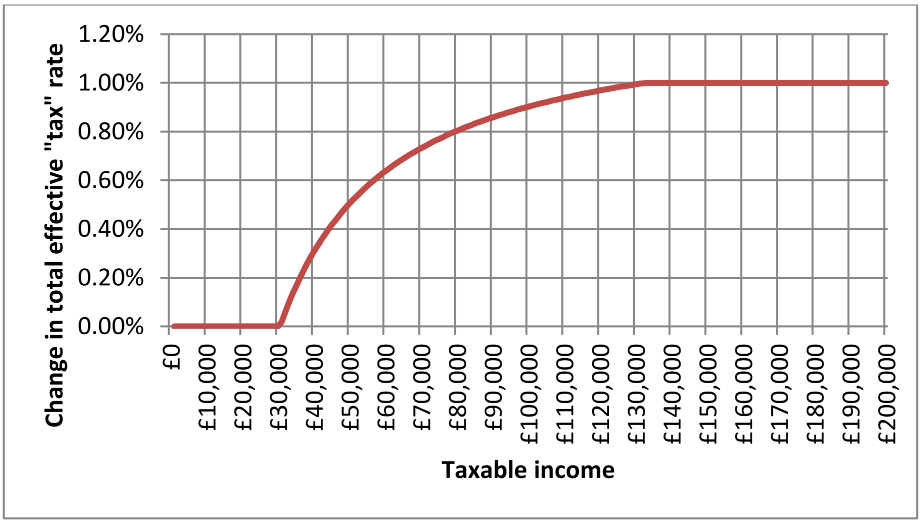


Figure 36 - Case study 4: married couple – 65+



Observations from the case studies:

- As individuals will be entitled to the same exemptions, allowances and reliefs as are available in the personal income tax system, there is no impact on those with the lowest incomes who do not currently pay income tax. It is estimated that approximately 30% of the population with the lowest incomes do not pay personal income tax and hence will not pay anything under the proposed health charge.
- For example: a single pensioner with income of less than £15,900 per annum will not pay anything under the proposed health charge.
- Due to the benefit of marginal relief, the effective tax rate steadily increases up to 1%. Over the income range that the effective tax rate is increasing, the health charge is progressive in nature.
- As approximately 85% of taxpayers are marginal rate taxpayers, benefitting from marginal relief, their effective rate of health charge will be *less* the standard rate which (in these case studies is 1%).
- Once the individual pays at the maximum rate of 1% the health charge is proportional in nature. Once income exceeds the income cap the effective tax rate begins to reduce. At the income cap the individual will be paying £1,625 of health charge at 1%.
- The graphs above do not show a reduction in the effective tax rate for the married couples' case studies, this is because it is assumed that the income is split equally between the spouses. In these circumstances the upper income cap is approximately £320,000 of income which is beyond the range included on the x-axis.

The Treasury and Resources Minister will seek to bring forward enabling legislation to enact the health charge alongside the 2017 Budget for agreement by the States Assembly, as well as arrangements for the control over the use of the additional income.

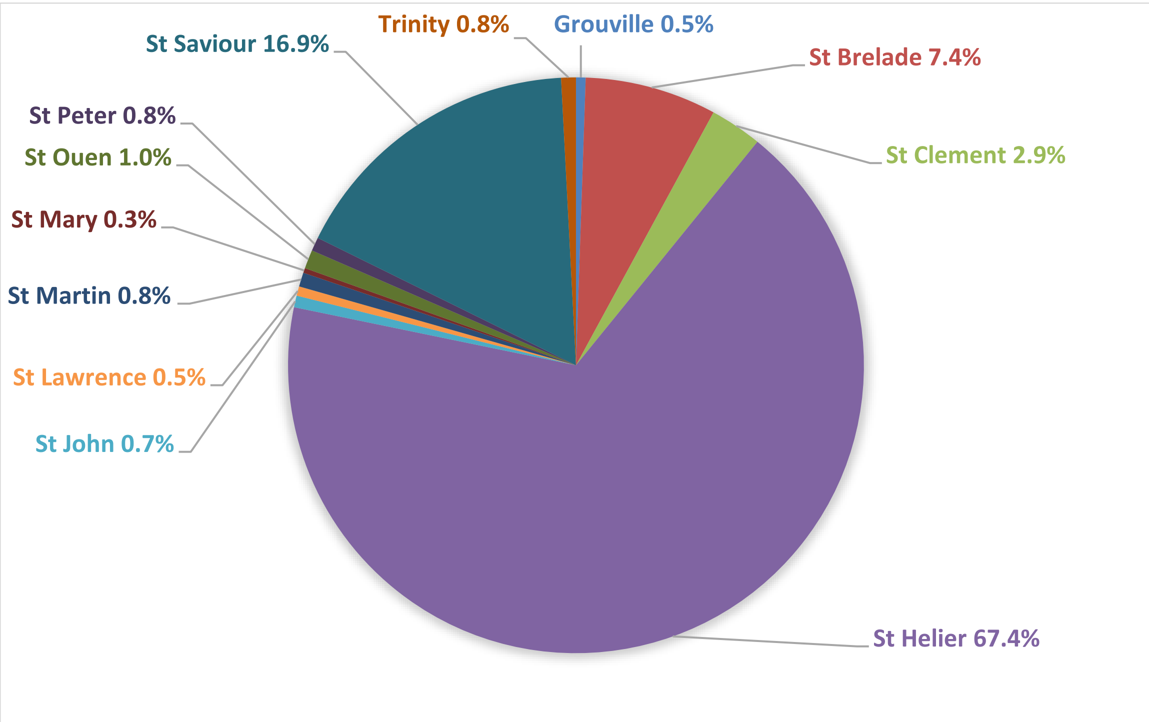
Proposals for States Payment of Rates and a Funding Mechanism

In accepting the Connétable of St Helier's Amendment 7(6) to the Strategic Plan, the Council of Ministers agreed to provide in the MTFP 2016-2019 for the payment of Parish rates on States properties and the additional income required to fund this payment. At the time that the MTFP 2016-2019 was agreed, it was estimated that the cost to the States of paying Parish rates was approximately £1m; correspondingly Treasury & Resources included an indicative growth bid of £1m for each of the years 2017-2019. The MTFP 2016-2019 also included £1m of income in each of the years 2017-2019 described as "proposed mechanism to offset States payment of rates".

Since the MTFP 2016-2019 was agreed further work has been undertaken by the Rates A by the Rates Assessors and Jersey Property Holdings to better estimate the States liability to Parish rates. Based on the Parish rates charged in 2015 it is currently estimated that the States liability to Parish rates will be approximately £900k per annum. [The growth bid made by Treasury & Resources has been correspondingly reduced to £900k per annum in the MTFP Addition 2017-2019.]

The Parish of St Helier will be the major beneficiary of the States paying Parish rates, based on the St Helier Parish rate charged in 2015 it is estimated that the Parish of St Helier will receive £611k from the States. On the same basis it is estimated that the Parish of St Saviour will receive £153k, the Parish of St Brelade will receive £67k and the Parish of St Clement will receive £26k. It is estimated that the remaining Parishes will each receive less than £10k each. The split of the £900k between the Parishes is shown in the following chart:

Figure 37 – estimated % of £900k Parish rates payable by States received by each Parish



In order to give effect to the decision of the States Assembly in the Strategic Plan debate, the Rates (Jersey) Law 2005 needs to be changed and the necessary amendments will be included in the 2017 Budget. Assuming these amendments are adopted by the Assembly the States will commence paying Parish rates in 2017.

Having considered the options for the compensating income stream, the Council of Ministers favours an increase in the non-domestic Island-wide rate. However, having reviewed the Rates Law the Council of Ministers is concerned that the current Rates system contains no mechanism for revaluation. Therefore the rateable value of property is effectively frozen, locked in rateable value largely based on notional rental values from 2003.

With property rental values changing with the market but rateable values frozen in perpetuity the inevitable result is that, over time, the burden of rates becomes unfairly distributed amongst ratepayers. Some ratepayers are currently paying proportionally too much, (eg: retailers) whilst other ratepayers are currently paying proportionally too little (eg; offices).

The Council of Ministers does not consider it appropriate to increase the non-domestic Island-wide rate until such time that the Rates Law allows for the periodic revaluation of properties in the Island to address this unfairness and will work with the Comité des Connétables and the Island's Rates Assessors to bring forward changes at the earliest opportunity. At this point the Council of Ministers intends to be in a position to bring forward proposals in such time as to establish the compensating income stream from 2018 onwards.

Acknowledging that this process will take time, the Council of Ministers is proposing that the States payment of Parish Rates goes ahead as planned from 1 January 2017, subject to the approval in the MTFP Addition and subsequent legislation alongside the Budget 2017, but that the proposals for the compensating income stream are deferred until 2018.

Proposals for Waste Transformation and Waste Charges

Whether you are preparing food, washing clothes, taking the bin bags out for collection, flushing your toilet, clearing out the junk in the loft or making a trip to the recycling centre, every business and member of the population, every hour of every day, relies on waste services.

Waste services underpin the health and wellbeing of residents and the economy by providing essential hygiene and public health benefits, preventing diseases and supporting tourism. It is easy to forget the importance of waste services because they happen behind the scenes and work so well that the population hardly notices. A sufficiently funded, efficient waste service is key in ensuring that Islanders most basic human needs are met.

The sewage service transports our liquid waste via pumping stations and hundreds of miles of carefully designed pipework to Bellozanne, where the wastewater is treated and made safe before being discharged in accordance with strict environmental limits. Typically, each member of the public sends 65,000 litres (65 tonnes) of wastewater for treatment each year. Some of the pipes in use are well over 100 years old and the sewer system has over 360 pumps which like everything else, require maintenance to keep the service performing to the standards we expect.

Having rubbish disposed of regularly is a part of life that is easily forgotten once our bins have made their way to the kerbside. When we look at the volumes of waste treated on Jersey, the numbers quickly mount up. Department for Infrastructure (DfI) waste services deals with nearly 1 tonne of waste (1,000kg) per head of population each year. With no landfill available on the Island, other solutions such as the Energy from Waste (EfW) plant and effective recycling are essential. A modern plant like Jersey's EfW can dispose of waste while generating power for the Island - but it needs continual investment to keep it running.

Jersey is synonymous with clean beaches and a pristine coastal environment. The treatment of waste requires high-quality processing equipment to meet both best practice and environmental standards. It is important we comply with best practice to ensure that our beaches and environment are not detrimentally affected thus maintaining Jersey's outstanding natural beauty.

Following a review by both external advisors and through stakeholder engagement groups, the overall current quality of waste services in Jersey is considered to be very good. This statement covers both customer service delivery and environmental protection and compares well internationally. These essential waste services happen behind the scenes, quietly taking place 24 hours a day. As a result of doing the job well, it is easy to forget the amount of work DfI do to maintain services with an ever growing population. Indeed, there can't be many other services that are offered by the Sates of Jersey that have a broader customer base making use of the service each and every day.

Ensuring that these services remain suitably funded and sustainable for future generations requires long-term planning, regular investment and an appreciation of what would happen if these services didn't exist or failed more frequently. To enable continuing levels of service and to achieve the aspirations set out in the Council of Ministers' vision, consistent investment in key infrastructure is vital. There is a need to transform the way in which Waste Services are delivered to ensure:

- the continued provision of essential public services and encouragement of good practice in managing and treating waste;
- that finances are on a sustainable and fair footing;
- timely investment in ageing infrastructure to deliver efficient, well organised services;
- the quality of services is maintained and or improved and meets customer needs;
- the organisation is working well for our long-term future and a responsible custodian of the environment.

Sustainable Long-Term Funding

DfI is part-way through the process of reviewing all operational areas to effect change, make efficiencies and deliver streamlined services. In addition to the efficiencies already underway, a comprehensive review of the waste services section is ongoing to determine if a transformation of service delivery is feasible. As part of this work, DfI are investigating the principle of introducing ‘user-pays’ mechanisms for liquid and solid waste services.

The study also investigates the viability of a new organisational entity best placed to become long-term custodian of the Islands’ essential waste services for future generations through fair and consistent funding. The principle of charging for waste is by no means unusual. It is common practice, both within Europe and globally, to charge customers for the services they use, in fact Jersey is the only jurisdiction we are aware of that provides these services for free to commercial and public users.

Sustainable long-term financing is vital to ensure efficient provision of these essential services and provide incentives to drive the correct behaviours. Uncertain and uneven funding is high risk and costly whereas payment at the point of use encourages behaviour change and increased recycling resulting in more efficient use of water and services.

Solid and liquid waste services are currently almost wholly funded by the States of Jersey through direct taxation of Island residents. At present, there is only minor income generation and the services are not self-financing. Under the current funding approach, ‘user-pays’ funding contributes around 8% of the total costs of service provision. There is a gross unfairness at the heart of the system as businesses and their customers do not pay and the services they use are subsidised by tax-paying residents.

Alignment with MTFP and CoM Objectives

The Medium Term Financial Plan debated in 2015 identified challenging targets for savings across all States departments in order to fund the Council of Ministers priorities of Health, Education, Economic Growth, St Helier and the need to maintain the Island’s Infrastructure. In addition to these savings, the MTFP also set targets for introduction of charges for Health and Waste Services in order to deliver balanced budgets over the period of the plan.

Maintaining and improving the current levels of service to customers and the environment requires investment in long-term waste infrastructure assets such as the Energy from Waste plant, the planned new sewage treatment works at Bellozanne and the relocation of solid waste activities to La Collette. Self-financing the provision and maintenance of these long-term assets through ‘user-pays’ removes their funding from the mainstream public finances, alleviating pressure on household taxation and government budgets as well as enabling efficient long-term investment planning, reducing the overall cost of service provision, and bringing the approach to funding into line with the rest of Europe.

Other Jurisdictions and Promoting Good Practice

The funding of these essential services is out of kilter with other countries and jurisdictions. Research shows that Guernsey, other Islands, the UK and other European countries have already adopted ‘user-pays’ principles for liquid and solid waste services. Although the principle of ‘user-pays’ for these services is new to Jersey, it is the norm elsewhere.

Charging businesses on a ‘user-pays’ basis encourages the good practice such as promoting recycling and re-use, waste minimisation at source and responsible use of water, as evidenced by the metering programme rolled out by Jersey Water over the last few years. Over time, these behaviours will strengthen the beauty of our island, for future generations of residents and visitors.

Introducing ‘user-pays’ funding in Jersey would not only encourage increased recycling rates and more efficient use of services but would also by charging commercial organisations it addresses the unfairness of the current funding regime. Currently businesses do not pay for these services and households bear the burden of paying for services through taxation.

Alongside the proposed introduction of commercial user-pays, DfI will introduce a programme supporting customers, providing guidance on waste minimisation and cost reduction. By promoting recycling and minimising waste volumes the EfW lifespan can be prolonged as a result of reduced wear and tear. A new improved household recycling centre is under construction at La Collette in addition to the commercial recycling available at the EfW site. As part of DfI's future plans the commercial recycling site would be improved to increase recyclables capture rates.

Stakeholder Views
DfI met with local stakeholders to get a view on 'user-pays' charging for waste services and future delivery options. Stakeholder support and meeting stakeholder expectations of fairness and value for money is crucial to ensure a democratic mandate is forthcoming.

During discussions, the general consensus from stakeholders was:

- everyone should pay on a user-pay basis, even if it is just a token amount. This involves all businesses paying their fair share of costs – not just some businesses.
- there should be charges and incentives to encourage the right behaviours such as, household recycling, buying products with less packaging and reduced water consumption.
- stakeholders also stated that there should be lower (but not zero) tariffs for those on benefits and who may struggle to pay the full charges.
- stakeholders were clear that alongside the introduction of user pays funding is the need to improve transparency and accountability.
- the view was that the funding the existing system through taxes rather than 'user-pays' would not drive the correct behaviours.
- any 'user-pays' charge income should be ring-fenced for the operation of waste services.
- stakeholders have indicated they are supportive of outsourcing in general, provided it is small scale and utilises on-island capabilities.

States Members workshops held in April and June 2016 also indicated an acceptance of the need to invest in waste services on a timely basis. States Members highlighted genuine concerns that any additional funding should be transparent within the overall affordability of all other taxes within the next Medium Term Financial Plan.

Proposals for this MTFP Period
Included within the DfI cash limit for 2018 and 2019 are the sums of £3 million and £11 million in respect of 'user pays' proposals for solid and liquid waste. It is proposed that these sums be raised by introducing charges for commercial customers and, subject to in principle approval of these charges, the Department intends to bring detailed proposals to the States in 2017 for approval.

The introduction of charges will require changes to existing primary legislation, or the introduction of new legislation. In addition, the Department is reviewing appropriate service delivery structures to ensure that the future long-term financing of the solid and liquid waste infrastructure of the Island can be protected and operational costs minimised.

Project Timeline

- Sept 2016 MTFP debate
- Oct 2016 Law drafting starts
- Feb 2017 Full Business Case finalised
- May 2017 Debate on waste user-pays
- Jan 2018 Appointed Day Act
- Jan 2018 Introduction of Commercial user-pays

Indicative Charges

Whilst it is not possible to provide exact figures at this time, it is expected that liquid waste charges for the majority of commercial customers will be approximately equal to the volumetric charges for mains water. Businesses producing high strength wastes may be subject to additional charges representing the additional costs of treatment or transport of these materials.

Some solid wastes are already chargeable for commercial customers, however, all waste entering the Energy from Waste plant is currently processed for free. Costs of processing this waste includes the shredding, handling and burning of the waste, treatment of the resultant exhaust gasses to ensure that the plant meets its strict emissions standards and disposal of the ash and pollution control residue by-products. Many commercial wastes received at the plant cost more to process than domestic waste, however, the tax-payer currently pays for this waste to be treated. In addition, by not charging for commercial waste to be burnt, businesses are not incentivised to find alternatives to disposal such as recycling, re-use or prevention of waste in the first place.

Waste Transformation must deliver a solution that is aligned with the Council of Ministers vision for the future, can provide the savings identified within the MTFP, and create a new more efficient entity with sustainable funding that can offer a high-level of services for future generations.

The introduction of 'user-pays' funding will;

- Enable the continued provision of these essential public health services
- Manage finances in a sustainable manner into the long term
- Enable expansion of the main drains network
- Enable long-term efficient provision and enhancement in line with customers' wishes, and
- Ease pressure on central tax funding for investment in Health and Education.

13. Update on Short Term Funding Measures 2016-2018

The proposed sustainable measures to fund the investment in Health, Education, St Helier and the need to maintain the Island's infrastructure and achieve balanced budgets by 2019 summarised in **Section 10** are being phased in to minimise the risk to the economic recovery. The scale of change over this MTFP period means that alongside the sustainable measures some additional form of short-term measures are required to ensure that a positive balance is maintained on the Consolidated Fund.

The Council of Ministers has worked hard to achieve a balance between minimising the risk to economic recovery and yet ensuring that sustainable measures are agreed and implemented as soon as possible to achieve the greatest accrued benefit over the period of the plan. This balance has been particularly difficult in relation to savings and efficiencies and ensuring resources are prioritised towards strategic priorities.

Figure 38 – Summary of Short-Term Funding Requirements

States Expenditure Proposals	Actual 2015 £'000	Forecast 2016 £'000	Forecast 2017 £'000	Forecast 2018 £'000	Forecast 2019 £'000	Forecast Total £'000
Requirement for Additional Proposals (as amended)						
Funding requirement for shortfall before additional proposals		47,234	30,101	5,919	(23,540)	59,714
Funding requirement for Committee of Inquiry	10,000	4,000				14,000
Funding requirement for Economic and Productivity Growth Drawdown Provision		5,000	4,356	3,796	2,000	15,152
Funding requirement for Redundancy Provision (as amended)	4,000	16,000				20,000
Total Funding Requirements - Financial Forecast	**14,000**	**72,234**	**34,457**	**9,715**	**(21,540)**	**108,866**
Funding requirement for Consolidated Fund Working Balance		5,000				5,000
Funding Requirements for Other Capital Projects						
Les Quennevais School		1,000	39,000			40,000
Prison Improvement - Phase 6				8,233		8,233
Total Funding Requirement - Major Projects	**-**	**1,000**	**39,000**	**8,233**	**-**	**48,233**
Total Funding Requirements	**14,000**	**78,234**	**73,457**	**17,948**	**(21,540)**	**162,099**

Options for Short-Term Funding Measures

As outlined in MTFP 2016-2019, in previous years the Council of Ministers would have been able to draw on much larger balances on the Consolidated Fund and in the period 2010 to 2012 the States had prudently established a Stabilisation Fund. However, the length and depth of the global economic downturn was greater than anyone had predicted and when income forecasts reduced the States were facing the current funding shortfalls.

In MTFP 2016-2019, the Council of Ministers identified a number of other short-term funding options, having given regard to the Fiscal Policy Panel's advice, and decided that in the early years it would be appropriate, once all other options had been explored, to draw on its Reserves rather than employing measures that might put at risk the economic recovery. The use of Reserves has enabled the much needed investment in capital, restructuring costs and investment to drive productivity and economic growth to be afforded.

Update on Change in Accounting Policy for Tax Revenues

This change in Accounting Policy was identified in the MTFP 2016-2019 and is explained in more detail in the 2015 Financial Report and Accounts. The work to deliver this change for the 2015 Accounts has identified that the amount available to allocated in the Consolidated Fund increased by £74 million by the end of 2015, rather than the estimate of £60 million a year ago. States income forecast will also benefit from an estimated annual £7 million a year in current year basis income tax revenues as a result of the accounting policy change and this is built into the revised States income forecasts.

Strategic Reserve Transfers from Real Return

The Council of Ministers deliberated long and hard when considering proposals for the MTFP 2016-2019 regarding the use of the Strategic Reserve and other Reserves, having regard for the recommendations of the Fiscal Policy Panel (FPP) that:

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

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

The Council of Ministers proposed to continue to protect the capital value of the Strategic Reserve but to use the real return, net of the budgeted contributions to the Hospital project at the end of 2014, to contribute to the short-term funding requirements of the MTFP 2016-2019.

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

In the MTFP 2016-2019, the repayment of the funds for Les Quennevais School were due to be repaid by 2019 from asset disposals anticipated at that time. The timing of any asset disposals are uncertain at this time and will be subject to the current review of shareholder investments but may well generate significant asset disposals in the period of this MTFP. If these asset disposals do come to fruition proceeds will be transferred into the Strategic Reserve.

It is also proposed that the drawdowns proposed for stimulating economic and productivity growth and a redundancy provision are repaid by the end of this MTFP period.

The proposed drawdowns from the Strategic Reserve in 2015-2017 are unchanged from those proposed and agreed in P76/2015, no drawdowns are currently proposed in 2018 and 2019 and this will remain under review pending the outcome of the proposals for the future hospital.

Figure 39 illustrates the current proposed Strategic Reserve transfers to and from the Consolidated Fund over the period 2016-2019.

Figure 39 - Proposed withdrawals and repayments from the Strategic Reserve for 2016-2019

Funding Proposals from Strategic Reserve	2016 Forecast £'000	2017 Forecast £'000	2018 Forecast £'000	2019 Forecast £'000
Funding requirement for Committee of Inquiry	(4,000)	-	-	-
Funding requirement for Economic and Productivity Growth Drawdown Provision	(5,000)	5,000		
Funding requirement for Redundancy Provision (as amended)	(16,000)	-		20,000
Consolidated Fund working balance	(5,000)	-	-	
Les Quennevais School	(1,000)	(39,000)	-	-
Funding requirement for Annual Capital Programme	(25,691)	(16,273)	-	-
Future asset disposals forecast				
Funding Requirement from Strategic Reserve Return	(56,691)	(50,273)	-	20,000

Figure 40 – Estimated balances on the Strategic Reserve 2015 - 2019

Strategic Reserve - MTFP addition (June 2016)	2015 Actual £'000	2016 Forecast £'000	2017 Forecast £'000	2018 Forecast £'000	2019 Forecast £'000
Strategic Reserve - Protected Capital Value [2]	678,917	691,138	707,725	728,957	750,826
Strategic Reserve - Accumulated Excess Return [1]	92,465	51,789	16,511	31,491	68,145
Strategic Reserve - Estimated Fund balance (April 2016)	**771,382**	**742,926**	**724,236**	**760,448**	**818,970**

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

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

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

In the MTFP 2016-2019 the Council of Ministers proposed that the grant to the SSF be fixed at 2015 levels (£65.3 million), which reduces the increase otherwise required in the Social Security revenue expenditure by £2.5 million in 2016 and £7.9 million by 2019. This proposal was agreed for 2016-2019 and forms part of the agreed total States net expenditure limits for 2017-2019. Over the period of the MTFP 2016-2019 the total is £20 million which represents less than 2% of the SSF Fund balance. Over the period of the MTFP 2016-2019 total grant payments of over £260 million will still be paid to the Social Security Fund from taxpayers funding.

The Social Security department with the support of the Council of Ministers is commencing a major review and consultation on the Social Security Fund which is explained in more detail in the Section Planning for an Ageing Population.

Potential Funding from the Criminal Offences Confiscation Fund (COCF)

It was proposed in the indicative capital programme for 2016-2019 that Prison Improvement works are granted a priority against any proceeds received in to the COCF such that if sufficient funds are received into the Fund, a request can be made to utilize them to transfer to the Consolidated Fund to fund the project in 2018. The Prison Improvement project and funding is therefore dependent on the COCF having available funding at that time.

Contributions from the Health Insurance Fund (HIF)

The Council of Ministers originally proposed that £30 million be transferred from the Health Insurance Fund (HIF) in MTFP 2016-2019. The proposed transfers of £15 million in each of 2017 and 2018 were in advance of the proposed introduction of the health charge and reflected the surplus on the HIF at that time.

The Council of Ministers is now able to propose a reduced amount to be transferred from the HIF to the cash limits of Health and Social Services as a result of the improved balance on the Consolidated Fund and the slight improvement in income forecasts. The proposed transfers will facilitate the introduction of the Health charge and will be used to support expenditure on primary care within the Health and Social services department. The amounts proposed in the MTFP Addition are for £5 million per annum for each of the years 2017-2019.

The Minister for Social Security will bring a proposition to the States in order that the proposed transfers can be debated alongside the MTFP Addition in September 2016. The proposals will be dependent on Health expenditure on primary care of at least £5 million in each year and in 2018 and 2019 be dependent on the introduction of the Health charge.

Property Asset Disposals

The MTFP Addition proposals assume that a level of £1 million property asset disposals in addition to those potentially associated with the Office Modernisation Project will be delivered as a contribution to the short-term measures and Consolidated Fund balance. This level of property receipts has typically been delivered in recent years and there are a number of opportunities as part of the rationalisation of the States estate.
The Council of Ministers is therefore proposing funding measures summarised in **Figure 41.**

Figure 41 – Consolidated Fund – Profile of Impact of Short-Term Funding Measures

Forecast Consolidated Fund balance	Forecast 2016 £'000	Forecast 2017 £'000	Forecast 2018 £'000	Forecast 2019 £'000
Opening Balance brought forward	**64,654**	**51,111**	**28,027**	**19,312**
Forecast Operating Surplus/(Deficit)	**(46,543)**	**(9,084)**	**25,285**	**54,515**
Funding for Capital Programme				
Apply Funding for Annual Capital Programme	(25,691)	(26,273)	(35,000)	(32,975)
Funding for Other Capital Projects				
- Les Quennevais School	(1,000)	(39,000)		
- Prison Improvement Phase 6			(8,233)	
Revised Funding Requirement	(73,234)	(74,357)	(17,948)	21,540
Proposed Transfers (to)/from Strategic Reserve				
- Proposed Funding for Committee of Inquiry (CoI)	4,000			
- Funding for Annual Capital Programme	25,691	16,273		
- Funding for Les Quennevais School	1,000	39,000		
- Funding for Economic and Productivity Growth Provision	5,000	(5,000)		
- Funding for Redundancy Provision	16,000			(20,000)
- Funding for Working Balance on Consolidated Fund	5,000			
Net Movement on Strategic Reserve	56,691	50,273	-	(20,000)
Proposed Asset Disposals	3,000	1,000	1,000	1,000
Proposed Transfer from Criminal Offences Confiscation Fund			8,233	
Forecast Closing Balance carried forward	**51,111**	**28,027**	**19,312**	**21,852**

Summary

In March 2016, the FPP reiterated its previous advice that:

> *"The States should develop a plan that will address any structural deficit by 2018 and 2019. Care should be taken to ensure that the range and timing of the measures minimises the risk to the economic recovery, which, in the early stages, may involve using the States' reserves."*
>
> *"Given the strength of Jersey's public sector net asset position, financing issues should not be a reason to delay or postpone important investments, particularly those which support productivity improvements and competitiveness"*

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

The Council of Ministers will monitor the financial position closely over the period up to the 2017 Budget and consider any further variations to the current proposals as States income levels become more certain.

14. Summary of Distributional Analysis of MTFP Proposals

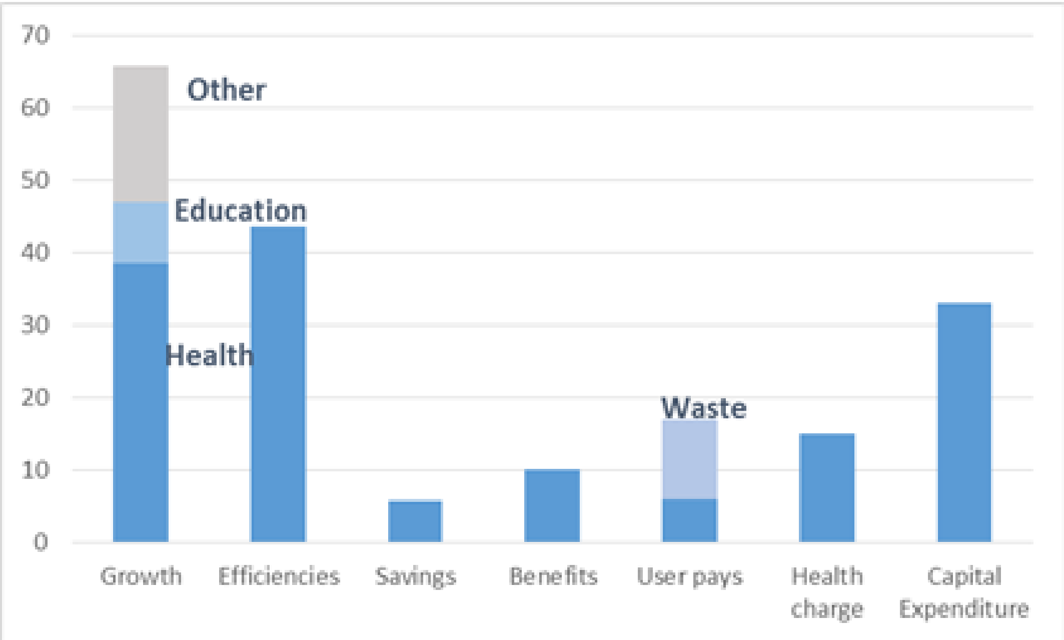
Introduction

A key component of the work of the Council of Ministers in considering measures to achieve balanced budgets has been who will be impacted by the measures given the context of the likely beneficiaries of investment in Health, Education, St Helier and the need to maintain the Island's Infrastructure. Throughout the process the impact of tax and charges have been considered and in addition a full Distributional Analysis led to certain measures being removed by Council of Minister from the package being put forward.

This Section summarises the in depth report of the Stats Chief Economic Adviser (published as an Addendum to the MTFP Addition) into the distributional impact of the key proposals being considered by Council of Ministers as part of the MTFP Addition. It focuses on how the impact of the measures may vary across households in the income distribution. It is intended to be informative for Ministers and the States in understanding where the burden of the fiscal adjustment may lie by drawing on evidence and research from elsewhere and information provided by all departments about the nature of the measures that are proposed in Jersey.

Figure 42 below shows that the measures break down into 6 key categories covering changes in expenditure – growth, efficiencies and savings (including benefit changes) , user charges, a new health charge and capital expenditure.

Figure 42: Key components of MTFP addition
£m by 2019



The full report covers the changes in four key sections:

- Section 1: Expenditure proposals
- Section 2: Benefit changes
- Section 3: User pay charges
- Section 4: A new health charge

The key findings from each section are summarised below;

Section 1: Expenditure

The distributional impact of spending changes are generally much harder to analyse than tax/benefits changes. One of the biggest obstacles is that the monetary cost/saving that might occur from a change in expenditure do not equate to the benefits/costs to individuals of that change. The critical question is how each individual/household values the service and in particular how much they might be prepared to pay for that service. Different people will value a service differently, particularly if they have different options in terms of alternatives.

The efficiency savings presented in the MTFP Addition fall into the category of cash-releasing efficiency savings. These efficiency savings are designed by departments such that they will not impact on the level of quality of services provided by government and for the purposes of this analysis have been assumed to have no distributional impact.

With these caveats in mind, section 1 looks at what evidence elsewhere can tell us about the distributional impact of key components of the MTFP. Health expenditure is generally considered to be progressive. Assessing the distributional impacts of an increase in health expenditure is complex but the Institute for Fiscal Studies conclude:

> *"……..there is nothing that can gainsay the fact that the largest item of public spending in kind, health, also benefits most strongly lower income groups in which ill health is most strongly concentrated."*

How education spending impacts different households at different points in the income distribution is less clear. However, a large proportion of the increase in education expenditure in the MTFP is a result of the Jersey Pupil Premium and a further increase is in secondary education which suggests that the increase in education spending will mostly benefit children whose families are in the lower income groups. Increased higher education funding for maintenance grants will also provide support for those in lower income families in particular.

Overall, the evidence from elsewhere is mixed on the impact of public spending outside health, education, social housing and welfare. Likewise the beneficiaries of capital spending are not always clear. The distributional impact of these aspects of spending in the MTFP is therefore difficult to determine.

Section 2: Benefit changes

The benefit changes were chosen to ensure that the benefit system is fair, encourages financial independence, is well targeted and changes are spread across large groups to minimise individual impact.

The benefit changes make up £9.5 million of the measures, which is made up of £8.2m of Income Support changes by 2019 and £1.2m from targeting the Christmas bonus from 2016 onwards.

The Income Support changes affects about 6,500 households who are mainly towards the lower end of the income distribution, however changes are aimed at encouraging independence and minimising impacts.

The Income Support changes do not affect about 36,500 households who do not claim Income Support. These households range from the low end to the top end of the income distribution.

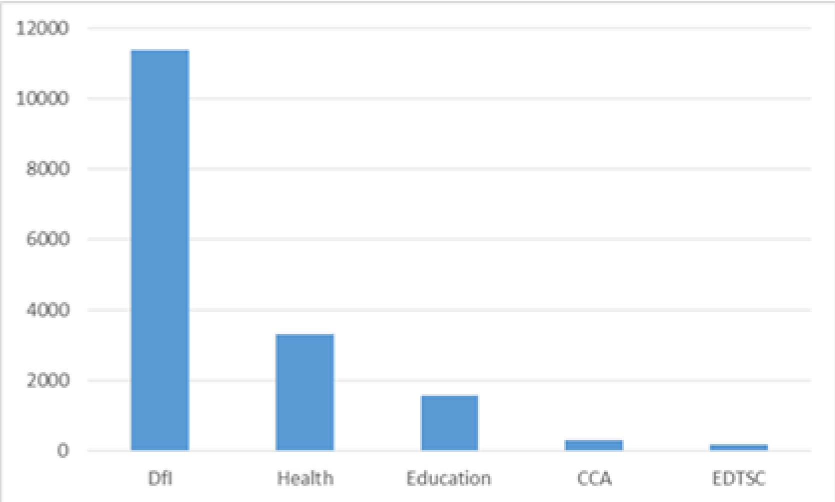
The previous Christmas bonus was a relatively small benefit paid to about 19,000 households (mainly pensioners) irrespective of income or wealth. However, if the States Assembly approves a means-tested Christmas bonus this will support vulnerable households at the lower end of the income distribution will not be affected. Some of the savings from making the Christmas bonus more targeted will also be invested in the 65+ health scheme, which helps eligible pensioners towards the lower end of the income distribution with the cost of dental, optical and chiropody costs.

It is also important to consider what the impacts of the changes would be on different groups within those receiving income support and at the same points in the income distribution:

- Couples with children / existing pensioners will be least affected
- Single parents will be most affected
- Impact of the remaining smaller changes are mixed
- Most households do not receive Income Support and will not be affected

Section 3: User charges

There are a range of user charges proposals across a number of departments as set out in the chart below. The majority of them are in the Department for Infrastructure with other significant charges being those put forwarded by the Health and Education departments.

Figure 43: User charges in MTFP by department
£000s


Section 3 of the full report looks at the distributional impacts of the key proposals and points out that when looking at commercial charges it is important to bear in mind that ultimately business can pass charges on. This means that commercial charges (assuming they cannot be completely offset by efficiency gains) could impact on islanders through a number of routes:

- increased prices
- reductions in other costs such as employment costs (salaries and/or jobs)
- reduced dividends for shareholders

How they feed through the economy does depend on the nature of the markets for the final product/service and whether they are domestic or export, the degree of competition from imports and the responsiveness of demand to price changes.

In summary section 3 concludes that while user charges may generally be regressive they take the form of a fixed charge per household, the following may be the case for charges covered in the MTFP Addition:

- Waste charges that feed through into higher prices will tend to be regressive
- A Green Waste charge could feed through in a more progressive way
- Reduced subsidies/grants to fee paying schools may be progressive
- Means-testing the Nursery Education Foundation may be also be progressive
- Increased fees for Jersey Music Service is likely to be regressive
- Medical user pays generally tend to be regressive but the impact of individual measures is complicated

Section 4: Health charge

MTFP 2016-2019 originally included a target amount of additional revenue from the health charge of £15 m in 2018 and £35m in 2019. The MTFP Addition 2017-2019 now includes a target amount of additional revenue from the health charge of £7.5 million by 2018, increasing to £15 million in 2019.

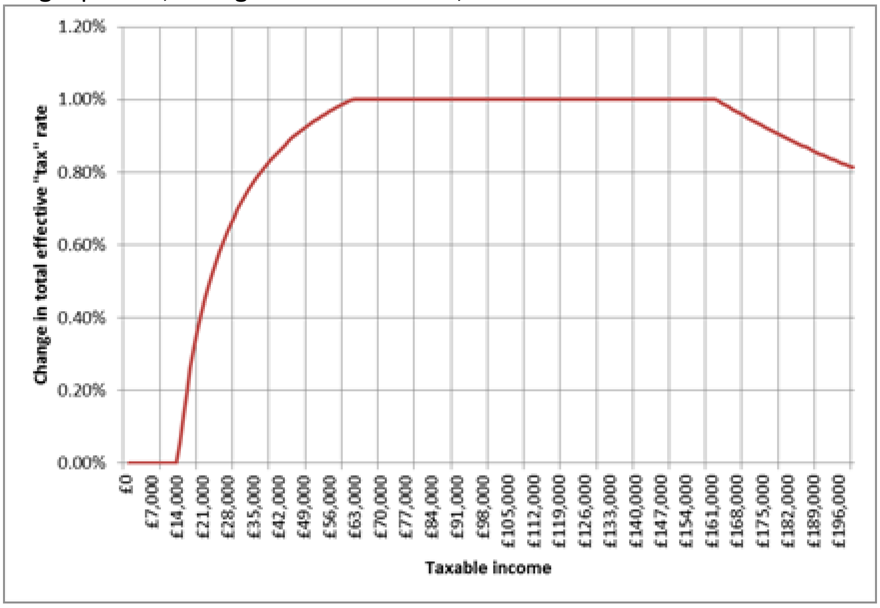
The full report outlines the distributional analysis associated with each of the potential revenue raising options considered by Ministers for the health charge. Having considered all these options there now appears to be two options which are receiving more detailed consideration: a new income based health charge which mirrors the Long Term Care contribution and an increase in GST.

The analysis in section 4 and summarised below for a single person shows that a 1% income based charge mirroring the LTC would be broadly progressive across the whole income distribution but would have the following distributional impacts between different parts of the distribution:

- there would be no impact on those people with incomes below the exemption limits
- for those on the marginal tax rate the effective rate would gradually rise as income raises to 1% (progressive for these income levels)
- for those on the standard rate of 20% the effective rate would be 1% for all incomes (subject to the next caveat) (proportional for these income levels)
- for those on the standard rate and above the £164k cap utilised for the LTC contribution the effective rate would gradually fall as a proportion of income as income rises (regressive for these income levels).

Figure 44 Change in effective tax rate after introduction of a 1% LTC type health charge

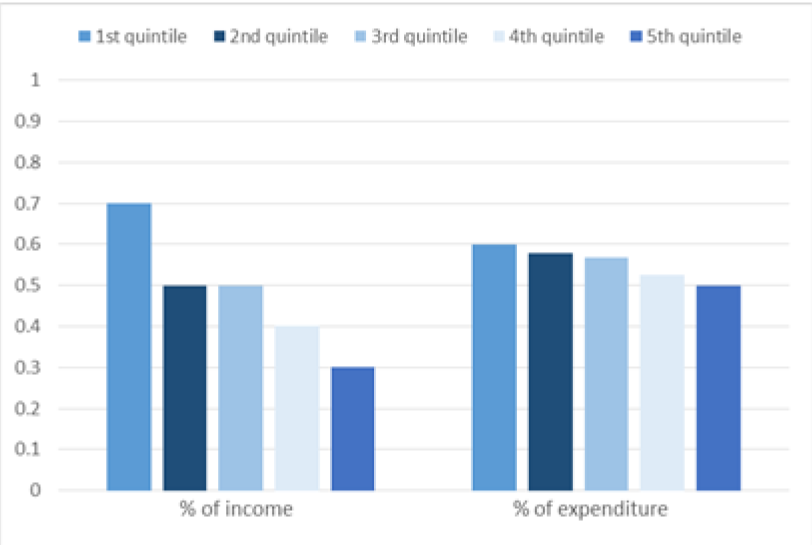
Single person, change in effective rate, % of income



The distributional impact of GST is summarised in the chart below. Section 4 highlights that it is important to look at the impact as a proportion income and expenditure and that while the degree varies slightly by the measure chosen, GST is mildly regressive. This is mainly due to the effect on those households on the lowest incomes, which spend a larger proportion of their income on essential items such as food and domestic energy. Those on higher incomes tend to save more and GST therefore represents a lower proportion of income/expenditure because they do not spend all their income in any one year.

Figure 45: Increase of 1% in GST as a share of income and expenditure across the income distribution

%



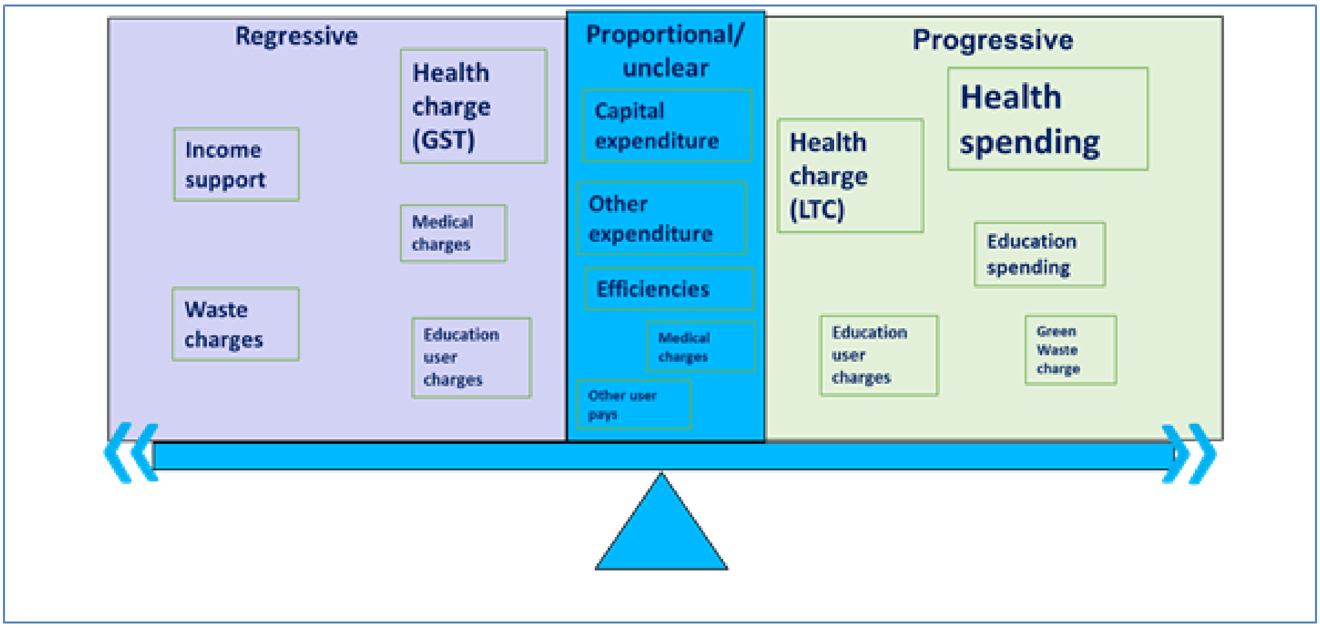
It is important to recognise that looking at the impact of the MTFP measure across the household income distribution is only indicative of the distributional impact. The distribution of household income is not the same as the distribution of wealth and changes in income are not necessarily reflective of overall changes in a household's welfare which could be impacted by monetary and non-monetary factors.

Such analysis does not take into account that households' circumstances may change over time and those in one part of the income distribution may only be there temporarily and that at different stages in their lifetime an individual's income may vary. For example, as people get older and more experienced their income may rise meaning that those in the lower part of the income distribution also spend time in higher parts of the distribution during their lifetime. Conversely there may be households which remain in one part of the distribution for their whole life time – for example some less well-off households may never leave the bottom part of the income distribution. This means that two households at the same income level at one point in time could be impacted by a fiscal change in significantly different ways over their lifetime.

Summary

The table below summarises the key findings and where possible an indication is given as to whether measures are progressive or regressive or indeed where it may be difficult to say. How to achieve the correct balance is a political question but it is important to recognise that comparing measures that are progressive and regressive is difficult to do. For example, a £1m measure that impacts on a certain group of high income households is not equally balanced by a £1m measure that impacts on a different group of particular low income households.

Figure 46 Summary – Is the balance right?



Policy issues

The distributional impacts of fiscal policy changes are complex and not always clear cut, especially where changes in expenditure are included. Even where it is possible to consider the impact of measures on households of different income this may only be looking at part of the picture and it is important to consider wider impacts in terms of wealth, welfare and impacts over people's lifetime.

Distributional impacts need to be balanced against other objectives such as the efficiency of public services, the competitiveness of the economy and ultimately the requirement to put finances on a sustainable footing to help secure economic growth.

When looking at the impacts of changes to fiscal policy it is also important to put it in the context of the impact of government policy as a whole, not just the changes at the margin. For example, if it was deemed that the combination of existing policies was unfair because it impacted too much on the better-off, regressive changes might be more appropriate. Similarly if the combined impacts of existing policy were considered to impact too much on the less well-off then a more progressive package could be justified.

It is also important to consider what options there are to offset any distributional impacts that are thought to be unfair. It does not necessarily have to be the case that individual policies should not be pursued (particularly if they are achieving other objectives). However, they may require adjustment or compensating measures to protect those people of concern or future policy could be changed in a way to address aspects of concern.

15. Contingency Planning

Introduction

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

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

In the MTFP 2013-2015 it was appropriate to broadly continue to maintain expenditure levels to support the weak economy but this required contingency plans to provide for the reduced income levels which arose as the length and depth of the economic downturn varied from the forecasts on which the MTFP was prepared.

The Income Forecasting Group (IFG) has given further consideration of the States income forecasts and in particular the appropriate range within the income forecasts for the period. The Group has also considered the many and varied influences and risks to the income forecasts and maintained the recommended from MTFP 2016-2019 that the Council of Ministers include appropriate contingency plans, particularly for the downside risks to the income forecasts.

If required, the Council of Ministers will in the short-term be able to earmark sums from a balance of uncommitted contingency funding brought forward from 2015 and have the opportunity to earmark further sums from the 2016 DEL Contingency of £5 million as required.

Since the draft proposals for the MTFP Addition were prepared for the Council of Ministers the result of the BREXIT Referendum is now known. BREXIT had been one of a number of uncertainties considered in preparing forecasts. The outcome of the BREXIT vote will inevitably require additional flexibility in the forward plans. The Council of Ministers will closely monitor the outcomes and reaction to BREXIT and consider whether any direct action is required ahead of the MTFP Addition and Budget 2017 debates.

The Fiscal Policy Panel will provide advice in respect of BREXIT in July and then update the economic assumptions as part of its annual report in August. That advice and the revised economic assumptions will enable revised income forecasts to be produced to inform the Budget 2017 and further consideration be given to any further funding that is required.

Jersey is well placed to respond, not only to opportunities that arise from BREXIT but also challenges, particularly during any period of uncertainty impacting States revenues, having plans to balance the books, a history of fiscal discipline, a strong balance sheet and low debt. These positions mean that if the need were to arise, provision exists within Article 9(2) of the Pubic Finance (Jersey) Law 2005 for Amendments to the Medium Term Financial Plan required as a result of significant economic threat to the Island, or separate provision if at any time the forecasts indicate the Consolidated Fund would be overdrawn. At this point the Council of Ministers would have the opportunity to propose that the Stabilisation Fund be topped up from the Strategic Reserve to provide funding over a period of time to address the impact of the potentially changing economic and financial position.

Other Contingency Plans

The Contingency Plans outlined in this section provide a summary of the measures that are available within the current plan and the Council of Ministers will continue to develop further plans during the course of the MTFP period which can be brought forward at each annual Budget.

Driving up the Income line with proposals and funding for Economic and Productivity Growth initiatives

The MTFP Addition 2017-2019 is based on the economic assumptions (March 2016) provided by the Fiscal Policy Panel and incorporated in the States income forecast modelling. These economic assumptions are based on current global and local economic measures and forecasts which in the years 2018 to 2020 revert to the long term trend economic growth of no real terms economic growth.

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

Work has been done to ensure the significant investment in economic growth in the MTFP 2013-2015 is refocussed and reprioritised and also to begin to develop projects to make best use of the funding for specific economic and productivity growth initiatives agreed in MTFP 2016-2019 (October 2015). See Economic and Productivity Growth Provision **Section 8).**

Establishing a working balance on the Consolidated Fund

The first MTFP 2013-2015 proposed to maintain at least a working balance of £10 million over the three-year period. The MTFP 2016-2019 proposed to re-establish a £20 million target balance for the Consolidated Fund which annual Budget measures would also seek to maintain. The MTFP Addition proposes to maintain the £20 million target balance because this level of balance provides an initial contingency against variations in income.

The balance will provide some time for off-setting measures to be introduced in future budgets without requiring the Council of Ministers having to immediately return to the States. A balance of £20 million provides for a 3% variation on current forecasts of States income in any year.

Potential Budget Measures 2017-2019

The MTFP Addition proposes in principle a funding mechanism for Health from 2018 and that a funding mechanism for States payment of Rates be brought forward for 2018.

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

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

Budget 2016 proposed various changes to income tax exemptions and allowances, and impôts duties that will raise up to £7 million by 2019. It is not necessarily expected that the annual Budgets in 2017-2019 will raise similar amounts, however, it has not been unusual for measures proposed in past Budgets to commonly raise in the order of £2 million to £3 million per annum. Such increases could give rise to around £6- £9 million additional income over the remaining MTFP period, depending on the annual measures proposed.

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

Further savings/ funding measures 2017-2019

The Council of Ministers is proposing savings and funding measures of almost £100 million in addition to a Health charge of £15 million by 2019 and is charging the Corporate Management Board to continue developing plans for further savings and efficiencies over the period of the next MTFP. However, if further reductions in income forecasts or additional expenditure pressures were identified during the period then serious consideration would have to be given to either accelerating existing measures or identifying further options for consideration over this period.

Deferring Growth in 2018-2019

The Council of Ministers is only proposing additional funding and growth be allocated to departments for 2017. The proposals for funding beyond 2017 is being proposed as a central growth provision of £20 million to be allocated in the annual Budgets for 2018 and 2019. The allocation of central growth will be dependent on both the achievement of income forecasts and the delivery of the savings targets both for the respective years and those forecast for the remaining period of the MTFP.

The slight improvement in income forecasts in the MTFP Addition has allowed the Council of Ministers to propose the that the growth for 2017 be allocated to departments but further consideration will be given at each annual Budget to the overall financial position and Consolidated Fund balance before allocations of Central Growth for 2018 and 2019 are proposed.

Central Contingency Allocations

The MTFP Addition maintains the general DEL Contingency of £5 million per annum for each year of the MTFP, providing £15 million over the course of the MTFP Addition. This funding and the further allocations to other central contingencies that are provided for specific purposes could also be reprioritised or simply reduced if financial circumstances were to change.

Consideration of other Asset Disposals

The MTFP Addition has maintained the existing proposals for funding of the routine capital programme which is not predicated on other than minor capital receipts over the period of the MTFP 2016-2019. Indeed the improved financial position has also enabled the planned asset disposals of £40 million to be removed ahead of the review of States shareholdings.

The Council of Ministers will continue with the Department for Infrastructure to explore opportunities for asset disposals and these could be used to both improve balances on the Consolidated Fund if required, or to return funds initially drawn from the Strategic Reserve. Any asset disposals arising out of a more actively managed asset portfolio would contribute to the Consolidated Fund position over the period and into the future; in particular to allow further capital expenditure.

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

Excess return on the Strategic Reserve

The States have agreed the use of the excess return on the Strategic Reserve to provide short-term funding of particular initiatives and contributions to capital over the initial period of the MTFP 2016-2019. In most years of the MTFP 2016-2019 the excess return will remain at over £20 million and subject to approval in the annual Budgets could be used to provide further funding and contingency to variations in income or for capital projects as appropriate. Any further such proposals would of course require States approval. In addition to the short-term uncertainty, the impact of the BREXIT decision on financial markets will need to be monitored in terms of any long term effects on forecast investment returns.

Review of Return on Strategic and Shareholder Investments

The MTFP 2016-2019 highlighted that consideration would be given to the rationale for the ongoing ownership by the public of Utility companies. The reasons for the States continued ownership (full or part) of the various utility company's needs to be better understood and clarified. This has been brought into sharp focus by both the C&AG's 2014 report on JT and the recent JT/Airtel proposal.

These challenges have made clear that what is needed is the development of clear future policy aims for Telecommunications on-island and a strategy that would deliver these aims. This would allow the Government to decide what it wanted from its Telecommunications Policy and determine if it required continued ownership (full or part) to deliver the strategy to achieve it.

The development of this policy is being undertaken by the Chief Ministers Department and forms part of their Action Plan in response to the Draft Regulatory and Competition Framework Review (Recommendation 20).

As this process is followed through with JT and then with the other regulated utility companies opportunities will arise and options can be considered that may lead to potential disposals and receipts.

In addition the level of the proposed annual returns from these entities will be continually reviewed and monitored.

16. Update on Capital Programme 2016-2019

Introduction

Capital investment plays an important role in the medium and long term delivery of public services in the Island as well as helping to boost the economy. Decisions on capital have to be made to ensure we have the right infrastructure and enable departments to plan for and adapt to how services need to change to deliver services in the most efficient and effective way, whilst conforming to ever increasing regulatory requirements.

The Medium Term Financial Plan (MTFP) approved capital allocations for 2016, 2017, 2018 and 2019 based on an indicative capital programme. Whilst proposed schemes were set out in the indicative capital programme, approval for the capital allocations to individual schemes is sought annually as part of the Budget Statement.

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

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

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

Update on Capital Programme 2016 - 2019

The MTFP 2016 – 2019 approved the total amounts that could be allocated for capital projects in each of the years 2016 to 2019 and the proposed sources of funding for each year. The indicative capital programme that was included in the MTFP 2016 – 2019 to support those approvals was split into two parts; the proposed departmental capital programme funded from the consolidated fund, after transfers from the Strategic Reserve, and a group of larger projects where an alternative source of funding had been identified or specific additional States Assembly approvals were required to enable them to proceed. The latter group included the Future Hospital and the Office Modernisation Project – updates are provided on all of these later in this section.

Figure 47 outlines the total amounts approved to allocate to departments for capital projects in each of the years 2016 – 2019 including any amounts already identified for the aforementioned major projects.

Figure 47 – Total Capital Expenditure Allocations for 2016-2019

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

2016 Budget

The Budget Statement 2016 (P.127/2015) approved capital allocations in line with the indicative programme in the MTFP 2016-2019 totaling £26.7 million.

Allocation of 2017-2019 Capital Expenditure to Projects

The Budget Statements for 2017, 2018 and 2019 will approve the capital programme for each of those years. This annual process provides an opportunity to alter the capital programme from the indicative plan included in the MTFP to adapt to changing priorities, service delivery changes and make more agile decisions whilst being contained by the total allocation approved in the MTFP for capital projects and in the context of the Long Term Capital planning process.

The Budget 2017 will include a proposed departmental capital programme up to the total amount approved by the Assembly in the MTFP of £65.3 million but will also include any provisions required for the Future Hospital and Office Modernisation projects in line with the requirements identified below.

To maintain a continuing medium term framework and further inform the approval of the 2017 capital project approvals, the Budget 2017 will also include an indicative 2020 capital programme.

Management of States Trading Operations Capital Projects 2017-2019

The States Assembly also approved the total cost of the capital projects that each of the States Trading Operations is scheduled to start during the financial years 2016 – 2019. These projects are funded from the Trading Fund of each operation unless expressly stated otherwise so the total amount allocated does not have a direct impact on the unallocated Consolidated Fund balance in the way departmental allocations do.

The States Trading Operations now comprise Jersey Car Parking and Jersey Fleet Management only following the incorporation of Jersey Airport and Jersey Harbours into Ports of Jersey Limited in 2015.

Approval for the individual projects scheduled to commence in each year for the Trading Operations is also granted as part of the annual Budget Statement. Budget 2017 will include a list of projects Jersey Car Parking and Jersey Fleet Management intend to commence in 2017 and the total cost of each project.

Update on Major Projects

In addition to the total amounts approved that could be appropriated to capital heads of expenditure in each of the years 2016 – 2019, there were a number of other major projects that were identified as requiring funding in the period, subject to the necessary additional States approval.

Those projects are identified in **Figure 48**, which was included in the MTFP 2016 – 2019, with an update on each of the projects provided in this section.

Figure 48 – Total Capital Expenditure Allocations for 2016-2019

Other Projects Excluded Above				
Sewage Treatment Works - Upgrade				
Future Hospital				
Office Modernisation Project				
Les Quennevais School Rebuild	1,000	39,000	-	-
Prison Improvement Works - Phase 6	-	-	8,233	-
Total Other Projects	**1,000**	**39,000**	**8,233**	**-**
Total Proposed Capital Programme (including Other Projects)	**26,691**	**65,273**	**43,233**	**32,975**

Sewage Treatment Works - Upgrade

The Sewage Treatment Works (STW) was originally constructed in the late 1950's for a population of 57,000. In the intervening years it has been continually improved and upgraded to take into account significant population increases, changes in volume of incoming flow, increased environmental standards and technological enhancements.

Whilst the plant has generally performed well over the years, it is now struggling to meet its discharge consents, mainly due to the now inadequate and outdated design, poor performance of the main treatment technology installed, and the variability of loading to the works, particularly under high flow and storm conditions. The only way forward is for a complete regeneration of the Bellozanne site including a new sewage treatment works.

Funding of £10.1 million was awarded to the Department for Infrastructure (formerly Transport and Technical Services Department) in 2014 and £25.5 million in 2015 as well as a further £1m in 2015 and £4.5m in 2016 from the Rolling Infrastructure Vote to undertake the first phases of this work, which will be commencing in 2016 and continuing into 2017.

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

It is proposed that the funding required to cover the allocation requirements for the project over the 2017 – 2019 period will be funded from the Department for Infrastructure's Rolling Vote. This included allocations that were identified in the indicative MTFP capital programme.

Future Hospital

Background

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

Recognising that doing nothing was not an option, the States Assembly, in their Act of 23rd October 2012 (P.82/2012) charged the previous Council of Ministers to bring forwards proposals for the priorities for investment in hospital services and detailed plans for a new hospital (either on a new site or a rebuilt and refurbished hospital on the current site) by the end of 2014.

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

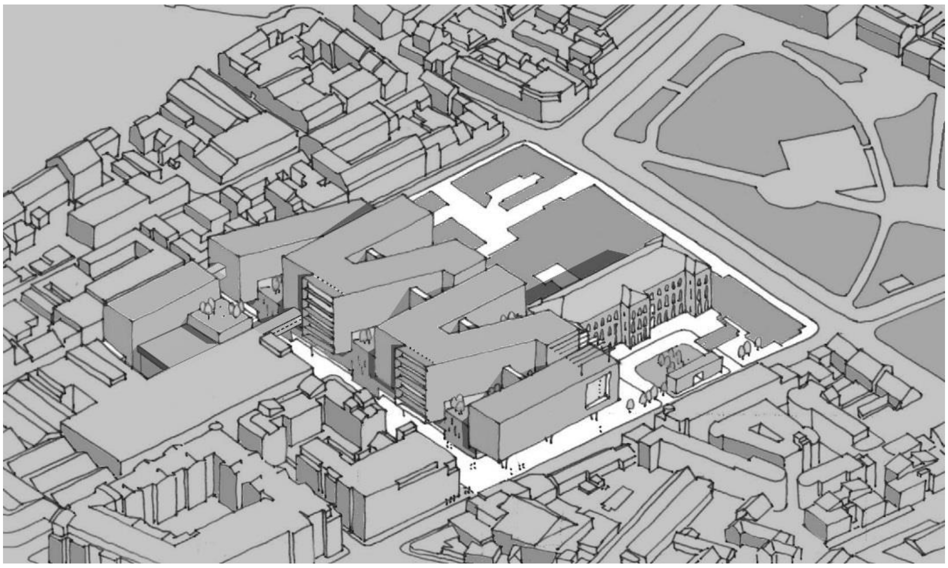
In December 2014, current Ministers required a site options appraisal be undertaken to enable the States Assembly to confirm on a like-for-like basis, and considering whole life costs, whether the previously preferred "Dual Site" remained the preferred option against four short-listed alternatives. A public engagement on the outcome of the options appraisal was undertaken in February 2016, culminating in the acceptance of the removal of one of the short-listed sites when Ministers accepted Act P.6/2016.

Period of reflection

A period of reflection on the feedback from the public engagement followed, during which it was recognised that public consultation on the remaining short-list was unlikely to result in public or political alignment. Following positive engagement with States Members, it was clear that the hospital was valued as a special place, where key life events happened and these needed to remain accessible to all. I was further recognised that the hospital's unique status may mean previous core assumptions could be challenged within reason. As a result, a new approach on the site of the current General Hospital on the Parade in St Helier will be recommended to the States Assembly by the Council of Ministers.

An alternative approach

This approach proposes the development of a whole new hospital in a single construction phase on the current areas occupied by the Gwyneth Huelin out-patients block and Sir Peter Crill House where leadership, hospital consultant offices and the education centre are located, together with development of properties on the west side of Kensington Place adjacent to the current Hospital and Patriotic Street car park. The approach relies upon the use of Patriotic Street car park to facilitate access at different levels for patients and visitors to out-patients from a number of car park floors. The approach requires the relocation of existing uses and acquisition of neighbouring properties, potentially by compulsory purchase subject to further feasibility, but would enable a new hospital to be available within 8 years and at a capital cost commensurate with new build, new site alternatives.



Proof of concept and outline project timings

The approach was discussed with States Members at workshops during April and May 2016 and with clinical leaders, prior to undertaking a proof of concept study in advance of the summer recess. The outcome of the study will be reported to the Council of Ministers before bringing a Report and Proposition to the States Assembly to confirm the preferred site and requesting funding for further feasibility immediately following the debate of the Medium Term Financial Plan in September 2016.

If the preferred site is supported by the States Assembly, further design development, investment in enabling and relocation works and continued feasibility will follow before the outcome is presented for the States Assembly during 2017 to consider the proposed scheme and, if acceptable, agree the proposed detailed plans for the new hospital, financial and manpower implications and the source of funding.

Should the States Assembly support that investment decision, further design development, planning applications and enabling works would follow prior to the final business case being considered under delegated provisions by Ministers, meaning the main construction phase could commence in 2019.

Provisional cost estimation

An indicative capital cost estimate for the project cost of developing the concept envisaged in the approach above has been developed and is set out in **Figure 49 below**.

Figure 49 – Indicative capital cost for future hospital provision

Cost element	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**2021 £m**	**2022 £m**	**2023 £m**	**Total £m**
Main Works Cost	-	-	11.517	68.368	94.393	72.484	11.709		258.472
Fees	5.627	11.255	7.142	3.418	3.538	3.662	1.862		36.505
Non-works	0.205	8.755	1.263	0.058	0.913	1.102	4.265		16.560
Equipment	-	-	-	-	-	5.850	17.754		23.603
Contingency	-	-	4.016	23.838	32.912	25.273	4.083		90.121
Relocation works	0.789	21.810	12.495	-	-	-	0.685	4.592	40.371
Project total	**6.621**	**41.819**	**36.433**	**95.683**	**131.755**	**108.370**	**40.357**	**4.592**	**465.631**

Note: the cost estimate in 2017 includes the re-use of existing allocations as well as the monies likely to be requested in Spring 2017.

It must be recognised that this is an indicative estimate based on provisional information. The proof of concept will provide a firmer feasibility estimate. Some cost estimations are not possible to include within the project costs at this point, such as the likely income or cost to the States from any redevelopment of the remainder of the current General Hospital site and the revenue implications of key worker accommodation arrangements, for example.

Funding:

With the advice of an external advisor, the Treasury have developed provisional funding considerations and options. This options analysis will progress to consider and propose a preferred solution which is likely to be blended solution of using existing Reserves and internal or external financing options.

A Special Fund, specific to funding the new hospital, is likely to be proposed. The extent to which external funding, possibly in the form of a bond is used will determine the extent to which an income stream is required to service that debt, most likely in the form of additional taxation. Further work will be undertaken to prepare detailed proposals for potential funding of the future hospital, which would be submitted in conjunction with the decision set out for States Assembly consideration in 2017.

Expenditure incurred as of the end of April 2016 on the Future Hospital Project totals £6,468,790 with a further £1,897,353 committed. This includes £229,243 of pre-feasibility studies, £2,368,061 of technical advice in developing site options, feasibility studies and acute service planning for the future hospital, £1,602,533 of relocation works from failed buildings at the Overdale site and a £787,500 upgrading Samares Ward at Overdale Hospital for six new acute bedrooms. Other costs relate to client team costs, legal, financial and other advisor costs and costs for dual site feasibility studies.

Office Modernisation Project

The MTFP 2016 – 2019 includes the delivery of the development of modern office facilities as a priority project within the Public Sector Reform programme. The implementation phase of the Office Modernisation Project (OMP) will reduce the number of office buildings and portfolio operating costs, deliver a fit for purpose and flexible portfolio which will support future reform, improve customer service, increase the utilisation of buildings and enable greater collaboration, productivity and reduced operating costs across departments.

The cornerstone project is the delivery of a Central Administration Building (CAB) to house the core office-based activities that are not locationally dependant. During 2015 and into 2016, outline proposals for the relocation and consolidation of a large number of States office functions was developed to produce an outline business that identified the La Motte Street site, comprising Philip Le Feuvre and Huguenot House, together with the former Sounds Workshop, as the preferred site.

A feasibility study has commenced to determine the most effective use of the site to meet the needs of the occupying departments to deliver services efficiently and effectively. The study will conclude in September to provide an outline business case to support the proposed solution. During the remainder of 2016 and into 2017, the proposal will be developed through detailed design to provide a full business case to enable a planning application to be submitted for consideration. It is anticipated that, subject to planning, procurement could commence for development in the fourth quarter of 2017 with a start on site in early 2018.

In addition to the development of the CAB, the overall project will also address deficiencies within the effectiveness of retained States office premises including, Morier House, Highlands offices and Professional Development Centre, Howard Davis Farm and offices within the States Building.

Provisional cost estimation

An indicative capital cost estimate for the project cost based on the Strategic Outline Case has been developed and is set out in **Figure 50**

Figure 50 – Indicative capital cost estimates for Office Modernisation Project.

Cost element	**2016** **£000s**	**2017** **£000s**	**2018** **£000s**	**2019** **£000s**	**2020** **£000s**	**2021** **£000s**	**Total** **£000s**
Feasibility Study	338	-	-	-	-	-	350
Central Administrative Building	-	3,040	13,643	14,683	3,378	-	34,744
Highlands Office and PDC				1,093	1,748	970	3,811
Howard Davis Farm			621				621
Morier House					2,372	3,557	5,929
States Building					32	287	319
Allowance for Decanting		300	900	900	900		3,000
Project total	**338**	**3,340**	**15,163**	**16,676**	**8,429**	**4,815**	**48,761**

Funding

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

The project will deliver the potential to dispose of a number of redundant buildings. The following properties have been identified for disposal as a result of the consolidation:

- South Hill
- Jubilee Wharf
- Queens House
- Maritime House
- Cyril Le Marquand House

The feasibility study will include a disposal strategy to identify the most appropriate future use of these vacated sites and provide a refined estimated value to incorporate within the Outline Business Case. The Public will also be able to exit from a number of leased-in properties.

A funding source will need to be identified that provides for the capital investment and recognises the inflow of funds from disposals and the impact of efficiency savings generated from the reduced footprint and application of modern ways of working. The project team will continue to work with Treasury officers with the aim of providing a means for funding for inclusion in the 2017 Budget proposals.

Les Quennevais School

Construction of a new Les Quennevais School is needed to replace the existing school which is reaching the end of its useful life. Following completion of the feasibility study a planning application has been submitted for the preferred site. Negotiations are underway with landowners to acquire the various land packages. Subject to conclusion of the acquisitions and the necessary planning approvals, the project will commence on site in 2017.

Funding

It is agreed by the States that funding for this project is provided from a draw down from the Strategic Reserve with the sum to be returned to the Strategic Reserve from the future proceeds achieved from the sale of States of Jersey assets, in the event that the Council of Ministers concludes that any of the investment in States owned companies should be disposed of and the Assembly agrees to such a proposal. The drawdown sum has been provided for from within the excess returns in the fund over and above those needed to maintain the value of the Strategic Reserve

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

Prison Improvement Works - Phase 6

The prison was designed in the late 1960s and was opened in 1974.

In 2001 a HM Chief Inspectors of Prisons inspection identified significant shortcomings in the HMP La Moye Estate. This consequently led to an initial 'feasibility review' being undertaken in 2002 and resulted in a proposed programme of redevelopment work that commenced in 2003. Since then a number of capital / improvement work projects have been completed that have addressed (and which have been acknowledged by the HM Inspector), some of the early criticisms pertaining to shortfalls in both human rights and statutory requirements.

Phase 6 is the construction of a new secure Gate House and Administration/HQ Facility. The new Gate House is the second of two new buildings that have been integrally designed to form the new façade / secure main entrance to HMP La Moye. This work will enable the last of the old buildings to be demolished making way for the continuing modernisation of the prison estate.

Funding

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

Progress on Capital Allocation Process

The States Assembly are currently required to approve the entire amount required to complete a capital project upfront in the year in which that project is included in the Budget capital programme. This is a prudent approach and ensures projects are only committed to in full when all the funding is available to complete them. However, as the actual spend on capital projects spans multiple years, with a lead time in the engagement of contractors, receipt of planning approval and design work once funding is made available, that approach also results in significant balances of unspent capital approvals being tied up in the Consolidated Fund every year. This means that resources are not being put to best use on a timely basis.

Consideration is being given to the way in which capital approvals are allocated with the Treasury continuing to work with the Law Drafting Department to develop proposals that will align the capital allocations more closely with the timing of spend. This approach would enable a more efficient use of cash reserves with the annual capital approvals being smoothed to reflect the cashflow of projects.

Work in this area is ongoing and any proposals to change the Public Finances (Jersey) Law accordingly would require States Assembly approval.

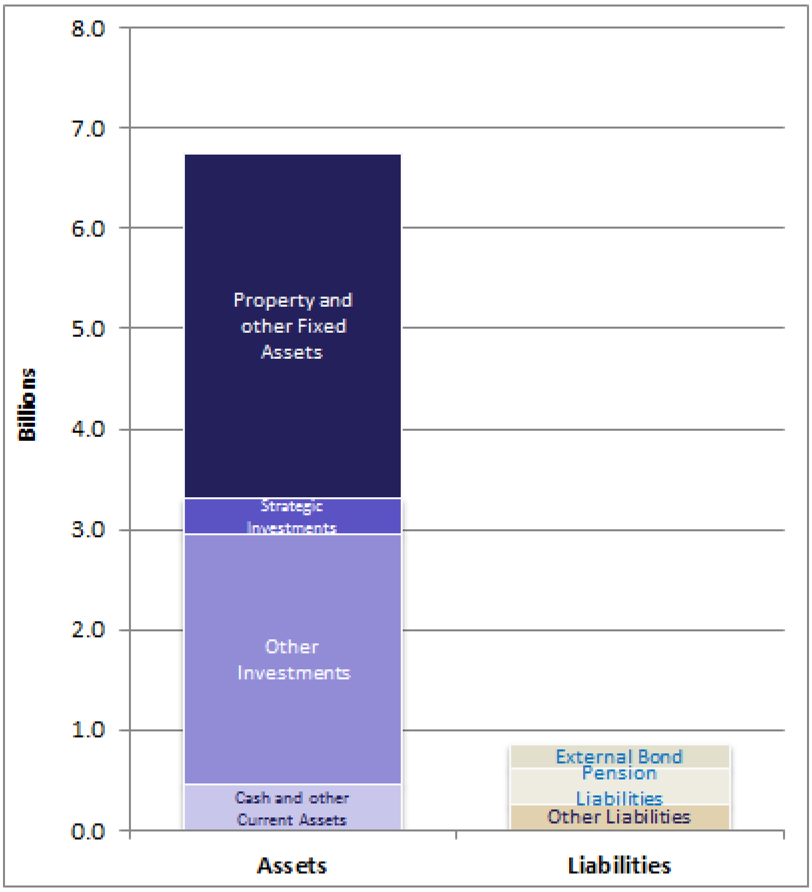
17. Managing the Balance Sheet

Overview

The States of Jersey has a healthy Balance Sheet. As at 31st December 2015 the Asset value exceeded the Liability value by £5.9 billion. It is vital that the States continues to manage the Balance Sheet as well as its revenue expenditure.

The Balance Sheet, as at 31st December 2015 includes £3,443 million of property, land and infrastructure assets and £361 million of Strategic Investments such as Jersey Post, Jersey Telecom etc.

Figure 51 – States Balance Sheet as at 31.12.2015



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

Other financing options are being explored in order to continue investment in public sector infrastructure, and in line with the FPP's recommendations, in particular the funding of the future hospital provision.

Forecasts of the main Social Security funds are included as **Appendix 13** to the MTFP Addition

18. Managing Manpower

Introduction

The States of Jersey recognises that its employees are its most valuable asset and that employees value job security. However, as an organisation, the public sector has a responsibility to react to the changing economic environment and optimise the allocation of operational resources. As a result, with the exception of the strategic prioritise of Health and Education, a net reduction in staffing forms part of departments' commitments to driving efficiencies through service redesign to ensure the most effective use of resources. Even in Health and Social Services and Education there will be reductions in staffing where savings in resources cannot be redeployed.

The States of Jersey as an employer is committed to working with staff and staff representatives in carrying out service redesign, and at the time of publication, final decisions regarding service redesign and potential outsourcing had not been made, as they remain subject the subject of consultation or tender exercises. Therefore, the staffing reduction figures summarised in this section are estimated reduction targets and not definite reduction figures.

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

Establishing a revised 2016 base for budgeted FTE across the States

The 2016 budgeted FTE figures for Departments were given in the MTFP 2016-2019. This enabled Departments to reflect any permanent and recurring changes which were known about at that time. It is important to maintain the reconciliation between the budgeted FTE and the HRIS system to support public sector reform and redress of the States' financial deficit for the following reasons;

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

Departments are now in a better position to present the 2016 Budgeted FTE than in July 2015 when the MTFP 2016-2019 was lodged and an exercise has been undertaken to establish the current position as a starting point for the MTFP Addition, and also to carry out a further reconciliation with the figures on HRIS.

The result of the exercise is that the FTE figure published in the MTFP 2016-2019 (P72/2015) has been reduced by 43.5 FTE to represent all existing posts for 2016. The major variations include:

- A reduction of 8.4 FTE in Education, which represents the first tranche of Voluntary Redundancies (VR) taken in December 2015 / January 2016.
- A reduction of 7.5 FTE in Social Security Department due to 2016 VR.
- A net reduction of 15.0 FTE in Health and Social Services Department represented by a reduction of 60.0 FTE from the 2016 Savings and an increase of 45.0 FTE due to growth in MTFP 2016 – 2019 in Children's Services in 2016.

Transfer of Ministerial Functions

The exercise was also able to capture the movement in budgeted FTE arising from the Transfer of Ministerial Functions (P46/2015). The full detail of all changes as a result of the exercise are included **in Figure 52** and were provided to the Treasurer of the States who approved the revised 2016 FTE of 6,945.5 under authority delegated from the Minister for Treasury and Resources.

Contingency FTE

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

Figure 52 – Revised Budgeted FTE for 2016 by Department

States Funded Bodies	Establishment FTE	Contingency FTE	Approved 2016 FTE from MTFP (Oct 2015)	Ministerial Transfers (P46/2015)	Changes required to approved FTE (if required)	Revised 2016 FTE for MTFP Addition	Establishment FTE	Contingency FTE
Ministerial Departments								
Chief Minister	*231.0*	*5.0*	236.0	4.0	(4.7)	235.3	230.3	5.0
- Jersey Overseas Aid Commission	*1.5*	-	1.5	-	-	1.5	1.5	
External Relations	*7.0*		7.0			7.0	7.0	-
Community and Constitutional Affairs	*691.6*	*8.5*	700.1	-	(1.1)	699.0	689.0	10.0
Economic Development,Tourism, Sport and C	*38.2*	-	38.2	102.5	(3.0)	137.7	137.7	-
Education	*1,834.3*	-	1,834.3	(106.5)	(8.4)	1,719.4	1,719.4	-
Department of the Environment	*109.6*	*5.3*	114.9	-	-	114.9	108.9	6.0
Health and Social Services	*2,734.0*	*29.0*	2,763.0	-	(15.0)	2,748.0	2,720.0	28.0
Department of Infrastructure	*489.9*	*5.0*	494.9	57.0	-	551.9	546.9	5.0
Social Security	*260.5*	-	260.5	-	(7.5)	253.0	253.0	-
Treasury and Resources	*260.8*	-	260.8	(57.0)	(2.9)	200.9	200.9	-
Non Ministerial States Funded Bodies								
Bailiff's Chambers	*10.0*	-	10.0	-	-	10.0	10.0	-
Law Officers' Department	*72.5*	-	72.5	-	(0.5)	72.0	72.0	-
Judicial Greffe	*45.2*	-	45.2	-		45.2	44.2	1.0
Viscount's Department	*21.9*	-	21.9	-	-	21.9	21.9	-
Official Analyst	*9.4*	-	9.4	-	-	9.4	9.4	-
Office of Lieutenant Governor	*13.6*	-	13.6	-	0.1	13.7	13.7	-
Office of the Dean of Jersey	-	-	-	-	-	-	-	-
Office of the Data Protection Commissioner	*0.5*	-	0.5	-	(0.5)	-	-	-
Probation Department	*32.3*	-	32.3	-	-	32.3	32.3	-
Comptroller and Auditor General	*1.5*	-	1.5	-	-	1.5	1.5	-
States Assembly and its Services	*27.0*	-	27.0	-	-	27.0	27.0	-
States Trading Operations								
Jersey Car Parking	*24.0*	-	24.0	-	-	24.0	24.0	-
Jersey Fleet Management	*25.0*	*4.0*	29.0	-	-	29.0	29.0	-
Total	**6,941.3**	**56.8**	**6,998.1**	**0.0**	**(43.5)**	**6,954.6**	**6,899.6**	**55.0**

Ongoing control of budgeted FTE

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

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

Impact of detailed cash limit proposals on budgeted FTE for 2017-2019

Service Transfers for 2017 = net nil

- Transfer of IS support for bespoke in-cell HM Prison from Chief Minister to Community and Constitutional Affairs: 0.5 FTE
- Transfer of FTE post from Information Services within Chief Minister to Treasury and Resources: 1.0 FTE
- Transfer of Environmental Health Service from Health and Social Services to Department of the Environment: 11.0 FTE
- Transfer of FTE post from Health and Social Services to Judicial Greffe: 0.5 FTE
- Transfer of Countryside Rangers from Department for Infrastructure to Department of the Environment: 3.0 FTE

Other 2017 – 2019 Changes = addition of 0.6 FTE

- An addition of 13.0 FTE in 2017 in Chief Minister relates to ISD temporary post (until 2019) founded from E-Gov for the implementation of Taxes Computer System
- A reduction of 12.4 FTE in 2017 in Economic, Development, Tourism, Sports and Culture, posts no longer required.
- An addition of 4.0 FTE in 2017 and a reduction of 4.0 FTE in 2018 in Treasury relates to temporary posts to support Taxes E-Gov programme to deliver efficiency savings

MTFP Addition Growth for 2017-2018

- An increase of 31.2 FTE in Education over the period 2017 – 2019 relates to the increase in student numbers and the extra teachers needed to educate them.
- An increase of 59.5 FTE in 2017 in Health and Social Services relates to 46.5 FTE for P82/ 2012 service initiatives and 13.0 FTE for other changes related to the 2% investment in healthcare inflation and maintaining standards.
- A Further increase in FTE of 70.0 in 2018 and 46.0 in 2019 in Health and Social Services is proposed as part of the £20 million in Central Growth Allocation should these allocations be approved in annual budgets for 2018 and 2019.

MTFP Addition Savings for 2017-2019

- Details of individual savings are included in the **Appendix 2**.
- The reduction in staffing forms part of all Departments' commitment to driving efficiencies through service rationalisation and achieving greater value for money through a combination of outsourcing and service re-design. Some of the Departments are in the process of staff consultation and tendering for provision of services. It is still not clear which services will be outsourced, which will be retained "in-house" and which may be retained, albeit in a streamlined format. The savings detailed in the summary of financial information are in the form of net targets only. It is not currently possible to identify the exact totals for FTEs reductions, although it is expected that the totals will be under those shown as a maximum in **Figure 53**, which depend on the outcomes of the reviews for the services mention above. Updates will be provided in the Annex updates for 2018 and 2019.

Figure 53 – Forecast of budgeted FTE by Department for 2017 to 2019

States Funded Bodies	Approved 2016 FTE from MTFP	Service Transfer and Other Changes 2017 - 2019	Indicative Growth 2017 - 2019	Indicative Savings (up to) 2017 - 2019	Revised 2017 - 2019 FTE for MTFP Addition (up to)	Establishment FTE (up to)	Contingency FTE
Ministerial Departments							
Chief Minister	**235.3**	11.5	-	(20.5)	**226.3**	226.3	
- Jersey Overseas Aid Commission	**1.5**	-	-	-	**1.5**	1.5	
External Relations	**7.0**	-	-	-	**7.0**	7.0	
Community and Constitutional Affairs	**699.0**	0.5	-	(33.5)	**666.0**	651.1	14.9
Economic Development, Tourism, Sport and Culture	**137.7**	(12.4)	-	(7.0)	**118.3**	118.3	
Education	**1,719.4**	-	31.2	(26.6)	**1,724.0**	1,724.0	
Department of the Environment	**114.9**	14.0	-	(8.0)	**120.9**	115.9	5.0
Health and Social Services	**2,748.0**	(11.5)	59.5	(12.0)	**2,784.0**	2,756.0	28.0
Department of Infrastructure[1]	**551.9**	(3.0)	-	up to (103.5)	**up to 544.9**	544.9	
Social Security	**253.0**	-	-	(15.0)	**238.0**	238.0	
Treasury and Resources	**200.9**	1.0	-	(21.0)	**180.9**	180.9	
Non Ministerial States Funded Bodies							
Bailiff's Chambers	**10.0**	-	-	-	**10.0**	10.0	
Law Officers' Department	**72.0**	-	-	-	**72.0**	72.0	
Judicial Greffe	**45.2**	0.5	-	-	**45.7**	45.7	
Viscount's Department	**21.9**	-	-	-	**21.9**	21.9	
Official Analyst	**9.4**	-	-	(0.8)	**8.6**	8.6	
Office of Lieutenant Governor	**13.7**	-	-	-	**13.7**	13.7	
Office of the Dean of Jersey	**-**	-	-	-	**-**	-	
Office of the Data Protection Commissioner	**-**	-	-	-	**-**	-	
Probation Department	**32.3**	-	-	-	**32.3**	32.3	
Comptroller and Auditor General	**1.5**	-	-	-	**1.5**	1.5	
States Assembly and its Services	**27.0**	-	-	(0.5)	**26.5**	26.5	
States Trading Operations							
Jersey Car Parking	**24.0**	-	-	-	**24.0**	24.0	
Jersey Fleet Management	**29.0**	-	-	-	**29.0**	29.0	
Total[2]	**6,954.6**	**0.6**	**90.7**	**up to (248.4)**	**up to 6,897.0**	**up to 6,849.1**	**47.9**

Notes for information:

1. It has been estimated that the impact of savings in 2015 and 2016 for Department for Infrastructure would release up to 33.0 FTE staff, though these are not reflected in the revised 2016 baseline FTE. As such these are reflected in the 2017 FTE reduction due to Savings shown above.

2. The total figures for 2017 - 2019 are presented as a maximum figures due the Department for Infrastructure presentation. For this reason Revised 2016 FTE figures and all the changes through the period of 2017- 2019 do not add up, except individual Departments line (excluding Department for Infrastructure).

Summary

Figure 53 shows a forecast overall net reduction to States of Jersey manpower of 57.6 FTEs between the reconciled 2016 position and 2019 forecast. Furthermore, the total FTEs in the table above may reduce further by up to 103.5 FTEs depending on the range of outcomes from the Department of Infrastructure transformation.

However, the Central Growth funding of £20 million represents 116.0 FTE still to be approved in the 2018 and 2019 annual Budgets for Health and Social Services.

Compared to the 2015 position of 7,013 FTE, the starting point of the MTFP, this would represent a reduction 103.5 FTE. This reduction would be even after the significant investment in teachers and health professionals and other key staff of 304.2 FTE over the course of the MTFP.

Departments will hold a total of 47.9 Contingency FTEs, which will be used to meet temporary and short term workforce pressures. Updates to the manpower forecasts will be produced in the annual Department Annex Updates of the MTFP for 2018 and 2019. Regular reconciliation of the budgeted FTE's with the HRIS system will be carried out by the Human Resources department to ensure consistent reporting.

19. Planning for an Ageing Population

Introduction

With better living standards and health care, we are now expected to live longer than previous generations. This is to be welcomed as good news. The number of people in Jersey aged over 65 will increase from 17,000 today to about 28,000 by 2035. This will represent one in four people in the community.

This change will have significant consequences for the States' public finances, and in particular the Social Security Scheme, which pays for the State pension. As well as the important steps being taken in the MTFP to address the funding of Health arising from the good news of an ageing population, the Medium Term Financial Plan (p127-130) describes the expected increase in the number of pensioners compared to working age people in future decades, and the expected impact on the Social Security Fund's financial balance.

Financial forecasts of the Social Security Fund, Long-Term Care and Health Insurance Fund are provided at **Appendix 13** of this report.

Social Security Scheme Review

The Social Security Fund has substantial reserves, but a major review of the Scheme has started to ensure its long term sustainability.

The overall aim is to have a Social Security Scheme that is both financially and socially sustainable over the next 20 year period. In addition to continuing to balance the income into the Fund with the benefits paid out of the Fund to maintain financial sustainability. Social sustainability considers the fairness of the overall Scheme and the adequacy of the benefits it provides (particularly the adequacy of the State pension). The Social Security Scheme will need to change during the 2020's to keep it financially and socially sustainable.

The Review will run over the next four years until the end of this MTFP period and will be closely aligned with the development of a Long Term Vision for Jersey. It will consider the level at which the States Grant should be set in future, and all other aspects of the current Scheme, including the level of contributions collected and the eligibility for, and the value of pensions and benefits payable. The review will consider options for:

- increasing the liability for contributions from higher earners,
- reviewing the level of the standard earnings limit and the upper earnings limit,
- increasing the percentage rate for contributions,
- reviewing the balance between employer and employee contributions,
- reviewing the liability of self-employed contributors,
- reviewing the method for uprating pensions and benefits,
- increasing the state pension age,
- reviewing the eligibility for pensions,
- reviewing the range of working age benefits available.

The review is being supported by an actuarial review of the SSF as at 31 December 2015. This review by the UK Government Actuary is taking place now and is due to be published at the end of 2016.

Long Term Care Fund

The increase in pensioner numbers will also have an impact on the Long Term Care Fund, which has been specifically set up to support local residents with long-term care fees as an important response to the challenges of an ageing population, improving the sustainability of wider States finances at the same time as removing the catastrophic costs incurred by families. The current contribution rate of 1% will be kept under careful review over the next few years as this new scheme settles down.

Age discrimination legislation

Harnessing the potential of older workers and encouraging a labour market that makes full use of this valuable resource will be a key element of States' policies going forward. Discrimination legislation will be extended to include age on 1 September 2016, with all elements of the new regulations fully in place by September 2018.

Promoting financial independence in old age

During the course of this MTFP period, the Social Security Department will work with the Treasury and Resources Department to promote financial independence in old age, and to encourage a higher proportion of workers to take up occupational pensions. For example, this could be achieved through changes in income tax or benefit rules, as well as the promotion of work-based pension schemes aimed at lower earners.

Health Insurance Fund

The cost of health services is also directly linked to the increasing proportion of older people. Support for primary care costs is currently provided through the Health Insurance Fund with secondary care costs being mainly met through tax funded budgets. During the development of a broader health strategy, interim steps are being taken to expand the use of the Health Insurance Fund to reflect the broader range of community based healthcare services that is now available. In its current form, the Health insurance Fund is no longer collecting sufficient contributions each year to meet the cost of the benefits it provides, and an overall strategy for future health funding is being developed. This includes the introduction of a health charge from 2018. To support the phased introduction of the new health charge **(see Section 12)** and to minimise the initial impact on individuals, transfers of £5 million a year will be made from the Health Insurance Fund to the Health and Social Services Department for 2017, 2018 and 2019. These transfers will be allocated to primary care costs that are met by Health and Social Services.

SUMMARY TABLES FOR PROPOSITION

Summary Table A -	Total States Net Expenditure 2016-2019
Summary Table B -	States Revenue Expenditure for States Funded Bodies for 2017 - 2019
Summary Table C -	Summary of Proposed Central Contingency Allocations for 2017-2019
Summary Table D -	Summary of Proposed Growth Allocations for 2018 and 2019
Summary Table E -	Proposed Income and Expenditure of each States Trading Operation for 2017 - 2019
Summary Table F -	Consolidated Fund Forecast for 2016 - 2019

Summary Table A – Total States Net Expenditure for 2017 - 2019

States Funded Bodies	Proposed Total Net Expenditure 2017 £'000	Proposed Total Net Expenditure 2018 £'000	Proposed Total Net Expenditure 2019 £'000
Ministerial Departments			
Chief Minister	26,482.1	26,210.1	25,473.1
- Jersey Overseas Aid Commission	10,338.5	10,338.5	10,338.5
External Relations	1,746.3	1,746.3	1,746.3
Community and Constitutional Affairs	48,782.7	48,241.9	47,095.2
Economic Development, Tourism, Sport and Culture	19,152.6	18,309.0	17,765.9
Education	105,974.0	106,246.9	106,346.9
Department of Environment	5,856.1	5,393.4	4,675.9
Health and Social Services	207,908.3	210,787.0	210,481.1
Infrastructure	39,981.1	35,367.4	26,449.2
Social Security	186,225.7	187,551.3	189,331.4
Treasury and Resources	21,447.4	20,973.5	20,267.4
Ministerial Departments	673,894.8	671,165.3	659,970.9
Non Ministerial States Funded Bodies			
- Bailiff's Chamber	1,687.7	1,699.7	1,711.8
- Law Officers' Department	7,555.9	7,323.8	7,087.1
- Judicial Greffe	6,558.1	6,497.1	6,429.8
- Viscount's Department	1,341.2	1,349.9	1,345.5
- Official Analyst	600.2	601.3	571.5
- Office of the Lieutenant Governor	734.5	724.9	714.7
- Office of the Dean of Jersey	27.0	27.2	27.5
- Office of the Data Protection Commissioner	374.3	439.7	505.9
- Probation Department	2,013.8	2,017.6	2,021.7
- Comptroller and Auditor General	804.4	817.4	831.2
States Assembly and its Services	5,045.4	4,963.4	4,882.4
Non Ministerial Departments	26,742.5	26,462.0	26,129.1
Total Departmental Net Revenue Expenditure	**700,637.3**	**697,627.3**	**686,100.0**
Central Contingency Allocations	23,649.7	25,903.7	28,212.1
Central Growth Allocations	-	10,424.0	20,533.0
Total Net Revenue Expenditure	**724,287.0**	**733,955.0**	**734,845.0**
Net Capital Expenditure Allocation - Annual Programme	26,273	35,000	32,975
Net Capital Expenditure Allocation - Other Projects	39,000	8,233	-
Total States Net Capital Allocations	**65,273**	**43,233**	**32,975**
Total States Net Expenditure Allocations	**789,560**	**777,188**	**767,820**
For Information:			
Departmental Depreciation	*40,600*	*45,500*	*53,000*

Summary Table B – Proposed Net Revenue Expenditure for States Funded Bodies 2017 - 2019

	Proposed Gross Revenue Expenditure	Income	Proposed Net Revenue Expenditure	Proposed Gross Revenue Expenditure	Income	Proposed Net Revenue Expenditure	Proposed Gross Revenue Expenditure	Income	Proposed Net Revenue Expenditure
	2017 £'000	2017 £'000	2017 £'000	2018 £'000	2018 £'000	2018 £'000	2019 £'000	2019 £'000	2019 £'000
Ministerial Departments									
Chief Minister	27,742.2	(1,260.1)	26,482.1	27,670.2	(1,460.1)	26,210.1	26,933.2	(1,460.1)	25,473.1
- Jersey Overseas Aid Commission	10,338.5	-	10,338.5	10,338.5	-	10,338.5	10,338.5	-	10,338.5
External Relations	1,851.3	(105.0)	1,746.3	1,851.3	(105.0)	1,746.3	1,851.3	(105.0)	1,746.3
Community and Constitutional Affairs	50,963.9	(2,181.2)	48,782.7	50,426.1	(2,184.2)	48,241.9	49,592.9	(2,497.7)	47,095.2
Economic Development, Tourism, Sport and	24,083.9	(4,931.3)	19,152.6	23,506.0	(5,197.0)	18,309.0	23,004.3	(5,238.4)	17,765.9
Education	121,136.9	(15,162.9)	105,974.0	121,409.8	(15,162.9)	106,246.9	121,809.8	(15,462.9)	106,346.9
Environment	10,338.0	(4,481.9)	5,856.1	10,207.3	(4,813.9)	5,393.4	10,181.5	(5,505.6)	4,675.9
Health and Social Services	237,033.9	(29,125.6)	207,908.3	240,112.6	(29,325.6)	210,787.0	240,006.7	(29,525.6)	210,481.1
Infrastructure	61,067.9	(21,086.8)	39,981.1	60,486.0	(25,118.6)	35,367.4	60,042.3	(33,593.1)	26,449.2
Social Security	195,446.8	(9,221.1)	186,225.7	196,542.1	(8,990.8)	187,551.3	198,162.2	(8,830.8)	189,331.4
Treasury and Resources	23,825.1	(2,377.7)	21,447.4	23,351.2	(2,377.7)	20,973.5	22,645.1	(2,377.7)	20,267.4
Ministerial Departments	763,828.4	(89,933.6)	673,894.8	765,901.1	(94,735.8)	671,165.3	764,567.8	(104,596.9)	659,970.9
Non Ministerial States Funded Bodies									
- Bailiff's Chamber	1,774.5	(86.8)	1,687.7	1,786.5	(86.8)	1,699.7	1,798.6	(86.8)	1,711.8
- Law Officers' Department	7,667.9	(112.0)	7,555.9	7,435.8	(112.0)	7,323.8	7,199.1	(112.0)	7,087.1
- Judicial Greffe	7,516.4	(958.3)	6,558.1	7,455.4	(958.3)	6,497.1	7,388.1	(958.3)	6,429.8
- Viscount's Department	1,967.7	(626.5)	1,341.2	1,976.4	(626.5)	1,349.9	1,972.0	(626.5)	1,345.5
- Official Analyst	657.2	(57.0)	600.2	658.3	(57.0)	601.3	628.5	(57.0)	571.5
- Office of the Lieutenant Governor	841.6	(107.1)	734.5	832.0	(107.1)	724.9	821.8	(107.1)	714.7
- Office of the Dean of Jersey	27.0	-	27.0	27.2	-	27.2	27.5	-	27.5
- Office of the Data Protection Commissioner	574.3	(200.0)	374.3	639.7	(200.0)	439.7	705.9	(200.0)	505.9
- Probation Department	2,458.8	(445.0)	2,013.8	2,462.6	(445.0)	2,017.6	2,466.7	(445.0)	2,021.7
- Comptroller and Auditor General	862.5	(58.1)	804.4	875.5	(58.1)	817.4	889.3	(58.1)	831.2
States Assembly and its Services	5,124.9	(79.5)	5,045.4	5,042.9	(79.5)	4,963.4	4,961.9	(79.5)	4,882.4
Non Ministerial States Funded Bodies	29,472.8	(2,730.3)	26,742.5	29,192.3	(2,730.3)	26,462.0	28,859.4	(2,730.3)	26,129.1
Total Departmental Net Revenue Expenditure	**793,301.2**	**(92,663.9)**	**700,637.3**	**795,093.4**	**(97,466.1)**	**697,627.3**	**793,427.2**	**(107,327.2)**	**686,100.0**
For Information:									
Total Departmental Depreciation			*40,600*			*45,500*			*53,000*

Summary Table C – Summary of Proposed Central Contingency Allocations for 2017 - 2019

Proposed Central Contingency Allocations	2017 Proposed Allocation £'000	2018 Proposed Allocation £'000	2019 Proposed Allocation £'000
Central Allocation - AME Contingency	2,000.0	2,000.0	2,000.0
less: earmarked carry forwards for AME Contingency	(2,000.0)	(2,000.0)	(2,000.0)
Net Central Allocation - AME Contingency	-	-	-
Central Allocation - DEL Contingency	5,000.0	5,000.0	5,000.0
Central Allocation - Pay, PECRS and Workforce Modernisation	5,643.7	12,293.7	17,606.7
Central Allocation - Restructuring and Redundancy Provision	12,000.0	7,600.0	8,300.0
less: earmarked carry forwards for committed Redundancy	(5,000.0)	(600.0)	(3,300.0)
less: earmarked carry forwards for Restructuring and Redundancy		(3,836.0)	(3,045.0)
Net Central Allocation - Restructuring Provision and Redundancy Provision	7,000.0	3,164.0	1,955.0
Central Allocation - EPGDP	5,000.0	5,000.0	3,548.0
less: prioritised funding from base budgets	(644.0)	(1,204.0)	(1,548.0)
Net Central Allocation - EPGDP	4,356.0	3,796.0	2,000.0
Central Allocation - Earmarked for Initiatives to support vulnerable children	1,650.0	1,650.0	1,650.0
Total Proposed Central Allocations	**23,649.7**	**25,903.7**	**28,211.7**

Notes:
Use of Carry Forward funding from Social Security underspend in 2016 for AME Contingency 2017-2019
Use of Carry Forward funding from 2016 for Restructuring and Redundancy Provision 2017-2019

Summary Table D – Summary of Proposed Growth Expenditure for 2018 and 2019

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

Summary Table E – Proposed Income and Expenditure of each States' Trading Operation for 2017 - 2019

States Trading Operations	Proposed Gross Expenditure 2017 £'000	Income 2017 £'000	Proposed Net Revenue Expenditure 2017 £'000	FTE 2017	Financial Return 2017 £'000
Jersey Car Parking	6,478	(6,764)	(286)	24.0	1,072.0
Jersey Fleet Management	4,247	(4,376)	(129)	29.0	-
Net Revenue Expenditure Allocation	**10,725**	**(11,140)**	**(415)**	**53.0**	**1,072.0**

States Trading Operations	Proposed Gross Expenditure 2018 £'000	Income 2018 £'000	Proposed Net Revenue Expenditure 2018 £'000	FTE 2018	Financial Return 2018 £'000
Jersey Car Parking	6,457.7	(6,824.7)	(367.0)	24.0	472.0
Jersey Fleet Management	4,253.5	(4,376.7)	(123.2)	29.0	-
Net Revenue Expenditure Allocation	**10,711.2**	**(11,201.4)**	**(490.2)**	**53.0**	**472.0**

States Trading Operations	Proposed Gross Expenditure 2019 £'000	Income 2019 £'000	Proposed Net Revenue Expenditure 2019 £'000	FTE 2019	Financial Return 2019 £'000
Jersey Car Parking	6,463.0	(6,886.0)	(423.0)	24.0	-
Jersey Fleet Management	4,261.1	(4,377.7)	(116.6)	29.0	-
Net Revenue Expenditure Allocation	**10,724.1**	**(11,263.7)**	**(539.6)**	**53.0**	**-**

Summary Table F – Consolidated Fund Forecast 2016 – 2019

Forecast Consolidated Fund balance	Forecast 2016 £'000	Forecast 2017 £'000	Forecast 2018 £'000	Forecast 2019 £'000
Opening Balance brought forward	**64,654**	**51,111**	**28,027**	**19,312**
Forecast Operating Surplus/(Deficit)	**(46,543)**	**(9,084)**	**25,285**	**54,515**
Funding for Capital Programme				
Apply Funding for Annual Capital Programme	(25,691)	(26,273)	(35,000)	(32,975)
Other Funding proposals				
- Les Quennevais School	(1,000)	(39,000)		
- Prison Improvement Phase 6			(8,233)	
Proposed Transfers from Strategic Reserve				
- Proposed Funding for Committee of Inquiry (CoI)	4,000			
- Funding for Annual Capital Programme	25,691	16,273		
- Funding for Les Quennevais School	1,000	39,000		
- Funding for Economic and Productivity Growth Provision	5,000			
- Funding for Redundancy Provision	16,000	-		
- Funding for Working Balance on Consolidated Fund	5,000			
Proposed Transfers to Strategic Reserve				
- Repayment for Economic and Productivity Growth Provision		(5,000)		
- Repayment for Redundancy Provision				(20,000)
- Transfer of Proceeds from asset Disposals				
Proposed Asset Disposals	3,000	1,000	1,000	1,000
Proposed Transfer from Criminal Offences Confiscation Fund			8,233	
Forecast Closing Balance carried forward	**51,111**	**28,027**	**19,312**	**21,852**

APPENDICES

Appendix 1	New User Pays Proposals 2017-2019
Appendix 2	Savings, Efficiencies and User Pays 2017-2019
Appendix 3	Detailed Department Cash Limits for 2017-2019
Appendix 4	IFG - Income Tax Forecasts 2016-2020
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Appendix 9	Other Income Forecasts 2015-2019
Appendix 10	Social Security Contributions Forecasts
Appendix 11	FPP - Economic Assumptions for 2016-2020 (March 2016)
Appendix 12	Financial Forecast - Additional Considerations
Appendix 13	Summary of Social Security Funds Forecasts 2016-2020 and Fund Balances

Appendix 1 – Summary of User Pays Proposals 2017-2019

Department	2017 User Pays £'000	2018 User Pays £'000	2019 User Pays £'000
Chief Minister's Department			
Review of Regulation of Care	-	200.0	200.0
Sub Total: Chief Minister's Department	**-**	**200.0**	**200.0**
Community and Constitutional Affairs			
Superintendent Registrar to be self financing by 2019 - user pays	-	-	129.0
Introduce charges for explosives licences	-	24.0	24.0
Increase in commercial charges for Jersey Fire and Rescue Service services (including Fire Certification)	-	-	170.0
Sub Total: Community and Constitutional Affairs	**-**	**24.0**	**323.0**
Department for Infrastructure			
Increase Green Waste Charges to full cost recovery for commercial users	-	357.0	357.0
Non domestic liquid and solid waste charges	-	3,000.0	11,000.0
Sub Total: Department for Infrastructure	**-**	**3,357.0**	**11,357.0**
Department of Environment			
Introduction of Environmental Health charges to regulate food sale outlets and private rented dwellings	-	200.0	800.0
Sub Total: Department of Environment	**-**	**200.0**	**800.0**
Education Department			
Minor adjustment to subsidies for States fee-paying schools	-	150.0	304.0
Minor adjustment to subsidies for private fee-paying schools	-	150.0	304.0
Reduction in maintenance grants for on-Island degrees	-	200.0	200.0
New operating model for Jersey Music Service	-	-	300.0
Nursery Education Fund: Introduction of means testing from September 2017	260.0	260.0	467.0
Sub Total: Education Department	**260.0**	**760.0**	**1,575.0**
2015/2016 User Pays	10.0	10.0	10.0
Total: Education Department	**270.0**	**770.0**	**1,585.0**
Health and Social Services Department			
More equitable application of subsidies and means testing, targetting those most in need.	225.0	425.0	625.0
Sub Total: Health and Social Services Department	**225.0**	**425.0**	**625.0**
2015/2016 User Pays	685.0	685.0	685.0
Total: Health and Social Services Department	**910.0**	**1,110.0**	**1,310.0**
Grand Total - 2017 to 2019	**485.0**	**4,966.0**	**14,880.0**
2015/2016 User Pays	695.0	695.0	695.0
Grand Total - 2017 to 2019	**1,180.0**	**5,661.0**	**15,575.0**

Appendix 2 – Savings, Efficiencies and User Pays 2017-2019

Department	2016 £'000				2017 £'000				2018 £'000				2019 £'000			
	Savings	Efficiency	User Pays	Total Measures	Savings	Efficiency	User Pays	Total Measures	Savings	Efficiency	User Pays	Total Measures	Savings	Efficiency	User Pays	Total Measures
Chief Minister's Department	-	1,620	-	1,620	-	1,932	-	1,932	-	2,253	200	2,453	-	3,298	200	3,498
External Relations				-	-	12	-	12	-	24	-	24	-	36	-	36
Community and Constitutional Affairs	-	1,674	-	1,674	462	2,235	-	2,697	517	2,995	24	3,536	737	3,785	323	4,845
Economic Dev, Tourism, Sport and Culture	-	1,836	-	1,836	-	2,592	-	2,592	200	3,515	-	3,715	200	4,343	-	4,543
Dept of Environment	-	711	-	711	-	917	-	917	-	1,147	200	1,347	-	1,231	800	2,031
Education	-	3,795	10	3,805	-	4,239	270	4,509	45	5,260	770	6,075	45	6,065	1,585	7,695
Health and Social Services	525	6,342	685	7,552	625	8,020	911	9,556	725	10,038	1,110	11,873	725	11,186	1,310	13,221
Dept for Infrastructure	-	2,752	-	2,752	-	4,452	-	4,452	-	6,132	357	6,489	-	7,483	357	7,839
Social Security Dept	-	699	-	699	-	1,641	-	1,641	-	2,587	-	2,587	-	3,532	-	3,532
Treasury and Resources	-	752	-	752	-	954	-	954	-	1,275	-	1,275	110	1,965	-	2,075
Bailiff's Chambers	-	112	-	112	-	112	-	112	-	112	-	112	-	112	-	112
Law Officers Dept	-	479	-	479	-	791	-	791	-	1,063	-	1,063	-	1,338	-	1,338
Judicial Greffe	-	402	-	402	-	591	-	591	-	733	-	733	-	883	-	883
Viscount Dept	-	116	-	116	-	119	-	119	-	121	-	121	-	138	-	138
Official Analyst	-	39	-	39	-	52	-	52	-	55	-	55	-	89	-	89
Office of the Lieutenant Governor	-	37	-	37	-	51	-	51	-	64	-	64	-	78	-	78
Data Protection	-	26	-	26	-	25	-	25	-	24	-	24	-	24	-	24
Probation and Aftercare Service	-	227	-	227	-	231	-	231	-	234	-	234	-	238	-	238
States Assembly	-	174	-	174	-	279	-	279	-	388	-	388	-	495	-	495
Cumulative Total	**525**	**21,793**	**695**	**23,013**	**1,087**	**29,244**	**1,181**	**31,512**	**1,487**	**38,020**	**2,661**	**42,168**	**1,817**	**46,317**	**4,575**	**52,709**
Annual Totals	**525**	**21,793**	**695**	**23,013**	**562**	**7,451**	**486**	**8,499**	**400**	**8,776**	**1,480**	**10,656**	**330**	**8,297**	**1,914**	**10,541**

Appendix 2 – Savings, Efficiencies and User Pays 2017-2019

Department	2015/2016 Saving £'000	2017 Saving £'000	2018 Saving £'000	2019 Saving £'000	Total FTE Impact
Chief Minister's Department					
Efficiencies					
Efficiency savings throughout the Department as a result of service reviews and vacancy management		149.5	278.8	410.8	-
Restructure of Human Resources service delivery, managing vacancies and VR Programme		59.0	142.0	272.0	2.0
Financial Services staff in government will work more closely with external organsiations		103.0	208.5	316.1	-
Reduction of 1 post in the Statistics Unit and general admin savings			4.0	84.0	1.0
Information Services Transformation Project Service Review				300.0	up to 15
A reduction of 1 post in the Communications Unit and general admin savings				80.0	1.5
Restructure of Information Services service delivery, managing vacancies and VR Programme				140.0	-
Reduction of 1 post in the Chief Minister's Office				75.0	1.0
Total Efficiencies		**311.5**	**633.3**	**1,677.9**	**up to 20.5**
User Pays / Income					
Review of Regulation of Care			200.0	200.0	-
Total User Pays / Income		**-**	**200.0**	**200.0**	**-**
Sub Total: Chief Minister's Department		**311.5**	**833.3**	**1,877.9**	**up to 20.5**
2015/2016 savings	**1,620.0**	**1,620.0**	**1,620.0**	**1,620.0**	
Total: Chief Minister's Department	**1,620.0**	**1,931.5**	**2,453.3**	**3,497.9**	
External Relations					
Efficiencies					
2017 2019 Efficiency Programme		11.8	23.7	35.7	-
Total Efficiencies		**11.8**	**23.7**	**35.7**	**-**
Sub Total: External Relations	**-**	**11.8**	**23.7**	**35.7**	**-**
2015 -2016 savings		**-**	**-**	**-**	
Total: External Relations	**-**	**11.8**	**23.7**	**35.7**	

Department	2015/2016 Saving £'000	2017 Saving £'000	2018 Saving £'000	2019 Saving £'000	Total FTE Impact
Community and Constitutional Affairs					
Efficiencies					
States of Jersey Police - Savings enabled by central procurement negotiations		100.0	100.0	100.0	-
States of Jersey Police - New Operating Model / Re-structuring		55.0	255.0	385.0	up to 7.0
States of Jersey Police - Savings enabled by new Police Headquarters		-	155.0	155.0	1.0
States of Jersey Police - Savings enabled by Mobile Technology Project		-	250.0	500.0	up to 9.0
Police Authority and Emergency Planning - Realignment of budgets		100.0	100.0	100.0	0.5
Jersey Customs and Immigration Service - Service Redesign		150.0	150.0	250.0	1.0
Jersey Fire and Rescue Service - New Operating Model		-	-	150.0	2.0
Non-staff budget efficiencies programme (all Services including SoJP).		154.0	311.0	471.0	-
Total Efficiencies		**559.0**	**1,321.0**	**2,111.0**	**up to 20.5**
Savings					
States of Jersey Police - Reduction in support functions and review of some front line services		440.0	495.0	715.0	up to 13.0
Criminal Injuries Compensation Board - Cease payments to Members		22.0	22.0	22.0	
Total Savings		**462.0**	**517.0**	**737.0**	**up to 13.0**
User Pays / Income					
Superintendent Registrar to be self financing by 2019 - user pays		-	-	129.0	-
Introduce charges for explosives licences		-	24.0	24.0	-
Jersey Fire and Rescue Service - increase in charges for some commercial and regulatory services (including Fire Certification)		-	-	170.0	-
Total User Pays		-	**24.0**	**323.0**	-
Sub Total: Community and Constitutional Affairs		**1,021.0**	**1,862.0**	**3,171.0**	**up to 33.5**
2015/2016 savings	**1,674.0**	**1,674.0**	**1,674.0**	**1,674.0**	
Total: Community and Constitutional Affairs	**1,674.0**	**2,695.0**	**3,536.0**	**4,845.0**	

Department	2015/2016 Saving £'000	2017 Saving £'000	2018 Saving £'000	2019 Saving £'000	Total FTE Impact
Economic Development, Tourism, Sport and Culture					
Efficiencies					
Impact of the cessation of annual inflationary increases over plan period		186.0	425.0	576.0	3.0
Service delivery changes and restructure of Corporate overheads. Including:		32.0	218.0	408.0	1.0
General efficiency of supplies and Services		30.0	87.0	134.0	1.0
Reduction of 1 post and restructure in Trading Standards		-	100.0	100.0	-
Service Delivery changes and restructure of Shipping Registry		-	-	79.0	-
Service Delivery changes and restructure of Aircraft Registry		63.0	63.0	63.0	1.0
Reduction in grants - Culture		29.0	34.0	39.0	1.0
Service Delivery changes and review of scope of operations in Sport		98.0	235.0	393.0	
Reduction in grant - Jersey Business		66.0	66.0	75.0	
Reduce funding to Locate Jersey and Business Development		101.0	181.0	241.0	
Maintenance of support for the Jersey Destination Plan. Agreed efficiency savings in events.		145.0	255.0	375.0	
Reduction in grant RJA & HS		8.0	16.0	25.0	-
Total Efficiencies		**758.0**	**1,680.0**	**2,508.0**	**7.0**
Savings					
Review of Sport and Culture			200.0	200.0	-
Total Savings		-	**200.0**	**200.0**	-
Sub Total: Economic Development, Tourism, Sport and Culture		**758.0**	**1,880.0**	**2,708.0**	**7.0**
2015 -2016 savings	**1,835.0**	**1,835.0**	**1,835.0**	**1,835.0**	
Total: Economic Development, Tourism, Sport and Culture	**1,835.0**	**2,593.0**	**3,715.0**	**4,543.0**	

Department	2015/2016 Saving £'000	2017 Saving £'000	2018 Saving £'000	2019 Saving £'000	Total FTE Impact
Education Department					
Efficiencies					
Efficiency savings programme in Libraries				100.0	0.0
Efficiency savings programme 2017 to 2019		204.0	412.0	624.0	0.0
Review of terms and conditions for newly qualified teachers		-	240.0	480.0	0.0
Restructure Highlands College		-	100.0	100.0	2.0
General vacancy management across the department		240.0	240.0	285.0	0.0
Closer working in secondary sector		-	-	208.0	0.0
New model for cleaning and gardening services in schools		-	432.0	432.0	up to 24.6
Reduction in minor works budgets		-	41.0	41.0	-
Total Efficiencies		**444.0**	**1,465.0**	**2,270.0**	**up to 26.6**
Savings					
Reduction in grant to Jersey Child Care Trust		-	45.0	45.0	-
Total Savings		**-**	**45.0**	**45.0**	-
User Pays					
Minor adjustment to subsidies for States fee-paying schools		-	150.0	304.0	-
Minor adjustment to subsidies for private fee-paying schools		-	150.0	304.0	-
Reduction in maintenance grants for on-Island degrees		-	200.0	200.0	-
New operating model for Jersey Music Service		-	-	300.0	-
Nursey Education Fund: Introduction of means testing from September 2017 and demographic changes from 2018		260.0	260.0	467.0	-
Total User Pays		**260.0**	**760.0**	**1,575.0**	-
Sub Total: Education Department		**704.0**	**2,270.0**	**3,890.0**	**up to 26.6**
2015 -2016 savings	**3,805.0**	**3,805.0**	**3,805.0**	**3,805.0**	
Total: Education Department	**3,805.0**	**4,509.0**	**6,075.0**	**7,695.0**	

Department	2015/2016 Saving £'000	2017 Saving £'000	2018 Saving £'000	2019 Saving £'000	Total FTE Impact
Department of Environment					
Efficiencies					
Reduction of 6 posts in Planning and Building services through vacancy management and redesign		139.0	311.0	349.1	6.0
Reduction of 2 posts in Environmental Services through vacancy management and redesign		67.0	125.0	171.0	2.0
Total Efficiencies		**206.0**	**436.0**	**520.1**	**8.0**
User Pays					
Introduction of Environmental Health charges to regulate food sale outlets and private rented dwellings			200.0	800.0	-
Total User Pays		-	**200.0**	**800.0**	-
Sub Total: Department of Environment		**206.0**	**636.0**	**1,320.1**	**8.0**
2015 -2016 savings	**711.0**	**711.0**	**711.0**	**711.0**	
Total: Department of Environment	**711.0**	**917.0**	**1,347.0**	**2,031.1**	

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Department	2015/2016 Saving £'000	2017 Saving £'000	2018 Saving £'000	2019 Saving £'000	Total FTE Impact
Health and Social Services Department					
Efficiencies					
Efficiencies savings from Procurement review		165.0	385.0	632.0	-
Redesign patient catering provision		200.0	200.0	200.0	-
Reduce cost of UK contracts for specialist care		200.0	300.0	400.0	-
Review, redesign and re-tender services provided by third parties		200.0	300.0	300.0	-
Workforce management initiatives around performance and absence management			100.0	100.0	-
Developing and modernising practice in the hospital		200.0	500.0	500.0	-
Developing and modernising workforce management and practices		252.0	652.0	652.0	4.0
Review and redesign hospital bed management.		200.0	300.0	300.0	1.0
Delivery of e-solutions and automation of processes		60.0	60.0	60.0	2.0
Review, develop and redesign adult social care and long-term care provision		200.0	400.0	500.0	-
Further phasing of P82/2012 plans / further delivery of cash releasing efficiencies		-	500.0	1,200.0	5.0
Total Efficiencies		**1,677.0**	**3,697.0**	**4,844.0**	**12.0**
Savings					
Review secondary care outpatient prescriptions		100.0	200.0	200.0	-
Total Savings		**100.0**	**200.0**	**200.0**	-
User Pays					
More equitable application of subsidies and means testing, targetting those most in need and maximising income where appropriate		225.0	425.0	625.0	-
Total User Pays		**225.0**	**425.0**	**625.0**	-
Sub Total: Health and Social Services Department		**2,002.0**	**4,322.0**	**5,669.0**	**12.0**
2015 -2016 savings	**7,552.0**	**7,552.0**	**7,552.0**	**7,552.0**	
Total: Health and Social Services Department	**7,552.0**	**9,554.0**	**11,874.0**	**13,221.0**	

Department	2015/2016 Saving £'000	2017 Saving £'000	2018 Saving £'000	2019 Saving £'000	Total FTE Impact
Department for Infrastructure					
Efficiencies					
DfI Transformation Project Targets and Service Reviews of Operational Services		961.0	2,087.0	2,812.0	up to 65.0
DfI Transformation Targets and Service Reviews of Transport		150.0	250.0	350.0	up to 4.0
DfI Transformation Targets and Service Reviews - Corporate functions and rationalisation of support services.		263.0	364.0	464.0	up to 1.5
Reduction in maintenance requirements due to disposal of property and new builds		6.0	38.0	135.0	-
Non Staff Inflation in DfI		129.7	261.0	395.0	-
Non Staff Inflation in JPH		188.3	379.0	574.0	-
Total Efficiencies		**1,698.0**	**3,379.0**	**4,730.0**	**up to 70.5**
Savings					
Due to the nature of the above two "inflation" savings, it is currently proposed that some of the financial return from Jersey Car Parking may be allocated to DfI if sustainable cost savings are not possible. This will effectively reduce the return to the central Consolidated Fund.					-
Total Savings					
User Pays					
Increase Green Waste Charges to full cost recovery for commercial users		-	357.0	357.0	-
Total User Pays		**-**	**357.0**	**357.0**	**-**
Sub Total: Department for Infrastructure		**1,698.0**	**3,736.0**	**5,087.0**	**up to 70.5**
2015 -2016 savings	**2,753.0**	**2,753.0**	**2,753.0**	**2,753.0**	
Total: Department for Infrastructure	**2,753.0**	**4,451.0**	**6,489.0**	**7,840.0**	

Department	2015/2016 Saving £'000	2017 Saving £'000	2018 Saving £'000	2019 Saving £'000	Total FTE Impact
Social Security Department					
Efficiencies					
Efficiency Savings Programme 2017-2019 enabled by LEAN, including efficiencies in Grant Aided Bodies		255.0	514.0	772.0	5.0
Review of Back To Work Services		686.9	1,373.8	2,060.7	10.0
Total efficiencies		**941.9**	**1,887.8**	**2,832.7**	**15.0**
Sub Total: Social Security Department		**941.9**	**1,887.8**	**2,832.7**	**15.0**
2015 -2016 savings	**699.0**	**699.0**	**699.0**	**699.0**	
Total: Social Security Department	**699.0**	**1,640.9**	**2,586.8**	**3,531.7**	
Treasury and Resources Department					
Efficiencies					
Treasury efficiency savings; reductions in staff and non staff costs through development of new systems and vacancy management.		94.0	184.0	233.3	6.0
Taxes Office savings; restructuring of sections, reduction in the use of contract posts and technology implementation to reduce administration costs and		112.3	148.3	131.0	-
Taxes Office Efficiency savings following e-Gov and new Tax computer system.		-	-	658.0	15.0
Move to electronic publications Treasury		-	60.0	60.0	-
Move to electronic publications Taxes Office		-	20.0	20.0	-
Closure of Taxes Office exclusive business continuity site		-	60.0	60.0	-
Reduced Internal Audit function by limiting spend on professional services		-	50.0	50.0	-
Total Efficiencies		**206.3**	**522.3**	**1,212.3**	**21.0**
Savings					
Re-design of Treasury Income Collection Function		-	-	65.0	-
Re-design of Taxes Office Help-desk Function		-	-	45.0	-
Total Savings		-	-	**110.0**	-
Sub Total: Treasury and Resources Department		**206.3**	**522.3**	**1,322.3**	**21.0**
2015 -2016 savings	**752.0**	**752.0**	**752.0**	**752.0**	
Total: Treasury and Resources Department	**752.0**	**958.3**	**1,274.3**	**2,074.3**	

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Department	2015/2016 Saving £'000	2017 Saving £'000	2018 Saving £'000	2019 Saving £'000	Total FTE Impact
Non Ministerial Departments					
Bailiff's Chambers					
Efficiencies					
Efficiency savings programme 2017 - 2019		-	-	-	-
Total Efficiencies		-	-	-	-
Sub Total: Bailiff's Chambers		-	-	-	-
2015 -2016 savings	**112.0**	**112.0**	**112.0**	**112.0**	
Total: Bailiff's Chambers	**112.0**	**112.0**	**112.0**	**112.0**	
Office of the Data Protection Commissioner					
Total Efficiencies		-	**(1.0)**	**(1.0)**	-
Sub Total: Office of the Data Protection Commissioner		-	**(1.0)**	**(1.0)**	-
2015 -2016 savings	**25.0**	**25.0**	**25.0**	**25.0**	
Total: Office of the Data Protection Commissioner	**25.0**	**25.0**	**24.0**	**24.0**	
Judicial Greffe					
Efficiencies					
Savings resulting from Court and Case costs review - obtaining fixed costs on new Public Children's Law cases		106.0	165.0	229.0	-
Efficiency savings programme 2017 - 2019		83.0	166.0	252.0	-
Total Efficiencies		**189.0**	**331.0**	**481.0**	-
Total Savings		-	-	-	-
Sub Total: Judicial Greffe		**189.0**	**331.0**	**481.0**	-
2015 -2016 savings	**402.0**	**402.0**	**402.0**	**402.0**	
Total: Judicial Greffe	**402.0**	**591.0**	**733.0**	**883.0**	

Draft MTFP Addition 2017-2019

Department	2015/2016 Saving £'000	2017 Saving £'000	2018 Saving £'000	2019 Saving £'000	Total FTE Impact
Non Ministerial Departments					
Law Officers Department					
Efficiencies					
Reduction in court and case costs by recruiting in house		257.1	476.0	694.9	-
Efficiency Savings Programme 2017 - 2019		54.8	108.5	164.1	-
Total Efficiencies		**311.9**	**584.4**	**859.0**	**-**
Sub Total: Law Officers Department		**311.9**	**584.4**	**859.0**	-
2015 -2016 savings	**479.0**	**479.0**	**479.0**	**479.0**	
Total: Law Officers Department	**479.0**	**790.9**	**1,063.4**	**1,338.0**	
Official Analyst					
Efficiencies					
Staff savings reduction in hours		11.0	11.0	43.0	0.8
Staff savings service redesign recruitment to a lower grade		2.0	5.0	7.0	-
Total Efficiencies		**13.0**	**16.0**	**50.0**	**0.8**
Sub Total: Official Analyst		**13.0**	**16.0**	**50.0**	**0.8**
2015 -2016 savings	**39.0**	**39.0**	**39.0**	**39.0**	
Total: Official Analyst	**39.0**	**52.0**	**55.0**	**89.0**	
Office of Lieutenant Governor					
Efficiencies					
Efficiency savings programme 2017 - 2019		14.0	27.0	41.0	-
Total Efficiencies		**14.0**	**27.0**	**41.0**	-
Sub Total: Office of Lieutenant Governor		**14.0**	**27.0**	**41.0**	**-**
2015 -2016 savings	**37.0**	**37.0**	**37.0**	**37.0**	
Total: Office of Lieutenant Governor	**37.0**	**51.0**	**64.0**	**78.0**	

Draft MTFP Addition 2017-2019

Department	2015/2016 Saving £'000	2017 Saving £'000	2018 Saving £'000	2019 Saving £'000	Total FTE Impact
Non Ministerial Departments					
Probation and Aftercare Service					
Efficiencies					
Efficiencies achieved throughout the service		3.5	7.0	10.5	-
Total Efficiencies		3.5	7.0	10.5	-
Sub Total: Probation Department		3.5	7.0	10.5	-
2015 -2016 savings	227.0	227.0	227.0	227.0	
Total: Probation Department	227.0	230.5	234.0	237.5	
Viscount Department					
Efficiencies					
Shift allowance - Enforcement team		-	-	14.0	-
Savings programme 2017 - 2019		2.4	4.9	7.4	-
Total Efficiencies		2.4	4.9	21.4	-
Sub Total: Viscount Department		2.4	4.9	21.4	-
2015 -2016 savings	116.0	116.0	116.0	116.0	
Total: Viscount Department	116.0	118.4	120.9	137.4	
Sub Total: Non Ministerial Departments	-	533.8	969.3	1,461.9	0.8
2015 -2016 savings	1,437.0	1,437.0	1,437.0	1,437.0	
Total: Non Ministerial Departments	1,437.0	1,970.8	2,406.3	2,898.9	
States Assembly					
Efficiencies					
Reduction in staff and non-staff budgets with savings being found by introducing efficiency measures to reduce administrative costs		105.5	213.5	321.0	0.5
Total efficiencies		105.5	213.5	321.0	0.5
Sub Total for States Assembly		105.5	213.5	321.0	0.5
2015 -2016 savings	174.0	174.0	174.0	174.0	
Total for States Assembly	174.0	279.5	387.5	495.0	
Grand Total	23,012.0	31,511.8	42,167.9	52,708.6	up to 215.4

Appendix 3 – Detailed Expenditure Allocations for 2017

	Revised Total 2016 Cash Limits £'000	Base Adjustment & Commitments £'000	Service Transfers £'000	Pay Awards £'000	Non Staff Inflation £'000	Provision for Benefits £'000	2017 Total Growth £'000	2017 Benefits Changes £'000	2017 Savings Savings £'000	2017 Efficiency Savings £'000	2017 User Pays Savings £'000	2017 Grant Reduction Savings £'000	2017 Total Savings £'000	Total 2017 Proposed Cash Limits £'000	Indicative Pay Provision 2017 £'000	Total Indicative Cash Limits 2017 £'000
Chief Minister	26,860.1	-	(88.1)	145.7	230.0	-	141.0	-	-	(806.6)	-	-	(806.6)	26,482.1	182.8	26,664.9
- Jersey Overseas Aid Commission	10,337.7	-	-	0.8	-	-	-	-	-	-	-	-	-	10,338.5	1.1	10,339.6
External Relations	1,740.7	-	-	5.6	11.8	-	-	-	-	(11.8)	-	-	(11.8)	1,746.3	6.6	1,752.9
Community and Constitutional Affairs	49,270.5	-	46.8	416.3	154.1	-	34.0	-	(462.0)	(677.0)	-	-	(1,139.0)	48,782.7	349.1	49,131.8
Economic Development, Tourism, Sport and Culture	19,144.4	-	-	99.8	272.9	-	450.0	-	-	(814.5)	-	-	(814.5)	19,152.6	134.7	19,287.3
Education	103,660.1	(263.2)	-	897.3	203.8	-	2,180.0	-	-	(444.0)	(260.0)	-	(704.0)	105,974.0	697.7	106,671.7
Environment	5,205.4	-	809.1	79.8	(32.1)	-	-	-	-	(206.1)	-	-	(206.1)	5,856.1	97.0	5,953.1
Health and Social Services	203,776.8	(5,000.0)	(912.0)	1,971.8	1,000.7	-	9,073.0	-	(100.0)	(1,677.0)	(225.0)	-	(2,002.0)	207,908.3	1,855.2	209,763.5
Infrastructure	40,137.1	-	(54.3)	218.8	317.0	-	1,306.5	-	-	(1,944.0)	-	-	(1,944.0)	39,981.1	320.9	40,302.0
Social Security	189,479.2	-	134.8	94.7	72.1	(423.0)	810.0	(3,000.0)	-	(942.1)	-	-	(942.1)	186,225.7	122.7	186,348.4
Treasury and Resources	20,976.7	-	41.3	112.2	90.3	-	452.5	-	-	(225.6)	-	-	(225.6)	21,447.4	145.0	21,592.4
Non Ministerial States Funded Bodies														-		
- Bailiff's Chamber	1,563.9	-	-	10.4	10.4	-	103.0	-	-	-	-	-	-	1,687.7	8.6	1,696.3
- Law Officers' Department	7,797.8	-	-	53.5	43.4	-	-	-	-	(338.8)	-	-	(338.8)	7,555.9	41.8	7,597.7
- Judicial Greffe	6,616.1	-	22.4	28.2	79.9	-	-	-	-	(188.5)	-	-	(188.5)	6,558.1	31.3	6,589.4
- Viscount's Department	1,320.6	-	-	12.7	10.6	-	-	-	-	(2.7)	-	-	(2.7)	1,341.2	15.6	1,356.8
- Official Analyst	604.8	-	-	4.3	3.9	-	-	-	-	(12.8)	-	-	(12.8)	600.2	5.8	606.0
- Office of the Lieutenant Governor	738.4	-	-	6.7	2.3	-	1.0	-	-	(13.9)	-	-	(13.9)	734.5	8.1	742.6
- Office of the Dean of Jersey	25.8	-	-	0.2	0.1	-	-	-	-	0.9	-	-	0.9	27.0	0.1	27.1
- Office of the Data Protection Commissioner	267.4	-	-	3.2	2.8	-	100.0	-	-	0.9	-	-	0.9	374.3	2.2	376.5
- Probation Department	1,990.5	-	-	19.9	7.3	-	-	-	-	(3.9)	-	-	(3.9)	2,013.8	26.2	2,040.0
- Comptroller and Auditor General	777.2	-	-	1.3	11.9	-	-	-	-	14.0	-	-	14.0	804.4	1.1	805.5
States Assembly and its Services	5,086.2	-	-	39.2	25.5	-	-	-	-	(105.5)	-	-	(105.5)	5,045.4	30.8	5,076.2
Department Total	***697,377.4***	***(5,263.2)***	***0.0***	***4,222.4***	***2,518.7***	***(423.0)***	**14,651.0**	**(3,000.0)**	**(562.0)**	**(8,399.0)**	**(485.0)**	**-**	**(9,446.0)**	**700,637.3**	**4,084.3**	**704,721.6**
Central Contingenciy Allocations							-						-	-		
Central Allocation - AME Contingency	2,000.0	(2,000.0)					-						-	-		-
Central Allocation - DEL Contingency	4,736.8	263.2					-						-	5,000.0		5,000.0
Central Allocation - Pay and Workforce Modernisation	4,203.1			6,086.6			1,185.0			(5,831.0)			(5,831.0)	5,643.7	(4,084.3)	1,559.4
Central Allocation - Restructuring Provision and Redundancy Provision	23,000.0	(16,000.0)					-						-	7,000.0		7,000.0
Central Allocation - Committee of Inquiry	4,000.0	(4,000.0)					-						-	-		-
Central Allocation - EPGDP	5,000.0	219.0					-		(863.0)				(863.0)	4,356.0		4,356.0
Central Allocation - Earmarked Child Protection/Policy Improvement	-	-					1,650.0						-	1,650.0		1,650.0
Central Allocation - Growth Provision	-						-						-	-	-	-
Subtotal of Central Contingencies	***42,939.9***	***(21,517.8)***	**-**	***6,086.6***	**-**	**-**	**2,835.0**	**-**	**(863.0)**	**(5,831.0)**	**-**	**-**	**(6,694.0)**	**23,649.7**	**(4,084.3)**	**19,565.4**
Total	***740,317.3***	***(26,781.0)***	***0.0***	***10,309.0***	***2,518.7***	***(423.0)***	**17,486.0**	**(3,000.0)**	**(1,425.0)**	**(14,230.0)**	**(485.0)**	**-**	**(16,140.0)**	**724,287.0**	**-**	**724,287.0**

The indicative cash limits at the end of the table provide an indication of hat the final cash limit by department would be after indicative pay provision and central growth allocation, which for Health and education are more significant increases in line with strategic priorities.

Appendix 3 (cont'd) – Detailed Expenditure Allocations for 2018

	Total 2017 Cash Limits £'000	Base Adjustment & Commitments £'000	Service Transfers £'000	Pay Awards £'000	Non Staff Inflation £'000	Provision for Benefits £'000	2018 Total Growth £'000	2018 Benefits Changes £'000	2018 Savings Savings £'000	2018 Efficiency Savings £'000	2018 User Pays Savings £'000	2018 Grant Reduction Savings £'000	2018 Total Savings £'000	Total 2018 Proposed Cash Limits £'000	Proposed Central Growth Allocation 2018 £'000	Indicative Pay Provision 2018 £'000	Total Indicative Cash Limits 2018 £'000
Chief Minister	*26,482.1*	-	-	-	234.8	-	15.0	-	-	(321.8)	(200.0)	-	(521.8)	**26,210.1**	-	467.4	26,677.5
- Jersey Overseas Aid Commission	*10,338.5*	-	-	-	-	-	-	-	-	-	-	-	-	**10,338.5**	-	2.8	10,341.3
External Relations	*1,746.3*	-	-	-	11.9	-	-	-	-	(11.9)	-	-	(11.9)	**1,746.3**		16.8	1,763.1
Community and Constitutional Affairs	*48,782.7*	-	-	-	157.2	-	143.0	-	(55.0)	(762.0)	(24.0)	-	(841.0)	**48,241.9**	-	828.0	49,069.9
Economic Development, Tourism, Sport and Culture	*19,152.6*	-	-	-	278.4	-	-	-	(200.0)	(922.0)	-	-	(1,122.0)	**18,309.0**	-	347.8	18,656.8
Education	*105,974.0*	-	-	-	207.9	-	1,631.0	-	(45.0)	(1,021.0)	(500.0)	-	(1,566.0)	**106,246.9**	360.0	1,624.8	108,231.7
Department of Environment	*5,856.1*	-	-	-	(32.7)	-	-	-	-	(230.0)	(200.0)	-	(430.0)	**5,393.4**	-	250.3	5,643.7
Health and Social Services	*207,908.3*	-	-	-	1,020.7	-	4,178.0	-	(100.0)	(2,020.0)	(200.0)	-	(2,320.0)	**210,787.0**	9,666.0	4,737.8	225,190.8
Infrastructure	*39,981.1*	-	-	-	323.3	-	101.0	-	-	(1,681.0)	(3,357.0)	-	(5,038.0)	**35,367.4**	340.0	837.3	36,544.7
Social Security	*186,225.7*	-	-	-	73.5	3,489.0	9.0	(1,300.0)	-	(945.9)	-	-	(945.9)	**187,551.3**	-	315.2	187,866.5
Treasury and Resources	*21,447.4*	-	-	-	92.1	-	(250.0)	-	-	(316.0)	-	-	(316.0)	**20,973.5**	-	372.1	21,345.6
<u>Non Ministerial States Funded Bodies</u>																	-
- Bailiff's Chamber	*1,687.7*	-	-	-	12.0	-	-	-	-	-	-	-	-	**1,699.7**	-	20.2	1,719.9
- Law Officers' Department	*7,555.9*	-	-	-	40.4	-	-	-	-	(272.5)	-	-	(272.5)	**7,323.8**	-	97.0	7,420.8
- Judicial Greffe	*6,558.1*	-	-	-	81.0	-	-	-	-	(142.0)	-	-	(142.0)	**6,497.1**	-	77.8	6,574.9
- Viscount's Department	*1,341.2*	-	-	-	11.2	-	-	-	-	(2.5)	-	-	(2.5)	**1,349.9**	-	39.4	1,389.3
- Official Analyst	*600.2*	-	-	-	4.1	-	-	-	-	(3.0)	-	-	(3.0)	**601.3**	-	14.8	616.1
- Office of the Lieutenant Governor	*734.5*	-	-	-	2.4	-	1.0	-	-	(13.0)	-	-	(13.0)	**724.9**	-	20.4	745.3
- Office of the Dean of Jersey	*27.0*	-	-	-	0.2	-	-	-	-	-	-	-	-	**27.2**	-	0.2	27.4
- Office of the Data Protection Commissioner	*374.3*	-	-	-	4.4	-	60.0	-	-	1.0	-	-	1.0	**439.7**	-	5.1	444.8
- Probation Department	*2,013.8*	-	-	-	7.3	-	-	-	-	(3.5)	-	-	(3.5)	**2,017.6**	-	67.0	2,084.6
- Comptroller and Auditor General	*804.4*	-	-	-	13.0	-	-	-	-	-	-	-	-	**817.4**	-	2.6	820.0
States Assembly and its Services	*5,045.4*	-	-	-	26.0	-	-	-	-	(108.0)	-	-	(108.0)	**4,963.4**	58.0	71.6	5,093.0
Department Total	***700,637.3***	**-**	**-**	**-**	***2,569.1***	***3,489.0***	**5,888.0**	**(1,300.0)**	**(400.0)**	**(8,775.1)**	**(4,481.0)**	**-**	**(13,656.1)**	**697,627.3**	**10,424.0**	**10,216.3**	**718,267.6**
<u>Central Contingenciy Allocations</u>							-						-	-			
Central Allocation - AME Contingency	*-*						-						-	-			-
Central Allocation - DEL Contingency	*5,000.0*						-						-	**5,000.0**			5,000.0
Central Allocation - Pay and Workforce Modernisation	*5,643.7*			10,481.0			145.0			(3,976.0)			(3,976.0)	**12,293.7**		(10,216.3)	2,077.4
Central Allocation - Restructuring Provision and Redundancy Provision	*7,000.0*	(3,836.0)					-						-	**3,164.0**			3,164.0
Central Allocation - Committee of Inquiry	*-*						-						-	-			-
Central Allocation - EPGDP	*4,356.0*	(219.0)					-		(341.0)				(341.0)	**3,796.0**			3,796.0
Central Allocation - Earmarked Child Protection/Policy Improvement	*1,650.0*						-						-	**1,650.0**			1,650.0
Central Allocation - Growth Provision	*-*						10,424.0						-	**10,424.0**	(10,424.0)	-	-
Subtotal of Central Contingencies	***23,649.7***	***(4,055.0)***	-	***10,481.0***	-	-	***10,569.0***	-	***(341.0)***	***(3,976.0)***	-	-	***(4,317.0)***	36,327.7	**(10,424.0)**	**(10,216.3)**	**15,687.4**
Total	***724,287.0***	***(4,055.0)***	-	***10,481.0***	***2,569.1***	***3,489.0***	***16,457.0***	***(1,300.0)***	***(741.0)***	***(12,751.1)***	***(4,481.0)***	-	***(17,973.1)***	733,955.0	-	-	**733,955.0**

The indicative cash limits at the end of the table provide an indication of hat the final cash limit by department would be after indicative pay provision and central growth allocation, which for Health and education are more significant increases in line with strategic priorities.

Appendix 3 (cont'd) – Detailed Expenditure Allocations for 2019

	Total 2018 Cash Limits £'000	Base Adjustment & Commitments £'000	Service Transfers £'000	Pay Awards £'000	Non Staff Inflation £'000	Provision for Benefits £'000	2019 Total Growth £'000	2019 Benefits Changes	2019 Savings £'000	2019 Efficiency £'000	2019 User Pays £'000	2019 Grant Reduction £'000	2019 Total Savings £'000	Total 2019 Proposed Cash Limits £'000	Proposed Central Growth Allocation 2019 £'000	Indicative Pay Provision 2019 £'000	Total Indicative Cash Limits 2019 £'000
Chief Minister	*26,210.1*	-	-	-	239.6	-	68.0	-	-	(1,044.6)	-	-	(1,044.6)	**25,473.1**	-	661.6	26,134.7
- Jersey Overseas Aid Commission	*10,338.5*	-	-	-	-	-	-	-	-	-	-	-	-	**10,338.5**	-	3.9	10,342.4
External Relations	*1,746.3*	-	-	-	12.0	-	-	-	-	(12.0)	-	-	(12.0)	**1,746.3**		23.8	1,770.1
Community and Constitutional Affairs	*48,241.9*	-	-	-	160.3	-	2.0	-	(220.0)	(790.0)	(299.0)	-	(1,309.0)	**47,095.2**	-	1,192.8	48,288.0
Economic Development, Tourism, Sport and C	*18,309.0*	-	-	-	283.9	-	-	-	-	(827.0)	-	-	(827.0)	**17,765.9**	-	491.2	18,257.1
Education	*106,246.9*	-	-	-	212.0	-	1,508.0	-	-	(805.0)	(815.0)	-	(1,620.0)	**106,346.9**	400.0	2,351.5	109,098.4
Department of Environment	*5,393.4*	-	-	-	(33.4)	-	-	-	-	(84.1)	(600.0)	-	(684.1)	**4,675.9**	-	353.5	5,029.4
Health and Social Services	*210,787.0*	-	-	-	1,041.1	-	-	-	-	(1,147.0)	(200.0)	-	(1,347.0)	**210,481.1**	17,537.0	6,704.5	234,722.6
Infrastructure	*35,367.4*	-	-	-	329.8	-	103.0	-	-	(1,351.0)	(8,000.0)	-	(9,351.0)	**26,449.2**	2,496.0	1,179.8	30,125.0
Social Security	*187,551.3*	-	-	-	75.0	3,240.0	10.0	(600.0)	-	(944.9)	-	-	(944.9)	**189,331.4**	-	445.7	189,777.1
Treasury and Resources	*20,973.5*	-	-	-	93.9	-	-	-	(110.0)	(690.0)	-	-	(800.0)	**20,267.4**	-	526.2	20,793.6
Non Ministerial States Funded Bodies							-							**-**	-		-
- Bailiff's Chamber	*1,699.7*	-	-	-	12.1	-	-	-	-	-	-	-	-	**1,711.8**	-	28.8	1,740.6
- Law Officers' Department	*7,323.8*	-	-	-	37.9	-	-	-	-	(274.6)	-	-	(274.6)	**7,087.1**	-	138.7	7,225.8
- Judicial Greffe	*6,497.1*	-	-	-	82.7	-	-	-	-	(150.0)	-	-	(150.0)	**6,429.8**	-	108.7	6,538.5
- Viscount's Department	*1,349.9*	-	-	-	12.1	-	-	-	-	(16.5)	-	-	(16.5)	**1,345.5**	-	54.8	1,400.3
- Official Analyst	*601.3*	-	-	-	4.2	-	-	-	-	(34.0)	-	-	(34.0)	**571.5**	-	20.5	592.0
- Office of the Lieutenant Governor	*724.9*	-	-	-	2.8	-	1.0	-	-	(14.0)	-	-	(14.0)	**714.7**	-	28.4	743.1
- Office of the Dean of Jersey	*27.2*	-	-	-	0.3	-	-	-	-	-	-	-	-	**27.5**	-	0.3	27.8
- Office of the Data Protection Commissioner	*439.7*	-	-	-	6.2	-	60.0	-	-	-	-	-	-	**505.9**	-	7.3	513.2
- Probation Department	*2,017.6*	-	-	-	7.6	-	-	-	-	(3.5)	-	-	(3.5)	**2,021.7**	-	92.8	2,114.5
- Comptroller and Auditor General	*817.4*	-	-	-	13.8	-	-	-	-	-	-	-	-	**831.2**	-	3.7	834.9
States Assembly and its Services	*4,963.4*	-	-	-	26.5	-	-	-	-	(107.5)	-	-	(107.5)	**4,882.4**	100.0	104.2	5,086.6
Department Total	***697,627.3***	**-**	**-**	**-**	***2,620.4***	***3,240.0***	**1,752.0**	**(600.0)**	**(330.0)**	**(8,295.7)**	**(9,914.0)**	**-**	**(18,539.7)**	**686,100.0**	**20,533.0**	**14,522.9**	**721,155.8**
Central Contingenciy Allocations							-						-	**-**			
Central Allocation - AME Contingency	*-*						-						-	**-**			-
Central Allocation - DEL Contingency	*5,000.0*						-						-	**5,000.0**			5,000.0
Central Allocation - Pay and Workforce Modernisation	*12,293.7*			9,288.0			150.0			(4,125.0)			(4,125.0)	**17,606.7**		(14,522.9)	3,083.8
Central Allocation - Restructuring Provision and Redundancy Provision	*3,164.0*	(1,208.6)					-						-	**1,955.4**			1,955.4
Central Allocation - Committee of Inquiry	*-*						-		-				-	**-**			-
Central Allocation - EPGDP	*3,796.0*						-		(1,796.0)				(1,796.0)	**2,000.0**			2,000.0
Central Allocation - Earmarked Child Protection/Policy Improvement	*1,650.0*						-						-	**1,650.0**			1,650.0
Central Allocation - Growth Provision	*10,424.0*						10,109.0						-	**20,533.0**	(20,533.0)	-	-
Subtotal of Central Contingencies	***36,327.7***	***(1,208.6)***	**-**	***9,288.0***	**-**	**-**	***10,259.0***	**-**	***(1,796.0)***	***(4,125.0)***	**-**	**-**	***(5,921.0)***	**48,745.1**	**(20,533.0)**	**(14,522.9)**	**13,689.2**
Total	***733,955.0***	***(1,208.6)***	**-**	***9,288.0***	***2,620.4***	***3,240.0***	***12,011.0***	***(600.0)***	***(2,126.0)***	***(12,420.7)***	***(9,914.0)***	**-**	***(24,460.7)***	**734,845.0**	**-**	**-**	**734,845.0**

The indicative cash limits at the end of the table provide an indication of hat the final cash limit by department would be after indicative pay provision and central growth allocation, which for Health and education are more significant increases in line with strategic priorities.

Appendix 4 – IFG : Income Tax Forecasts 2016-2020

Draft Income Tax Forecasts 2016-2020 from Income Forecast Group

The Taxes Office have provided data on the personal and company income for the year of assessment 2014 (YOA14) together with the values of exemptions and allowances.

The new information on the 2015 outturn is fed into the model and this is used to update the assumptions made for relationships between the economic variables and the income tax collected.

There have been several new sources of information between the Budget 2016 and the MTFP Addition 2017-2019 Forecasts and these fall into two Sections:

The Fiscal Policy Panel's (FPP) updated economic assumptions **(Appendices 6)** have been used in the tax model to update the income tax forecast. The economic assumptions were shared with the Minister for Treasury and Resources and with States Members on 11 March 2016. The FPP's letter to the Minister can be found on the FPP web-site www.gov.je/fiscalpolicypanel

When compared to the previous (September 2015) assumptions, the main changes are:

- **Financial services profit growth** – now expected to be slightly faster in 2015 given the latest expectations in the Business Tendency Survey.
- **Inflation** – expectations for 2015-2017 are lower than previously assumed. This reflects lower than expected outturns and results in lower expectations for average earnings in 2016 and 2017.
- **Employment growth** – now expected to be somewhat slower in 2015, due to revisions of past data.
- **UK policy interest rates** – now expected to be lower throughout the forecast period, reflecting changes in market expectations.

The changes in these assumptions have had knock-on effects on the nominal and real economic growth (GVA) assumptions, with real growth expected to be somewhat faster in 2015 but somewhat slower in 2016. There are no changes to the trend assumptions for any of the economic variables in 2018 and 2019. Further information and the background to the new assumptions is included in the detailed IFG Income Tax Note published as an Addendum to this MTFP Addition..

Updated Information from Taxes Office

Year of Assessment 2014 (YOA14) - Personal income tax was £3m higher than forecast in Budget 2016 for YOA14. This was primarily due to a higher than expected increase in employment income (0.5% higher growth than expected), which makes up almost 70% of personal taxable income, though increases in personal business profits and income from distributions have also had a positive impact. The yield (i.e. tax collected per £1 of taxable income) also held up in YOA14, in spite of the cut in the marginal rate from 27% to 26%.

Corporate income tax was £5m higher than forecast for YOA14 with higher growth in taxable profits and a slight increase in yield. Taxable profits from the financial services sector grew by 8%, while profits for property companies grew by 10% and utilities by 22% (after taking account of losses and capital allowances). The yield increased slightly, from 9.3% YOA13 to 9.5% in YOA14.

More information on recent trends in income tax revenue are covered in the detailed IFG Income Tax Note.

Provisional data for YOA15 - At the time of the Budget 2016 forecast, the most recent ITIS data suggested that employment income would be approximately 3% higher than in 2014. More recent data, for the full year of 2015, suggest that this is closer to 3.6%.

On the corporate side, the Taxes Office has assessed the likely tax revenues from 88 of the top 100 corporate taxpayers on the basis of data available in April 2016. This showed that the tax payable from these companies was expected to be approximately 4% lower in YOA15 than the year before. If this is extrapolated across all corporate taxpayers, rather than the FPP assumption of 1.1% growth, this would lead to corporate tax falling by approximately £3.6m in YOA15.

Variations in Income Tax Forecast from Budget 2016

Personal tax

The updated outturn data, new economic assumptions and the updated information on likely 2015 outturn have been used to update the income tax forecasting model. The forecast for personal income tax has increased significantly over the forecast period, when compared to the Budget 2016 forecast.

Figure 54 - Changes to personal income tax forecast since Budget 2016

	Outturn	Forecast				
	2015	2016	2017	2018	2019	2020
	£m	£m	£m	£m	£m	£m
Budget 2016 forecast	**358**	**368**	**389**	**411**	**428**	
New data[1]	+3	+4	+5	+5	+5	
New assumptions[2]		-1	-4	-4	-5	
Faster growth for pension income		+1	+2	+3	+4	
Faster growth in yield		+1	+1	+2	+6	
Reverse previouse IFG below-the-line adjustments[3]		+2	+2	+2	+2	
Tax collectable	**361**	**375**	**395**	**420**	**441**	**465**

Some columns may not sum due to rounding

Notes:

[1]This includes higher outturn data for YOA14 and improved IT IS data for YOA15.

[2]This includes the new FPP economic assumptions and new estimates of the relationship between economic variable and the outturn for employment and investment income respectively.

[3]MTFP forecast and Budget 2016 forecast both included below-the-line adjustments of personal tax, which will now be in the base for YOA14.

The new data used in the forecast is described above from the Fiscal Policy Panel assumptions and the Taxes Office data for YOA14 and provisional YOA15.

The impact of the 2015 outturn, economic assumptions and various impacts of new Taxes Office data are illustrated **in Figure 54** and described in the detailed Income Tax Forecasting Note from IFG.

Corporate tax

The forecast for corporate tax has fallen slightly over the forecast period, when compared to the previous (Budget 2016) forecast.

Figure 55 - Changes to corporate income tax forecast since Budget 2016

	Outturn	Forecast				
	2015	2016	2017	2018	2019	2020
	£m	£m	£m	£m	£m	£m
Budget 2016 forecast	**86**	**89**	**88**	**91**	**94**	
Higher actual receipts for 2015	+3	+5	+5	+5	+5	
Lower excpected receipts for 2016[4]		-6	-6	-6	-6	
Tax collectable[5]	**89**	**87**	**87**	**90**	**93**	**96**

Corporate tax in YOA14 was £91m - approximately £5m higher than the Budget 2016 forecast. This has been built into the base, in the absence of any significant evidence that this was due to one-off factors.

However, the most up-to-date expectations on corporate tax for YOA15 from 88 of the top 100 corporate taxpayers suggest a potential fall in tax from this group of £2.5m, which represents 4% of the YOA14 tax payable from this group of companies.

If this 4 per cent fall is extrapolated across all corporate taxpayers, it would result in approximately £6m less tax from YOA15, when compared with the previous forecast (i.e. a fall of £3.6m instead of approx. £3m increase). This fall has again been built into the base for future years.

The IFG also considered an alternative assumption – that while tax from 88 of the top 100 companies would fall by 4 per cent, the tax from the remaining companies could still grow at 2.1 per cent (the FPP's updated economic assumption for financial services profit growth). The IFG considered the lower assumption, where corporate profits as a whole fell in line with the most up-to-date data for the largest corporate taxpayers, would be a more prudent assumption to use.

Other than for 2015, the FPP's assumption for financial services profit growth has not changed. Therefore there is no impact from the updated assumptions. The yield has been assumed to remain at the same level as for YOA14.

CYB adjustment

As a result of the change in Accounting Policy in 2015, to recognise current year basis taxpayers for the first time, an assessment has been made of the effect on the forecast for future years. IFG had previously considered various scenarios from the Finance Director – Income Tax and Corporate Group. The agreed scenario and methodology is presented in **Appendix 5.**

IFG agreed that a prudent approach would be to take the average of the three years 2013 to 2015 of approximately £7 million increase per annum.

The impact of the CYB accounting policy change will therefore add a further £7 million per annum to the income tax forecast and to the variation from the Budget 2016 forecast.

Draft MTFP Addition 2017-2019 Forecast

The net impact of all the adjustments is to increase the forecast in each of the years 2016 to 2019, compared to the IFG Budget 2016 forecast. The IFG Budget 2016 forecast needs to be adjusted to include the estimated impact of the Budget 2016 income tax measures that were agreed to be comparable to the draft MTFP Addition 2017-2019 forecast. The new forecast includes updated IFG assumptions on the value of exemptions and allowances going forward.

Figure 56 shows the comparison with the adjusted Budget 2016 forecasts and illustrates an increase of £12 million in in 2016, £8 million in 2017, £10million in 2018 and £13 million in 2019.

Figure 56 - Updated income tax forecast (June 2016)

Income Tax	Outturn	Forecast (Jun 2016)	Forecast MTFP Addition (June 2016)			Forecast (Jun 2016)
	2015	2016	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000	£'000
<u>Previous (September 2015) forecast</u>						
Personal tax	358	368	389	411	428	
Corporate tax	86	89	88	91	94	
Bad debts	-1	-2	-2	-3	-3	
Tax collectable (IFG Forecast)	***443***	***455***	***475***	***499***	***519***	
Estimated impact of Budget measures			+4	+5	+6	
Revised Forecast Budget 2016	***443***	**455**	**479**	**504**	**525**	
<u>Updated (May 2016) forecast</u>						
Personal tax	364	375	395	420	441	*465*
Corporate tax	89	87	87	90	93	*96*
Bad debts	-3	-2	-2	-3	-3	-3
Tax collectable	***451***	***460***	***480***	***507***	***531***	**558**
CYB Proposed adjustment	+7	+7	+7	+7	+7	+7
IFG MTFP Addition Forecast	***458***	**467**	**487**	**514**	**538**	**565**
Difference since Budget 2016	+15	+12	+8	+10	+13	

Forecast range

The IFG previously agreed a forecast range starting at +/-2% in the first year of the forecast, rising to +/-9% by the fifth and final year of the forecast. The impact of continuing this range has been illustrated below:

Figure 57 - Updated forecast range (including CYB adjustment)

Income Tax	Outturn	Forecast	Forecast MTFP Addition			Forecast
	2015	2016	2017	2018	2019	2020
	£m	£m	£m	£m	£m	£m
Upper		476	506	540	576	616
Central	**458**	**467**	**487**	**514**	**538**	**565**
Lower		458	468	488	500	514
Range as a % of central, +/-		**4%**	**8%**	**10%**	**14%**	**18%**

The detailed IFG income Tax Report is published **as an Addendum to this Report (PXX/2016 Add(2)).**

Appendix 5 – Current Year Basis Taxpayers Recommended Basis for MTFP Addition Forecast

Introduction

The Taxes Office have carried out substantial analysis of current and previous year CYB data to identify the most accurate assessment of the restatement required to comply with the new accounting policy for income tax recognition. This paper summarises the outcomes from that work and the IFG recommendation for a CYB adjustment to the forecast of personal income tax from 2016-2020.

Background

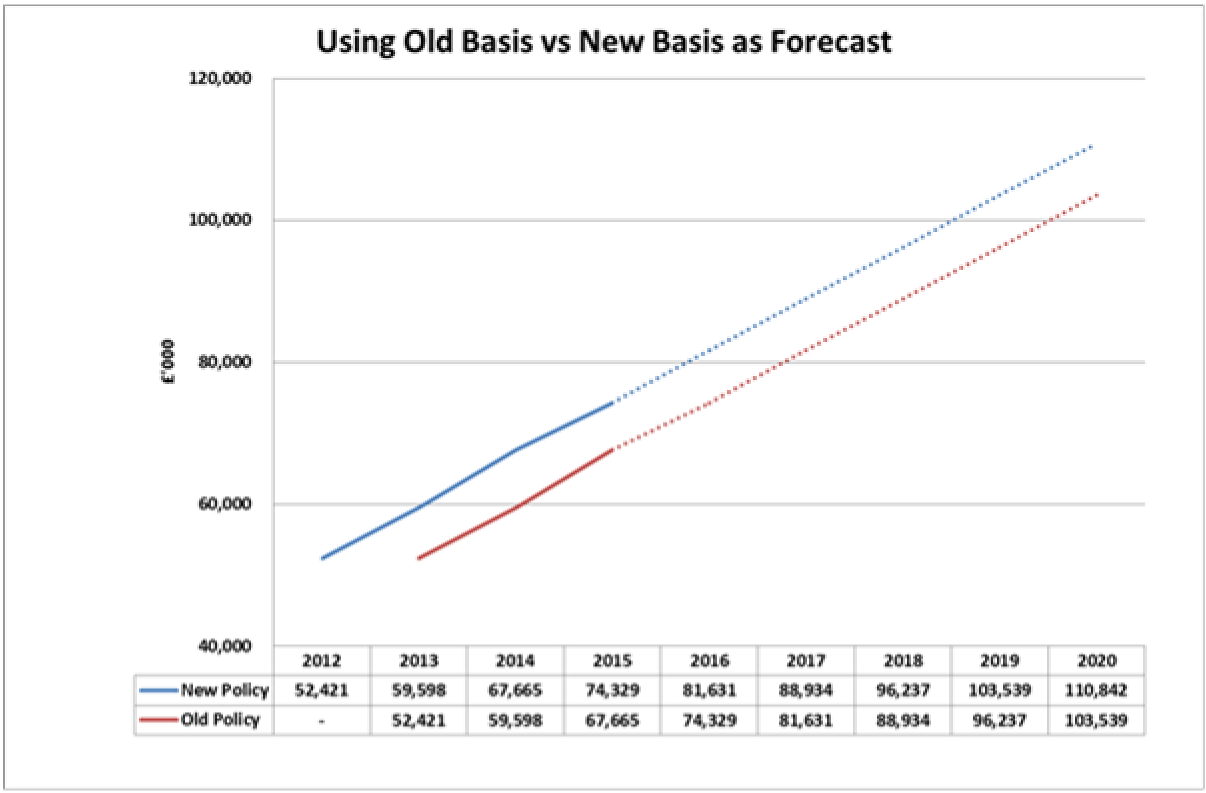
The collection of Current Year Basis (CYB) tax was introduced in 2006 and, at that time, the proportion of tax collected from employment income on a current year basis was 4.5%. This has increased to 19.9% in 2015 and will eventually reach 100%. CYB tax revenue has previously been recognised a year in arrears in the financial statements with any tax collected through the Income Tax Instalment Scheme (ITIS) in the current year recognised as a payment in advance.

In order to reflect the increasing proportion of income tax revenue collected from CYB tax payers and given the demonstrable accuracy of estimates of their eventual tax liability, the accounting policy was updated in 2015 to recognise CYB tax revenues in the current year. This amendment has a relatively small recurring impact on the financial statements, as referenced in this paper, but requires a one-off prior year restatement of 2014 income tax revenue in the 2015 Financial Report and Accounts of £67 million. In addition to the 2014 restatement, the 2015 CYB assessment of £6.7 million will also be made giving a full effect of £74 million for the CYB adjustment.

The initial automated processes for CYB recognition from the ITAX system have proved problematic for the accounting year 2015. As a result the Taxes Office established a more robust methodology relating to ITIS data for year of assessment (YoA) 2015 and final YoA assessments for years 2012-2014, which have now been subject to Scrutiny by Treasury Officers and part of the Audit of the 2015 Financial Report and Accounts. The automated process will be corrected and used for estimating CYB from 2016 onwards.

Figure 58 shows total CYB income recognised for 2012 to 2015 under the old basis (red line) and under the new accounting policy and methodology (blue line). The graph therefore illustrates the impact of restating the accounts, i.e. bringing forward income recognition by one year, and the impact that has on the forecast (dotted lines) to 2020.

Figure 58 – Illustrating the impact of the new accounting policy for CYB recognition



	2012	2013	2014	2015	2016	2017	2018	2019	2020
New Policy	52,421	59,598	67,665	74,329	81,631	88,934	96,237	103,539	110,842
Old Policy	-	52,421	59,598	67,665	74,329	81,631	88,934	96,237	103,539

Recommendation

The Taxes Office has recommended to the IFG that the methodology represented by the BLUE line in **Figure 58** be used for the forward forecasts based on the CYB trend information available from 2012 to 2015.

Figure 58 shows the annual adjustment for CYB tax income will be £7.2 million in 2013, £8.1 million in 2014 and £6.7 million in 2015. The 2013 and 2014 figures are based on final assessments but the 2015 figures for the accounts can only be based at this stage on ITIS data relevant to that YoA. Consequently it is likely that the 2015 figure will prove to be understated, but this will not be material and is therefore the appropriate adjustment in accordance with the new accounting policy.

The IFG has considered the proposals and is recommending that a prudent forecast adjustment of £7 million p.a. be applied to the forecast years 2016-2020, being an average of the 2013 and 2014 final adjustment.

Appendix 6 – IFG : GST and ISE Fee Forecasts 2016 - 2020

Draft GST and ISE Forecasts 2016-2020 from the Income Forecasting Group (IFG)

There are three components of the GST forecast:

- GST on purchases of goods and services on Island,
- GST on imports, and
- International Service Entity Fees (ISE) fees paid by businesses exempt from GST.

GST on purchases on Island

Good & Services Tax (GST) was introduced in 2008 and is collected by the Taxes Office. GST is collected from purchases of goods and services on the Island. Initially introduced at 3% the GST rate was increased to 5% in 2011.

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

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

The proposal agreed was that for any period where economic growth is forecast a 2% increase trend be applied based on past experience. For the period beyond 2017 where the FPP are forecasting the long term trend of no real economic growth the lower trend average of 0.8% is used.

2015 GST receipts were higher than originally forecast in the MTFP 2016-2019 back in April 2016 but there are one-off factors in 2015 including the Island Games which the Group considered in September 2015 and in the latest review. At this stage the Group is maintaining the Budget 2016 forecasts which do not build in this additional income to future forecasts.

Work will continue to identify and estimate the impact of similar events and activities in 2016 and future years to improve the in-year and future forecasts.

GST on imports

Import GST has increased gradually in recent years. Over the 3 years to 2014 it had increased by an average 6% per annum reflecting an increase in on-line purchases.

In 2015 there was a more significant increase, however further investigation identified that the increase was not only due to increases in volume but to a number of high value imports, which may not be repeated. At this stage there is not sufficient trend to suggest that the previous assumptions should be varied.

The trend of import GST will be monitored during 2016 and the Group will reconsider any change for future forecasts.

ISE Fees

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

The 2015 outturn was £9.21 million, broadly in line with previous forecasts. The Budget 2016 forecast assumed £9 million of ISE fees per annum and the Group has no reason to vary this forecast, particularly as there are indications that the number of such companies which pay ISE fees may reduce slightly over the next year or two.

Variation from draft Budget (September 2015) to draft MTFP Addition 2017-2019 (June 2016)

The draft MTFP Addition 2017-2019 forecasts maintain the Budget 2016 forecasts. Whilst there are a number of further factors which the Group has considered they are not considered to materially change the forecasts or assumptions from September 2015.

The Group will review the position again with half-year actual data for 2016 at its review in September and consider whether any changes are required.

Figure 59 – Summary GST draft forecasts 2016-2020 (June 2016)

GST	Outturn	Forecast	Forecast MTFP Addition			Forecast
	2015	2016	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000	£'000
GST	*71,687*	*70,647*	*72,060*	*72,637*	*73,218*	*73,804*
Import GST	*4,154*	*3,687*	*3,908*	*4,142*	*4,391*	*4,654*
ISE Fees	*9,201*	*9,000*	*9,000*	*9,000*	*9,000*	*9,000*
Total GST	***85,042***	**83,334**	**84,968**	**85,779**	**86,609**	**87,458**
Annual Growth %		*-2.0%*	*2.0%*	*1.0%*	*1.0%*	*1.0%*
Budget 2016 Forecast	*83,757*	*83,334*	*84,968*	*85,779*	*86,609*	-
Variation £	*1,285*	-	-	-	-	87,458

Note: *These forecasts are unchanged from those presented to CoM in September 2015*

Forecast Range

With the latest forecast updates not varying from the Budget 2016, except in 2015, the forecast range is also largely unchanged and remains based on:

- A lower range 1% below the central assumption and a higher range 1% above the central assumptions is used for forecasting net GST.
- A wider 2% range above and below the central forecast is proposed for import GST reflecting the higher trend growth assumption for this income stream.
- ISE fees are relatively stable between years, and a 0.5% range above and below the central forecast is proposed.

The overall effect of the range of forecasts is shown in **Figure 60**.

Figure 60 – GST draft forecast range (June 2016)

GST	Outturn	Forecast	Forecast MTFP Addition			Forecast
	2015	2016	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Higher	*85,042*	*84,911*	*87,379*	*88,897*	*90,460*	*92,269*
Central	***85,042***	***83,334***	***84,968***	***85,779***	***86,609***	***87,458***
Lower	*85,042*	*81,818*	*82,652*	*82,800*	*82,953*	*83,783*
Range £'000	-	**3,093**	**4,727**	**6,097**	**7,507**	**8,487**
Range %	***0%***	**4%**	**6%**	**7%**	**9%**	**10%**

Note: *The forecast range is unchanged from those presented in the Budget 2016.*

Appendix 7 – IFG : Impôts Duty Forecast 2016-2020

Draft Impôts Duty Forecasts 2016-2020 from the Income Forecasting Group (IFG)

Impôts duties are levied on a range of commodities imported to the Island. The duties on the various commodities, principally alcohol, tobacco and fuel are reviewed at the annual Budget. The duty increases for alcohol and tobacco are influenced by the strategies for particular health improvement and reduction in consumption policies rather than a policy to raise additional revenues.

The policies in that regard can be considered fairly successful based on the importation trends. These show that for most alcohol and tobacco commodities, the long-term trend is for reduced importation. There is evidence to suggest an increase in duty free for tobacco goods consumption but this is actively policed by Customs.

The basis of the Impôts duty forecasts is to take the 2015 outturn and to apply past importation trends to forecast the future duty rates. Customs maintain records going back a number of years and on statistical advice, use a 10 year average of importation trends to forecast future levels.

The average 10 year trends by commodity are:

Spirits	96%
Wines	100%
Cider	102%
Beer	97%
Tobacco	95%
Fuel	100%

<u>Increases in Impôts duty rates</u>

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

The Group therefore concluded that it was appropriate to assume that recent policies in annual Budgets would continue in the absence of any updates to the existing tobacco and alcohol and licensing strategies. Analysis of recent budgets showed that broadly RPI increases for tobacco and alcohol were common and that increases to fuel and other commodities were less likely.

Consequently, the forecasts only assume RPI increases for alcohol and tobacco goods.

The Group also considered recent trends which showed that the Budget increases were influenced by the RPI prevailing at the time of the Budget rather than that the year to which the Budget related. The Group agreed that the forecasts should now use the agreed rates for 2016 and apply RPI increase for 2016 for the 2017 duty increases and similarly for future years' assumptions.

<u>Bonded Warehouse</u>

From 2014, a new bonded warehouse scheme was introduced by Customs to deter profiteering around Budget announcements for the following year. The bonded warehouse reduced tobacco taken to duty in 2014 and complicated the calculation of forecasts for tobacco to be taken to duty in 2015. It is now clear that the quantities of tobacco in 2015 were overestimated during 2015 and this has resulted in the 2015 outturn being below the forecasts produced in September 2015 for the 2016 Budget. The adjustment also meant that the Budget 2016 forecasts for future years were overstated. These forecasts have now been reduced to correct the forecast tobacco importation quantities.

Variation draft Budget 2016 (September 2015) to draft MTFP Addition 2017-2019 (April 2016)

The forecasts have been reviewed and revised and reflect:

- an adjustment to correct the tobacco quantities for 2015 including an appropriate adjustment for the bonded warehouse
- the reduced levels of importation of alcohol goods in 2015 and reduced outturn
- adjustments to the 10 year average trend of all imported goods to include the 2015 outturn
- the revised economic assumptions for RPI

Figure 61 - Draft MTFP Addition 2017-2019 forecasts for Impôts duties (June 2016)

Impôts Duties	Outturn	Forecast	Forecast MTFP Addition			Forecast
	2015	2016	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Impôts on Spirits	4,529	4,611	4,506	4,439	4,401	4,331
Impôts on Wine	7,638	7,721	7,859	8,063	8,330	8,538
Impôts on Cider	1,003	1,069	1,108	1,159	1,223	1,278
Impôts on Beer	5,078	5,112	5,049	5,024	5,034	5,006
Impôts on Tobacco	13,606	13,915	13,457	13,118	12,873	12,535
Impôts on Fuel	21,406	22,084	22,084	22,084	22,084	22,084
Impôts on Other Goods	144	145	145	145	145	145
Vehicle Emissions Duty	743	1,449	1,376	1,306	1,242	1,242
Total Impôts Duties	**54,147**	**56,106**	**55,584**	**55,338**	**55,332**	**55,159**
Annual Growth %		*3.6%*	*-0.9%*	*-0.4%*	*0.0%*	*-0.3%*
Budget 2016 Forecast	55,942	57,650	57,592	57,665	57,781	-
Variation £'000	(1,795)	(1,544)	(2,008)	(2,327)	(2,449)	55,159

The overall variation is a reduction of approximately £2 million per annum and is mainly influenced by the reductions in alcohol and tobacco goods 2015 outturn.

Forecast range

The Group agreed as part of the draft MTFP 2016-2019 forecasts the provision of a range around the impots duty forecast which uses the variation around the RPI assumptions compounded by a +/-1% variation on future importation assumptions. The impact on the central forecasts is shown in **Figure 62**.

Figure 62 – Impôts draft forecast range (June 2016)

Impôts Duties	Outturn	Forecast	Forecast MTFP Addition			Forecast
	2015	2016	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Higher	54,147	56,666	57,176	57,976	59,045	59,440
Central	**54,147**	**56,106**	**55,584**	**55,338**	**55,332**	**55,159**
Lower	54,147	55,554	54,030	52,815	51,846	51,179
Range £'000	**-**	**1,112**	**3,146**	**5,161**	**7,199**	**8,261**
Range %	**0%**	**2%**	**6%**	**9%**	**13%**	**15%**

Appendix 8 – IFG : Stamp Duty Forecasts 2016-2020

Draft Stamp Duty Forecasts 2016-2020 from the Income Forecasting Group (IFG)

Stamp duty is charged on property, equity and share transfer transactions according to the value of the transaction. It is also collected on Wills, Probate and Obligations. The stamp duty forecasts are separated into general stamp duty, stamp duty on probate and stamp duty on share transfer property transactions.

General Stamp Duty

The main component is duty on property and in addition the forecasts allow for a relatively fixed forecast of stamp duty on Obligations and Wills. The duty on property transactions has been particularly volatile over recent years, falling from over £14 million in 2009 to £10.7 million in 2013, a fall of 25%, increasing to over £17 million in 2014, an increase of 64% and in 2015 income of £20 million. The 2015 outturn was again heavily influenced by transactions of property over £2 million, but also saw a generally buoyant year – the 2015 outturn exceeding the Budget 2016 forecast by £2 million.

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

The specific stamp duty economic assumptions for the draft MTFP Addition have been updated for house prices, but remain unchanged for housing market turnover compared to the Budget 2016 forecasts.

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

Stamp Duty on Share Transfer – Land Transaction Tax (LTT)

The majority of share transfer property transactions are for flats and apartments, and likely to be lower value properties (on average) than non-share transfer property transactions. Therefore they are less likely to be subject to the anomalies and volatility seen on general property transactions.

The draft MTFP Addition 2017-2019 forecasts are based on the 2015 outturn and the same economic assumptions have been applied as for general stamp duty.

Probate duty

Probate duty is extremely difficult to forecast. It is the result of duty payable from estates of individuals who were domiciled in Jersey, or where the individual was not so domiciled but have Jersey moveable property. Between 2009 and 2015 however, transactions have remained fairly steady at around 2,000. Anomalies in income were seen in 2009 and 2012 due to one-off large transactions, but changes in the 2013 Budget have capped probate duty to £100,000 per estate to attract greater investment in the Island, so these anomalies will not be seen in future.

With three years data since this change a revised forecast has been produced based on the three-year average of £2.3 million. There are no economic assumptions applied to this forecast and a flat £2.3 million forecast is assumed based on this three-year average.

Draft MTFP Addition 2017-2019 forecast (June 2016)

The resulting draft MTFP Addition 2017-2019 forecast in **Figure 63** show a slight improvement in 2016 and then increases each year which are below the Budget 2016 forecast due to the more prudent approach on over £2 million property transactions.

Figure 63 - Draft MTFP Addition 2017-2019 forecast for Stamp Duty (June 2016)

Stamp Duty	Outturn	Forecast	Forecast MTFP Addition			Forecast
	2015	2016	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Stamp Duty	25,821	22,465	24,069	25,474	26,034	*26,610*
Probate	1,883	2,300	2,300	2,300	2,300	*2,300*
Stamp Duty on Share Transfer (LTT)	1,328	1,451	1,599	1,730	1,782	*1,835*
Total Stamp Duty	***29,032***	**26,216**	**27,968**	**29,504**	**30,115**	**30,745**
Annual Growth %		*-9.7%*	*6.7%*	*5.5%*	*2.1%*	*2.1%*
Budget 2016 Forecast	*26,946*	*26,137*	*28,582*	*30,726*	*31,580*	-
Variation £'000	*2,086*	79	(614)	(1,222)	(1,465)	30,745

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

Forecast range

The Group has maintained the approach to providing a range around the Stamp Duty forecast which was agreed for the MTFP 2016-2019. This uses the variation around the economic assumptions on house prices. The impact on the central forecasts is shown in **Figure 64**

Figure 64 – Stamp Duty draft forecast range (June 2016)

Stamp Duty	Outturn	Forecast	Forecast MTFP Addition			Forecast
	2015	2016	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Higher	*29,032*	*26,929*	*29,286*	*31,539*	*32,871*	34,282
Central	***29,032***	***26,216***	***27,968***	***29,504***	***30,115***	**30,745**
Lower	*29,032*	*25,943*	*27,122*	*28,011*	*28,011*	28,011
Range £'000	-	**986**	**2,164**	**3,528**	**4,860**	**6,272**
Range %	***0%***	**4%**	**8%**	**12%**	**16%**	**20%**

Appendix 9 – Other Income Forecasts 2016-2020

Draft Other Income Forecasts 2016-2020

There are a number of other areas of States income for which forecasts are prepared, the majority of this income arises from agreed formula such as rates of return or are based on agreed investment strategies.

These forecasts are prepared by the officers responsible for managing these areas and reviewed in total by the Treasury.

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

- Island-wide rate,
- Income from Dividends and financial returns,
- Income other than from Dividends and financial returns, and
- Returns from Andium Homes and Housing Trusts.

The forecasts of other States income were reviewed fully in March 2015 and updated in September 2015 for the Budget 2016. The forecasts have all been revisited to reflect the 2015 outturn and to model the effect of the updated economic assumptions (March 2016) and any initial in-year information for 2016, as appropriate.

Island-wide rate

The 12 Parishes collect an Island Wide Rate which is levied by the States. It provides a contribution to parish welfare costs which were incorporated into the new Income Support system in 2006.

The Island Wide Rate is increased annually based on the March RPI, which is proposed to the States by the Comité de Connétables.

There are small variations in the forecast income collected based on the collection rate, changes in numbers of households and variations in RPI to forecast. The past trends have shown that forecasts which simply incorporate RPI increases are sufficiently accurate.

Income from Dividends and returns

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

- Jersey Telecom 100%
- Jersey Post 100%
- Jersey Electricity 86.4%
- Jersey New Waterworks 83.3%
- SoJDC 100%
- Ports of Jersey 100%

The dividends are paid according to the defined dividend policies and forecasts are prepared in line with the company's latest business model. In most cases the dividends are directly related to trading performance but can be affected by particular projects being undertaken i.e. Gigabyte Jersey at Jersey Telecom.

The current forecasts reflect the latest business models and there are only minor variations since the forecasts prepared in September 2015 for the 2016 Budget.

The forecast dividends from Jersey Telecom have reduced quite significantly in recent years and this is mainly due to the evolving business with consideration given to changes in market conditions, regulatory impacts, commercial impacts on working capital movements, capital expenditure and debt servicing requirements. The Gigabit capital project continues to impact dividend free cash flow forecasts in the earlier years.

In addition to the regular dividends, it was agreed in the 2015 Budget that special dividends would be sought from Jersey Telecom and Jersey Post, these are now forecast and contribute towards measures to improve the consolidated fund position.

The other main source of income in this area is the return paid by SoJDC. This is not a regular income but reflects the current programme of development and forecast returns are only provided in the years where particular developments are due to complete.

This area of income now includes any return forecast from the Ports of Jersey, following their Incorporation in October 2015. However, in the early years of their trading the strategic business model indicates no net return for the MTFP period 2016-2019 as a result of forecast investment in commercial projects, post incorporation and reduced taxation returns as the loss relating to the payment of the PECRS pre-1987 debt is offset against tax.

Income – Non-Dividends

A number of income streams contribute to this area, many of which are fairly small and relatively simple to forecast i.e. income tax penalties, crown revenues and miscellaneous interest, fees and fines.

Larger streams of income arise from:

- Investment returns from the Consolidated Fund
- Investment returns from the Currency Fund
- Returns from the JFSC
- Returns from Jersey Car Parking Trading Account – until 2019

The investment returns from the Consolidated Fund and Currency Fund benefit from the pooled investments in the Common Investment Fund (CIF). The returns are based on the investment strategies of the two funds and the holding balance available to be invested.

The forecast returns can be quite volatile to the extent they are invested in equities, but a proportion of the balances need to be held in cash on which returns are generally lower but more stable. Return on cash with interest rates at all-time lows will remain fairly small for some time with no significant changes in interest rates predicted in the near future. The Consolidated Fund is also significantly affected by the drawdown of capital monies in line with the capital programme for 2016-2019. These changes result in a smaller forecast holding balance to be invested in equities and a proportionally larger balance to be held in cash over the forecast period.

A combination of reduced holding balances, increased cash holding assumption, revised investment return and interest rate forecast combined with some changes in strategy for infrastructure investment in the Currency Fund have contributed to reduced returns in the income forecasts of both the Consolidated and Currency Fund than in some previous periods. The draft MTFP Addition 2017-2019 forecasts are prudent, the 2015 returns slightly exceeded earlier forecasts, but the States advisers recommend that future returns should be based on long term trends rather than the higher returns achieved in the last two years.

The MTFP Addition includes proposals for the Minister for Infrastructure to bring forward proposals for a Concessionary travel scheme for people with disabilities to be funded from the Car Parking Trading Fund from 2017 and for the fund to be used in accordance with P147/2004 and P104/2010 to fund other transport initiatives to ease the pressure on the department for infrastructure cash limit as the Department undertakes significant transformation over the MTFP period 2016-2019, gradually reducing the return to general revenues.

Returns from Andium Homes and Housing Trusts

The returns from Andium Homes and the Housing Trusts arise from the incorporation of the housing function in July 2014. Andium is obliged to make a return based on the transfer agreement and an agreed rental and return policy.

The return is influenced by the prevailing RPI. Agreements are also being put in place with Housing Trusts to deliver a return tracking each Trusts proposed transition to the 90% market rent levels.

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

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

The reduction in the predicted return from Andium Homes is partly offset by lower levels of uprating required on the benefits paid for the housing component of income support. Whilst there have been significant reductions in income support forecasts it is extremely difficult to directly correlate these savings directly with the variations in the Andium and Housing Trust returns.

There is a small variation between the latest forecast and the September 2015 update due to changes in RPI assumptions.

Economic assumptions for Other States Income

The common economic assumptions endorsed by the FPP in March 2016 have been applied for the other income forecasts where appropriate. Where more specific assumptions are required relating to particular investment returns these have been drawn from the States external investment advisers.

Other Income Forecasts for 2016-2020

The resulting MTFP Addition forecasts are shown in **Figure 65** which show that compared to the September 2015 forecasts there is a slight reduction in income largely reflecting the prudent approach to investment income and the changes to the RPI assumptions.

Figure 65 - Draft MTFP Addition forecasts for Other Income Update for June 2016

Other Income	Outturn	Forecast	Forecast MTFP Addition			Forecast
	2015	2016	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Island Wide Rate	11,928	12,142	12,458	12,832	13,217	13,613
Other Income - Dividends	14,023	11,461	8,703	14,517	9,744	10,117
Other Income - Non Dividends	12,506	9,710	10,151	9,697	10,285	11,327
Other Income - Returns from Andium and Housing trusts	27,483	27,805	28,371	29,173	30,158	31,186
Total Other Income	**65,940**	**61,118**	**59,682**	**66,220**	**63,403**	**66,244**
Budget 2016 Forecast	63,643	61,294	60,823	69,653	65,645	-
Variation	2,297	(176)	(1,141)	(3,433)	(2,242)	66,244

Note: Investment Income forecasts will be subject to final decisions on Consolidated Fund balances

<u>Forecast range</u>

A forecast range has been provided for those areas of other income that are appropriate relating to business models and investment returns. The impact on the central forecasts is shown in **Figure 66.**

Figure 66 – Range of Other Income Forecasts

Other Income	Outturn	Forecast	Forecast MTFP Addition			Forecast
	2015	2016	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Higher	65,940	63,826	62,044	61,959	71,316	68,265
Central	**65,940**	**61,118**	**59,682**	**66,220**	**63,403**	**66,244**
Lower	65,940	63,444	58,791	57,736	65,904	61,119
Range £'000	-	**382**	**3,253**	**4,223**	**5,412**	**7,145**
Range %	**0%**	**1%**	**5%**	**6%**	**9%**	**11%**

Appendix 10 – Social Security Contributions Forecasts

Background

This paper details the forecast of Social Security Contributions income up to 2020. It has been produced from the current model using the economic assumptions supplied on 2 March 2016.

Methodology

The contributions model uses a limited number of factors and has been in use since 2012. It has proved accurate and reliable for short term forecasting having been used every quarter since then to refresh a rolling twelve month forecast. It is not designed for long term forecasting.

The model contains actual contributions values to which are applied two growth indices one for average earnings and one for employment (represents growth in contributors); an adjustment is made for the annual uplift in earnings limits and a further adjustment for assumptions of unemployment levels. The latest actual values included are for Quarter D of 2015 which became available in the second half of March 2016.

Longer Term Forecasts

A longer term, population based forecast is provided by the Funds' Actuaries with the latest to be found through the States Greffe website in the Report by the Government Actuary on the financial condition of the Social Security Fund as at 31 December 2012.

Forecasts for 2016-2020

The forecast methodology takes current values and applies the relevant economic assumptions and therefore, as can be seen from the accompanying graphs, follows the same curve as the assumptions. The central scenario shows contributions rising from £198 million in 2015 to £231 million in 2020.

The Group reviewed the forecasts and accepted the paper and forecasts provided by the Social Security Department as attached, for the purposes of the MTFP Addition 2017-2019.

Social Security Dept. Contributions/Supplementation Forecast (at March 2016)

The Social Security Department is required to collect a contribution from all relevant Earned Income in Jersey and to Supplement those who cannot cover the full monthly payment.

Actuals collected for 2011-2014 and 2015 to date

All Contributions

2011	2012	2013	2014	2015
£177,512,212	£184,251,256	£185,105,089	£190,911,607	£197,790,974

Supplementation

2011	2012	2013	2014	2015
£66,056,496	£68,377,295	£69,221,588	£72,172,678	£77,018,725

There are two classes of contributor:

1. Class 1 (Employed)
2. Class 2 (Self-Employed and other)

Class 1 contributions are in two parts, 6% of earnings from the Employee and 6.5% of employees' earnings from the Employer. Class 2 individuals contribute 12.5% up to the Standard Earnings Limit (SEL).

Since 1 January 2012, Employers and Class 2 individuals have been required to pay a 2% rate above the Standard Earnings Limit (SEL) on earnings between the SEL (£4,094) per month (the rate for 2016) and the Upper Earnings Limit (UEL) (£13,542) per month (the rate for 2016).

Forecasts for MTFP Addition

Contributions / Supplementation / Assumptions

Central Scenario

Year	Gross Totals £(000)	%	Above SEL	Totals £(000)	Net (of Above SEL) Supp	Year	Ceiling Uplift	Avg. Earnings	Employment
2014	£190,773		£7,472	£72,173	£64,700	2014	2.2%	2.6%	2.3%
2015	£198,080	3.57%	£7,059	£77,490	£70,431	2015	2.6%	1.8%	1.5%
2016	£203,530	3.03%	£7,288	£78,532	£71,245	2016	1.8%	2.8%	0.5%
2017	£211,428	3.88%	£7,550	£80,519	£72,969	2017	2.8%	3.6%	0.5%
2018	£218,187	3.20%	£7,777	£83,977	£76,201	2018	3.6%	3.0%	0.0%
2019	£224,748	3.01%	£8,010	£86,529	£78,519	2019	3.0%	3.0%	0.0%
2020	£231,481	3.00%	£8,250	£89,106	£80,856	2020	3.0%	3.0%	0.0%

High Scenario

Year	Gross Totals £(000)	%	Above SEL	Totals £(000)	Net (of Above SEL) Supp	Year	Ceiling Uplift	Avg. Earnings	Employment
2014	£190,773		£7,472	£72,173	£64,700	2014	2.2%	2.6%	2.3%
2015	£199,036	3.57%	£7,059	£77,968	£70,909	2015	2.6%	1.8%	3.0%
2016	£210,949	6.00%	£7,430	£78,606	£71,177	2016	1.8%	4.8%	2.0%
2017	£226,708	7.47%	£7,846	£83,402	£75,556	2017	4.8%	5.6%	2.0%
2018	£242,066	6.77%	£8,238	£89,984	£81,746	2018	5.6%	5.0%	1.5%
2019	£257,998	6.58%	£8,650	£95,936	£87,286	2019	5.0%	5.0%	1.5%
2020	£274,951	6.57%	£9,082	£102,223	£93,140	2020	5.0%	5.0%	1.5%

Low Scenario

Year	Gross Totals £(000)	%	Above SEL	Totals £(000)	Net (of Above SEL) Supp	Year	Ceiling Uplift	Avg. Earnings	Employment
2014	£190,773		£7,472	£72,173	£64,700	2014	2.2%	2.6%	2.3%
2015	£196,092	3.57%	£7,059	£77,012	£69,953	2015	2.6%	1.8%	0.0%
2016	£196,281	0.11%	£7,146	£78,407	£71,261	2016	1.8%	0.8%	-1.0%
2017	£196,969	0.35%	£7,260	£77,638	£70,378	2017	0.8%	1.6%	-1.0%
2018	£196,338	-0.32%	£7,333	£78,227	£70,894	2018	1.6%	1.0%	-1.5%
2019	£195,341	-0.51%	£7,406	£77,853	£70,447	2019	1.0%	1.0%	-1.5%
2020	£194,326	-0.52%	£7,480	£77,436	£69,955	2020	1.0%	1.0%	-1.5%

Average Earnings

Is a major determinator in contributions income, a 1% increase in Average Earnings in 2016 will give a modelled annual increase in contributions of £2m by 2019.

Ceiling Uplift (based on Average Earnings of the previous year)

Determines the maximum and minimum (UEL and LEL) individual contributions payable each month, there is a legal requirement to annually change (1st January) the contributions UEL and LEL (Ceiling Uplift) by the Average Earnings percent of the previous year.

Employment

A change in Employment (Contributors) in a year affects the number of people who pay contributions, a modelled 1% increase in Employment in 2016 will give an increase in annual contributions of £2.2m by 2019.

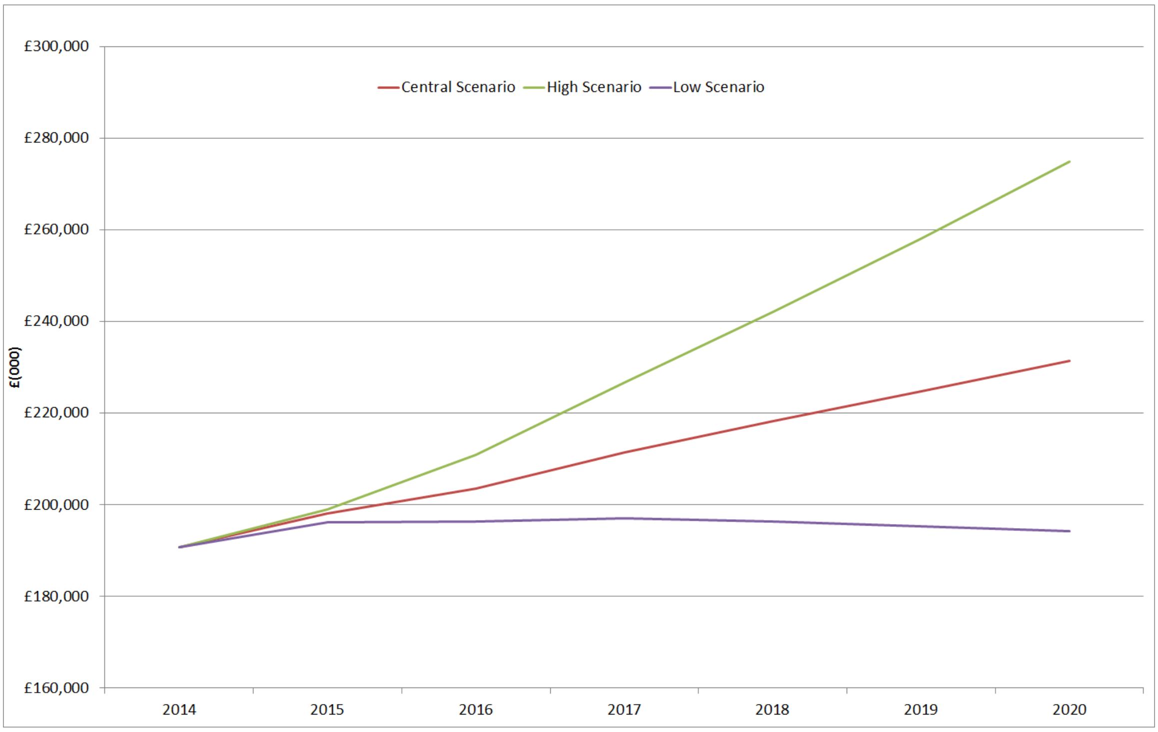
Unemployed numbers

The numbers of unemployed can affect contributions, there is a monthly fluctuation in workers finding work. Due to the value of contributions made from lower paid work, the overall annual effect on contribution from the unemployed is not greatly significant.

Risks

1. Until recently contributions have not been forecast further ahead than a year. There is no historic confirmation of long term accuracy in the models forecasts
2. The Economic Assumptions for each year are applied in entirety to the model in the January of each year not incrementally throughout the year.
3. The distribution of Low and High earners is assumed to be the same as historical distribution. If the demographic of wage earners changes this will affect the forecast

Figure 67 – Forecast Range for Social Security Contributions Forecasts 2015-2020



Appendix 11 – FPP: Economic Assumptions 2016-2019

(March 2016)

The draft MTFP Addition economic assumptions for the central scenario including, the upper and lower ranges

Economic assumptions

FPP central scenario

	2014	2015	2016	2017	Return to trend 2018	2019
Real GVA	4.9	2.3	1.4	1.4	0.0	0.0
RPI	1.6	0.6	1.8	2.6	3.3	3.3
RPIY	1.6	0.6	1.8	2.4	3.0	3.0
Nominal GVA	6.6	2.9	3.2	3.8	3.0	3.0
Company profits	10.5	2.5	3.1	3.4	3.0	3.0
Financial services profits	19.4	2.1	3.1	3.3	3.0	3.0
Compensation of employees(a)	4.9	3.3	3.3	4.1	3.0	3.0
Employment	2.3	1.5	0.5	0.5	0.0	0.0
Average earnings	2.6	1.8	2.8	3.6	3.0	3.0
Interest rates (%)	0.5	0.5	0.5	0.7	0.9	1.5
House prices	3.0	4.2	4.0	5.0	3.0	3.0

FPP central scenario - upper range

	2014	2015	2016	2017	Return to trend 2018	2019
Real GVA	4.9	3.8	2.9	2.9	1.5	1.5
RPI	1.6	0.6	3.3	4.1	4.8	4.8
RPIY	1.6	0.6	2.8	3.4	4.0	4.0
Nominal GVA	6.6	4.4	5.7	6.3	5.5	5.5
Company profits	10.5	3.9	4.3	4.7	4.0	4.0
Financial services profits	19.4	5.1	6.1	6.3	4.0	4.0
Compensation of employees(a)	4.9	4.9	6.9	7.7	6.6	6.6
Employment	2.3	3.0	2.0	2.0	1.5	1.5
Average Earnings	2.6	1.8	4.8	5.6	5.0	5.0
Interest rates (%)	0.5	0.5	1.2	1.4	1.6	2.2
House prices	3.0	7.2	7.0	8.0	6.0	6.0

FPP central scenario - lower range

	2014	2015	2016	2017	Return to trend 2018	2019
Real GVA	4.9	0.8	-0.1	-0.1	-1.5	-1.5
RPI	1.6	0.6	0.3	1.1	1.8	1.8
RPIY	1.6	0.6	0.8	1.4	2.0	2.0
Nominal GVA	6.6	1.4	0.7	1.3	0.5	0.5
Company profits	10.5	1.0	1.7	2.1	1.5	1.5
Financial services profits	19.4	-0.9	0.1	0.3	1.5	1.5
Compensation of employees(a)	4.9	1.8	-0.2	0.6	-0.5	-0.5
Employment	2.3	0.0	-1.0	-1.0	-1.5	-1.5
Average Earnings	2.6	1.8	0.8	1.6	1.0	1.0
Interest rates (%)	0.5	0.5	0.5	0.5	0.5	0.8
House prices	3.0	1.2	1.0	2.0	0.0	0.0

OUTTURNS

(a) Total employment costs

Appendix 12 – Financial Forecast – Additional considerations

The current financial forecast of the States' financial position for 2016-2019 is presented at **Figure 15**. The forecast presents the current operating surplus/(deficit) which is summarised in **Figure 68**

Figure 68 - Summary of current operating surplus/deficit for 2016-2019

Summary of Financial Forecast	2015 Outturn £'000	MTFP Addition Proposals (June 2016) 2016 Proposed £'000	2017 Proposed £'000	2018 Proposed £'000	2019 Proposed £'000
Total States Income - incl: Proposed Funding Mechanism	691,744	693,774	715,203	759,240	789,360
Total Net Revenue Expenditure (excl: Depn)	697,031	740,317	724,287	733,955	734,845
Forecast Operating Surplus/(Deficit) for the year	**(5,287)**	**(46,543)**	**(9,084)**	**25,285**	**54,515**

Addressing any structural imbalance in States fiscal balance

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

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

The position over the course of the MTFP is illustrated in **Figure 69** and shows that the proposed measures will see the States move from a current deficit in 2015 to a small surplus proposed in 2019**. The FPP's advice in its most recent correspondence suggests that States finances should be close to structural balance, if economic conditions unfold in line with the current expectations.**

Figure 69 – Financial forecast of structural financial position 2016-2019

Summary of Financial Forecast	2015 Outturn £'000	MTFP Addition Proposals (June 2016) 2016 Proposed £'000	2017 Proposed £'000	2018 Proposed £'000	2019 Proposed £'000
Total States Income - incl: Proposed Funding Mechanism	691,744	693,774	715,203	759,240	789,360
Total Net Revenue Expenditure (excl: Depn)	697,031	740,317	724,287	733,955	734,845
Forecast Operating Surplus/(Deficit) for the year	**(5,287)**	**(46,543)**	**(9,084)**	**25,285**	**54,515**
Depreciation Forecast	44,676	44,800	40,600	45,500	53,000
Current financial position - Surplus/(Deficit)	**(49,963)**	**(91,343)**	**(49,684)**	**(20,215)**	**1,515**

Further adjustments to take account of cashflows

The Fiscal Framework requires each MTFP to provide an analysis which gives a better indication of the economic impact of the proposals over the forecast period of at least 4 years. That is a better indication of when money will be withdrawn from the economy and when it will actually be spent i.e. actual cashflows. This was included for the first time in the 2015 Budget and is extended to 2019 in the following analysis.

The Economic Background and Outlook is discussed in **Section 6** and this provides an assessment of the adjusted fiscal position to give a better indication of the economic impact and a commentary summarising the considerations for the States over the MTFP period. The FPP will consider this analysis and their advice will be instrumental in determining whether adjustments or compensating measures are required in future years. The FPP's next Annual Report will be published ahead of the MTFP Addition debate.

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

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

Further adjustments are also included to reflect the contribution from other States funds, the most significant of these are the Social Security Fund (SSF) and Health Insurance Fund (HIF). Over the period of the analysis the SSF and HIF are both expected to go into deficit on an annual basis where benefits paid will exceed the contributions to the Fund. In both these funds and in line with the Fiscal Framework proposals will be brought forward over the period of this MTFP to consider the options to address the medium to long-term sustainability of these funds.

The MTFP 2016-2019 agreed the total revenue and capital expenditure limits and the total States income targets for 2016 to 2019. The income forecasts have been maintained and slightly improved in this MTFP Addition and if the proposed measures are agreed the States will deliver balanced budgets by 2019 as planned.

Figure 70 provides the overall estimate of the adjusted fiscal position and this is summarised in **Section 6.**

Figure 70 – Adjusted fiscal position over the MTFP period

MTFP - Calculation of Adjusted Fiscal Position	2012 Actual £m	2013 Actual £m	2014 Actual £m	2015 Actual £m	2016 Indicative £m	2017 Indicative £m	2018 Indicative £m	2019 Indicative £m
General Revenue Income	628	637	657	692	694	715	759	789
Department Income	130	128	133	99	85	93	97	107
Total Consolidated Fund Income	758	765	790	791	778	808	857	897
Gross Department Revenue Expenditure	730	764	807	796	782	794	795	794
Fiscal Stimulus Revenue Expenditure	1							
Central Allocations					43	24	36	49
Total Consolidated Fund Revenue Expenditure	731	764	807	796	825	817	832	843
Operating Surplus/(Deficit)	**27**	**1**	**(17)**	**(5)**	**(47)**	**(9)**	**25**	**54**
Net Capital Allocation Routine	14	13	2	4	26	26	35	33
Net Capital Allocation Major Programme					1	39	8	-
Additional Housing Capital Allocation	27							
Revised Surplus/(Deficit)	(14)	(12)	(19)	(9)	(73)	(75)	(18)	21
Timing Adjustments to Surplus/(Deficit):								
Add back: Capital Allocation 2013-2015	14	13	2	4	27	65	43	33
Add back: Additional Housing Capital Allocation	27							
Carry Forward Adjustments 2015/2016				(10)				
Expenditure Outturn forecast 2016				2				
Capital Expenditure Outturn	(33)	(41)	(52)	(46)				
Fiscal Stimulus Capital Expenditure	(1)	(3)						
Approved Capital Expenditure Profile					(138)	(207)	(286)	(226)
Forecast Major Project Capital Expenditure Profile					(7)	(45)	(52)	(112)
Revised Surplus/(Deficit)	(7)	(43)	(69)	(59)	(191)	(261)	(313)	(284)
Trading Fund Capital Expenditure	(4)	(8)	(14)	(11)	(9)	(13)	(11)	(5)
Near cash surplus/(deficit) on Trading A/cs	13	14	14	14	14	14	14	14
Consolidated Fund - Adjusted fiscal position	2	(37)	(69)	(56)	(186)	(261)	(310)	(275)
Other Funds								
Currency Fund - Infrastructure Investment								
- Gigabyte Jersey £10m	(5)	(5)	-	-	-	-	-	-
- Parish Loan £6m	-	(5)	(1)	-	-	-	-	-
DHLF/AHP/AHP/HDF								
- Net (advances)/repayments	2	1	1	1	-	-	-	-
Deposit Loan Scheme								
- Net (advances)/repayments	-	(2)	(1)	-	-	-	-	-
Social Security Fund								
- Net Surplus/(Deficit)	24	11	14	18	12	7	-	(8)
Health Insurance Fund								
- Net Surplus/(Deficit)	3	6	(6)	(6)	1	(5)	(6)	(6)
Long Term Care Fund								
- Net Surplus/(Deficit)				1	10	2	1	-
Overall States - Adjusted fiscal position	**26**	**(31)**	**(62)**	**(42)**	**(163)**	**(257)**	**(315)**	**(289)**

Capital Cash Flows

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

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

Figure 71 – Projected Capital Cash Flows 2015-2019

Forecast Capital Cash Flows	Outturn Cashflow 2015	Forecast Cashflow 2016	Forecast Cashflow 2017	Forecast Cashflow 2018	Forecast Cashflow 2019
	£'000	£'000	£'000	£'000	£'000
Current Allocations					
Departments	45,609	53,058	24,314	25,519	
Traders	11,081	9,086	7,630		
	56,690	62,144	31,944	25,519	-
Future Allocations					
Departments Excluding Major Projects			19,656	45,483	44,202
Traders			5,789	11,445	4,910
	-	-	25,445	56,928	49,112
Major Projects					
Sewage Treatment Works - Upgrade		4,390	8,105	10,166	10,166
Les Quennevais School Rebuild		1,000	12,000	15,000	12,000
Prison Improvement Works - Phase 6				8,233	168
Fort Regent					
	-	5,390	20,105	33,399	22,334
Subsidiary Companies					
Andium Homes	28,700	39,676	75,489	88,915	78,114
Ports of Jersey	3,000	17,403	21,183	7,860	14,588
SOJDC	5,074	22,000	46,000	85,000	67,000
	36,774	79,079	142,672	181,775	159,702
Total Cashflow before forecast of future major projects	**93,464**	**146,613**	**220,166**	**297,621**	**231,148**
Forecast Major Projects					
Future Hospital		6,621	41,819	36,433	95,683
Office Modernisation		338	3,340	15,163	16,676
		6,959	45,159	51,596	112,359
Total Cashflow after forecast of future major projects	**93,464**	**153,572**	**265,325**	**349,217**	**343,507**

The analysis of the adjusted fiscal position at **Figure 70** also includes information for the last 3 years to provide a trend for consideration. The MTFP 2016-219 includes proposals for the other projects for the Sewage Treatment Works, Les Quennevais School and the Prison Improvement Phase 6.

The proposals for the Future Hospital and for Office Modernisation are estimated at this stage and shown separately so that the potential economic impacts can be separately assessed.

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

Figure 72 – Forecasts for PECRS and JTSF to 2019

	2013 £ million	2014 £ million	2015 £ million	2016 £ million	2017 £ million	2018 £ million	2019 £ million
PECRS							
Pension payments to Jersey residents	57	58	61	65	68	72	76
minus employee contributions	(14)	(15)	(15)	(14)	(14)	(14)	(8)
PEPS	43	43	47	51	54	58	68
Pension payments to Jersey residents				0	0	0	0
minus employee contributions				(1)	(2)	(3)	(13)
	0	0	0	(1)	(2)	(3)	(13)
JTSF							
minus employee contributions	(3)	(3)	(3)	(3)	(3)	(3)	(4)
	11	12	12	13	14	15	16
Total	**54**	**55**	**59**	**63**	**66**	**70**	**70**

Appendix 13 – Social Security Funds Forecasts

Social Security Fund

Introduction

The Social Security Fund is administered by the Social Security Department and receives contributions from employers, working age adults and general tax revenues. It provides contributors with benefits when they are unable to work and pensions when they reach a certain age.

Contributions

Contributions to the fund are paid by working age adults (5.2% of earnings) and their employers (5.3%) up to the Standard Earnings Limit (SEL). Employers also pay 2% on earnings between the SEL and the Upper Earnings Limit (UEL). Individuals without an employer are required to contribute both elements.

Contributors with earnings below the SEL, but above the Lower Earnings Limit (LEL) are treated as if contributions up to the SEL have been made to protect pensions and benefit entitlement (known as supplementation). The States provide an annual grant to the Fund, which partly covers the cost of supplementation. The amount is governed by a formula and is set for the period of the MTFP. In the 2016 MTFP the States agreed that, as a short-term measure, the value of the States Grant to the Social Security Fund will be frozen at the 2015 level throughout the MTFP period (2016-2019) to help to maintain balanced budgets throughout the four-year period.

Contributions have been forecast for the period using the central economic assumptions on average earnings (which affects both individuals earnings and the three earnings limits), and employment. More details are given in Appendix 7 to the MTFP Addition.

Contributory Benefits

<u>Old Age Pension</u>

The most significant benefit paid by the Fund is the Old Age Pension, which supports individuals in old age. The value of the pension paid to an individual depends on the number of years of contributions. The maximum, full rate of pension is paid to those with a contribution record of 45 years or more.

<u>Incapacity Benefits</u>

Incapacity Benefits are designed to support people with contribution records who are unable to work or face additional challenges to work. This can be either through short term illness, or long term conditions.

Short Term Incapacity Allowance (STIA) is usually authorised by GPs and paid to working age claimants who satisfy the necessary contribution conditions for periods of incapacity lasting between 2 and 364 days. Most STIA claims are paid at the standard rate of benefit.

Long Term Incapacity Allowance (LTIA) was introduced in October 2004 to replace Invalidity Benefit and Disablement Benefit. LTIA compensates people for their loss of faculty, regardless of whether it is as a result of an illness or injury. It is assessed as a percentage of the standard rate of benefit based on their loss of faculty and is an in work benefit. LTIA allows people to gradually return to work, or work when able to do so, whilst still receiving a benefit which provides some financial support.

Other Benefits

The fund also pays benefits to individuals with contribution records who may need additional support due to other life events.

A Maternity Grant (or Adoptive Parent Grant) is paid to help with the initial costs of having a baby. The Grant is available as a lump sum to either the father or mother who satisfies the contribution conditions. A weekly Maternity Allowance can also be payable to the mother for up to 18 weeks, at the same rate as STIA, but based on only the mother's contribution record before she became pregnant. In 2015 changes came into place which made maternity allowance more flexible, allowing mothers more choice as to when they initiate their 18 week benefit period.

Survivor's Benefits are paid on a percentage basis to survivors based on the contribution record of their deceased spouse or civil partner and are mainly paid to survivors while they are of working age. A contributory Death Grant is also available to help support payment of the costs relating to the death of an individual.

Home Carers Allowance helps people who give up employment to take on a caring commitment for a person who needs a high level of personal care. Insolvency benefit is designed to ensure that all individuals receive their statutory entitlement to redundancy payments, regardless of the financial situation of their employer.

Basis of Benefit Forecasts

The level of benefits has been forecast for the period to allow for expected changes in the rate of benefit (driven primarily by the central Economic Assumptions on earnings and inflation), and volumes of claimants expected under the central population model (+350 p.a.), adjusting for past trends in volumes and other relevant information.

Administrative Costs

From 2016, the department has simplified the way it charges the funds it administers for the cost of this administration. Under the new methodology, a consolidated management charge for both staff and administrative costs is raised to each of the Funds to reflect the operational and management costs. The management charge is agreed for the period of the MTFP (2016-19) agreed in advance of the first year of its operation (2016), and incorporates a 2% reduction per year to reflect anticipated efficiency savings. The first year's charge to the SSF will be £5.18 million.

Certain costs will continue to be paid directly by the fund where they are incurred under the legislation relating to the fund in question or are specific expenditure of the funds rather than administration. These costs include audit, actuarial and investment management fees.

Fund Position

The States operates a Social Security (Reserve) Fund, meaning that the Social Security Fund maintains a working cash balance only. Over the MTFP period it is forecast that the fund will move from a net cash generating position into a net cash consuming position. The overall cash movement in the period is expected to be relatively neutral, with surpluses in 2016 and 2017 covering deficits in 2018 and 2019.

Review of the Social Security Fund

The Social Security Fund has substantial reserves, but a major review of the Scheme has started to ensure its long term sustainability. The Review will run over the next four years until the end of this MTFP period and will be closely aligned with the development of a Long Term Vision for Jersey. Further details can be found in **Section 19** - **Planning for an Ageing Population.**

Social Security Fund

Net Revenue Expenditure - Service Analysis				
2016 Forecast £		2017 Forecast £	2018 Forecast £	2019 Forecast £
(65,300,000)	**States Grant to Social Security Fund**	**(65,300,000)**	**(65,300,000)**	**(65,300,000)**
(173,068,300)	**Social Security Contributions**	**(177,598,500)**	**(183,319,200)**	**(188,867,500)**
	Contributory Benefits			
173,969,100	Old Age Pensions	182,852,900	193,882,200	205,894,500
16,231,900	Long Term Incapacity Benefit	17,159,300	18,224,600	19,273,200
6,604,800	Invalidity Benefit	6,256,000	5,798,800	5,370,500
13,578,300	Short Term Incapacity Benefit	13,784,100	14,428,900	15,040,100
4,615,800	Survivors Benefit	4,372,800	4,523,600	4,659,300
2,879,100	Maternity Benefit	3,060,500	3,213,200	3,358,300
637,200	Maternity Grant	665,300	696,300	725,500
532,900	Death Grants	564,900	599,900	635,600
1,941,600	Home Carers Allowance	1,977,800	2,057,200	2,130,500
250,000	Redundancy Protection	250,000	250,000	250,000
221,240,700	**Contributory Benefits**	**230,943,600**	**243,674,700**	**257,337,500**
5,378,600	**Administration**	**5,234,900**	**5,064,600**	**4,878,900**
(11,749,000)	**Net Revenue (Income)/Expenditure - Near Cash**	**(6,720,000)**	**120,100**	**8,048,900**
564,300	Depreciation	563,900	563,900	563,900
(11,184,700)	**Net Revenue Expenditure**	**(6,156,100)**	**684,000**	**8,612,800**

Statement of Comprehensive Net Expenditure				
2016 Forecast £		2017 Forecast £	2018 Forecast £	2019 Forecast £
	Income			
(238,368,300)	Social Security Contributions	(242,898,500)	(248,619,200)	(254,167,500)
	Duties, Fees, Fines & Penalties			
(62,800)	Sales of Goods and Services	(62,800)	(62,800)	(62,800)
(193,000)	Investment Income	(142,500)	(224,500)	(422,200)
(85,500)	Other Income	(85,500)	(85,500)	(85,500)
(238,709,600)	**Total Income**	**(243,189,300)**	**(248,992,000)**	**(254,738,000)**
	Expenditure			
221,240,600	Social Benefit Payments	230,943,600	243,674,700	257,337,500
	Staff Costs			
5,369,800	Supplies and Services	5,166,900	5,069,600	5,072,400
350,000	Administrative Expenses	358,800	367,800	377,000
	Premises and Maintenance			
	Other Operating Expenses			
	Grants and Subsidies Payments			
	Impairment of Receivables			
	Finance Costs			
	Foreign Exchange (Gain)/Loss			
	Contingency Expenses			
226,960,400	**Total Expenditure**	**236,469,300**	**249,112,100**	**262,786,900**
(11,749,200)	**Net Revenue Near Cash Expenditure**	**(6,720,000)**	**120,100**	**8,048,900**
564,300	Depreciation	563,900	563,900	563,900
(11,184,900)	**Total Net Revenue Expenditure**	**(6,156,100)**	**684,000**	**8,612,800**
69,657,029	**Forecast Fund Balances**	**75,813,129**	**75,129,129**	**66,516,329**

Health Insurance Fund

Introduction

The Health Insurance Fund (HIF) is administered by the Social Security Department and receives contributions from employers and working age adults. It subsidises GP visits, pathology costs and drug and dispensing costs of prescriptions for Jersey residents.

Contributions and Investment Income

Contributions to the fund are paid by working age adults (0.8% of earnings) and their employers (1.2%) up to the Standard Earnings Limit (SEL). Individuals without an employer are required to contribute both elements. Contributions have been forecast for the period using the central economic assumptions on average earnings (which affects both individuals' earnings and the three earnings limits), and employment (forecast from trend). More details are given in Appendix 7 to the MTFP.

The fund also receives investment income on the balance accumulated over past periods, which is invested on behalf of the Fund through the Common Investment Fund, and managed in accordance with an investment strategy aligned to the HIF's strategic objectives. This is forecast based on the forecast balance in the fund and predicted investment returns.

Contributory Benefits

<u>Medical Benefit</u>

A standard benefit is paid for each GP consultation covered by the Fund. The benefit also covers the charge made by the Health and Social Services Department for analysing blood samples provided by GPs.

<u>Pharmacy Benefit</u>

Pharmaceutical benefit covers the full cost of prescription drugs prescribed by GPs and includes a dispensing fee paid to community pharmacists in respect of each item dispensed. The Minister for Social Security is responsible for maintaining the list of drugs that are available on prescription from GPs.

<u>Gluten Free Vouchers</u>

Individuals who require a gluten-free diet can receive vouchers towards the cost of purchasing gluten-free products.

<u>Basis of Benefit Forecasts</u>

The level of benefits has been forecast for the period to allow for expected changes in the rate of benefit (driven primarily by the central Economic Assumptions on earnings and inflation), and volumes of claimants expected under the central population model (+350 p.a.), adjusting for past trends and other relevant information.

Jersey Quality Improvement Framework

The Jersey Quality Improvement Framework (JQIF) was introduced in 2015 and contains clinical and organisational measures describing the standards and activities which GP surgeries should achieve. These include, for example, the creation of a register of patients with diabetes and measures regarding specific interventions for this condition. Payments are made to GP practices according to their level of activity against each measure.

Administrative Costs

From 2016, the department has simplified the way it charges the funds it administers for the cost of this administration. Under the new methodology, a consolidated management charge for both staff and administrative costs is raised to each of the Funds to reflect the operational and management costs. The management charge is agreed for the period of the MTFP (2016-19) agreed in advance of the first year of its operation (2016), and incorporates a 2% reduction per year to reflect anticipated efficiency savings. The first year's charge to the HIF will be £1.54 million.

Certain costs will continue to be paid directly by the fund where they are incurred under the legislation relating to the fund in question or are specific expenditure of the fund rather than administration. These costs include audit, actuarial and investment management fees, and the cost of the Primary Care Governance Team.

Fund Position

The fund is operating at a net cash deficit, which is expected to become more pronounced as benefits continue to increase at a faster rate than income. However, investment returns on the Fund's balance offset operational deficits in the earlier years of the MTFP, and so will limit the overall impact on the fund's balance.

Funding for Health Costs

Further to the outline proposals included in MTFP 2016, the Council of Ministers is proposing the introduction of a health charge in 2018 to provide the basis for the funding of health costs.

To assist with the implementation of the health charge and to minimise the initial impact on individuals, the Minister for Social Security will propose three transfers from the Health Insurance Fund to the Consolidated Fund. Transfers will take place in each of 2017, 2018 and 2019 to the value of £5 million.

The transfers for 2018 and 2019 will only be effected once the collection of the health charge has commenced. The annual cost of health benefits provided from the HIF already exceeds the contribution income received into the fund. This situation must also be addressed and the future of the HIF will be considered as part of the overall project to create a sustainable funding mechanism for health and social care.

Health Insurance Fund

Net Revenue Expenditure - Service Analysis

2016 Forecast £		2017 Forecast £	2018 Forecast £	2019 Forecast £
(31,700,500)	Social Security Contributions	(33,829,900)	(34,868,100)	(35,880,600)
(2,800,000)	Net Investment Returns	(2,399,300)	(2,660,700)	(2,974,400)
	Contributory Benefits			
8,289,900	Medical Benefit	8,790,500	9,048,700	9,314,500
21,028,500	Pharmacy Benefit	22,689,200	24,328,300	26,070,800
395,600	Gluten Free Vouchers	448,600	506,900	567,700
29,714,000	Contributory Benefits	31,928,300	33,883,900	35,953,000
1,586,500	Jersey Quality Improvement Framework	1,586,500	1,586,500	1,586,500
-	Transfer to Health and Social Services	5,000,000	5,000,000	5,000,000
1,907,700	Administration	1,913,300	1,942,000	1,995,700
(1,292,300)	Net Revenue Expenditure - Near Cash	4,198,900	4,883,600	5,680,200
	Depreciation			
(1,292,300)	Net Revenue Expenditure	4,198,900	4,883,600	5,680,200

Statement of Comprehensive Net Expenditure

2016 Forecast £		2017 Forecast £	2018 Forecast £	2019 Forecast £
	Income			
(31,700,500)	Social Security Contributions	(33,829,900)	(34,868,100)	(35,880,600)
	Duties, Fees, Fines & Penalties			
	Sales of Goods and Services			
(2,800,000)	Investment Income	(2,399,300)	(2,660,700)	(2,974,400)
	Other Income			
(34,500,500)	**Total Income**	**(36,229,200)**	**(37,528,800)**	**(38,855,000)**
	Expenditure			
29,714,000	Social Benefit Payments	31,928,300	33,883,900	35,953,000
	Staff Costs			
3,494,200	Supplies and Services	3,499,800	3,528,500	3,582,200
	Administrative Expenses			
	Premises and Maintenance			
-	Other Operating Expenses	5,000,000	5,000,000	5,000,000
	Grants and Subsidies Payments			
	Impairment of Receivables			
	Finance Costs			
	Foreign Exchange (Gain)/Loss			
	Contingency Expenses			
33,208,200	**Total Expenditure**	**40,428,100**	**42,412,400**	**44,535,200**
(1,292,300)	**Net Revenue Near Cash Expenditure**	**4,198,900**	**4,883,600**	**5,680,200**
-	Depreciation	-	-	-
(1,292,300)	**Total Net Revenue Expenditure**	**4,198,900**	**4,883,600**	**5,680,200**
76,972,778	**Forecast Fund Balances**	**72,773,878**	**67,890,278**	**62,210,078**

Long-Term Care Fund

Introduction

The Long-Term Care Fund (LTCF) is a ring fenced Fund administered by the Social Security Department. This is funded by the new Long-Term Care Charge payable by local residents and a grant from the States. The Fund pays benefits to adults with long-term care needs.

Fund Income

Income within the Long-Term Care Fund (LTCF) consists of both a grant from the States, (which reflects budgets relating to Long-Term Care previously held by the Health and Social Services Department and Social Security Departments) and the LTC charge, calculated as 1% of taxable income up to the Upper Earnings Limit. The States Grant is governed by a formula and is set for the period of the MTFP. The Long Term Care Charge has been forecast based on the Personal Income Tax forecast, due to the closely related nature of the calculation.

Long Term Care Benefit

From 1 July 2014 individuals with long term care needs have been able to claim benefits from the new long term care scheme. The value of the benefit depends on the assessed care level of the individual and where the care is being received. Claimants can receive care in their own home, in a specialist group home or in a residential home.
A means tested benefit is available from the start of the care for those with lower income and assets. Property loans are available which are secured against the value of the family home. Once standard care costs have reached a certain level all claimants are entitled to a benefit which covers their standard care costs.

The level of benefits has been forecast for the period to allow for expected changes in the rate of benefit (driven primarily by the central Economic Assumptions on earnings and inflation), and volumes of claimants expected under the central population model (+350 p.a.), adjusting for past trends in volumes and other relevant information. As this is a relatively new benefit, there is limited historic information to inform this forecast.

Administrative Costs

From 2016, the department has simplified the way it charges the funds it administers for the cost of this administration. Under the new methodology, a consolidated management charge relating to both staff and administrative costs is raised to each of the Funds to reflect the operational and management costs. The management charge is agreed for the period of the MTFP (2016-19) agreed in advance of the first year of its operation (2016), and incorporates a 2% reduction per year to reflect anticipated efficiency savings. The first year's charge to the LTCF will be £1.42 million.

Certain costs will continue to be paid directly by the fund where they are incurred under the legislation relating to the fund in question or are specific expenditure of the funds rather than administration. These costs include audit, actuarial and investment management fees.

Fund Position

It is forecast that the fund will move into a net cash consuming position in 2019. However, a balance has been built up in the fund using transfers of underspends in the tax funded benefits budget from previous years which will allow time for the States to consider changes to the level of the Long-Term Care Charge needed to ensure that it is sustainable in the longer term.

Long Term Care Fund

Net Revenue Expenditure - Service Analysis

2016 Forecast		2017 Forecast	2018 Forecast	2019 Forecast
£		£	£	£
(34,286,900)	States Grant to Long-Term Care Fund	(28,382,200)	(28,552,500)	(28,723,800)
-		-	-	-
(17,296,700)	Long-Term Care Charge	(18,209,500)	(19,304,800)	(20,263,200)
40,115,500	Long-Term Care Benefit	43,001,000	45,562,100	47,976,400
1,341,000	Administration	1,275,300	1,298,300	980,900
(10,127,100)	Net Revenue Expenditure - Near Cash	(2,315,400)	(996,900)	(29,700)
-	Depreciation	32,000	32,000	32,000
(10,127,100)	Net Revenue Expenditure	(2,283,400)	(964,900)	2,300

Statement of Comprehensive Net Expenditure

2016 Forecast		2017 Forecast	2018 Forecast	2019 Forecast
£		£	£	£
	Income			
(51,583,600)	Social Security Contributions	(46,591,700)	(47,857,300)	(48,987,000)
	Duties, Fees, Fines & Penalties			
	Sales of Goods and Services			
(89,000)	Investment Income	(124,700)	(171,700)	(359,100)
	Other Income			
(51,672,600)	Total Income	(46,716,400)	(48,029,000)	(49,346,100)
	Expenditure			
39,851,100	Social Benefit Payments	43,001,000	45,562,100	47,976,400
	Staff Costs			
1,430,000	Supplies and Services	1,400,000	1,470,000	1,340,000
	Administrative Expenses			
	Premises and Maintenance			
	Other Operating Expenses			
	Grants and Subsidies Payments			
	Impairment of Receivables			
	Finance Costs			
	Foreign Exchange (Gain)/Loss			
	Contingency Expenses			
41,281,100	Total Expenditure	44,401,000	47,032,100	49,316,400
(10,391,500)	Net Revenue Near Cash Expenditure	(2,315,400)	(996,900)	(29,700)
-	Depreciation	32,000	32,000	32,000
(10,391,500)	Total Net Revenue Expenditure	(2,283,400)	(964,900)	2,300
21,311,801	Forecast Fund Balances	23,595,201	24,560,101	24,557,801