Potential Questions about the Medium Term Financial Plan 2013-2015

This document has been collated from the common questions arising at the various presentations to States members, Scrutiny and Interested Parties during the development of the Medium Term Financial Plan this year.

Its purpose is to provide additional background and to further inform debate around the Medium Term Financial Plan 2013-2015.

The document has been structured to follow the same format as the different sections of the Medium Term Financial Plan Report and includes an Annex providing additional information on certain areas.

12. Looking Ahead: Capital Programme 2013 – 2015

12.1 Capital Programme

12.2 Housing Transformation

13. Looking Ahead: Long Term Capital Plan – Indicative Plans for 2012 – 2032

---

14. Principles and Process

14.1 Why have a Medium Term Financial Plan?

14.2 How will the MTFP be Monitored and Reviewed?

14.3 Briefing and Involvement with States Members

ANNEX

A. The Key Themes

B. Supplementary Information

B4.4 If the Housing Transformation Programme is approved will the £1m per year, allocated from within the Soc Sec budget, be enough to cover the impact on Income Support?

B4.5 What consideration has been given to the wellbeing of individuals who may have to claim benefits fro the first time because of the housing rental increases?

1. Introduction to Medium Term Financial Plan 2013 – 2015

1.1 Strategic Priorities

1.1.1 What major policies are due for debate over the MTFP period?

Department	Policy/Strategy
Chief Minister	• Housing Strategy
	• Population/Migration Policy
	• Alcohol and Licensing Strategy
Department of the Environment	• Energy Policy
	• Planning Appeals Policy
	• Island Plan Policy H3: Affordable Housing
	• Consolidated environmentally based policies across the States
Economic Development	• Incorporation of Harbours & Airport
Education Sport & Culture	• Sports Strategy
	• Strategy on the Future of Education
	• Proposals for the future of Fort Regent
Health & Social Services	• Strategies relevant to health and social care reform underpinning the White Paper (to be debated in Autumn 2012) but yet to be identified for States debate
	• Channel Island Pandemic Strategy
	• Regulation of Care Law - Primary Legislation and associated Regulations
Home Affairs	• Vetting and Barring policy and legislation
	• Alternative to Wheel Clamping
	• E-Borders
	• Sexual Offences Law
	• Custodial arrangements for children
Housing	• Incorporation of the Housing Department & Establishment of a Regulator for the Social Housing Sector
Social Security	• Discrimination Law
	• Employment Law – Family friendly policies
	• Long Term Care Benefit Law
Transport & Technical Services	• Import/processing waste from Guernsey
	• Liquid Waste Strategy
	• Streetworks Law
Treasury & Resources	• Strategy for PECRS & JTSF
	• 2014, 2015, 2016 Budgets
	• MTFP 2016 to 2018

*** Note: These are the major policy areas that are currently planned to be brought forward to the States Assembly for debate in the period 2013 to 2015. They may be subject to change/addition depending on priority changes.**

1.1.2 How are Strategic Priorities funded in the MTFP?

- The funding of the agreed Strategic Priorities has been a focus of the allocation of the available funding within the MTFP. The majority of the commitments from the 2012 Business Plan and the new funding from the growth within the MTFP are targeted at the Strategic Priorities. In particular a significant proportion of funding, some £26 million by 2015, is targeted at the Reform of Health and Social Services.

1.1.3 Why is there no funding for 'Promote family and community values'?

- The base spending for Health and Social Services in 2012 is £171 million. This funding allows for the States to provide a wide variety of services that promote family and community values – from caring for the elderly, vulnerable children and adults to helping support the valuable work done by third sector organisations such as Family Nursing and charitable organisations. £62 million of this 2012 expenditure is allocated to community and social services.
- P.82/2012 "Health and Social Services: A New Way Forward", which was approved by the States on 23rd October 2012, sets out the challenges that Jersey faces in relation to the future of health and social care services. In particular the transition plan for Health and Social Services focuses on improvements in:
    - Services for Children
    - Services that encourage healthy lifestyles
    - Services for adults with mental health issues
    - Services for older adults
- House our community is a key strategic priority and this is intrinsically linked to family and community values. Housing provide good quality, affordable housing to a significant proportion of the population of Jersey (4,500 States rental homes). Within the period of the MTFP they aim to increase capacity to be able to help deliver a target of 1,000 new homes in the next 12 years and to bring existing stock up to "decent home" standards.
- The CoM has recently agreed a proposal for additional funding for a Vulnerable Adults Policy Group and a Jersey Vulnerable Adult Protection Committee. This funding, starting in 2012 and then recurring from 2013 will be funded from the 2012 Central Reserves and will contribute to Strategic Priority 7 – 'Promote family and community values'.
- In the 2012 budget, substantial additional support to families with young children was given by almost doubling the amount of childcare relief available from £6,150 to almost £12,000 per year for children up to the time they become eligible for States-provided early years education. In 2012, this benefited families by in the region of £1 million and the level of funding has been maintained in base budgets for the MTFP. Not only does this help Island families it also helps the Island attract and retain essential workers such as nurses.

1.1.4 What was the process for prioritising expenditure?

- Initial growth allocations of £6 million in 2013, £16 million in 2014 and £26 million in 2015 were approved as part of the total States spending limits for the Medium Term Financial Plan.
- Against these original growth allocations, the Council of Ministers received growth requests from departments amounting to almost £35 million. The growth requests also proposed that a higher level of growth was required in

2013 to address the immediate priorities of Getting People Back to Work, Economic Growth and Reform of Health and Social Services.

- In addition to the main growth bids, initiatives for Back to Work and Employment projects (which may not be permanent and recurring) of £7 million by 2015 were also proposed.
- The Council of Ministers and Corporate Management Board conducted a significant prioritisation process with departments which attempted to reduce the requests to the level of growth funding available. Treasury worked with departments to identify if there were other ways that the growth requests could be funded within existing spending limits. Departments were encouraged to reprioritise existing services and identify efficiency savings wherever possible.
- The Council of Ministers then went through a process of seven iterations. A fully funded package of proposals was agreed which prioritises the growth bids in order to help deliver the Strategic Priorities.
- The process relied on significant consultation at an officer level with all iterations going through a feedback loop with Chief Officers to provide further insight into the operational and service provision implications.
- The prioritisation process also dovetailed with the work being carried out by a number of Ministerial Oversight Groups, for example on Health and Social Services and Housing Transformation. The MTFP has been prepared to be consistent with what has been proposed, without in any way pre-empting the support of the States for the funding proposals in the MTFP.
- The Council ultimately considered three final options:
  - All prioritised growth bids to be included in MTFP
  - Removing selected growth bids to get closer to a fully funded position
  - Removing all 2013 growth except Health and Social Services.
- One of the Council of Ministers' key resource principles is to maintain a balanced budget position and deliver affordable and sustainable public services and this determined the final option which required a final prioritisation process to select growth bids to be removed and not funded as part of the MTFP proposals. These removed or deferred growth bids amounted to £11.6 million in 2013, £7.4 million in 2014 and £5.1 million in 2015.

1.2 Economic Growth

1.2.1 What funding is provided for Economic Growth?

- The Medium Term Financial Plan proposes £9 million per annum from 2013 for Getting People Back to Work and Economic Growth.
- In addition the Medium Term Financial Plan proposes £5 million to be set aside for an Innovation Fund[1].
- The investment in Economic Growth relates to:
  - an increase in funding for Jersey Finance £1.8 million[2]
  - Non financial services investment in Digital Jersey, Jersey Business, ICT and Locate Jersey initiatives £1.5 million
- Investment in Back to Work and Employment Initiatives:
  - New economy apprentices from EDD, Skills board apprentices at Highlands and apprenticeships for Healthcare Assistants of £760,000

[1] This is subject to an Amendment by Deputy Le Fondre – P.69/2012 Amd (8)
[2] This is subject to an Amendment by Deputy Southern – P.69/2012 Amd

    - Back to Work Projects including growth in Advance to Work, Advance Plus, Workzone and Employer Engagement of £2.3 million
    - Employment schemes and incentives including employment grants, sector specific training initiatives, job clubs and targeted employment grants £3 million
    - This funding builds on the Fiscal Stimulus funding for advance to Work, Skills Training and additional students at Highlands which has also now been incorporated in base budgets as part of 2012 Business Plan commitments.

1.2.2 How do you justify the grant to Jersey Finance Ltd in 2014-2015?

- The Economic Growth and Diversification Strategy (EGDS) has at its heart the growth and diversification of the finance sector. The grant funding given to Jersey Finance Ltd (JFL) is of pivotal importance in achieving this aim in terms of diversification, international competition and market share.
- In addition, the finance sector remains the largest single contributor to the economy in Jersey, generating over 40% of GVA and nearly £300 million per year in taxes. The industry directly employs over 12,500 islanders, some 22% of the working population, and the vast majority are local. Finance firms spend more than £400 million per year in the local economy. This far outweighs the financial contribution of any other sector of the economy.
- The JFL business plan 2013-2015, which was submitted to EDD in support of the EGDS, contains significant market development activity, both in enhancing the current market presence and also emerging markets, primarily the BRICS countries.
- It also bolsters both defensive and promotional activities in the UK and European markets in response to the increased level of threat and opportunity over the last few years.

1.2.3 What is the purpose of Innovation Fund?

- The Innovation Fund will increase the availability of risk capital for high value growth companies. The fund will support projects that can clearly demonstrate the following:
    - creation of employment for Jersey residents
    - return on investment in terms of economic benefit for every £1 spent from the Fund
    - a quantifiable impact on competitiveness and innovation in sectors which Jersey can demonstrate a comparative advantage(measured by increased market share)
    - encouraging high value added, high quality, high productivity economic activity
    - a strong case for States support through alignment with States Strategic Plan priorities, in particular in areas where market failure is presenting a barrier to innovation.
- The key objective of the Economic Growth & Diversification Strategy, as approved by the States in P.55/2012, is to deliver growth, improved competitiveness, diversify the local economy and create employment. To achieve this, a key strategic aim is to encourage innovation and improve Jersey's international competitiveness.
- In order to achieve this strategic aim an identified priority is to establish the Innovation Fund. Support from the Fund will only be made to projects that

clearly demonstrate a significant leverage in terms of improving Island competitiveness, infrastructure improvements, developing innovation and diversification towards high value activity that creates good jobs for local people.

1.2.4 How much money will the Fund have and when?

- It is proposed that the fund is established with an initial allocation of £5 million, funded from part of the proposed redemption of JT Group Limited's 9% cumulative preference shares[3]. If approved this £5million will be allocated to the Fund in 2012, although it will most likely be operational from 2013.

1.3 Fiscal Policy Panel

1.3.1 What is the Fiscal Policy Panel's view of the MTFP proposals?

- The 2012 FPP report states that the economic outlook and GVA level for Jersey's economy has been slightly downgraded for 2012 and 2013. The recommendations of the FPP in response to this downgrading include:
    - To accelerate fiscal support for the economy through increased short-term capital expenditure in 2012 and 2013
    - To plan for extra flexibility to enable the reduction spending in 2014 and 2015, depending on economic growth
    - To leave the Stabilisation Fund and Strategic Reserves as they are for the next two years, but developing a plan to rebuild the Stabilisation Fund when the economy begins to recover
    - To undertake a more detailed review of the impact of the planned capital expenditure
    - To adopt certain reporting adjustments of forecasting in future MTFP's or Budgets
- The FPP report has helpfully illustrated the difficult balancing act between allocating resources to meet clearly identified spending needs in essential areas such as health, social care and job creation, supporting the economy in the short-term, and protecting the competitive system of taxation upon which our Island depends.
- It has already been signalled in the States that there will be no significant tax raising measures proposed in the budget. Those measures that are proposed will aim to promote the consolidation and simplification of Jersey's existing tax regime in order to tighten compliance on tax collection and reduce avoidance.

1.4 Three-Part Plan

1.4.1 What is the three-part plan?

- To deal with a projected £100 million budget deficit due to tax loss as a result of moving to the zero/ten tax regime and a further £100 million deficit by 2013 from the economic downturn, Jersey's Council of Ministers put forward a three-part plan to tackle the projected deficit by:

1. Raising taxes by £35 million to close the gap
2. Boosting growth through a fiscal stimulus package
3. Cutting spending by 10% within 3 years to generate savings of £65 million

1.4.2 What progress has been made in delivering the three-part plan?

[3] This is subject to an Amendment by Deputy Le Fondre – P.69/2012 Amd (8)

- New tax measures have been implemented and significant progress has been made towards delivering savings targets of £65 million. The Council of Ministers remains committed to achieving a balanced budget by 2013. £44 million of Fiscal Stimulus funding has also been successfully applied to support the economy.
- The fall in income from zero/ten has happened at the levels predicted and the effects of the economic downturn in Jersey have not had quite the impact originally anticipated. Jersey now has a much broader mix of funding sources from income tax, company tax, consumption tax and duties which is much more sustainable for the future.
- The States is making good progress in delivering CSR savings: police overtime has been reduced, efficiency in tax administration has increased, social security fraud has been reduced and vacant States housing turnaround times have increased, amongst many other improvements.
- We still have savings to deliver - Education, Sport and Culture have been given more time to deliver their share following the States decision not to proceed with reducing grants to fee paying schools.
- Looking ahead we plan to make further savings from the reform of government as well as pursuing a number of approaches for further budget reductions. This will not be easy to achieve and will take planning and preparation during the course of the next two years.

1.4.3 How much of the £65 million CSR savings target is being delivered?

- The MTFP proposals to 2013 show that almost £56 million of the original £65 million target will be delivered by 2013.
- The shortfall is predominantly made up of £6.3 million in Education and £3.3 million which is the cost of the consolidated 1% pay offer in 2013.
- By 2016, further savings in education, amounting to £2.8 million and planned savings in Social Security of a further £3 million will bring the savings delivered to £61.4 million and reduce the shortfall to £3.6 million.
- At this level the shortfall equates approximately to the savings from reducing grants from fee paying schools which the States reinstated in P72/2011.

2. Resource Principles: Balancing Taxation and Spending

2.1 What resource principles have the Council of Ministers proposed in the Strategic Plan?

- The Council of Ministers has proposed seven resource principles in the new States Strategic Plan which were approved by the States:
  1. Be prudent, taking account of the uncertain economic and financial outlook
  2. Identify and implement all possible savings and efficiencies. (For 2013 and beyond we will optimise methods of service delivery and provide value for money)
  3. No additional spend unless matched by savings or income
  4. The Stabilisation Fund will only be used during an economic downturn, as advised by the Fiscal Policy Panel, to fund the effects of reductions in States revenues or increased demand for States services, and to provide appropriate stimulus to the economy

5. Maintain balanced budgets over the medium term for current expenditure and achieve an appropriate balance between taxation and spending over the course of the economic cycle
6. Actively manage the balance sheet as well as the Budget by maximising investment returns within agreed levels of risk
7. Plan our expenditure on capital and infrastructure over the long term and consider carefully the appropriate sources of funding for major projects, including borrowing

2.2 What taxation principles have the Council of Ministers proposed in the Strategic Plan?

- The Council of Ministers also proposed a number of principles which underpin the system of taxation which were agreed by the States:

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

3. Development of the Medium Term Financial Plan 2013 – 2015

3.1 What is the timetable for the MTFP and Budget?

- The MTFP has been developed in parallel with the States Strategic Plan. The starting point was CoM workshops in December 2011.
- States Members were briefed in January 2012. At this point the Resources Statement was drafted by Treasury and incorporated in the Strategic Plan White Paper.
- Detailed work took place with departments to identify the resources needed to deliver the Strategic Vision and Strategic Priorities. This work involved identifying the revenue and capital implications of meeting those priorities together with the associated legislative and staffing requirements.
- Draft Resources statement refined and included in draft Strategic Plan, which was lodged March 2012 and approved by the States Assembly on 1st May 2012.
- The Council of Ministers held a series of meetings through May, June and July to consider options for funding service pressures and growth and also the options for finding budget reductions so as to achieve a balanced budget.
- In June meetings were held between Departmental Ministers and the Treasury and Resources Minister to discuss and resolve any remaining issues.
- Final proposals were agreed at Council of Ministers on 21st June and incorporated into the final report.
- A final briefing for all States Members, interest groups and the media was held on 20th July 2012 and the MTFP was lodged in the States' Assembly on 23rd July 2012.

3.2 What is the timetable for the MTFP and Budget debates?

Month	Jul		Aug				Sept				Oct					Nov				Dec
W/C	**23**	**30**	**6**	**13**	**20**	**27**	**3**	**10**	**17**	**24**	**1**	**8**	**15**	**22**	**29**	**5**	**12**	**19**	**26**	**3**
MTFP 2013-2015	MTFP Lodged 23rd		14 weeks lodging period (incl:12 weeks prior to Amendment deadline)											MTFP Deadline for Amendments 22nd		MTFP Debate 6th Nov				
Budget 2013													16th Presentation and 17th Lodging		7 weeks lodging period					Budget Debate 4th Dec
FPP Report											1st Oct - FPP Report and Presentation									
MTFP Scrutiny process							Panel and Sub-Panel Hearings				5th Oct Sub Panel Draft Report available		Sub Panel Report by 16th							

4. Looking Ahead: The Financial Forecast for 2012 – 2015

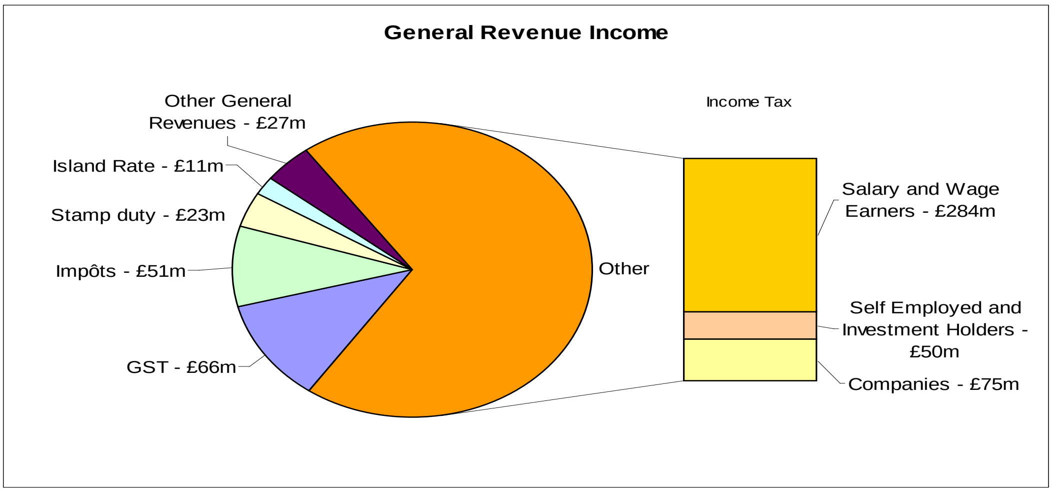
4.1 States Income Forecasts

4.1.1 Where does our income come from?

- States income amounts to £647 million in 2013 increasing to £711 million in 2015.
- Income Tax represents 70% of States income and the following table from the MTFP provides a high level summary:

	Budget	Forecast	MTFP Proposals (June 2012)		
	2012 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000
States Income					
Income Tax	*416,000*	430,000	450,000	470,000	500,000
- Budget Measures Tightening Compliance on Tax Collection and Reducing Avoidance			7,600	7,600	7,600
Goods and Services Tax	*80,047*	77,700	79,761	81,955	84,508
Impôts Duty	*54,500*	51,117	52,939	53,002	53,111
Stamp Duty	*24,029*	22,869	24,529	27,702	28,962
Other Income	*26,582*	31,585	20,545	21,926	24,764
Island Rate	*11,185*	11,330	11,670	12,032	12,453
States Income	***612,343***	**624,601**	**647,044**	**674,217**	**711,398**

- Breakdown of Gross States Income in 2011 from 2011 Report and Accounts:



4.1.2 Are the income tax forecasts in the MTFP too optimistic?

- The income tax forecasts are not considered optimistic; in fact comparisons show that they reflect the same level of caution as other independent bodies.
- The economic growth assumptions were finalised by the States Economic Adviser in March of this year and were based on the published FPP economic forecasts at that time and were used to feed into the income tax forecasting process.
- For 2013 and 2014 the approach taken is consistent with that adopted by the UK's Office for Budget Responsibility - that is that the economy would return to an average performance, reflecting long-term trends and recent experience.
- The assumptions are robust. The most recent monitoring information at the end of the second quarter shows that income tax receipts are projected to exceed the forecasts in the MTFP by £7 million. This is consistent with us achieving the levels of income set out in the MTFP.
- The Corporate Services scrutiny panel advisor produced scenarios where more pessimistic assumptions were used to model future income tax forecasts and even with these assumptions the income forecasts were still broadly within the range of forecasts calculated for the MTFP.
- FPP comment – *"It is a difficult balance between the risks of lower incomes as a result of revised growth projections but also the knowledge that in the past and in the current year, actual tax revenues are exceeding forecasts. Risk is on the downside – that cyclical downturn is worse than expected".*

4.1.3 What economic assumptions are the forecasts based on?

- The economic assumptions are produced by the States of Jersey Economics Unit. They draw data from a number of sources that were available at the time of preparing the MTFP (March 2012), including the independent Fiscal Policy Panel.
- They are based on a fragile global economic outlook and the assumption that the Jersey economy performs weakly in 2012, only returning to average performance over the remainder of the MTFP. There is no assumption that there is a quick turnaround in our economic performance.
- The economic assumptions used in the MTFP have been updated from those used for the 2012 Budget – in the majority of cases they have worsened.

% change	2012	2013	2014	2015
Real GVA	1.4	2.0	2.5	2.5
RPI	3.8	3.0	3.1	3.5
Employment	0.5	1.0	1.0	0.5
Average Earnings	3.5	3.8	4.1	4.8
Interest rates (%)	0.5	0.6	0.9	1.4
Forecast (£m)				
Upper	450	470	495	525
Central	430	450	470	500
Lower	410	425	450	475

-

How do they compare with UK Office of Budget Responsibility

- They are not inconsistent with those used by the independent UK Office of Budget Responsibility for forecasting UK public finances. The assumptions used to forecast the increase in income tax revenues of the States of Jersey is broadly in line with the same OBR forecasts over the same period.

MTFP Jersey assumptions v OBR UK forecasts

	Outturn	Forecasts				
Real economic growth % change	2010	2011	2012	2013	2014	2015
Jersey	-5.0*	1.2	1.4	2.0	2.5	2.5
UK	2.1	0.8	0.8	2.0	2.7	3.0

- The falls in total GVA (3% in 2008, 6% in 2009 and 5% in 2010) were driven by the performance of the Finance sector. These should be put in the context of strong growth in 2006 and 2007 (5% in each of those years), and growth in years subsequent to 2010. The drivers for the period of negative growth were the worldwide financial services crisis and interest rates.

What did the Fiscal Policy Panel Report say?

- The short-term economic outlook has deriorated which means that future income tax revenues may not grow as quickly as assumed in the MTFP. It is more likely now that income tax revenues will be in the lower part of the forecast range by 2015.
- There is NO recommendation to revise the fincial forecasts ahead of the MTFP debate.

Alternative assumptions proposed by Corporate Services Scrutiny Advisor

- At the request of the Corporate Services Scrutiny Panel's Economic Advisor, Professor MJ Oliver, the States Economics Unit prepared two alternative income tax forecasts based on alternative economic assumptions provided by the Scrutiny Advisor.
- It should be made clear that these are not revised assumptions from the States Economic Advisor. Whilst there is an acceptance that some economic assumptions for 2012 and 2013 could be downgraded, as highlighted by the FPP report, the States Economic Advisor is of the opinion that the assumptions used for 2014 and 2015 are overly pessimistic especially when compared to published UK OBR forecasts for the same period. The resulting changes, which have been used in the Corporate Services MTFP Sub Panel Report, are shown below:

% change	2012	2013	2014	2015
Real GVA	0.0	0.5	1.5	1.5
RPI	Assumptions unchanged			
Employment	Assumptions unchanged			
Average Earnings	1.5	1.5	1.75	2.5
Interest rates (%)	Assumptions unchanged			
Forecast (£m)				
Upper (MTFP)	450	470	495	525
Central (MTFP)	**430**	**450**	**470**	**500**
Lower (MTFP)	410	425	450	475
Scrutiny Forecasts (£m)				
Central ('Scrutiny 1')	430	440	450	465
Variance to **Central (MTFP)**	0	-10	-20	-35
Central ('Scrutiny 2')	410	425	450	475
Variance to **Central (MTFP)**	-20	-25	-20	-25

- 'Scrutiny 1' would be the scenario arising as a result of the changes in Real GVA and Average Earnings alone.
- 'Scrutiny 2' additionally includes the scenario that exemptions increase in line with earnings rather than inflation – improving the tax yield and income forecasts.
- Both 'Scrutiny' 1 and 'Scrutiny 2' are below the MTFP central forecast, but only 'Scrutiny '1 brings the forecast below the lower MTFP forecast in 2015.
- The States Economic Advisor concluded that the Scrutiny Forecasts were consistent with the sensitivity analysis conducted as part of the MTFP.

4.1.4 What happens if the forecasted States income is not achieved?

- The work on forecasting included sensitivity analysis which indicated that a significant change would be required in any of the individual economic assumptions for the actual out-turn to fall outside the range given. If there was a significant economic downturn and fall in States income, once the available flexibility in spending described above had been applied then the balances on the Consolidated Fund and other funds would be applied.
- Only then would it be appropriate to call on the Strategic Reserve (as there is only a very small balance on the Stabilisation Fund). This would provide time to determine the appropriate adjustments to tax and spending ahead of the next MTFP.
- There is, however, a significant degree of flexibility within the MTFP period. Tax decisions will be taken in the annual Budgets allowing significant scope for flexibility should economic conditions change in either direction.
- The total Capital Programme proposed in the Medium Term Financial Plan amounts to £222 million and decisions to allocate this funding to individual capital projects will not be taken until the annual Budget each year.
- There is also flexibility within department budgets where carry forwards and department contingencies can be reprioritised. The MTFP also includes central contingency amounts in each of the three years as well as funds for restructuring.
- The Council of Ministers will also consider any opportunities for budget reductions or efficiency savings that may arise from the Public Sector Reform and Modernisation Programme which may provide additional flexibility particularly by 2014 and 2015. However, at this stage it is too early in the

process to consider either the timing or at what level these budget reductions may be achieved.

4.1.5 How do you explain the increase in States income from £624 million in 2012 to £711 million by 2015?

- The increase in the income tax from one year to the next can be explained by inflation plus weak growth in employment and earnings and a slightly higher yield.
- Employment is forecast to increase between 0.5% and 1.0% each year
- Earnings growth is assumed to increase from 3.5% in 2012 to 4.8% by 2015 which maintains the past trend of exceeding the RPI forecasts
- The personal tax yield increases slightly from 13.4% in 2012 to 13.6% by 2015
- Much of the increase in income tax is therefore expected to occur in personal income tax rather than from company tax.
- Impôts duties and GST are consumption taxes which are generally robust even when the economy is weak. The GST increases are largely in line with inflation.
- Stamp duty forecasts assume a small recovery in prices over the period of the MTFP and a gradual increase in turnover of properties.

4.1.6 What is the relationship between GVA and Income Tax Revenues?

- Economic growth itself is not the key aspect of the Income Forecasts but rather the components of economic growth and the tax yield that is generated from the tax base. For example, the strongest influence on the largest component of income tax – personal tax - is the change in employment and average earnings which may not correlate closely with changes in GVA.
- For example, GVA fell 6% in real terms in 2009, but employment was actually broadly flat and average earnings grew by 3%.
- In addition, for YOA 2010 the assumptions made proved reasonably accurate in predicting changes in the various elements of the tax base but revenue turned out about £20m higher than forecast largely because the assumption made about the yield that would arise from the personal tax base was too low.

4.1.7 What is the Bad Debt Provision in the Income Tax Forecasts?

- A provision of £4 million is made each year as part of the income tax forecasts to cover any under-recovery of assessed tax income. This is relatively high compared to recent experience as actual write-offs have been between £1.5m and £2 in recent years.

4.1.8 Why has the forecast for dividends reduced significantly after 2012?

- The main difference in forecasts from 2013 onwards is due to Jersey Telecom Group Limited dividend forecasts. These are based on a new dividend strategy and the adoption of a revised capital structure, which will allow the company to develop its business in line with the industry's peer groups with the intention of maintaining and delivering long term growth in shareholder value for the States.
- Generally, JEC and Jersey Water dividend returns are forecast at the current levels or marginally better than current run rates.
- For the first time Jersey Post has agreed to a revised dividend policy and we have forecast annual dividends for future years. Prior to that dividend receipts

were volatile and some years non-existent. In 2012 there was an additional one off large special dividend forecast for Jersey Post.

4.1.9 What are the £7.6 million of 'Budget Measures…..'?

- As well as the Income Tax Forecasts from the forecasting model, a further £7.6 million of revenue has been included in the MTFP.
- This figure is already being achieved, as can be seen in quarterly monitoring reports for 2012, which show a £7 million improvement on the MTFP forecasts and there is no reason to suspect that this won't carry through to 2013.
- The actual level of write-offs is likely to continue at levels below the prudent £4 million provided for in the MTFP.
- Some work has already been done and is in place to tighten compliance on tax collection, new measures to reduce avoidance are to be proposed in the forthcoming Budget and additional revenue from investigations due to extra resources in the investigations team will all contribute to this figure.
- The Budget proposals are also likely to generate increases in income of £2.635 million[4] from the Impôts duty proposals which are in line with the States alcohol and tobacco strategies.

4.2 Tax Policy

4.2.1 What is the Long Term Tax Policy?

- The long-term tax policy is set out in the MTFP. It is the culmination of work undertaken by the Tax Policy Unit into the likely needs of Jersey's tax framework in the next five years.
- As a long-term tax policy, it cannot be highly prescriptive about the types and proportions of taxes applied. Even in less economically uncertain times, it would be impossible to be able to determine precisely what taxes Jersey should apply in a decade's time. As such, it would be unhelpful to stipulate, for example, the percentage of States revenues which should come from different types of taxes.
- The policy sets out the principles and objectives on which future tax reform, if any, should be based to achieve the States current economic and political aims. The policy must also be flexible enough to deal with unexpected future changes.

4.2.2 Will there be tax increases during the MTFP period?

- There is currently no intention to increase taxes significantly over the period of the MTFP, and provided the economy performs as expected, there should be no need to do so.
- *This message is restated in the Budget 2013 where the focus is centred around three key themes:*
    - *safeguarding tax revenues,*
    - *consolidation, and*
    - *simplification*
- *within Jersey's existing stable tax regime.*
- *The emphasis is on sustaining our current system of taxation and tightening compliance on tax collection and reducing tax avoidance forms a fundamental element of this.*

[4] Subject to any Budget amendments

- *It is with these objectives in mind that no significant tax measures in the 2013 Budget are proposed.*

4.2.3 What progress has been made on taxing non-Jersey non-finance companies?

- The review into ways of raising additional revenues from non-financial services companies has been completed, a report and recommendations were presented to the States on 23 October 2012.

4.2.4 Are there any plans to change the tax regime for 1(1)(k) residents?

- A new regime was introduced last year and there are no intentions to alter it.
- In considering policy in this area, it was necessary not only to look at what brought people to Jersey but also to look at what drove them from other jurisdictions.
- Jersey has an informal target of bringing in 15 1(1)(k) residents each year. For 2012, the figure has already reached double figures.

4.3 Expenditure increases

4.3.1 Why is Jersey able to increase its spending in the current economic climate?

- The Island is in a much stronger position than most other jurisdictions having set aside resources in a Stabilisation Fund to invest and stimulate the economy and implemented a three-part plan to deliver balanced budgets.
- The States Strategic Plan sets out bold and ambitious targets for service improvement. In order to improve health, social services and housing, get people into work, grow the economy and continue with a high quality education service there has to be investment.
- The Council of Ministers has also had to take a hard look at resources and propose other measures to ensure that budgets remain in balance despite the proposed investment.

4.3.2 What are the increases in spending made up of?

- The MTFP proposes a significant increase in spending in support of the Reform of Health and Social Services, some £26 million by 2015. In total £46 million of growth is proposed across departments, including the commitments from the 2012 Business Plan.
- In addition, provision is also made for increases in the base funding of Income Support and Supplementation to address the issues with the current economic position and unemployment.
- Base funding also increases in order to allow moderate provision for an increase in prices and for the cost of the latest pay offer.
- These increases in funding are partly offset by the remaining tranche of CSR savings and the additional budget reductions and offsetting measures proposed.

4.3.3 How do the spending limits proposed in the MTFP compare with the 2012 Business Plan?

- The increases in spending levels between the 2012 Business Plan and MTFP are made up of increases in the base provision of Income Support and Supplementation and in 2013 a reduction in the intended HIF contribution from £6 million to £2 million.
- In total the increase is £10 million in 2013 and £2 million in 2014.

- The following table is taken from the Fiscal Policy Panel report:

2011 £m	2012 £m	Difference	2013 £m	2014 £m
20	12	**States Income**	5	-7
3	3	**Department Net Revenue Expenditure**	32	33
0	-1	**Central Reserve (Contingencies and growth etc)**	-14	-14
0	0	Gross Capital Allocation	18	53
0	-2	Funded By Other Sources	-26	-70
0	-2	**Net Capital Allocation**	-8	-17
-21	0	**Total Net Expenditure Allocation**	10	2
41	**12**	**Surplus/deficit**	**-5**	**-9**

Figure 0.14
Public Finances 2012-2015: MTFP, the 2012 Budget and differences

4.4 Income Support/Unemployment

4.4.1 What is the effect of the increase in unemployment and LVCR?

- The main effect of increased unemployment is an increase in income support. The impact of LVCR is not separately identified as some of those individuals previously working in that area will have already taken up existing job vacancies.
- An increase in the number of unemployed will also increase the demand for training and skills initiatives and the demand for other Back to Work projects and employment initiatives. Significant new funding has been proposed for each of these areas as well as investment to stimulate economic growth and create more jobs.

4.4.2 What changes are being proposed to benefits to save £3m from 2014 onwards?

- No concrete plans have been made yet.
- A number of options are being considered and the figure of £3m is a target.

4.4.3 How much co-operation are you getting from other States departments to place the unemployed on schemes in States departments?

- Discussions with other departments (eg. Department of the Environment) are ongoing[5].
- The States are generally not growing their number of paid employees.

4.4.4 What progress has been made on the removal of survivor's pension?

- Law drafting instructions have been issued to move the invalid care allowance from Income Tax into the Social Security fund.
- A proposition will have to be brought to the States as it is a new benefit. This is part of the Social Security Department's 2013 CSR savings.
- A proposition (P.101/2012) has also been lodged on survivor's benefits. It will be proposed to only pay the survivor's pension to people with children under school-leaving age.

[5] See proposals contained within P.69/2012 Amd (2) - Comments

- It is hoped that this will offset the £2.5-£2.8m costs of the invalid care allowance.

4.5 Supplementation

4.5.1 What is Supplementation and how is it forecast?

- Supplementation is the term often used to describe the States grant to the Social Security Fund. This figure represents the value of contributions not made by individuals earning less than the contributions ceiling of circa £45,000.
- This top up of contributions from States funds is required to ensure that sufficient funding is maintained in the Social Security Fund to meet future pension obligations and other benefits due to Islanders.
- The Social Security Minister proposed a new certainty formula for 2012. The proposal in the MTFP is to extend the existing certainty formula and apply it for the three years 2013 to 2015[6].
- The forecast would involve uprating the 2011 Supplementation figure to 2013, 2014 and 2015 prices using the average earnings index. These calculated sums would then be fixed and provide a 'certain' contribution from States funds to the Social Security Fund.
- This makes the forecast simpler but will involve a reworking of the required contributions at each new MTFP period. The next update will be in 2015 for the period 2016-2018/19

5. Looking Ahead: Carry Forward Funding

5.1 What is the £41 million carry forward in 2012 made up of?

- The £41 million carry forward in 2012 is made up of £27 million department underspends and £14 million central contingencies.
- The department carry forwards comprise:
    - £14 million to provide for the long term management of services
    - £6 million to provide for timing of revenue expenditure
    - £4 million to provide for unfunded revenue pressures
    - £3 million of unspent court and case costs to be allocated to the Smoothing Reserve

5.2 How are carry forwards being used in the Medium Term Financial Plan?

- The MTFP proposes that £9.1 million of un-earmarked contingency funds in 2012 are carried forward to 2013.
- £6 million of the proposed carry forward will be allocated to provide central contingencies in 2013 and the balance of £3.1 million will be allocated to provide additional funds for the Restructuring Provision in 2013.

5.3 What are the rules/principles for allowing departments to carry forward funds each year?

- Carry forward requests are made by departments at the end of the financial year and are based on the forecasts made in Quarter 3. Any notified underspend that is fully justified will be included in the carry forward proposal taken for approval to the Council of Ministers. The carry forward process is an

[6] P89.2012 lodged by the Minister for Social Security for debate alongside the MTFP on 6th November

essential part of financial management for departments because it allows them flexibility to manage their funding across years.

5.4 Will there be a rush to spend money at the end of the MTFP period to ensure that all funds are gone by the time of the next approval?

- There will be no rush to spend money at the end of the MTFP period as it is a rolling plan and any underspends at the end of the period would be carried forward as in any other year.

6. Looking Ahead: Growth Commitments from 2012 Business Plan

6.1 What are the Commitments from previous Business Plans made up of?

- The majority of the committed funding from the 2012 Business Plan is in respect of Health and Social services £14 million and £2 million for Getting People Back to Work.

6.2 Were these allocations taken into account when the MTFP Growth was considered?

- Yes, the Council of Ministers reviewed both the growth and savings commitments from previous Business Plans as part of the Medium Term Financial Plan process.
- It was accepted that together with the new MTFP Growth proposed, Health and Social Services would be receiving an additional £26 million per annum by 2015.

7. Looking Ahead: New Bids for Growth

7.1 Growth Proposals

7.1.1 Why has all the Growth been allocated?

- The Council of Ministers received growth requests from departments amounting to almost £35 million against an original growth allocation of £26 million by 2015. This did not include initiatives for Back to Work and Employment projects (which may not be permanent and recurring) of £7 million by 2015.
- The Council of Ministers and Corporate Management Board conducted a significant prioritisation process with departments identifying a number of options which attempted to reduce the requests to the level of Growth funding available.
- CoM considered that there remained a priority to find additional funding for Reforming Health Services, Getting People Back to Work and Stimulating Economic Growth, and proposed to allocate all available growth in departments' cash limits.
- The Council of Ministers proposes to allocate almost £30 million for growth in 2015 which is beyond the original £26 million allocation.

7.1.2 What flexibility is there for new priorities or pressures within the MTFP period?

- The total Capital Programme proposed in the Medium Term Financial Plan amounts to £222 million and decisions to allocate this funding to individual capital projects will not be taken until the annual Budget each year.
- There is also flexibility within department budgets where carry forwards and department contingencies can be reprioritised. The MTFP also includes

central contingency amounts in each of the three years as well as funds for restructuring.
- The Council of Ministers will also consider any opportunities for budget reductions or efficiency savings that may arise from the Public Sector Reform and Modernisation Programme which may provide additional flexibility particularly by 2014 and 2015. However, at this stage it is too early in the process to consider either the timing or at what level these budget reductions may be achieved.

7.1.3 How has the growth funding been prioritised and allocated?

- Initial growth allocations of £6 million in 2013, £16 million in 2014 and £26 million in 2015 were approved as part of the total States spending limits for the Medium Term Financial Plan.
- Against these original growth allocations, the Council of Ministers received growth requests from departments amounting to almost £35 million. The growth requests also proposed that a higher level of growth was required in 2013 to address the immediate priorities of Getting People Back to Work, Economic Growth and Reform of Health and Social Services.
- In addition to the main growth bids, initiatives for Back to Work and Employment projects (which may not be permanent and recurring) of £7 million by 2015 were also proposed.
- The Council of Ministers and Corporate Management Board conducted a significant prioritisation process with departments which attempted to reduce the requests to the level of growth funding available. Treasury worked with departments to identify if there were other ways that the growth requests could be funded within existing spending limits. Departments were encouraged to reprioritise existing services and identify efficiency savings wherever possible.
- The Council of Ministers then went through a process of seven iterations. A fully funded package of proposals was agreed which prioritises the growth bids in order to help deliver the Strategic Priorities.
- The process relied on significant consultation at an officer level with all iterations going through a feedback loop with Chief Officers to provide further insight into the operational and service provision implications.
- The prioritisation process also dovetailed with the work being carried out by a number of Ministerial Oversight Groups, for example on Health and Social Services and Housing Transformation. The MTFP has been prepared to be consistent with what has been proposed, without in any way pre-empting the support of the States for the funding proposals in the MTFP.
- The Council ultimately considered three final options:
  - All prioritised growth bids to be included in MTFP
  - Removing selected growth bids to get closer to a fully funded position
  - Removing all 2013 growth except Health and Social Services.
- One of the Council of Ministers' key resource principles is to maintain a balanced budget position and deliver affordable and sustainable public services and this determined the final option which required a final prioritisation process to select growth bids to be removed and not funded as part of the MTFP proposals. These removed or deferred growth bids amounted to £11.6 million in 2013, £7.4 million in 2014 and £5.1 million in 2015.

7.1.4 How can more than the original allocation of £6 million, £16 million and £26 million be funded?

- The Council of Ministers is proposing that almost £30 million be allocated to departments for Growth schemes.
- This is funded predominantly from the original £26 million growth allocation in 2015 but also includes allocations proposed from uncommitted contingency and Restructuring Provisions and a small contribution from the Summer Lottery.
- Funding for Back to Work and Employment initiatives (that may not be permanent and recurring) of £7 million is funded from budget reductions and other measures.

7.1.5 How can contingencies be used to fund growth proposals?

- By reducing the level of contingencies and using funds to be carried forward from 2012 to 2013 additional funding can be used to fund growth.
- Contingencies are being used primarily in 2013 and 2014 to manage the profile of proposed Growth schemes against the available profile of growth funding originally allocated.
- To illustrate this, over £14 million of original contingency funding is allocated to fund growth but by 2015 this reduces to under £3 million.
- There will still be £6 million, £6 million and £7 million of contingency funding available in 2013, 2014 and 2015 respectively.

7.1.6 Why is the Restructuring Provision being used to fund growth proposals?

- The Restructuring Provision is being used to fund specific growth requests which can be associated with the Public Sector Reform and Modernisation Programme.
- The balance of the Restructuring Provision not committed to these projects will provide further funding for the Public Sector Reform and Modernisation Programme over the course of the MTFP.

7.1.7 What happens if the Summer Lottery doesn't deliver the funding for Jersey Heritage Trust?

- £315,000 was added on a one-off basis to ESC's cash limit in 2012 in case lottery funding was unsuccessful.
- The published MTFP assumes a contribution from the Summer Lottery to fund growth for the Jersey Heritage Trust of:-
    - £288,000 in 2013,
    - £320,000 in 2014, and
    - £320,000 in 2015.
- If the alternative funding sources don't work, in the first instance JHT would be asked to consider if they could raise funding in new or different ways.
- If this is not achievable then ESC and EDD would be asked to consider whether they could meet the cost from within their cash limits approved in the MTFP.
- As a last resort the Council of Ministers could agree to fund the grant from Contingency.
- In the near future it is anticipated that, with the support of the Jersey public, the proceeds of the Channel Islands Lottery in Jersey will grow beyond their current levels (£419,572 in 2011) as a result of the improvements made by Economic Development Department (EDD).

8. Looking Ahead: Other Pressures Affecting the Deficit

8.1 Public Sector Reform/Modernisation

8.1.1 What is modernisation and public sector reform?

- Public sector reform will involve a taking a fundamental look at what the public sector does and how it does it in order to secure public services for the long term, ensuring that they are fit for the future.
- An important part of reform is embedding values of service into the foundation of all that the States does, to enable consistent excellence across all services.
- The ultimate vision is to create a modern workforce where staff are equipped with the right skills to deliver the services we need, are rewarded for high performance, receive equal pay for work of equal value and where there is flexibility to enable staff to enjoy varied careers.

8.1.2 What is the relationship between the current pay offer and the modernisation proposals?

- The current pay offer is centred on each pay group entering into workforce and reward modernisation discussions relevant to their arrangements to provide the enabling conditions to support public sector reform.

8.1.3 What budget is available to support reform/modernisation?

- The Restructuring Provision is available to support the proposed reform and modernisation programme. The MTFP proposes funding of over £6.5 million each year after the delivery of the corporate procurement savings and allowing for the carry forward of £3.1 million from 2012 to 2013.

8.1.4 Will Public Sector Reform deliver further savings?

- If employee groups accept the 2014 pay offer and co-operate with the proposed modernisation programme there will be potential for further savings in future years.

8.1.5 Will it result in redundancies?

- The objective is to fundamentally review the way that public services are delivered not to achieve target reductions in spending or jobs.
- The current pay offer includes a guarantee of no compulsory redundancies for the duration of the agreement with immediate effect upon signing the proposed agreement (excluding those that may arise out of the current CSR process and those currently on the Redeployment register (for whatever reason)).

8.2 Pay Awards

8.2.1 What is the current pay offer?

- The current pay offer is for :
    - a 1% unconsolidated award in 2012
    - a further 1% unconsolidated award in 2013
    - a 1% consolidated award is offered in 2013, and
    - in 2014 a 4% consolidated award is offered on the condition that employee groups co-operate with modernisation proposals[7].

---

[7] This is subject to an Amendment by Deputy Southern – P.69/2012 Amd (5)

8.2.2 How is this to be funded?

- The provision for pay awards has been increased in the MTFP by £7.3 million by 2015, which has resulted in additional budget reductions being required from 2013.

8.2.3 How will this affect the delivery of the required Terms and Conditions savings?

- The 1% consolidated award in 2013 will mean that £3.3 million of the £14 million Terms and Conditions proposed saving will not be delivered by the end of 2013. However, if employee groups accept the 2014 pay offer and cooperate with the proposed modernisation programme there will be potential for further savings in future years.

8.2.4 What happens if the current pay offer isn't accepted?

- There is no additional funding for pay awards in the MTFP. If the pay offer is not accepted and needs to be increased, this funding could only come from further budget reductions in departments.

8.2.5 Are all pay groups affected by this pay offer?

- No. Doctors and Consultants are currently linked to UK awards but currently the UK proposals are for a pay freeze.
- Prison Officers are part way through a deal which sees their pay fixed until 2015. The Home Affairs cash limit already includes this provision.
- Propositions for Nurses' recruitment and retention are being considered separately but currently any proposals are assumed to be funded from the Health and Social Services growth monies.

8.3 Pensions

8.3.1 What is the PECRS Pre-1987 debt?

- Prior to 1987, pension increases in retirement were funded by the States. As part of a restructure of the Public Employees Contributory Retirement Scheme in 1987 the Scheme took on the liability to pay these increases. This created a corresponding liability for the States, known as the Pre-1987 Debt, to be repaid over 82 years.

8.3.2 How is the PECRS Pre-1987 debt being funded?

- There is a base budget of £4 million in 2012 for the States to make debt repayments to the scheme.
- The debt is structured in such a way that repayments are linked to the increase in salaries over the 82 period of the debt. This means that repayment of the capital is heavily weighted to the end of the period and significant cost reductions over the long term can be achieved by repaying the debt early.
- The Medium Term Financial Plan includes an additional contribution of £1million in 2013, rising to £2 million in 2014 and to £3 million in 2015.

8.3.3 Are there any proposals to change pension arrangements for States staff in the MTFP?

- A Technical Working Group (TWG) has been established by the States Employment Board involving members of the PECRS Committee of Management including its independent Chairman and a number of Treasury Officers including the Treasurer of the States.

- The TWG are preparing a report for wider discussion on a range of possible options for changes to PECRS to ensure its viability and sustainability for the future. The aim is to bring in changes to the scheme in 2015.

8.3.4 What is the position with the JTSF?

- Prior to 2007 pension increases in retirement were funded by the Education Committee revenue budget. In 2007 there were changes to the scheme and the funding of pension increases became payable from the Jersey Teachers Superannuation Fund (JTSF) and the Scheme Actuary calculated a past service Debt (the pre 2007 debt) to be repaid by the Employer.
- Since 2007 the debt repayments have been made by the States paying an additional 5.6% in employer contribution rate pending the formal acceptance of the pre-2007 Debt by the States.
- It is intended to bring to the States a proposition to formalise the JTSF pre-2007 Debt and the repayment mechanism.

8.3.5 Are there proposals to use Strategic reserve to repay the PECRS Pre-1987 debt?

- Consideration is being given as to whether a proportion of any increases in the Strategic Reserve could be used to contribute to early repayment of the PECRS pre 1987 debt so as to reduce the long term costs to the States. The Scheme Actuary has been requested to provide an illustration as to the possible impact of such an approach so that further consideration can be given to this option.
- CoM is prepared to accept an Amendment to the MTFP by Senator Farnham (P69/2012 Amd (6)) which proposes that the Minister for Treasury and Resources be requested to present to the States no later than 31st July 2013 further options for the early repayment of the PECRS Pre-1987 debt and the JTSF Pre-2007 debt to provide significant additional long-term cost reductions.

9. Looking Ahead: Balanced Budget Measures and Budget Reductions

9.1 CSR

9.1.1 What is the latest position on CSR savings?

- We will have delivered almost £56 million by 2013. As a result of a States decision around £7 million of the savings proposals from Education were not approved by the States (this relates to the decision not to reduce the grants to fee paying schools and the associated amendment from Deputy De Sousa which protected the non-fee paying schools as well).
- CoM has lodged an Addendum to the MTFP which has been circulated to States Members and provides a complete schedule of all savings proposals 2011 – 2013 and a position statement on the current targets.
- This provides further information to the document which was circulated to States Members in August 2012 (extract below).

	2011	2012	2013	TOTAL
	£'000	£'000	£'000	£'000
Ministerial Departments				
Chief Minister	140	380	799	1,319
Economic Development	346	693	950	1,989
Education, Sport and Culture	1,632	1,271	1,898	4,801
Department of the Environment	437	82	795	1,314
Health and Social Services	3,772	2,016	2,045	7,833
Home Affairs	1,014	1,064	1,554	3,632
Housing	550	328	679	1,557
Social Security	1,863	1,500	2,800	6,163
Transport and Technical Services	1,046	1,102	2,133	4,281
Treasury and Resources	1,186	803	1,450	3,439
Non Ministerial State Funded Bodies	427	891	404	1,722
States Assembly and its services	171	103	130	404
Procurement	-	3,000	3,500	6,500
Terms and Conditions	-	7,000	3,700	10,700
Sub Total: Savings and User Pays to 2013	**12,584**	**20,233**	**22,837**	**55,654**
ESC Savings				**2,753**
Social Security Savings				**3,000**
				61,407
Shortfall by 2016 - Grants to fee paying schools				**3,647**
CSR TARGET				**65,054**

9.1.2 How much of the £65 million CSR savings target is being delivered:

In the original timescales (by 2013)?

- The MTFP proposals to 2013 show that almost £56 million of the original £65 million target will be delivered by 2013.
- The shortfall is predominantly made up of £6.3 million in Education and £3.3 million which is the cost of the consolidated 1% pay offer in 2013.
- There is also a small shortfall of £114,000 in Home Affairs and Social Security will exceed its target by £300,000.

Within the MTFP (by 2015)?

- The shortfall is further reduced by 2015 by planned further savings in education, amounting to £1.7 million and planned savings in Social Security of a further £3 million.
- This would bring the savings delivered by 2015 to £60.3 million and reduce the shortfall to £4.7 million.

By 2016?

- In 2016, further Education savings of £1.1 million are proposed bringing the shortfall to £3.5 million.
- At this level the shortfall equates approximately to the savings from reducing grants from fee paying schools which the States reinstated in P72/2011.
- It should be noted that further budget reductions are planned during the MTFP period and the Council of Ministers has outlined the various approaches to budget reductions in the MTFP report from page 98.

9.1.3 Is the States delivering the planned Terms and Conditions savings?

- The 1% consolidated award in 2013 will mean that £3.3 million of the £14 million Terms and Conditions proposed saving will not be delivered by the end of 2013. However, if employee groups accept the 2014 pay offer and co-operate with the proposed modernisation programme there will be potential for further savings in future years.

9.1.4 Is the States delivering the planned Procurement savings and why is there an offset in Restructuring Provision for future Procurement savings?

- The States is on track to deliver the planned procurement savings of £6.5 million. To date, just over £3 million has been identified in sufficient detail to reduce individual departments' budgets from 2013.
- Further work is required to identify the balance of £3.451 million procurement savings from departments during 2013. Until this work is complete and further adjustments to department budgets can be made the remaining savings target is held centrally against the Restructuring Provision in 2013.

9.1.5 Why is there a shortfall in Education?

- Education, Sport and Culture have been given more time to deliver its savings. By 2013 some £4.8 million of savings against the original target of £11.1million will be made.
- By the end of the MTFP in 2015, a further £1.7 million of savings will be delivered leaving a shortfall of £4.6 million.
- By 2016 the shortfall will have reduced to £3.5 million which is broadly equivalent to the savings reinstated by the States approval of P72/2011 regarding reductions in grants to fee-paying schools.

9.1.6 Does the CSR programme include property rationalisation?

- The CSR programme did not include property rationalisation as the focus was on revenue expenditure savings.

9.1.7 Will CoM be producing a report on the CSR?

- Yes, a report has been issued as an addendum to the MTFP and this has been circulated to States Members.
- Each year we have provided the detailed savings for the Budget Year and we have already presented a report showing where the savings are in 2013.
- The latest report gives a complete schedule of all savings proposals 2011 – 2013 and a position statement on the current targets.

9.2 Future Budget Reductions

9.2.1 Why are no efficiencies or savings written into departments beyond 2013?

- Until such time as the Public Sector Reform and Modernisation process is underway it is not appropriate to write in a level of savings either centrally or at a department level.
- Those savings which can be identified to specific departments have, however, been taken including reductions in Social Security and Transport and Technical Services.
- Once the proposed Public Sector Reform and Modernisation process is underway there is likely to be potential for further savings.

9.2.2 What are the User Pays proposals in future years?

- There are further User Pays proposals in 2013 identified alongside the MTFP of £1.836 million.
- One of the approaches to ongoing budget reductions is to encourage the principle of full cost recovery for services provided to the private sector.
- This will be considered by departments as they review their fees and charges annually.

9.2.3 What are the further savings in Social Security and what impact will they have on service and benefit provision (who will this impact)?

- The Social Security Minister will bring forward proposals to the States to deliver the target savings in the MTFP and at such time will identify the nature of the service or benefit changes and the financial implications.

9.2.4 What is the likelihood of agreeing the Guernsey waste deal?

- In 2010 the States adopted proposition P.17/2010 (Amd) requiring the principle of waste importation to have been discussed and approved by the States Assembly prior to the importation of waste into Jersey. Agreement of the "competent authorities" must also be received prior to the importation of any waste, and negotiations would have to commence on the commercial arrangements to be made. The States of Guernsey would also have to agree that Jersey was the best place for treatment of that Bailiwick's waste.
- It is likely that discussions will continue with a view to drafting proposals during the next 2 years once investigations into the costs and feasibility of accepting and treating the waste and disposing of the resultant by-products have been fully undertaken.

10. Looking Ahead: Managing the Balance Sheet

10.1 Managing the Balance Sheet - Jersey Telecom

10.1.1 What do we mean by managing the balance sheet and why is it important?

- Management of the balance sheet concerns managing the overall performance of the States of Jersey, not just limited to the cash available to provide services. The balance sheet of the States of Jersey is strong with total reserves of £3.7 billion at the end of 2011.
- The effective management of the balance sheet will result in an overall improvement of the financial position for the States, as well as safeguarding the assets of the Island for future generations.
- During 2013-2015 there will be focus on:
    - The effective management of the property portfolio by Jersey Property Holdings
    - Strategic land development through SoJDC
    - Incorporation proposals for Housing and Harbours and Airport
    - Optimising the shareholder value from the States' ownership of utilities
    - Maximising our return on investments in particular the Strategic Reserve and Social Security Reserve
    - Maximising Pension Fund investments and managing future liabilities through planned revisions to the Schemes

10.1.2 Why are the 9% Preference Shares in JT being redeemed[8]?

[8] This is subject to an Amendment by Deputy Le Fondre – P.69/2012 Amd (8)

- The Treasury and Resources Minister acts on behalf of the States as shareholder for JT Group and other strategic investments.
- The States owns 100% of the shares in JT. This repayment will make no difference to the value of the public ownership of JT. The States will continue to receive full dividends from JT as they are the only owner. The States can allocate the cash received in return for the shares to high priority areas, such as capital projects and the Innovation Fund. This Fund will provide seed finance for new, small and growing businesses at a time when the economic climate is difficult.
- The £29.5m preference share value in 2011 is a technical accounting valuation using the Dividend valuation model. This takes into account all future dividend payments. As stated in the 2011 Accounts this is not the same as the amount which the States could realise if it chose to sell its holdings. As a result of the redemption (i.e. JT repaying a loan from the States) the value of the States' strategic investment in JT does not fall – rather it means it will increase as a result of allowing JT to obtain finance and grow.
- Early in 2012 JT's Board shared their new 5 year Strategic Business Plan with Treasury and Resources. The Minister's approach is to balance short term dividend returns with long term sustainable growth of our strategic investments. The Council of Ministers was consulted in advance of this proposal being included in the MTFP.
- JT is a company which aspires to grow sustainably over the next couple of years. Recently they have invested in Gigabit Isles and new acquisitions, like Worldstone. JT is operating in a highly competitive market place and needs to grow to maintain its market positioning and to continue to provide stable dividend returns and shareholder growth. In order to support JT's growth Strategy, a new dividend policy has been agreed from 2013 and it is also proposed that they redeem the preference shares. This will assist JT to revise their capital structure and obtaining financing from external sources to support their growth plans at competitive rates.
- This is an example of the Minister's determination to manage the States' balance sheet more actively to support the more traditional emphasis on raising revenues and controlling expenditure. As the States owns 100% of JT this repurchase of shares simply exchanges shares for cash and means that expenditure proposals are able to be brought for approval in the MTFP that would not otherwise have been affordable.
- The redemption is subject to States approval as part of the MTFP Proposition. If it is approved, £15 million will be used to fund capital schemes and £5 million will be allocated to the Innovation Fund.
- A further new preference share is forecast to be taken out in Jersey Telecom Group Limited during 2012, relating to Gigabit Jersey. This will be reflected as an Infrastructure Investment in the Currency Fund rather than Utility income.

10.2 Ports Incorporation

10.2.1 Why incorporate Harbours and Airport?

- Incorporating Harbours and Airport offers the opportunity to grow the businesses and increase efficiencies which should give a positive return to the States in the form of taxation and dividends.
- There should also be benefits to users of the Ports services as they take advantage of the developments that will be made possible by making the

Ports Authority a commercial entity. This is demonstrated by the evidence provided from the incorporation of Jersey Telecom and Jersey Post.

- A strategic decision has been taken to integrate Harbours and Airports into a single Ports Authority and this work has largely been completed in 2012. The next step is to incorporate into a single limited company wholly owned by the States. P.70/2012 (Incorporation of Ports of Jersey) was approved by the States on 9th October 2012.
- The incorporation has been the subject of discussion for a number of years and the new group CEO was brought in specifically to help move this project forward, together with the current shadow board.

10.2.2 What impact will the incorporation have on the MTFP?

- The States' approval of the incorporation is likely to mean that there will be an impact on the MTFP, likely to occur from 2015 onwards in respect of the annual return or dividend received by the States. This will be dealt with through the annual Budget process.
- The MTFP assumes that Harbours and Airports are self-funding within their trading accounts and details their revenue and capital expenditure. Harbours make a small return to the States on an annual basis (£200,000) and this has been included in the current projections.

10.3 Strategic Reserve and Stabilisation Fund

10.3.1 Are there any proposals to use the Strategic Reserve in the MTFP?

- There are no proposals to use the Strategic Reserve contained within the MTFP.
- This fund is set aside for specific and defined purposes and, whilst the economic conditions facing Jersey at this time are tough, this MTFP assumes that the financial forecast can be met within existing means.

10.3.2 What is the FPP advice in relation to the Strategic Reserve and Stabilisation Fund?

- The FPP has recommended that no transfers are made to or from the strategic Reserve at this time.
- The FPP has referred to the need to build up the Stabilisation Fund once the economy begins to recover and the financial position returns to surplus.

10.3.3 What is the appropriate level for the Strategic Reserve?

- Work will be undertaken during the latter part of 2012 and 2013 to review the level of Strategic Reserve and to establish how this balance will be managed, in conjunction with other aspects of balance sheet such as the pension and other long term liabilities.
- At the end of 2011, the Strategic Reserve balance was £594 million. This balance is made up from the capital element of the reserve plus the return made from the investments during the year.
- There has not been a defined optimum level for the Strategic Reserve in previous years and one is not defined within this MTFP.

10.3.4 How much is left in the Stabilisation Fund and what has it been used for?

- At the end of 2011, the Stabilisation Fund held in the region of £1 million and this level remains unaltered for the period of the MTFP.

10.3.5 Are we still doing Fiscal Stimulus?

- The Fiscal Stimulus programme that began in 2009 with projects that were funded from the Stabilisation Fund was effectively closed at the end of 2011. There are some projects that continue to operate in 2012 although these have not received any additional funding above those committed as part of the main programme.
- There will be a review of all open projects in the last quarter of 2012 to look at the balance of Fiscal Stimulus Funds and any final adjustments that need to be made.
- The MTFP does, however, contain fiscal stimulus measures to help the economy through its funding of growth initiatives and in the increased funding for the capital programme. Specific initiatives include:
    - Investment in £7 million Back to Work Schemes and Employment Initiatives.
    - £4 million in support of Strategic Priorities to Get People into Work and for Economic Growth.
    - Additional funding of £2 million for the Finance Industry through JFL
    - Over £1 million for additional apprenticeship places for the health industry and in general
    - Parish improvement scheme
    - Additional investment in Island infrastructure, such as roads and sea defences
    - Continued investment in Social Housing programme in 2013 to 2015 and additional £27 million to bring forward Housing schemes to help the construction industry

10.3.6 Why are there no proposals to put funds back in the Stabilisation Fund?

- There was an intention to return an amount to the Stabilisation Fund during 2012 to bring the balance to £10 million but this has not proved possible given the other funding pressures arising from service requirements.

10.4 HIF Funding

10.4.1 What is proposed in respect of funding from HIF?

- The MTFP assumes that a proposition will be brought before the States to extend the funding being made from the Health Insurance Fund beyond the previously agreed funding for 2011 and 2012.
- The proposition, P.88/2012 (Draft Health Insurance Fund (Miscellaneous Provisions) (Amendment) (Jersey) Law 201-), was lodged in September 2012 and is due for debate at the sitting of 6th November.
- The proposition requests a contribution from the Health Insurance Fund of £2 million in 2013, rising to £6 million in 2014 and £6 million in 2015[9].

10.4.2 What will the funding be used for?

- The funding is towards sustainable Primary Care. This is a complex piece of work which will continue throughout the next 3 years and into future MTFP periods.
- The funding in 2011 and 2012 was for cost recovery from the hospital for Primary Health Services.

[9] This is subject to an Amendment by Deputy Southern – P.88/2012 Amd

10.4.3 Why aren't alternatives to the HIF funding being considered as suggested in the 2012 Annual Business Plan?

- During the MTFP process, consideration was given to a number of alternatives for overall funding including the requirements for health growth. Due to funding pressures, however, it is still deemed necessary to bring a proposition to use the HIF in the short term (2013-2015).
- The 2012 Business Plan clearly indicated that the funding available from the HIF fund was of an interim nature, would only stand for 2011 and 2012 and must be granted for specific primary health care purposes.

10.4.4 What are the consequences of using the fund?

- The HIF is currently in surplus but drawing down on the fund in the short term will decreases the amount that is in the fund in future years.

10.4.5 What happens if the States do not approve the proposition?

- The main impact would be a shortfall in funding for Health and Social services, amounting to £14 million over the life of the MTFP.
- If the transfers from the fund are not approved this spending will need to be funded from other sources to maintain the proposed growth in Health and Social Services
- In addition, the balance of the HIF would be more favourable if the proposition was not approved.

10.4.6 What is the balance of the HIF?

- The accumulated surplus within the Health Insurance Fund amounted to £80 million as at 31st December 2011.

10.4.7 Is there a minimum balance 'cut off' point for the HIF?

- An actuarial report predicts the level of contribution required for the benefits which are paid out.

10.5 Consolidation Fund

10.5.1 What is the Consolidated Fund and how much do we have in it?

- The Consolidated Fund is established under the Public Finances (Jersey) Law 2005 and effectively represents the States of Jersey's current account. Income from taxation, duties, chargeable services, fees and fines are paid in and expenditure approved by the States Assembly on employees' salaries, equipment, supplies, services and capital projects etc. are paid out from the fund.
- The balance in the Consolidated Fund at the end of 2011 was £47.2 million.
- Any balance on the fund is invested on a short term basis, until it is required to meet on-going approved expenditure.
- The Consolidated Fund is not allowed to be overdrawn.
- During the MTFP, the balance on the Consolidated Fund for each of the years is expected to be:
  - 2013 - £19.7 million
  - 2014 - £11.6 million
  - 2015 - £9.5 million

10.5.2 What is the investment strategy for the Consolidated Fund?

- The investment strategy for the Consolidated Fund is risk averse with capital preservation, liquidity and flexibility being the over-riding factors governing its requirements.
- Investments will be made in cash deposits, certificates of deposits and limited amounts of commercial paper and floating rate notes.
- The Fund can carry out its longer term investments through the available Common Investment Pools.
- No more than 25% of the portfolio can exceed one year maturity.

10.5.3 Why is the Consolidated Fund balance higher at the start of 2012 than forecast in the 2012 Budget?

- 2011 Financial Results were better than expected, resulting in an improved opening position for the Consolidated Fund in 2012.
- States income, particularly Income Tax exceeded forecasts by £20 million, primarily due to a higher than expected yield
- States department underspent against the approved budgets and there were few calls on central contingency budgets.
- As a result there is a larger than expected carry forward of £41 million from 2011 to 2012.

11. Looking Ahead: Central Budgets, Contingencies and Growth Allocations

11.1 Contingencies

11.1.1 Are estimates for contingencies a matter of judgement made by the individual Department or decided upon by Treasury?

- The MTFP contains allocations to central contingencies to meet any genuinely unforeseen spending pressures. The Treasury has already developed a policy for the allocation of this contingency funding. This policy was published to the States in January 2012 as R.10/2012.
- In addition to the central contingencies, departments are encouraged to create their own contingency from within their MTFP revenue allocation. The level of this is a matter for each department.

11.1.2 Why is there no allocation for contingencies in 2013?

- There is no specific allocation for contingencies in 2013 because the proposal is to bring forward earmarked underspends of £6 million in 2012 contingency balances to provide this funding. A separate expenditure allocation in the MTFP for 2013 is not therefore required.
- The proposed funding level will be for £2 million AME contingency and £4 million contingency for emerging Items, as can be seen in Figure 32 (p122) of the MTFP Report:

		Original			armarke	Revised		
		Base Assumptions			Carry Fwd	MTFP Proposals (June 2012)		
Central Allocations	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**
Pay Provision	7,326	14,373	23,060	32,352		19,900	31,000	39,700
Corporate Terms and Conditions Savir	(7,000)	(14,000)	(14,000)	(14,000)		(14,000)	(14,000)	(14,000)
Net Pay Provision	**326**	**373**	**9,060**	**18,352**		**5,900**	**17,000**	**25,700**
Restructuring Provision	10,000	8,100	8,100	8,100	3,083	5,098	6,540	7,170
Corporate Procurement Savings	(3,000)	(6,500)	(6,500)	(6,500)		(3,451)	(3,451)	(3,451)
Restructuring Provision (Net of Sa	**7,000**	**1,600**	**1,600**	**1,600**	**3,083**	**1,647**	**3,089**	**3,719**
Allocation for Contingencies								
- Central Reserves - AME	2,000	2,000	2,000	2,000	2,000	-	2,000	2,000
- Central Reserves - DEL	2,000	2,000	2,000	2,000		-	-	-
- Central Reserves - One Off	2,000	2,000	2,000	2,000		-	-	1,000
- Central Contingency - Smoothing Re	3,000	3,000	3,000	3,000		-	-	-
- Commitments for "One-Off Items"	(515)	-	(500)	(500)				
- Contingency for Emerging Items	4,000	4,000	4,000	4,000	4,000	-	4,000	4,000
Total Contingencies Available	**12,485**	**13,000**	**12,500**	**12,500**	**6,000**	**-**	**6,000**	**7,000**
Allocation for Growth								
Allocation for Growth for 2013	-	6,000	6,000	6,000	-	-	-	-
Allocation for Growth for 2014	-		10,000	10,000	-	-	-	-
Allocation for Growth for 2015	-			10,000	-	-	-	-
Total Allocation for Growth	**-**	**6,000**	**16,000**	**26,000**	**-**	**-**	**-**	**-**
The 2012 Earmarked Carry Forward of £9 million will provide an additional £3 million for Restructuring in 2013 and £6 millior								
for Central Contingencies of £2 million AME Contingency and £4 million Emerging Items Contingency								

11.1.3 Could the use of 2013 contingencies to fund growth leave the States exposed if the economic situation deteriorates?

- No – not taking proactive steps now to ensure a sustainable economy in the years to come would be a huge oversight and negligent in the current economic climate.
- The growth funding for Getting People Back to Work, Economic Growth and Employment initiatives is needed as early as possible.
- The Fiscal Policy Panel is quite clear that stimulus is needed in the economy as soon as possible, having downgraded the economic growth forecasts.

11.1.4 Why have the levels of contingency been reduced since the 2012 Annual Business Plan?

- The Council of Ministers decided that the levels of certain contingencies could be reduced or removed if there was a consensus that departments would endeavour to manage their own contingencies and manage any unexpected and unforeseen items within their own cash limits.
- CoM looked at a number of options to consider how any additional funding could be identified to fund the profile of growth in the early years of the MTFP period. Experience in 2011 and 2012 suggested that levels of certain contingencies could be reduced.
- The underspend on contingencies in 2011 and the forecast underspend for 2012 indicate that departments are more tightly managing their affairs and

reallocating resources to manage any unforeseen issues without recourse to central contingencies.
- The exceptions are the AME reserve - principally Income Support and other benefits which by their very nature, as Annually Managed Expenditure, are difficult to predict and control - and the contingency for emerging items of which much is likely to be required to be allocated to departments once the timing and scale of funding for Freedom of Information, Legal Aid and HCAE Inquiry are finalised.

11.1.5 How are contingencies being used to fund growth?
- If the level of required contingency is reduced the remaining contingency funding can be re-allocated to fund growth.
- Carried forward funds 2012 to 2013 provide alternative funding for contingencies and restructuring in 2013 which allows the base funding to be re-allocated to fund growth.
- Contingencies are being used primarily in 2013 and 2014 to manage the profile of proposed growth schemes against the available profile of growth funding originally allocated.
- To illustrate this, over £14 million of original contingency funding is allocated to fund growth but by 2015 this reduces to under £3 million.

11.1.6 Are contingencies being used for the purposes originally intended?
- The Council of Ministers has provided a Contingency for Emerging Items which is for known items rather than unforeseen items.The Council of Ministers has been quite transparent about this. However, the reason this remains a Central Contingency is that the amount, the timing and the value of the allocation required to individual departments are all unknown. The Council contends that this remains an appropriate Contingency item.

11.1.7 Where is funding for the HCAE Inquiry coming from?
- The HCAE Inquiry will be funded from one of the remaining contingencies - the contingency for emerging Items.
- This contingency has a proposed allocation of £4 million each year to be allocated to departments once the timing and scale of funding for Freedom of Information, Legal Aid and HCAE Inquiry are finalised.

11.1.8 Where is the funding for Freedom of Information coming from?
- The funding for Freedom of Information is earmarked in the £4 million Contingency for Emerging Items in each of 2013-2015.
- In 2013, the Contingency funding is proposed from earmarked contingencies which will be carried forward from 2012.
- The funds for Freedom of Information have not been allocated to departments until such point as the resources and timing of the project are determined.
- £500,000 has already been allocated in 2012 to provide initial funding and allow the appointment of a project officer.

12. Looking Ahead: Capital Programme 2013 – 2015

12.1 Capital Programme
12.1.1 How is such a significant capital programme affordable?

- The capital programme for 2013 to 2015 has £222 million of capital schemes identified, with £96 million of this for housing projects.
- This programme assumes that £37 million will be needed from the Consolidated Fund with the remainder coming from other sources:
    - £96 million of housing projects to funded through departmental initiatives
    - £27 million to be funded through the repayment of the housing department advance, after incorporation
    - £11 million from the repayment of funding given to the housing department for Le Squez and Pomme D'Or Farm schemes
    - £15 million from the repayment of the JT Preference Shares
    - £20 million from capital receipts from Jersey Property Holdings
    - £10 million from carry forward funding
    - Balance from Jersey Post Dividend (£2 million), use of the Central Planning Vote (£3 million) and use of Charitable Funds (£1 million)

12.1.2 Does the capital programme assume any borrowing?

- The main capital programme does not assume any borrowing.
- The Housing Department will need to seek external funding for their longer term capital programme and this will be considered as part of the wider exercise being undertaken in looking at Bond financing.

12.1.3 Can we bring forward anymore schemes like the £27 million Housing programme in order to stimulate/sustain the construction industry?

- There does not appear to be any significant schemes that could be accelerated over and above those already identified in the 2012/13 programme and within the current Housing programme.
- A detailed exercise on the timing of projects was undertaken as part of the MTFP and this was assessed against available funding.

12.1.4 Where are the proposals for the General Hospital?

- The MTFP has funding proposals in for the General Hospital and other medical/social services provision based on input from the Health White Paper and from current departmental plans.
- A detailed feasibility study for the provision of medical services in Jersey and the associated funding requirements is due to be drafted by the end of September 2012. This will enable the funding amounts to be finalised.
- In the interim, an estimate of £300 million is contained within the Long Term Capital Plan in 2016 for the General Hospital. This is based on the initial work done by KPMG during the initial services review.

12.1.5 What happens if the funding sources do not materialise?

- There are some funding dependencies within the MTFP and these are clearly identified within the funding table[10]. If these funds do not materialise, then we would need to review the overall capital scheme list or look for alternative funding methods.

12.1.6 How would the purchase of Plemont be funded?

- There is no scheme identified for the purchase of Plemont within the MTFP.

[10] See Deputy Le Fondre's Amendment – P69.2012 Amd (8)

- A proposition (P.90/2012) has been lodged for debate on 20th November which proposes funding from from Central Reserves.

12.1.7 Does the MTFP include proposals for the office strategy?

- The MTFP does include the details for the office strategy and identifies the potential for the estate. In particular, it outlines the following indicative programme:
  - Relocation of Economic Development to Cyril Le Marquand House
  - Co-location of Jersey Property Holdings to Maritime House
  - The vacation and disposal of Picquet House
  - Police Relocation project (to Green Street)
  - Ambulance Station relocation project
  - Work towards the release of Summerland and Ambulance site for housing
- Funding for short term projects has already been identified from within existing resources. Funding of £100,000 is included in the 2013 capital programme to create a masterplan and feasibility study for the co-location of the Ambulance Station and Fire Service Headquarters.
- No other funding is contained in the MTFP as each individual phase of the office consolidation project should identify funding through the disposal of assets or through associated revenue expenditure savings.

12.2 Housing Transformation

12.2.1 Why should we incorporate the Housing department?

- The Housing White Paper 'Achieving Decent Homes – An Affordable Housing Framework for the Future' concluded that the best way to deliver the objectives for social housing in Jersey was through a separately constituted housing trust.
- Incorporation will mean establishing a new Strategic Housing Unit and an independent regulator for the affordable housing sector. Having a separate entity will give the new body a greater degree of flexibility and autonomy in social housing provision.
- It will also allow a more efficient and effective service to housing tenants and bring about a regulator for housing in Jersey which will give tenants in the social sector greater security that housing is allocated to those in greatest need, homes will be kept to a decent standard and tenants will have strong security of tenure.

12.2.2 What is the financial impact of housing incorporation?

- The financial implications for the States are that the new Incorporated body would make a return to the States which in turn would provide the majority of the funding required to increase the housing component of Income Support in line with the proposed rental strategy.
- A similar financial return would also need to be negotiated with each of the Housing Trusts.
- This would not cover the impact on income support claimants in private sector rental accommodation and the MTFP estimates £1 million of growth for Social Security to cover this increased cost

12.2.3 How would the MTFP take account of the proposed Housing Incorporation if it is approved after the MTFP debate?

- Should the incorporation proceed then advice from the Law Draftsman indicates that the correct approach would be to insert a provision in the primary legislation (i.e. the draft Social Housing (Transfer) Law) to the effect that, despite the restrictions contained in Article 9 of the Public Finances (Jersey) Law 2005, the MTFP and the estimates provided in support of the plan, may be amended in consequence of any transfer made under the new Social Housing (Transfer) Law.
- Additionally, the Budget and any estimates accompanying the draft Budget would similarly be amended in consequence of the transfer.
- The MTFP has been prepared on the basis that Housing Incorporation does not proceed in 2014. However in the MTFP Appendix 6 sets out the financial implication if Incorporation goes ahead.

12.2.4 Why was £27 million of Housing capital expenditure brought forward ahead of the MTFP?

- The £27 million was accelerated ahead of the MTFP to bring capital projects to the construction industry at a time when the industry was looking for a sustainable pipeline in order to be able to maintain employment levels and workflow to subcontractors.

12.2.5 How will the £27 million be repaid?

- The £27 million will be repaid on incorporation by the financing that will then be available to the new housing entity through the Currency Fund. There will be up to £40 million available from this source.
- In addition, the work on external funding through a Bond will also seek to accommodate the funding requirements of the new housing entity.

12.2.6 What happens if the States do not approve the Housing Transformation Plan?

- If the States do not approve the Housing Transformation Plan then alternative funding will have to be found to pay for the Housing Department's capital programme.
- Housing may not receive all of the funding it requires for the work that it needs to do and there is a significant risk that capital projects from other Departments would have to be reprofiled in order to re-allocate funding to Housing.

13. Looking Ahead: Long Term Capital Plan – Indicative Plans for 2012 – 2032

13.1 What is the Long Term Capital Plan and why is it important?

- The Long Term Capital Plan is a summary of the estimates received from departments and trading departments of their plans for capital schemes up to 2032. This is the first time that there has been a consolidated position on the potential investment required in infrastructure and construction projects for Jersey over a longer time frame.
- This is important because it gives the States the ability to look at the potential funding requirements for capital schemes and to manage the cashflow for investment in a more planned way.
- It also allows the States to see how individual capital schemes impact on the ability to deliver services over the longer term and how this fits in with the overall strategic direction of the States.

- The current estimate shows that £1.6 billion capital schemes have been identified in the period 2012-2032.

14. Principles and Process

14.1 Why have a Medium Term Financial Plan?

14.1.1 Why have a Medium Term Financial Plan?

- The new arrangements encourage medium term planning and prepare the ground for longer term planning.
- The MTFP sets challenging spending limits and trusts Departments to work effectively within them.
- There will be greater flexibility for departments to plan ahead and deliver changes.
- These new arrangements will deliver improved value for money from States spending.
- The MTFP also gives the public more certainty over tax and spending.

14.1.2 How is the MTFP different to the Annual Business Plan?

- The MTFP is a more comprehensive financial planning document than the States Annual Business Plan. The MTFP contains all aspects of States financial planning including the balance sheet, investment strategies, long term tax policy and pensions.
- The States now considers the overall levels of States tax and spending once every three years, at each change in government. The MTFP lays out these expenditure and income proposals for the three year period, together with department limits, growth and contingencies.
- The three-year MTFP has replaced the States Annual Business Plan which only agreed expenditure for one year.
- The MTFP is the framework for longer term financial planning. It is part of the requirements of the revisions to the Public Finances (Jersey) 2005 Law agreed by the States in 2011.

14.1.3 What are the implications for the States?

- The implications for the States are that they will be able to consider in a single debate both the income and expenditure forecasts for the next three years including all the tax and spending proposals which will deliver them.
- The States will have the opportunity at each annual Budget to debate the following year's detailed tax and funding measures and also the detailed allocation of the capital programme.
- Once approved, the MTFP proposals will represent the total expenditure available over the next three years. Variations may be approved within that total limit but it can only be exceeded in an emergency or if there is a need to submit a new MTFP.

14.1.4 What are the implications for departments?

The implications for departments are:

- A level of certainty on the minimum approved expenditure limits for each year
- Flexibility to carry forward funds from one year to another and generally manage budgets and programmes of expenditure over the three years of the plan
- Contingencies, both departmental and central, which are provided for and intended to ensure that unforeseen items and pressures can be

managed within the individual department limits and overall States expenditure limit
    - A focus on longer term financial planning rather than the detailed annual business planning of previous years.

14.1.5 What is the difference between the MTFP and previous Business Plans?

- The MTFP covers three years rather than one.
- It encourages medium term planning and prepare the ground for longer term planning.
- The MTFP sets challenging spending limits and trusts Departments to work effectively within them.
- There will be greater flexibility for departments to plan ahead and deliver changes.
- These new arrangements will deliver improved value for money from States spending.
- The MTFP also gives the public more certainty over tax and spending.

14.1.6 What is the MTFP proposing?

- Approval of the total amount of States Income for 2013-2015.
- Approval of the total amount of States net expenditure for 2013-2015.
- Approval of the transfer of funding from the Health Insurance Fund for 2013-2015.
- Approval of the allocations to contingency for 2013-2015.
- Approval of the States Trading operation income, expenditure and contribution to the Consolidated Fund for 2013-2015.
- Approval of the proposed use of the JT Preference Dividend Redemption.
- Approval of the Capital Expenditure allocation for 2013-2015.

14.1.7 Why does the MTFP cover 3 years and not longer?

- The MTFP covers the period of election of States Deputies which is currently 3 years. If the proposed change to a 4 year election cycle is agreed then the next MTFP would cover a 4 year period.
- The Public Finances (Jersey) Law 2005 has been amended such that the period of the MTFP is linked directly to the election cycle.

14.2 How will the MTFP be Monitored and Reviewed?

14.2.1 Once the MTFP is approved how will progress against the plan be monitored?

<u>Progress against Strategic Priorities by Chief Ministers Department</u>

- Strategic priorities and department objectives will continue to be monitored by the Chief Minister's department in line with the established performance management framework.
- Progress against strategic priorities and department objectives will be reported in line with the established performance management framework including 6 monthly reports to CoM, the States and an annual Performance Report

<u>Financial monitoring by Treasury</u>

- The MTFP will be monitored as part of the existing financial monitoring process by the Treasury. Senior Treasury Officers meet monthly with the Finance Director of each Department to discuss financial performance to date. Quarterly monitoring meetings are held between the Treasurer, the Chief

Officer and the Finance Director of each Department. This process has been in place for 18 months and is well settled and established.

- Consolidated reports are presented monthly to the Corporate Management Board and quarterly to the Council of Ministers. Currently actual performance is monitored against expenditure and income projections set in the Annual Business Plan and Budget. From 2013 this monitoring will take place against MTFP expenditure limits and income targets.
- For the first time this year a Half Year Corporate Report was produced and made available to States members and the general public and this will be continued in future years.
- It is planned to extend this reporting process to include more detail on reserves and provisions, and balance sheet management in general. In particular, information on the performance of the Common Investment Fund and consolidated fund cash management will be disseminated more widely.
- The Annual Report and Accounts will also provide a process and medium for monitoring and reporting against the MTFP.

14.2.2 How are MTFP changes and cyclical monitoring going to work?

- The monitoring process has been described above. The MTFP is now about more than spending and income. We plan to extend our monitoring reports for Corporate Management Board and Council of Ministers to include monitoring on key balance sheet areas as well as monitoring the Budget.
- The MTFP contains allocations to contingency for any genuinely unforeseen spending pressures. The Treasury has already developed a policy for the allocation of this contingency funding. This policy was published to the States in January 2012 as R.10/2012.
- We also plan to do a rolling update to the MTFP so we will continue to have a three-year view.

14.2.3 To which forum is the MTFP going to be reported and what level of scrutiny will be applied?

- Progress will be reported on a regular basis to Corporate Management Board and Council of Ministers. The Annual Report and Accounts provides publicly available data on the performance of the MTFP.
- This year, in a new initiative, a smaller, more digestible document – ‘Summary of the Financial Report and Accounts 2011’ - was produced which it is hoped will improve accessibility for a wider audience.
- The Public Accounts Committee investigates and reports each year on the Annual Report and Accounts. This will enable effective States Member scrutiny of progress against the MTFP.
- CoM receives a quarterly expenditure monitoring report which Treasury are planning to extend to monitor reserves, provisions and balance sheet management (investments, cash funds etc.)
- Revenue and capital expenditure is reported to CMB monthly, and taxation figures also go to CoM quarterly.
- The Treasury is happy to share the quarterly monitoring reports with Scrutiny, although half-yearly may be more practical. This can be discussed and agreed in due course to meet Scrutiny’s requirements.
- For the first time this year a Half Year Corporate Report was produced and made available to States members and the general public and this will be continued in future years.

14.2.4 Once approved how can the MTFP be amended?

- Aside from the above the MTFP can only be amended by a proposition lodged by the Council of Ministers under Article 9 of the Public Finances (Jersey) Law 2005 and only in the limited circumstances specified in Article 9(2), namely:
    - (a) if a state of emergency has been declared under the Emergency Powers and Planning (Jersey) Law 1990;
    - (b) if the Council is satisfied that there exists an immediate threat to the health or safety of all or any of the inhabitants of Jersey;
    - (c) if the Council of Ministers is satisfied that there is a serious threat to the economic, environmental or social wellbeing of Jersey which requires an immediate response;
    - (d) following the appointment of a Council of Ministers otherwise than following an ordinary election for Deputies; or
    - (e) in accordance with paragraph (3).
    - (3) If, at any time, it appears to the Council of Minister that, by reason of any variance between the intended total amount to be paid into the consolidated fund and amounts actually received in a financial year, or by any other reason, the receipts and expenditure approved in the medium term financial plan would result in a deficit in the consolidated fund at the end of any financial year, the Council of Ministers must lodge a proposition, for the purposes described in paragraph (1), that, if approved by the States, would remedy the deficit.
- Article 9(3) would only be invoked once all other measures available to the Council of Ministers had been explored, for example delaying capital projects or reducing revenue expenditure.

14.3 Briefing and Involvement with States Members

14.3.1 How have we kept Scrutiny informed?

- The involvement with Scrutiny began during the development of the Strategic Plan. The draft Strategic Plan included a draft resources statement highlighting the financial framework and resource principles within which the MTFP would be developed.
- Once the Strategic Plan was approved, the Council of Ministers provided Scrutiny with the MTFP proposals as they were developed beginning with a presentation and first draft MTFP report in early May followed by two further draft reports in mid June and early July.
- Ministers and officers have also attended corporate and department Scrutiny Hearings and Private Briefings to ensure Scrutiny have been fully briefed and kept up to date during the development of the proposals.

14.3.2 How have we kept States Members informed?

- The consultation with States Members began during the development of the Strategic Plan. The draft Strategic Plan included a draft resources statement highlighting the financial framework and resource principles within which the MTFP would be developed.
- An in-committee debate provided the opportunity for all States Members to contribute to the initial direction and development of the MTFP.
- The Chief Minister and Treasury and Resources Minister delivered a comprehensive formal briefing to all States members, Interest Groups and the Media ahead of lodging on 20th July. The briefing also provide ample

opportunity for States Members to question Chief Minister and Treasury and Resources Minister

- The Chief Minister and Treasury have also offered several opportunities for group or individual Member briefings in advance of the MTFP debate.

14.3.3 How have States Members been involved in the MTFP proposals?

- States Members have been involved in the proposals from the very start of the process via the initial consultation and in-committee debate.
- Members have been given the opportunity to challenge and question proposals at various briefings.
- The MTFP has been lodged since 23rd July in order to provide the opportunity for all Members to consider the plan and offer opinion and amendments as appropriate over the 14 week lodging period.

ANNEX

A. The Key Themes

A1. Key Theme - Growth

The States approved initial growth allocations in the 2012 Business Plan of £6 million in 2013 and £16 million in 2014. As part of the initial work on the Medium Term Financial Plan and the resource statement in the States Strategic Plan, a level of £26 million was proposed for growth in 2015 as part of the total States spending limits for the Medium Term Financial Plan.

Against these original growth allocations, Council of Ministers received growth requests from departments amounting to almost £35 million. The growth requests also proposed that a higher level of growth was required in 2013 to address the immediate priorities of Getting People Back to Work, Economic Growth and Reform of Health and Social Services. In addition to the main growth bids, initiatives for Back to Work and Employment projects (which may not be permanent and recurring) of £7 million by 2015 were also proposed.

The Council of Ministers and Corporate Management Board conducted a significant prioritisation process with departments which attempted to reduce the requests to the level of growth funding available. Treasury worked with departments to identify if there were other ways that the growth requests could be funded within existing spending limits. Departments were encouraged to reprioritise existing services and identify efficiency savings wherever possible.

The Council of Ministers then went through a process of seven iterations. A fully funded package of proposals was agreed which will prioritise the growth bids, taking into account changes to resources that Treasury could identify, to help deliver the Strategic Priorities.

The prioritisation process dovetailed with the work being carried out by a number of Ministerial Oversight Groups, for example on Health and Social Services and Housing Transformation. White papers were due to be published and the MTFP has been prepared to be consistent with what will be proposed, without in any way pre-empting the support of the States for the funding proposals in the MTFP.

Council of Ministers considered that there remained a priority to find additional funding for Reforming Health Services, Getting People Back to Work and Stimulating Economic Growth, and proposed to allocate all available growth in the Medium Term Financial Plan. This was not the original plan, which would have left some growth available to allocate in future years, but the immediate funding of these initiatives in 2013 was felt to be vital to provide a stimulus to employment, the economy and also to begin the essential reform of Health and Social Services.

The Council of Ministers was conscious of the need to provide some future flexibility, especially for 2014 and 2015, and this has been achieved for example through the provision of contingencies and the agreement of the £222 million capital programme on an annual basis.

The Council ultimately considered three final options:

- All prioritised growth bids to be included in MTFP
- Removing selected growth bids to get closer to a fully funded position
- Removing all 2013 growth except Health and Social Services

One of the Council of Ministers' key resource principles is to maintain a balanced budget position and deliver affordable and sustainable public services and this determined the final option which required a final prioritisation process to select growth bids to be removed and not funded as part of the Medium Term Financial Plan proposals. These removed or deferred growth bids amounted to £11.6 million in 2013, £7.4 million in 2014 and £5.1 million in 2015.

A2. Key Theme - Balanced Budgets

The States endorsed a three part plan to address the deficits which were forecast from the move to a zero/ten tax regime and the impact of the economic downturn. The 2012 Business Plan presented proposals for a balanced budget from 2013 and this has been the basis for the States Strategic Plan and Council of Ministers' proposals for the Medium Term Financial Plan.

This three-part plan is delivered and is working:

1. Savings have been removed from budgets to deliver over £61 million by 2016,
2. Economic growth has been boosted by a fiscal stimulus package, and
3. Taxes have been raised where necessary to close the remaining gap.

The Medium Term Financial Plan proposes balanced budgets in 2013 through to 2015 and the Council of Ministers is proposing a number of budget reductions and other measures over the next three years to ensure that these balanced budgets can be maintained while providing the necessary resources to deliver the agreed Strategic Priorities.

It is important to keep public sector spending under control so that the Island can remain competitive with relatively low levels of inflation. If the States is to provide sustainable services to the public it is fundamental that we take account of the economic outlook, be prudent in our spending plans, ensure that savings and efficiencies are implemented and not increase public spending unless it is matched by savings or additional income.

It is also important that the States endorse the proposals for balanced budgets and do not dilute the tough decisions that have been taken so far on tax and spending by accepting amendments that would not result in balanced budgets.

Balanced budgets are essential to provide certain, stability and confidence in the Island to be able to deal with uncertainty, enable the Island to be competitive internationally and be in a position to take advantage of global economic growth when it returns.

A3. Key Themes - Affordability and Sustainability

The States Strategic Plan approved seven resource principles to ensure that the States maintain balanced budgets but also so that public services remain affordable and sustainable over the medium term and longer term.

These resource principles are:

1. *Be prudent, taking account of the uncertain economic and financial outlook.*
2. *Identify and implement all possible savings and efficiencies. (For 2013 and beyond we will optimize methods of service delivery and provide value for money).*
3. *No additional spend unless matched by savings or income.*
4. *The Stabilisation Fund will only be used during an economic downturn, as advised by the Fiscal Policy Panel, to fund the effects of reductions in States revenues or increased demand for States services, and to provide appropriate stimulus to the economy.*
5. *Maintain balanced budgets over the medium term for current expenditure and achieve an appropriate balance between taxation and spending over the course of the economic cycle.*
6. *Actively manage the Balance Sheet as well as the Budget by maximising investment returns within agreed levels of risk.*
7. *Plan our expenditure on capital and infrastructure over the long term and consider carefully the appropriate sources of funding for major projects, including borrowing.*

The Medium Term Financial Plan is an important next step in Jersey's sustainable long-term planning and will provide a foundation for our future. Developing medium and long term financial plans to deal with taxation and funding strategies for long-term capital and revenue expenditure is vital in meeting the challenges of the economic downturn and the ageing population. The Medium Term Financial Plan will ensure that we have the financial ability to achieve the goals of the Strategic Plan over the next three years.

These principles should be borne in mind when considering each amendment. Any amendment that increases total spending or reduces income will worsen the financial position, potentially meaning that the States doesn't have balanced budgets and also that less funds are available in the Consolidated Fund to address future priorities.

A4. Key Theme - Flexibility

A number of comments have been made in the lead up to the Medium Term Financial Plan debate about whether the proposals allow sufficient flexibility to deal with variations in States income but also to address any new spending priorities and pressures which emerge during the course of the next three years.

The Council of Ministers has proposed that all available growth is allocated to the immediate priorities of Getting People Back to Work, Economic Growth and Reform of the Health service. Together with the other priorities identified by departments through the extensive prioritisation process this has not left any growth funding to be allocated in future years.

Notwithstanding the proposals to allocate the Growth funding to departments as part of the initial spending limits, there is still a significant amount of flexibility within the Medium Term Financial Plan to address new developments or new policies as they arise.

The total Capital Programme proposed in the Medium Term Financial Plan amounts to £222 million and decisions to allocate this funding to individual capital projects will not be taken until the annual Budget each year. This means that £56 million will be decided in the 2013 Budget, £89 million in 2014 and £77 million in 2015.

The Council of Ministers has proposed that central contingencies are reduced from initial levels but the Medium Term Financial Plan still proposes that £19 million will be available over the next three years with £6 million in 2013, £6 million in 2014 and £7 million in 2015.

A new process for carry forwards is now in place where departments have been given greater certainty in respect of the carry forward of identified underspends against future commitments. The process also provides that any windfall or unforecast underspends are returned to the Treasury which provides an opportunity to consider whether these funds should be returned to the Consolidated Fund or used to provide a further contingency against any unfunded priorities during the course of the next three years.

The certainty over carry forward arrangements is crucial to departments to enable them to manage changes in priorities over the three years of the Medium Term Financial Plan. In addition, departments have been encouraged to hold and develop appropriate contingencies to manage any pressures and priorities as they arise and must demonstrate that they have considered all other measures before they need to approach the Treasury for any central contingency.

Other provisions are in place to deal with some of the known funding pressures for the next three years. These include a provision for the costs of claims from the Historic Child Abuse Enquiry (HCAE) process, provision in the form of a smoothing reserve and funds in the Criminal Offences Confiscation Fund (COCF) in respect of any increase in court and case costs and a fully funded central insurance fund.

Each of the flexibility options would enable provision to be made during the next three years for any priorities or pressures that may arise and before any change in underlying tax and spending policies are required in the next Medium Term Financial Plan. The Council of Ministers will also consider any opportunities for budget reductions or efficiency savings that may arise from the Public Sector Reform and Modernisation Programme which may provide additional flexibility particularly by 2014 and 2015. However, at this stage it is too early in the process to consider either the timing or at what level these budget reductions may be achieved.

A5. Key Theme - Income Uncertainty

A number of comments have been made in the lead up to the Medium Term Financial Plan debate about whether the States income forecasts are robust or indeed that they are overly optimistic in the light of economic forecasts.

A robust methodology was used to develop the economic assumptions and the income tax forecasts. The Corporate Service scrutiny panel noted in their report that "some welcome improvements have been made to the modelling of income from income tax". In addition, comparisons show that the economic assumptions used reflect the same level of caution as other independent bodies. The Medium Term Financial Plan forecast was done in March 2012 and based on the published FPP economic forecasts at that time with assumptions used for 2013 and 2014 being that the economy would return to an average performance, reflecting long-term trends and recent experience. The approach taken is consistent with that adopted by the UK's independent Office for Budget Responsibility (OBR).

MTFP Jersey assumptions v OBR UK forecasts

	Outturn	Forecasts				
Real economic growth % change	2010	2011	2012	2013	2014	2015
Jersey	-5.0*	1.2	1.4	2.0	2.5	2.5
UK	2.1	0.8	0.8	2.0	2.7	3.0

The available evidence suggests that the forecasts are robust. The most recent monitoring information at the end of the second quarter shows that income tax receipts are higher than budget and exceed the forecasts in the Medium Term Financial Plan by £7 million. This is consistent with us achieving the levels of income set out in the Medium Term Financial Plan. This likely higher starting point for 2013 acts as a mitigation against some of the lower economic forecasts and assumptions referred to by the scrutiny panel.

The Corporate Services scrutiny panel advisor produced scenarios where more pessimistic assumptions were used to model future income tax forecasts and even with these assumptions the income forecasts were still broadly within the range of forecasts calculated for the Medium Term Financial Plan.

These scenarios helped to confirm the sensitivity analysis calculated at the time of the production of the Medium Term Financial Plan which showed, from an evaluation of the key drivers of income tax revenues, that there would have to be a significant percentage change in the key economic variables to drive tax revenues to fall outside the current range of forecasts. As an example, a +/-1% change in employment or earnings growth would lead to an approximate £3 million variation in tax revenues.

The Fiscal Policy Panel has downgraded its economic assumptions for 2012 and 2013 and comments that the income forecasts are likely to be in the lower range by 2014 and 2015 but there is no recommendation to amend the Medium Term Financial Plan forecasts.

There has also been comment as to the level of increase in tax revenues over the Medium Term Financial plan period but the key drivers of that increase are in relation to personal income tax (corporate income tax receipts are only forecast to grow £9 million over the course of the Medium Term Financial Plan period). The forecasts are based on the level of inflation plus a weak growth in employment and earnings and a small improvement in the tax yield and these assumptions are consistent with those used by the OBR where growth in earnings in excess of inflation is forecast to be greater in the UK than assumed for Jersey.

The only conclusion that can be reached is that income tax forecasts are by their very nature uncertain but the range around the income forecasts in the Medium Term Financial plan and the underlying methodology can be demonstrated to be robust when compared to other independent forecasts.

B. Supplementary Information

B1. Innovation Fund

B1.1 What is the purpose of the Innovation Fund?

- The Innovation Fund will increase the availability of risk capital for high value growth companies. The fund will support projects that can clearly demonstrate the following:
    - o creation of employment for Jersey residents
    - o return on investment in terms of economic benefit for every £1 spent from the Fund
    - o a quantifiable impact on competitiveness and innovation in sectors which Jersey can demonstrate a comparative advantage(measured by increased market share)
    - o encouraging high value added, high quality, high productivity economic activity
    - o a strong case for States support through alignment with States Strategic Plan priorities, in particular in areas where market failure is presenting a barrier to innovation.
- The key objective of the Economic Growth & Diversification Strategy, as approved by the States in P.55/2012, is to deliver growth, improved competitiveness, diversify the local economy and create employment. To achieve this, a key strategic aim is to encourage innovation and improve Jersey's international competitiveness.
- In order to achieve this strategic aim an identified priority is to establish the Innovation Fund. Support from the Fund will only be made to projects that clearly demonstrate a significant leverage in terms of improving Island competitiveness, infrastructure improvements, developing innovation and diversification towards high value activity that creates good jobs for local people.

B1.2 How much money will the Fund have and when?

- It is proposed that the fund is established with an initial allocation of £5 million, funded from part of the proposed redemption of JT Group Limited's 9% cumulative preference shares. If approved this £5million will be allocated to the Fund in 2012, although it will most likely be operational from 2013.

B1.3 How will the Fund be managed?

- A new independent Innovation Investment Board will be established, with a minimum of 2 members and a Chair from the private sector. There will also be representatives of Economic Development, Treasury & the Economics Unit on the Board.
- The Board will be responsible for the management of the Fund, assessing all applications and making recommendations to the Economic Development Minister. The Board will be supported by a Fund Executive from the Economic Development Department.

B1.4 Who will be eligible to apply for financial support from the Fund?

- The Fund will be used to support projects across all sectors (public, private & third sector) but financial support will be targeted and prioritised towards:
    - o attracting new innovative businesses to the Island
    - o funding early stage high value start-up enterprise
    - o funding established business with high growth potential

    - financing research projects that may improve the Islands competiveness
    - funding enabling investments in ICT infrastructure
    - seed funding for new products/services/processes
    - funding for businesses to establish better links with universities.

B1.5 What type of financial support will be available and on what terms?

- Within the first year of operation the types of financial support available from the Jersey Innovation Fund will be restricted to both repayable loans and grants.
- In both cases the Economic Development Minister will have the option to approve specific clauses or conditions to safeguard the States of Jersey and allow it to benefit from for example, but not limited to, any significant increase in the value of the enterprise, a move to another jurisdiction, a significant increases in revenues or other commercial opportunities resulting from the original investment.
- The option to provide either a grant or a loan provides the opportunity to support both fully commercial private enterprise and 'not for profit' projects that can clearly demonstrate Island wide advantages through the creation of innovation. However the assumption is the majority of support offered will be loans, with grants only offered in exceptional circumstances.

B1.6 How will applications for support be assessed?

- To demonstrate the extent to which an application might meet the criteria of the Fund, the independent Innovation Investment Board will have a consistent and objective methodology to compare projects which may exhibit quite different characteristics.
- In particular, the Board will have a robust approach to considering the impact a project might have on employment, competitiveness and innovation and an objective measure of whether a project can be considered to encourage high value added, high quality or high productivity activity.
- The Board will also consider the likely short and long term commercial viability of the project.
- An Assessment Framework has been developed by economic Development along with the Economic Advisers Unit. In order to complete a thorough assessment of all potential projects, certain information will be required from the applicant about the proposed project and the applicant.
- The amount of detail required will be proportionate to the size and complexity of the proposed project. As a minimum this will include an economic impact assessment undertaken by the Economic Advisers Unit.

B1.7 What agreements will be put in place on financial support being approved?

- All approved financial support will, before any payment is made, have a completed and signed Funding Agreement. Each agreement will be specific to the project and include details of any specific clauses, the rights and obligations of both parties and contain the following as a minimum:
    - name of the investee
    - description of the financial support (loan/grant)
    - purpose of the loan or grant
    - States strategic aims and objectives supported
    - amount of the support

- payment terms and timing
- repayment terms of the loans
- interest rates of approved loans
- special conditions attached to the funding support
- treatment of loan defaults
- arrangements for repayment or early repayment
- explanation of the corporate governance framework
- explanation of disclosure of the support in the States of Jersey Annual Accounts
- clear explanations of what each party is expected to provide, including any reports and/or statements
- any conditions attached to the support and criteria for measurement of whether investment conditions have been fulfilled
- arrangements for repayment of the loan or grant in the event of non-performance or non-compliance.

B1.8 What are the risks in providing such support and how will the risk be managed and minimised?

- No form of financial support comes without some type or level of risk. Due to the nature of the new and innovative businesses to be supported it is recognised that not all will be successful and that there will be failures which may result in loans not being repaid or objectives of providing the support not being achieved. This will be a reality and runs counter to the normal "risk averse" nature inherent in public finance activity. Therefore a certain level of "failure" will need to be accepted by the States and be balanced against the positive benefits that the Innovation Fund is seeking to achieve.
- A number of steps will be implemented to manage and minimise the risk:
    - Robust assessment of each application against defined criteria and consistent and objective methodology
    - Access to relevant expertise to advise the Board
    - The Fund Executive will establish a risk register for all investments and have responsibility for managing the risk register, which must be updated every 6 months
    - The Fund Executive will provide ongoing monitoring of all Funding Agreements in place, to ensure compliance with specific clauses, rights and obligations
    - All loans and grants made will be in compliance with the Public Finances Law and Financial Directions as applicable
    - The processes of the Innovation Fund will be subject to audit as determined by the Treasurer of the States.

B1.9 Would any of the new businesses recently attracted to the Island have benefited from the Innovation Fund?

- On the basis that they have relocated to the Island without assistance, it has obviously not been required.
- The Innovation Fund is intended to be used in bona fide cases which are consistent with the aims and objectives of the Fund.

B2. Fiscal Policy Panel

B2.1 What is the Fiscal Policy Panel's view of the MTFP proposals?

- The 2012 FPP report states that the economic outlook and GVA level for Jersey's economy has been slightly downgraded for 2012 and 2013. The recommendations of the FPP in response to this downgrading include:
    - To accelerate fiscal support for the economy through increased short-term capital expenditure in 2012 and 2013
    - To plan for extra flexibility to enable the reduction spending in 2014 and 2015, depending on economic growth
    - To leave the Stabilisation Fund and Strategic Reserves as they are for the next two years, but developing a plan to rebuild the Stabilisation Fund when the economy begins to recover
    - To undertake a more detailed review of the impact of the planned capital expenditure
    - To adopt certain reporting adjustments of forecasting in future MTFP's or Budgets
- The FPP report has helpfully illustrated the difficult balancing act between allocating resources to meet clearly identified spending needs in essential areas such as health, social care and job creation, supporting the economy in the short-term, and protecting the competitive system of taxation upon which our Island depends.
- It has already been signalled in the States that there will be no significant tax raising measures proposed in the budget. Those measures that are proposed will aim to promote the consolidation and simplification of Jersey's existing tax regime in order to tighten compliance on tax collection and reduce avoidance.

B2.2 Do the FPP support the economic assumptions used in the MTFP?

- The 2012 FPP report states that the economic outlook and GVA level for Jersey's economy has been slightly downgraded for 2012 and 2013.
- The forecasts for GVA are reduced to -1% for 2012 and 2013, within a range of -3% to +1% for these two years.

B2.3If the FPP advise that the forecasts for real growth in GVA are optimistic will the Minister reduce spending in the MTFP or maintain spending through borrowing?

- The FPP has advised that the States should consider whether it is possible to give more fiscal support to the economy in 2012 and 2013 rather than to reduce spending.
- This will be given consideration by the Minister and the Council of Ministers and if necessary amendments will be brought to the MTFP to reflect that advice.

B2.4 What is the FPP's view of the Income forecasts?

- It is a difficult balance between the risks of lower incomes as a result of revised growth projections but also the knowledge that in the past and in the current year, actual tax revenues are exceeding forecasts.
- Overall risk is probably on the downside – that cyclical downturn is worse than expected.
- The short-term economic outlook has deriorated which means that future income tax revenues may not grow as quickly as assumed in the MTFP. It is more likely now that income tax revenues will be in the lower part of the forecast range by 2015.

- There is NO recommendation to revise the fincial forecasts ahead of the MTFP debate.

B2.5 What are the FPP's views on the level of States Expenditure in the MTFP?

- The FPP recommend that more fiscal support could be given to the economy in 2012 and 2013 as the downgrading of economic growth implies some spare capacity.
- In general the FPP comment is not to reduce spending but to consider how the States, especially in terms of capital, can be more flexible about when it is spent to address changes in the economy.
- Timing is more important than the overall level and the FPP also comment that it is important what both capital and revenue is spent on. They refer back to the princples of the three T's.

B2.6 Does the FPP have a view on what spending should be prioritised to?

- The FPP view is not about what projects to spend money on or what departments but is more concerned with when it is spent and that the principles of the 3 T's are applied. The priorities themselves are seen as a political decision.

B2.7 What consideration has been given to the possibility of further discretionary fiscal stimulus projects in the MTFP now that the FPP 2012 report has been received?

- In response to the FPP advice the current position will be reviewed and options for us to go further, in the way that the Panel suggests, will be considered. This may include external and internal borrowing.
- The revisions to the FPP forecasts were largely expected in the light of the continuing economic difficulties in the UK and Eurozone.
- The MTFP already includes significant discretionary fiscal support to the economy in the steps which have been taken to identify and fund an ambitious capital programme over the next 3 years.
- This is combined with the measures which have been taken to provide additional funding for housing schemes in 2012 and 2013 and the investment for Jersey Telecom's Gigabit roll out which is a vital infrastructure project that also provides a timely and much needed injection into the local economy.
- States departments have already been asked to make rapid progress on tendering the capital schemes that have been funded in 2012 and 2013 so as to inject this spending into the local economy in a timely manner.
- Other aspects of expenditure will also be reviewed, such as repairs and maintenance for social housing, to ensure that these projects are being completed in as timely a manner as possible.

B3. Tax Policy

B3.1 What measures will be proposed in the 2013 Budget?

- The Budget measures will be announced to States Members on Tuesday 16 October and lodged in the States on Wednesday 17 October. Any and all measures proposed will be announced then.
- However, the theme of this year's Budget will be consolidation and protection of existing tax revenues.
- No significant tax raising measures will be proposed.

B3.2 How competitive is Jersey's Tax System?

- With a 0% corporation tax rate, Jersey would find it hard to be more competitive on tax terms but Jersey is not simply competitive in relation to tax.
- Jersey's tax position was historically most closely aligned with the other Crown Dependencies for which the main market was Europe. The Island did not necessarily compete with jurisdictions in the Caribbean as they were operating in a different market.
- Growth funding is provided in the MTFP for Jersey Finance Limited for the expansion into new markets.

B3.3 Are there any plans to change the tax regime for 1(1)(k) residents?

- A new regime was introduced last year and there are no intentions to alter it.
- In considering policy in this area, it was necessary not only to look at what brought people to Jersey but also to look at what drove them from other jurisdictions.
- Jersey has an informal target of bringing in 15 1(1)(k) residents each year. For 2012, the figure has already reached double figures.

B3.4 Can taxation be used to promote behavioural change?

- Health and Social Services is not against the new tax principles to use taxation to affect behaviour although it would be difficult to predict the outcome of any such measures.
- The draft MTFP provides funding for the first three years of the moves described in the Health White Paper.
- Part of that work includes considering the use that people sometimes make of the Hospital as effectively a free GP service.
- Consideration would be given to tax relief on charitable donations (Council of Ministers wishes to promote philanthropy in the Island).

B3.5 Is the tax system in the Island complicated?

- The removal of deemed distribution has removed one complication.
- The Taxes Office is looking at the tax system as there are some other potential complications, for example the two rates of personal taxation.
- However, it can be argued that the Jersey system is simpler than that found in other jurisdictions, and efforts will continue to be made to ensure that Jersey's system is made simpler, wherever that is feasible.

B4. Housing Transformation

B4.1 Why does Housing have to make a return to Treasury? Couldn't a reduced return fund necessary maintenance?

- Housing make a return to Treasury because their rental receipts are in excess of the departmental expenditure requirements by approximately £28 million per annum.
- This is after accounting for a maintenance programme but does not address the issue of backlog maintenance.
- The current consolidated financial position does not allow for Housing to reduce their return to fund backlog maintenance because there are other departmental pressures that require them to make this level of return.

B4.2 Why put up rents if it just increases Income Support? What is the benefit of the money go round?

- One of the impacts of the Housing Transformation Project is that rents will rise from 70% to 90% of market rates and this will increase the cost of the housing component of Income Support both from States and private sector tenants. This is accounted for within the MTFP.
- The benefit of doing this is that it resets the baseline for rentals so that there is a clear linkage to market rates and this then allocates the expenditure and income into the correct categories within the States finances.

B4.3 How will the Housing department support the Strategic aim of promoting Family and Community Values if no funding has been allocated?

- Families are important but so is where they live. Sub-standard accommodation affects access to education and health.
- Some of the increases in staffing in the department are to support families, tenants and customers.

B4.4 If the Housing Transformation Programme is approved, will the £1m per year, allocated from within the Soc Sec budget, be enough to cover the impact on Income Support?

- The MTFP includes a provision for £1 million for Social Security.
- Further analysis is being carried out to confirm the estimated impact and if this sum is found to be insufficient then provision exists within the new Housing Legislation to make amendment to the MTFP spending limits at that time.

B4.5 What consideration has been given to the wellbeing of individuals who may have to claim benefits for the first time because of the housing rental increases?

- This should only affect a small minority of people who are living in social housing and paying full rent.
- The majority of tenants are assumed to be already on Income Support and will not be affected.
- Income support is now a statutory benefit as opposed to the Parish Welfare system which was discretionary.