

Long-Term Expenditure and Revenue Model

Presentation to Migration Policy Development Board

Thursday, 18 April 2019

Overview of the model



- **Combines demographic, fiscal and economic data out to 2050**
 - Population projections
 - Health and education expenditure projections
 - Taxes Office data by sector
- **Based on policy and commitments staying the same as 2018**
 - And before savings from implementing Target Operating Model
- **Revenue: Income Tax, GST, Impôts, stamp duty, island-wide rate, 'other income' (dividends, return from Andium etc.)**
- **Expenditure: Departmental expenditure, including States Grant to Social Security and capital expenditure (excluding SSF, HIF, LTC)**

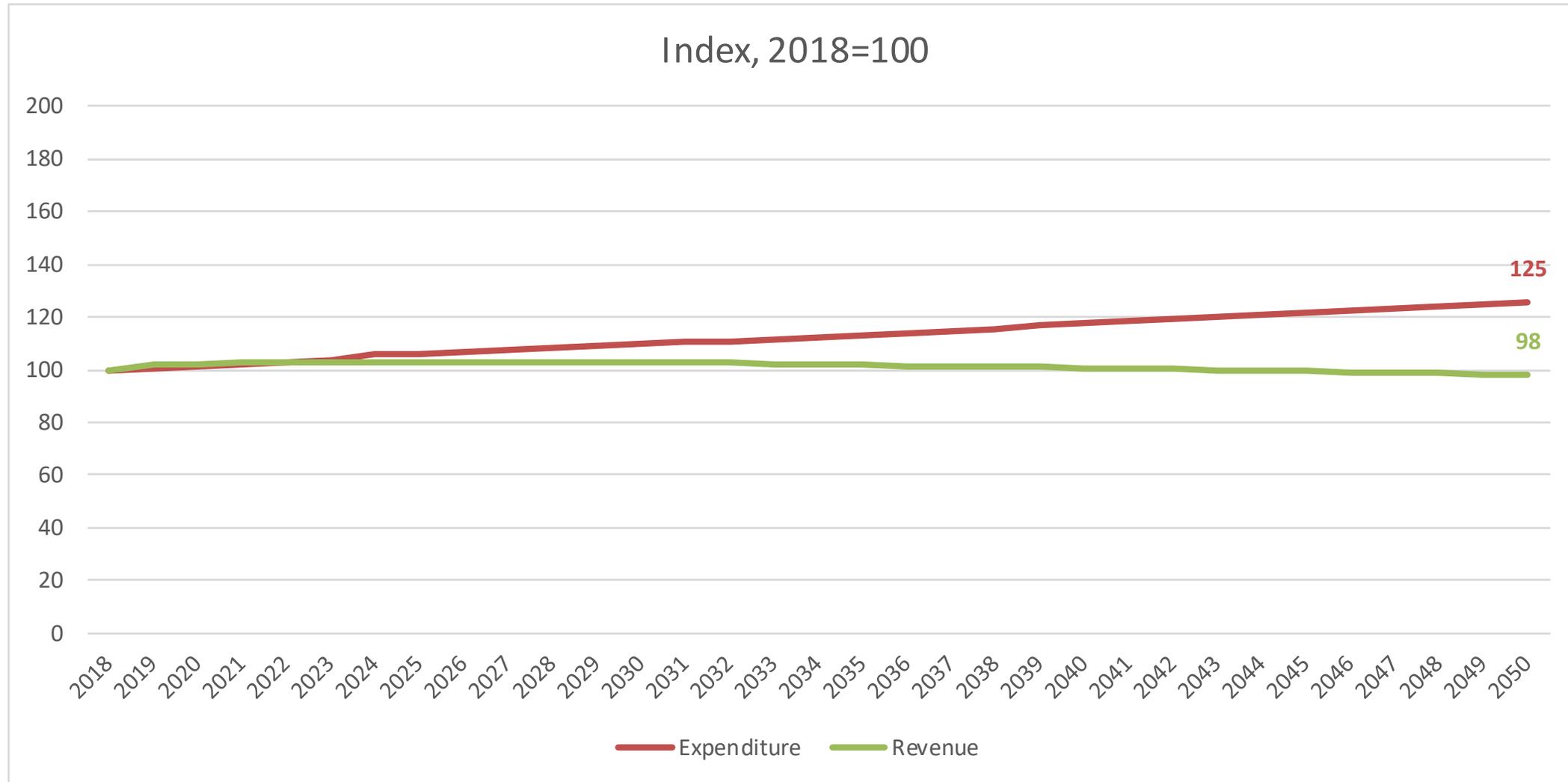
Key variables/assumptions



- Main variables:
 - Productivity (FS and NF)
 - Net migration
 - Sectoral composition
- Key assumptions:
 - Education and health spending grow in line with departments' models
 - 0.7% HSSD annual productivity improvement (can be varied)
 - Health expenditure grow by 2%/year in real terms (can be varied)
 - No change to tax rates
 - States Grant, capital spend and income support grow in line with overall population (2017 base)
 - Other spending flat in real terms

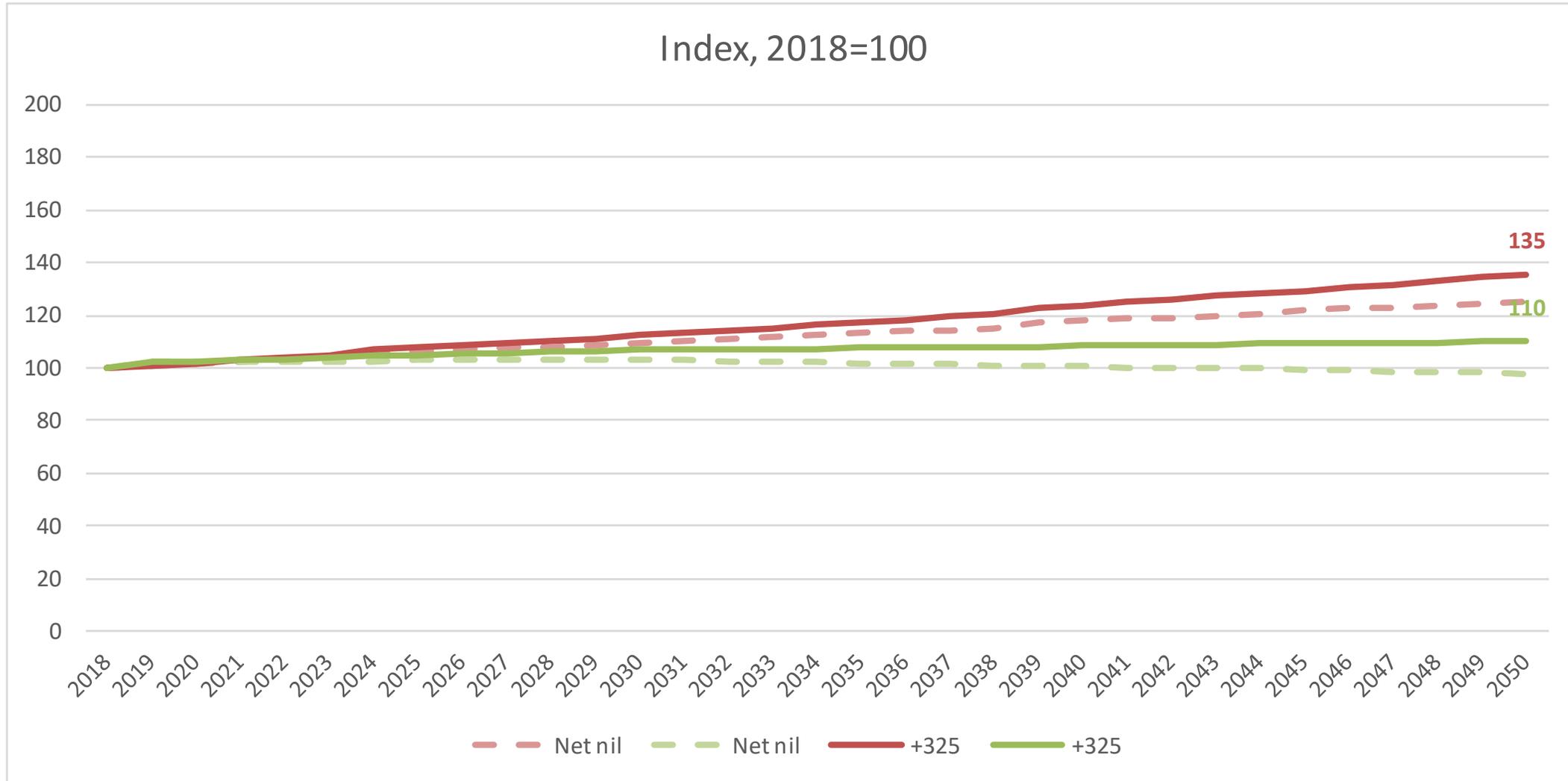
Impact of ageing on public finances

Revenue and expenditure: net-nil migration, no productivity growth



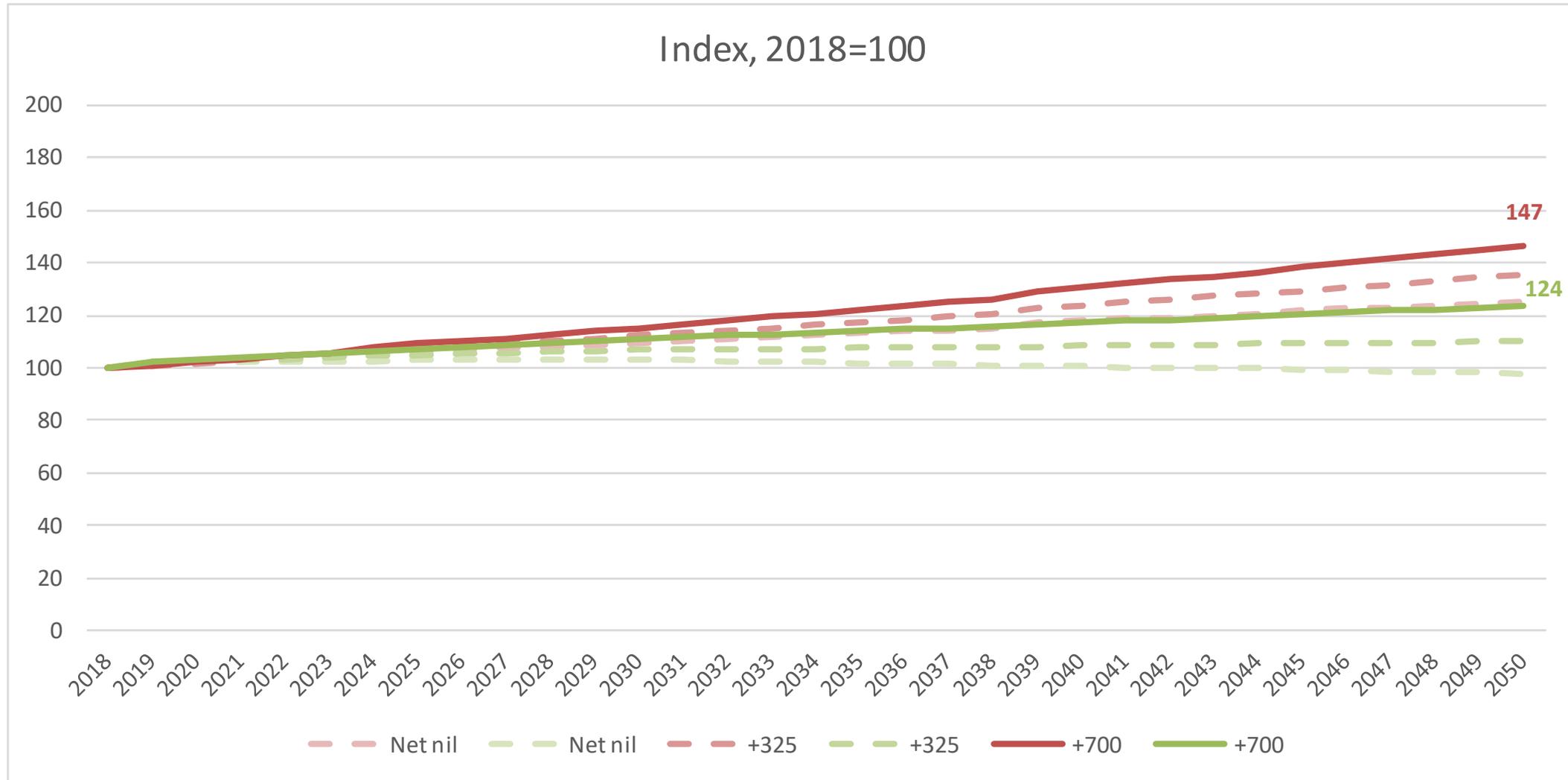
Migration scenarios

Revenue and expenditure: +325 net migration



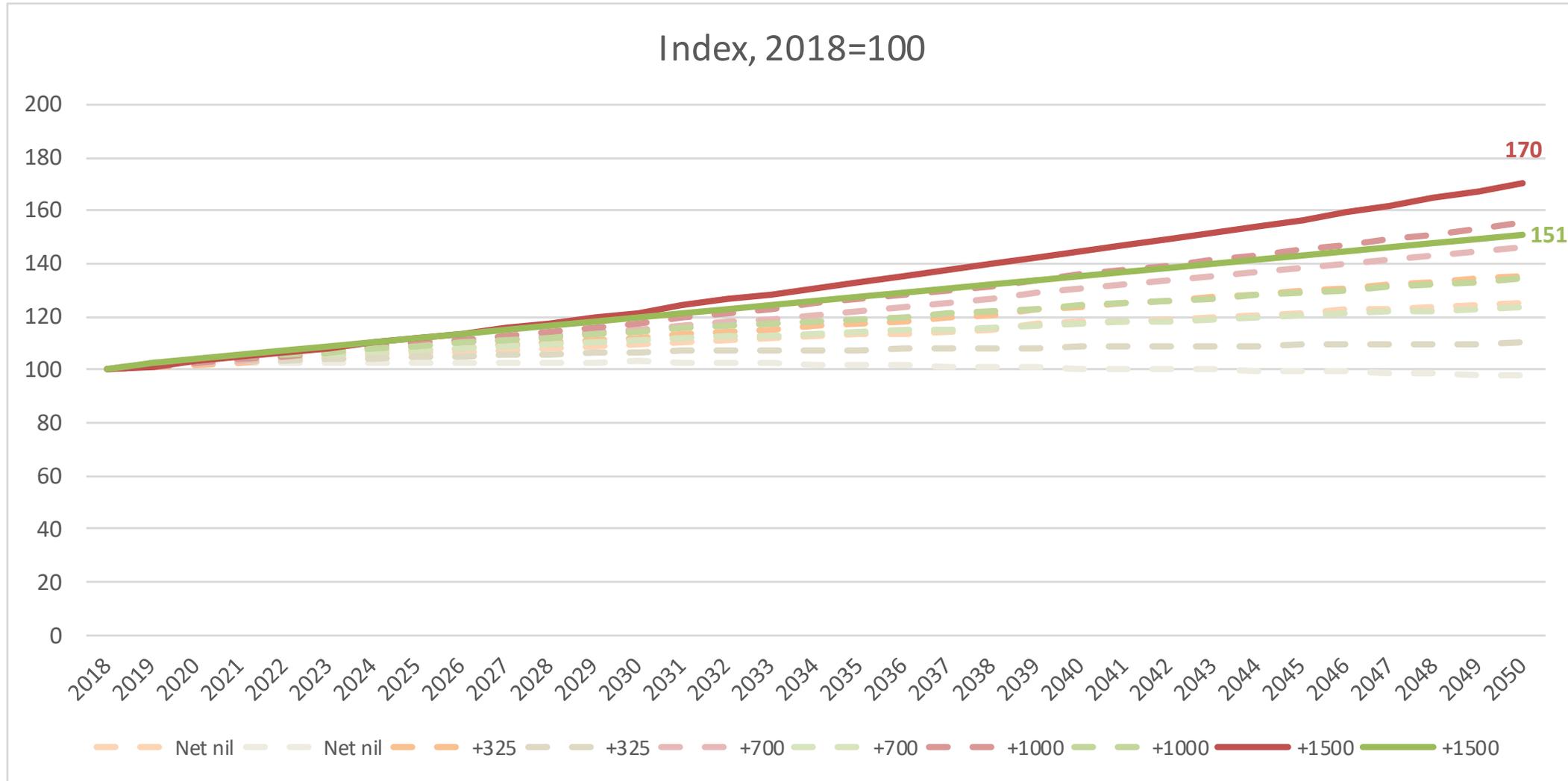
Migration scenarios

Revenue and expenditure: +700 net migration



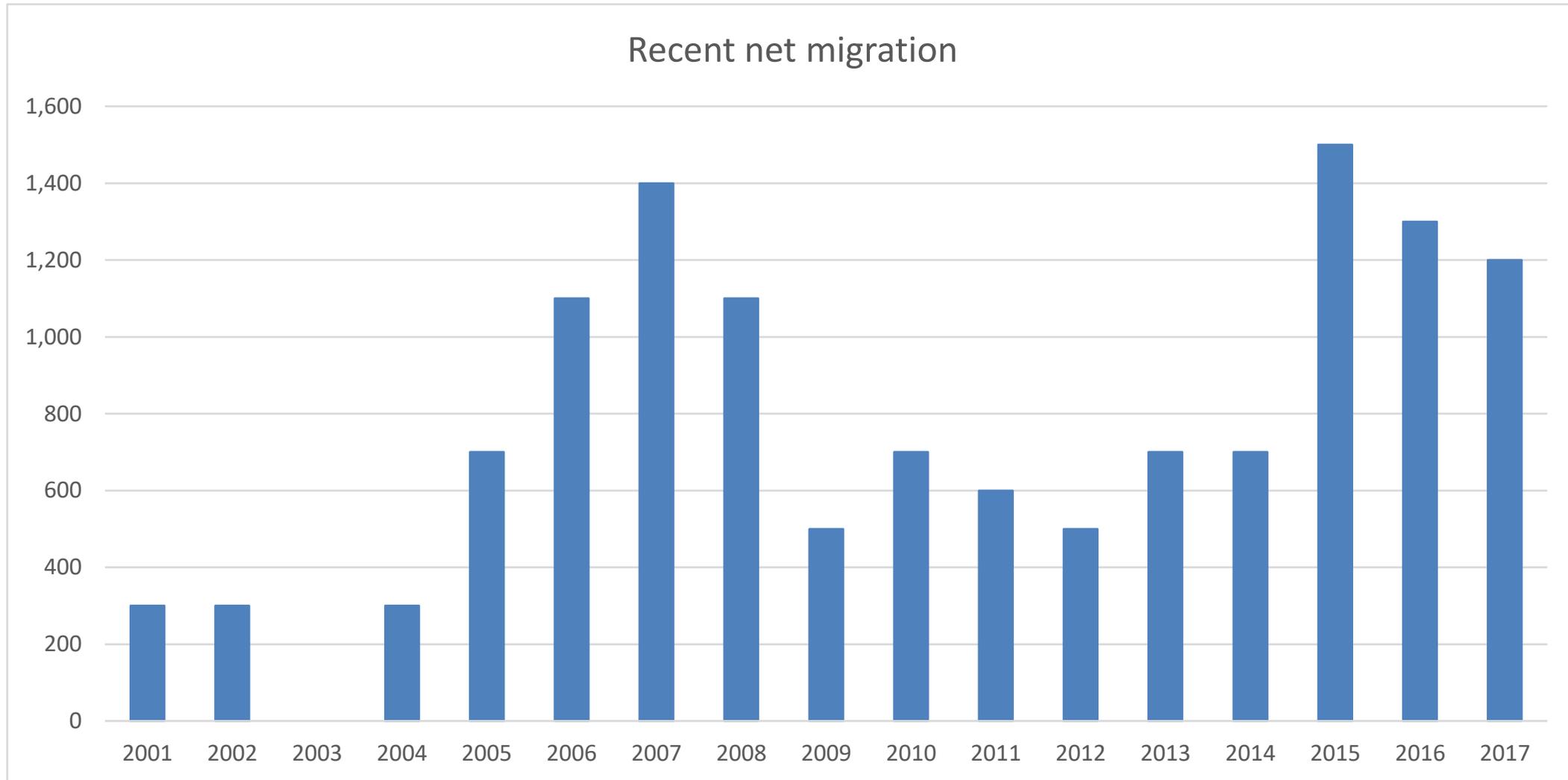
Migration scenarios

Revenue and expenditure: +1,500 net migration



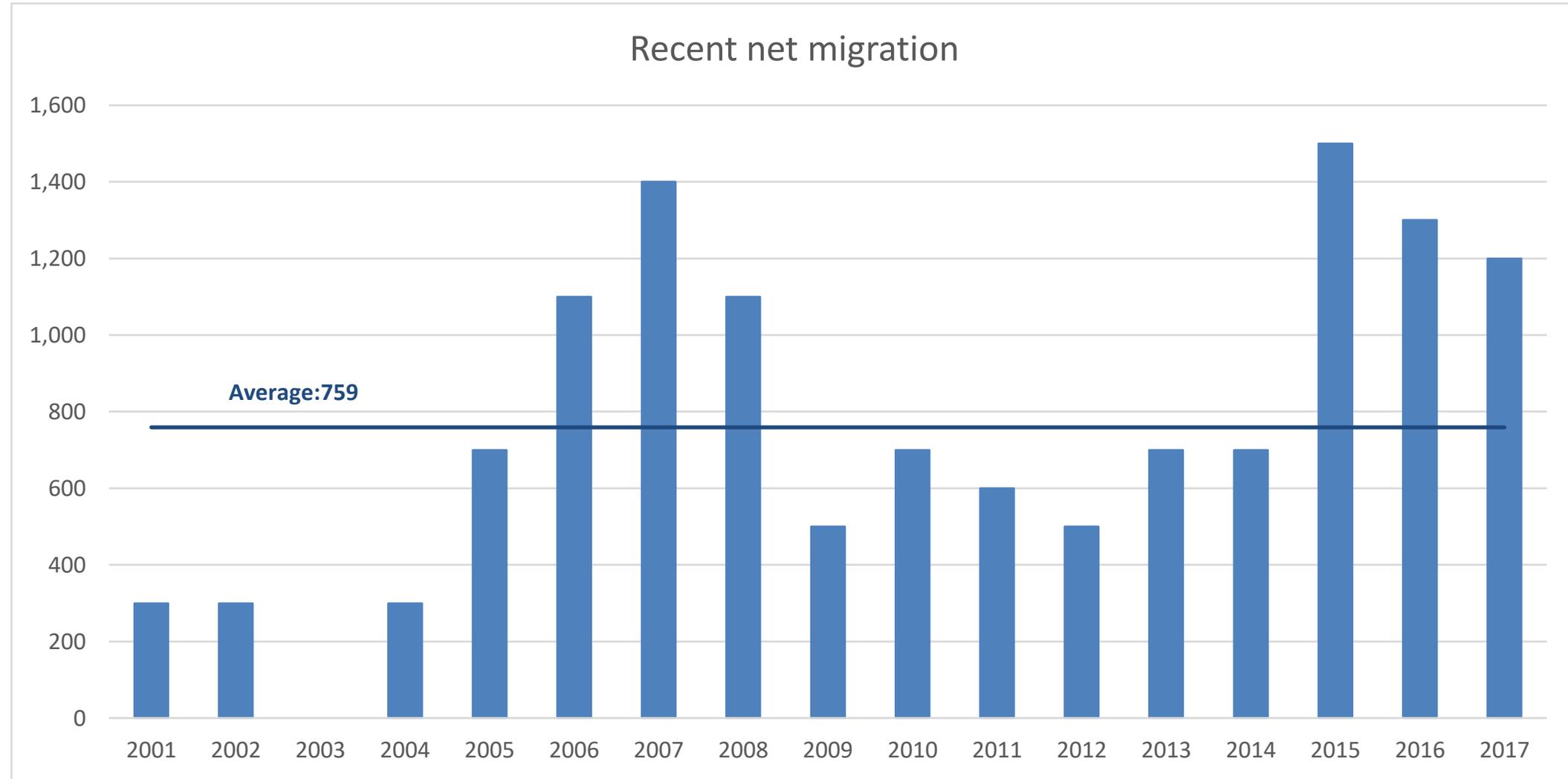
Recent trends in migration

Net migration per year



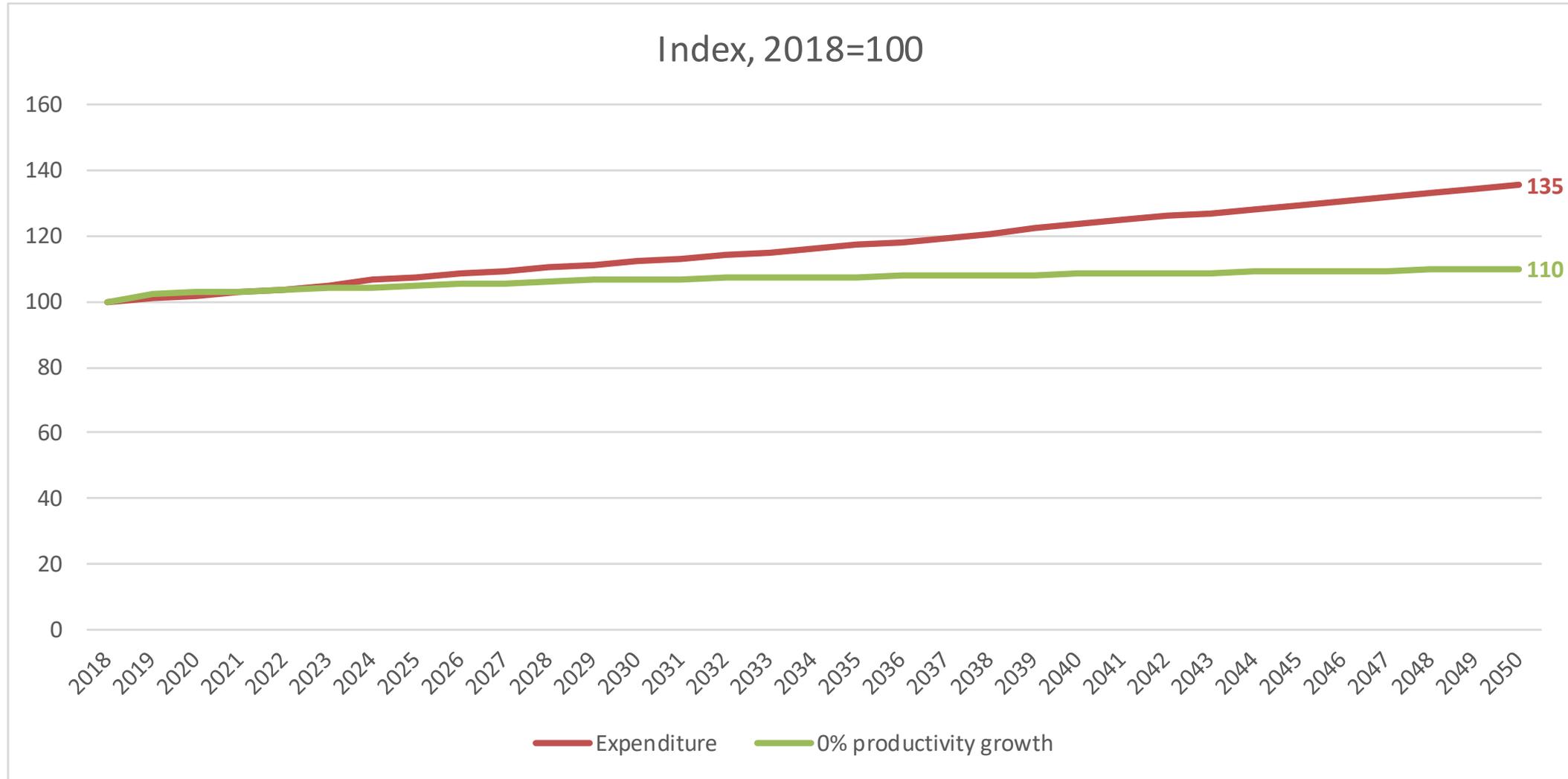
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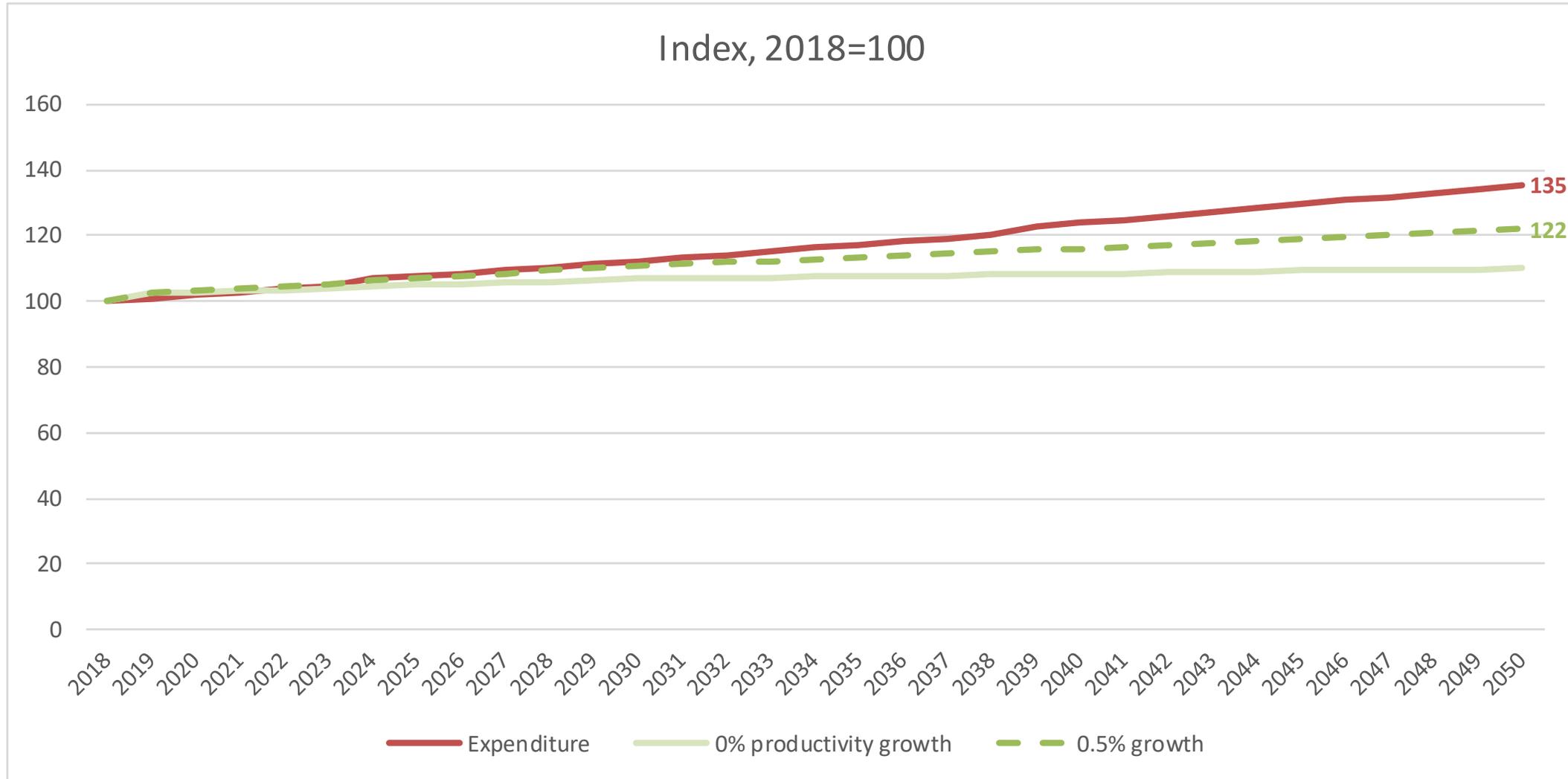
Productivity scenarios

Revenue and expenditure: +325 migration, no sectoral change



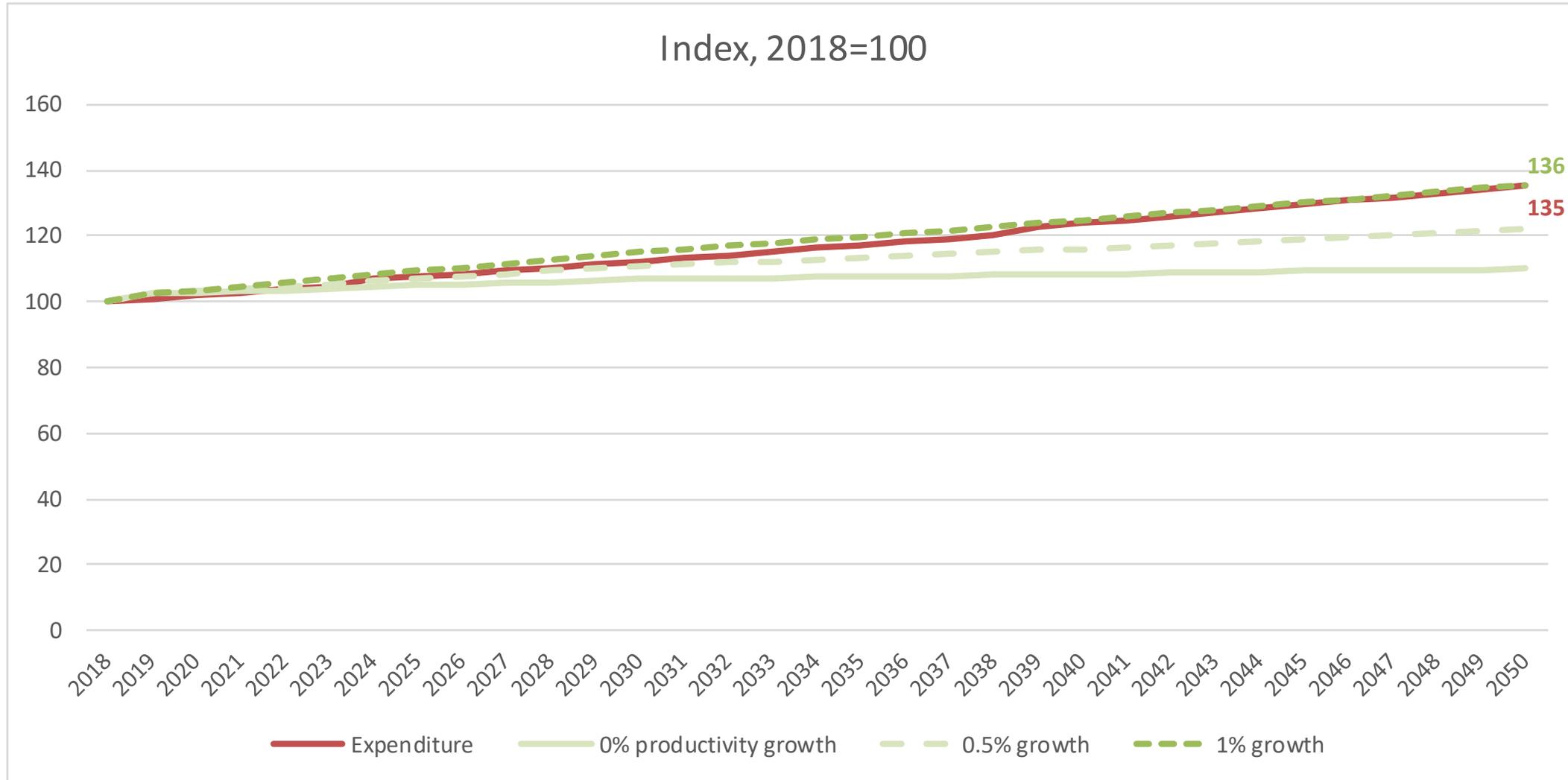
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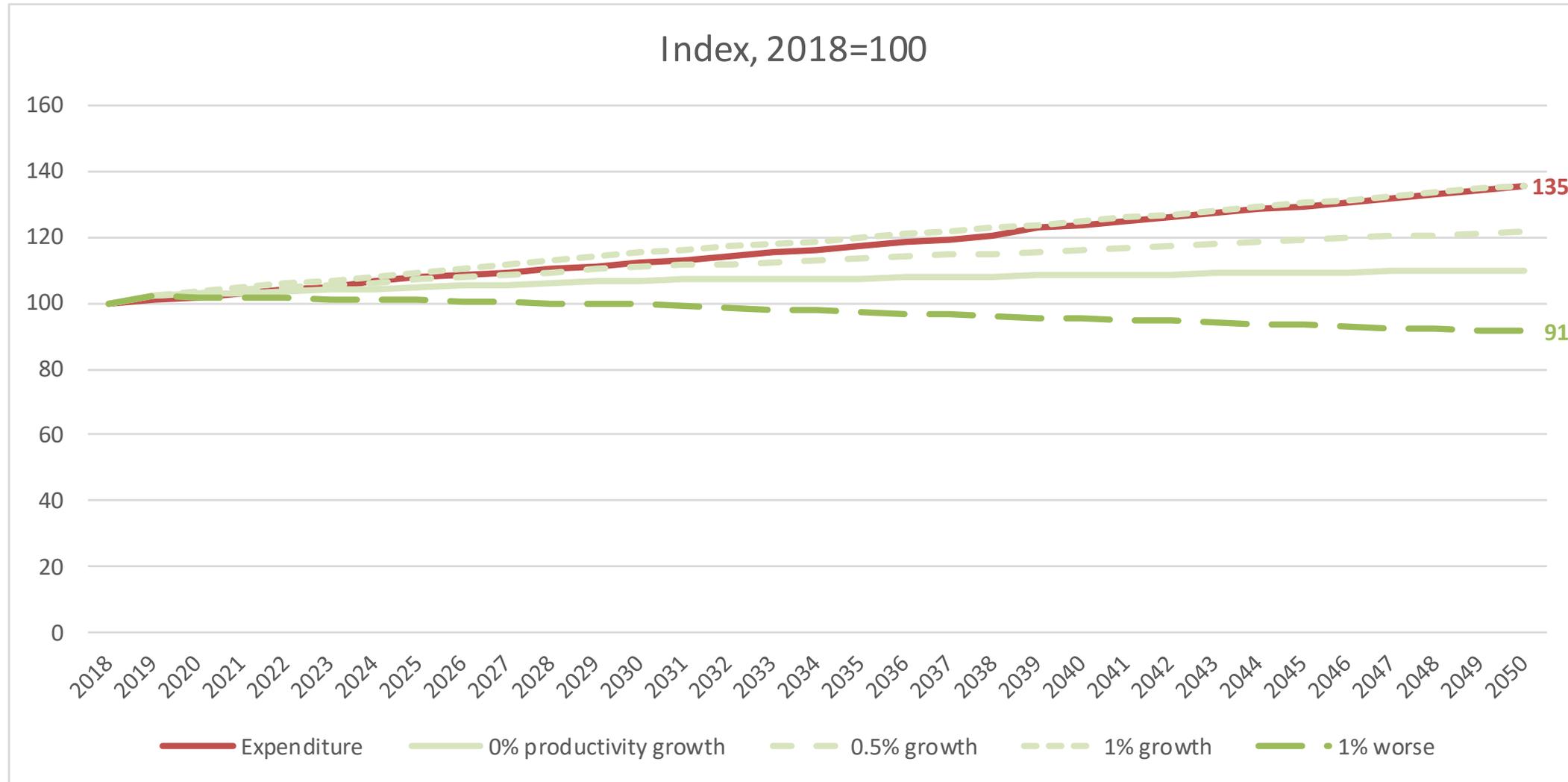
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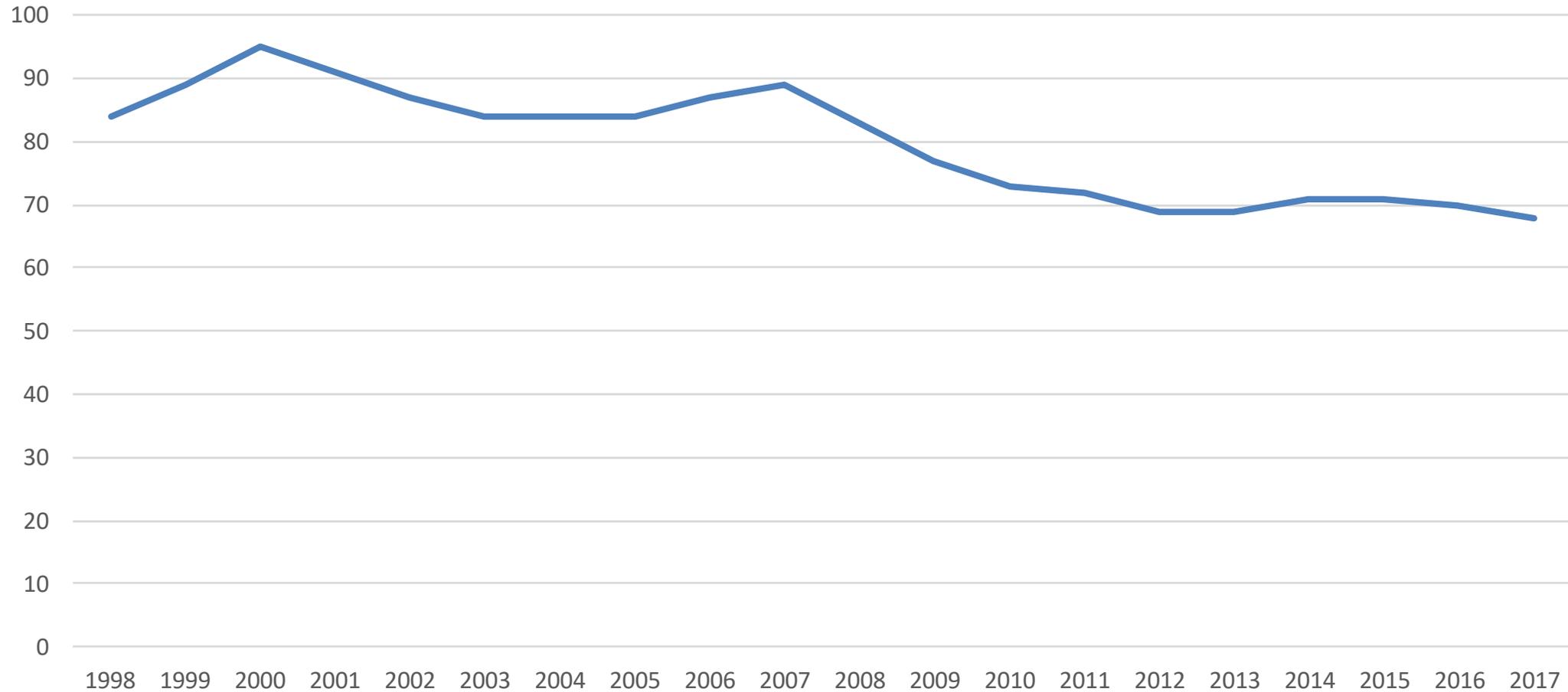


Recent productivity performance

GVA per FTE (£k, 2017 prices, excluding rental)

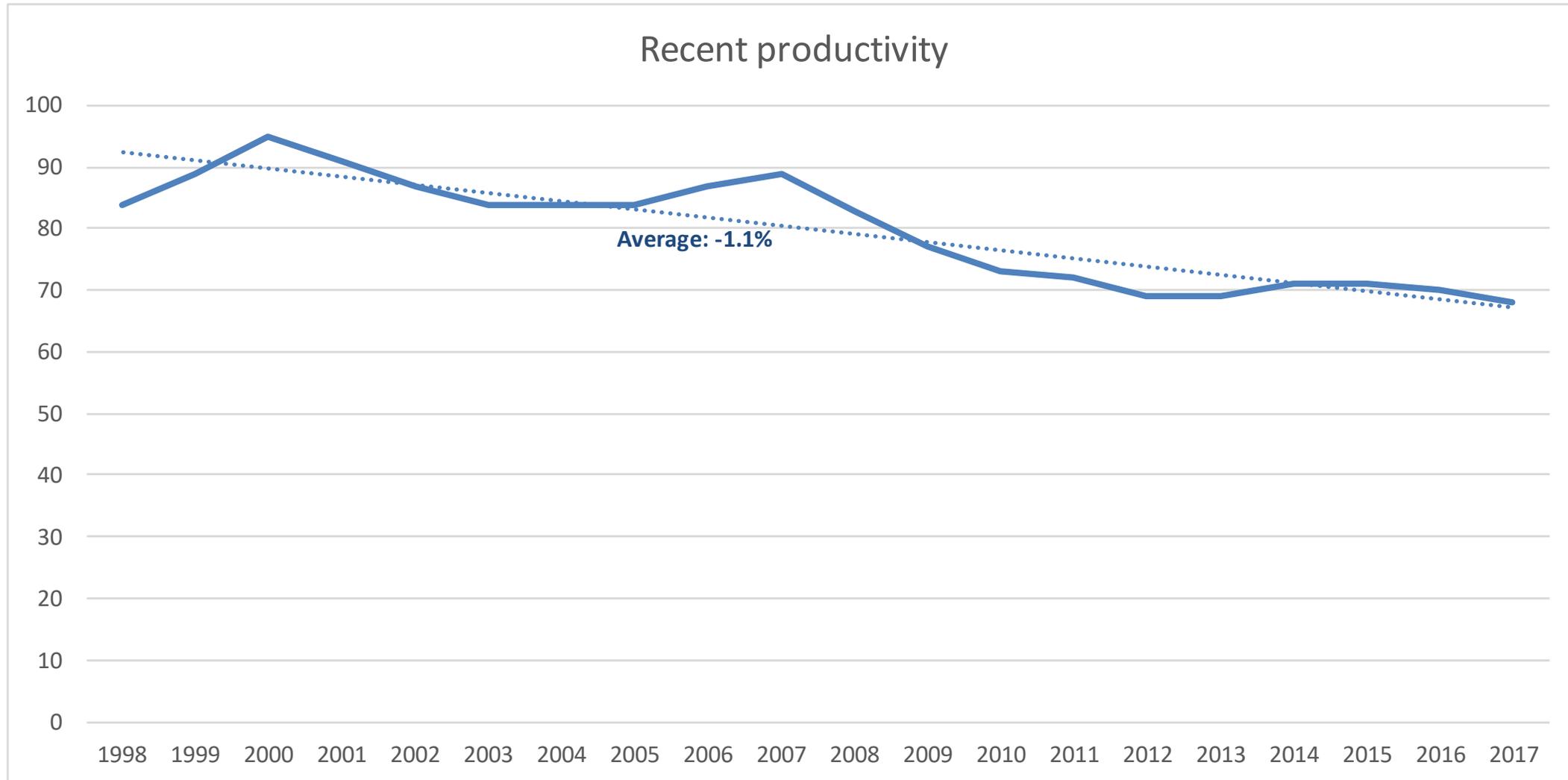


Recent productivity



Recent productivity performance

GVA per FTE (£k, 2017 prices, excluding rental)



Sectoral shift scenarios productivity performance

Approach used



Sector	Average salary/range
Low income	<£35k
Medium income	£35k-£50k
Other high income	£50k+
Financial services	£72k
Utility and property	£35k-£71k

Sectoral shift scenarios productivity performance

Approach used



Sector	Proportion of employment (2015)
Low income	23%
Medium income	27%
Other high income	24%
Financial services	16%
Utility and property	8%

Sectoral shift scenarios productivity performance

Approach used



- Scenarios assume that 10% of workforce shifts by 2050
- Utility and property constant, each other sector falls equally
 - Small fall in actual numbers due to growth in workforce in +325 scenario
- Equivalent to shift of 6,000 people by 2050 in +325 scenario
 - c 1,500 from each other sector
 - Plus 1,500 new workers
- <200 people per year

Sectoral shift scenarios productivity performance

Approach used

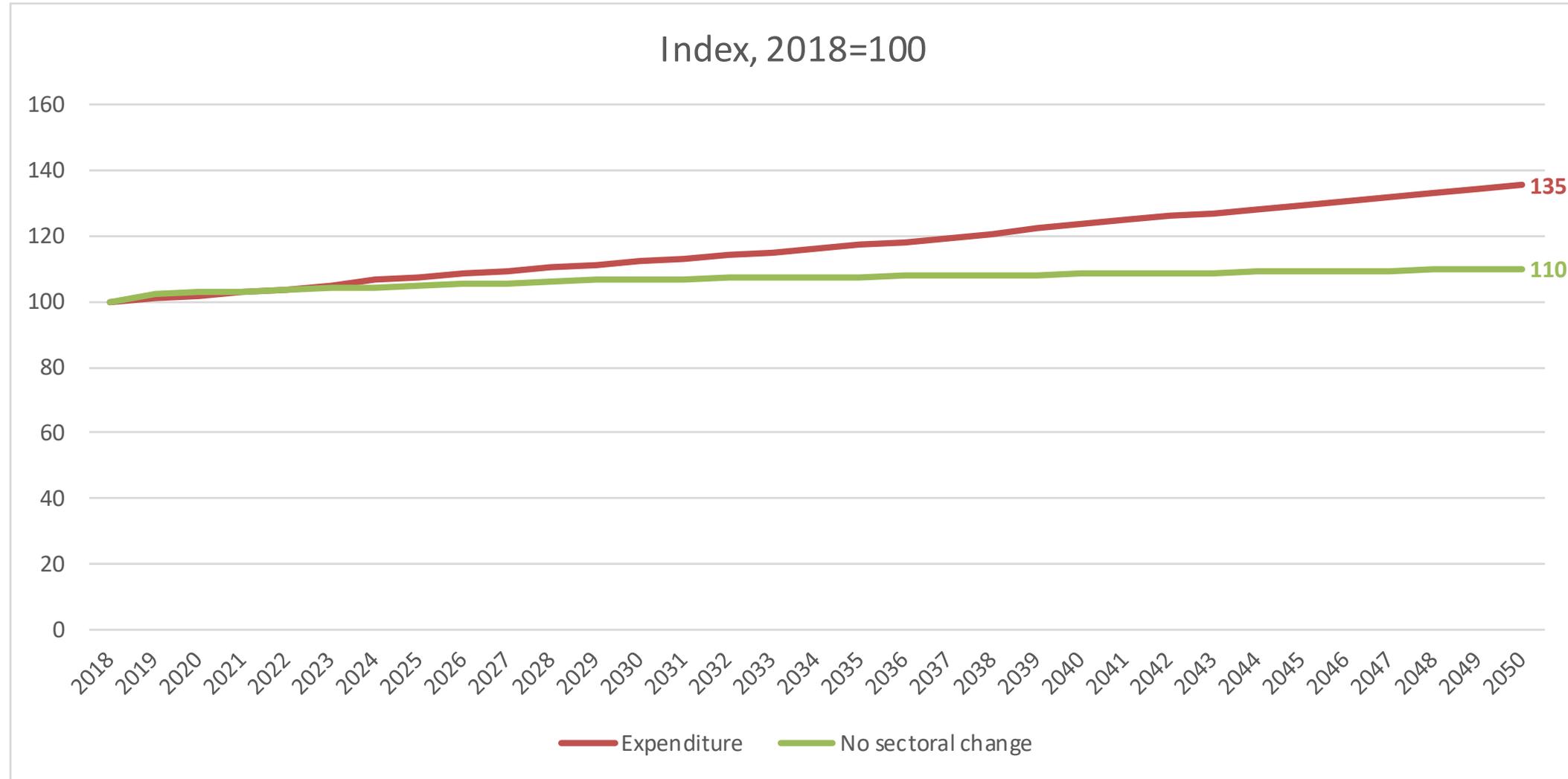


Example = shift to other high income (+325 migration scenario)

Sector	2015 employment	2050 employment
Low income	14,000 (23%)	12,400 (20%)
Medium income	16,300 (27%)	14,800 (24%)
Utility and property	4,800 (8%)	5,000 (8%)
Financial services	10,000 (16%)	8,200 (13%)
Other high income	14,900 (24%)	21,500 (34%)

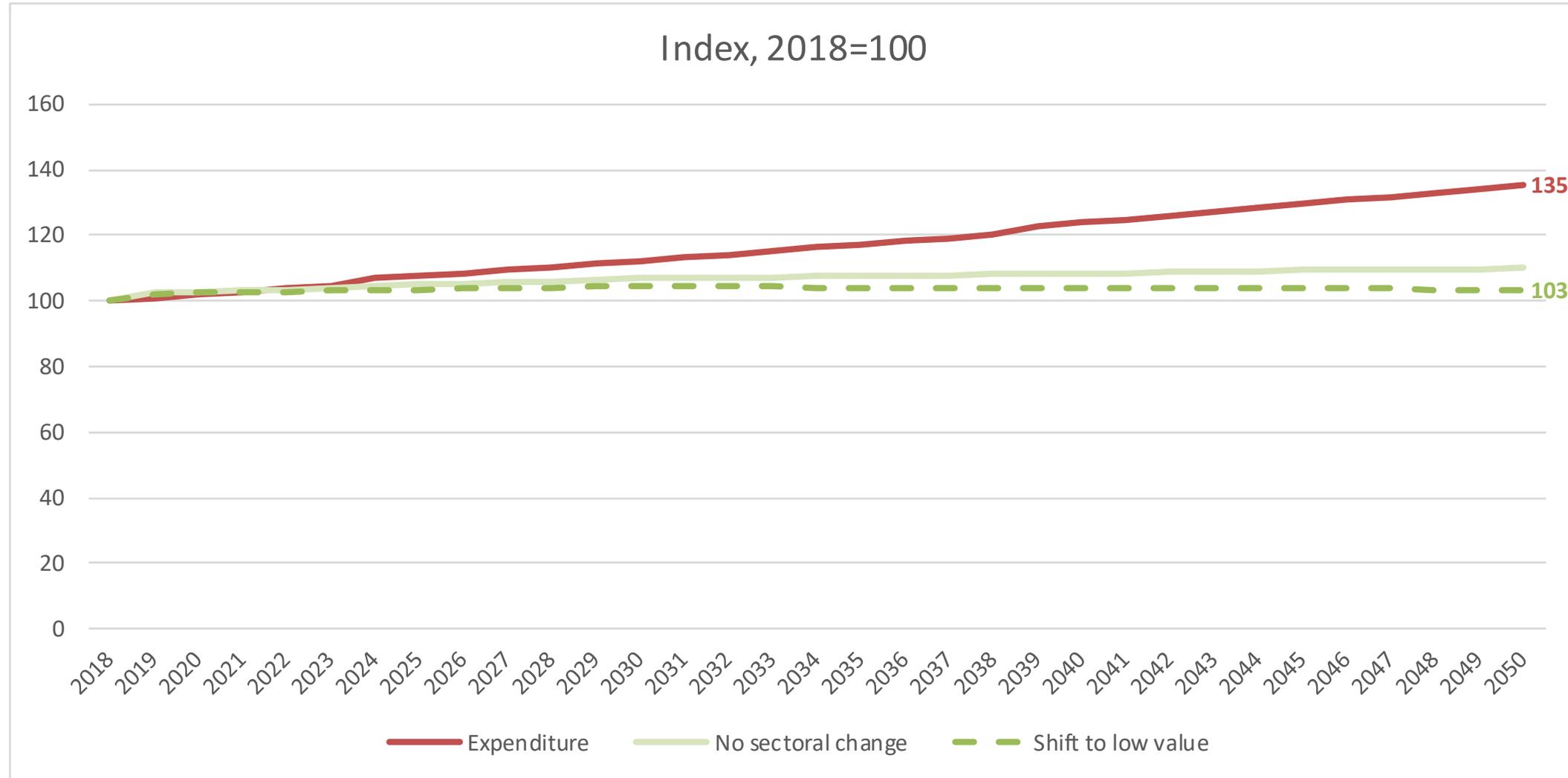
Sectoral shift scenarios

Revenue and expenditure: +325 migration, 0% productivity growth



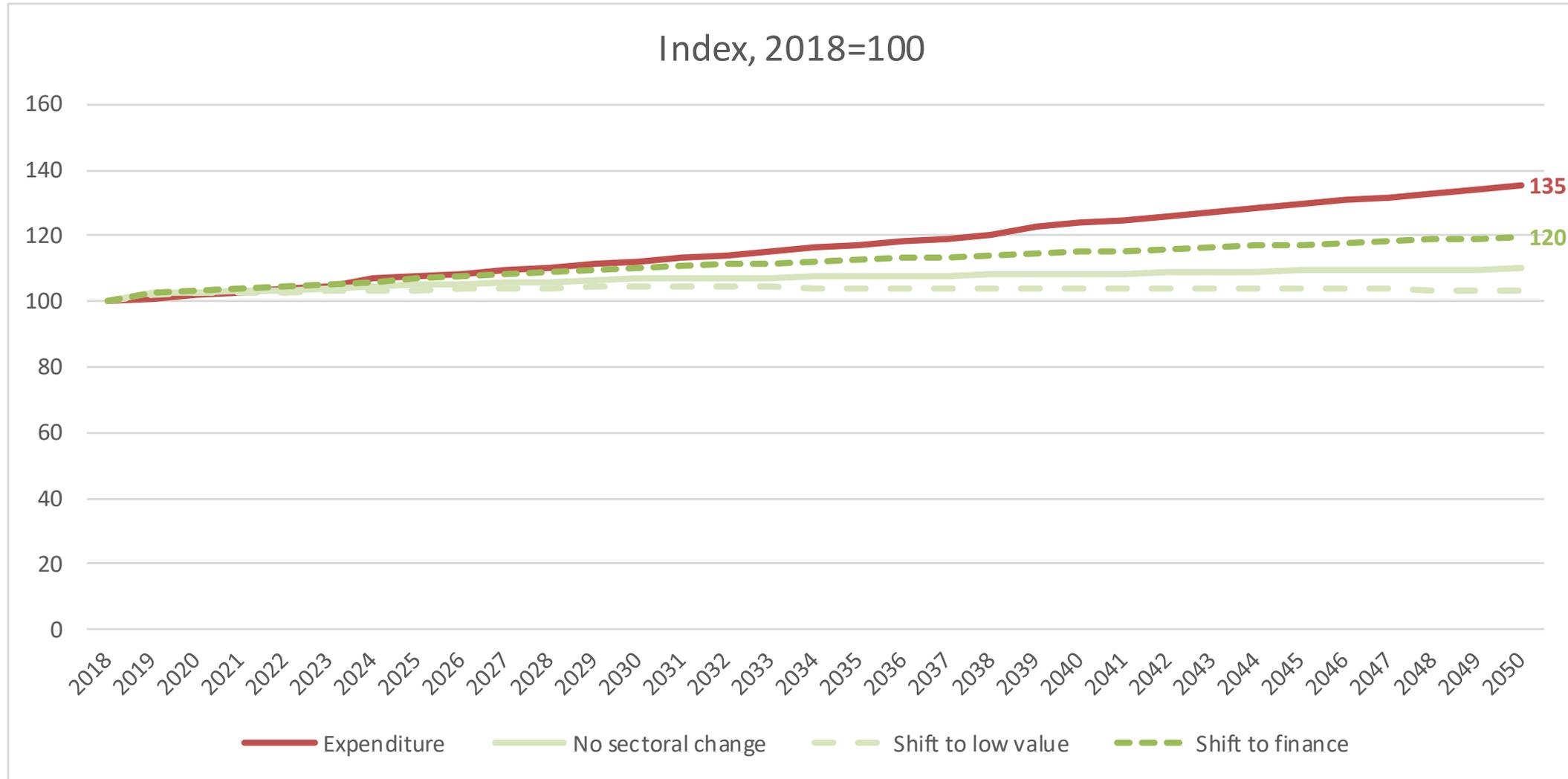
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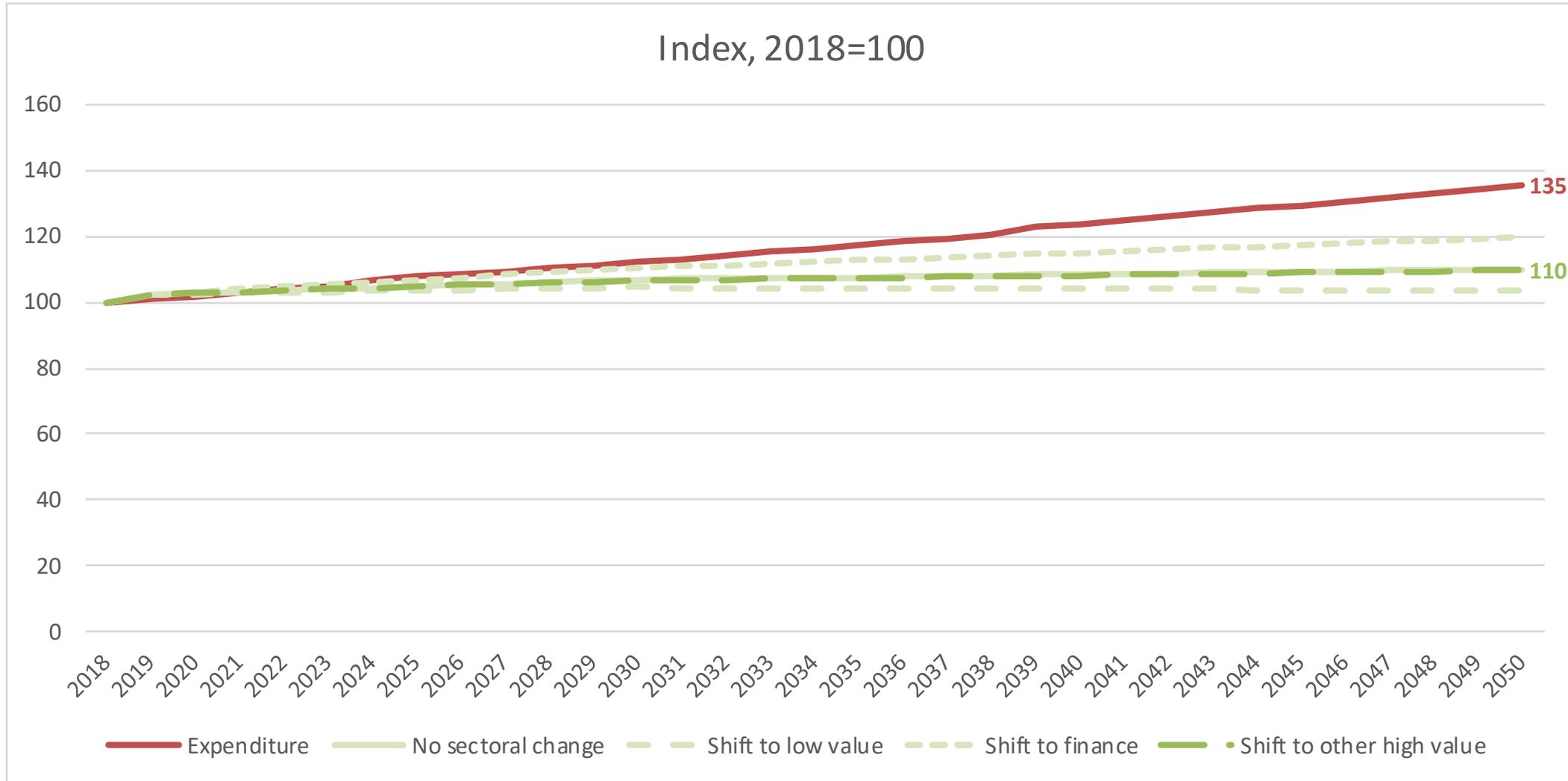
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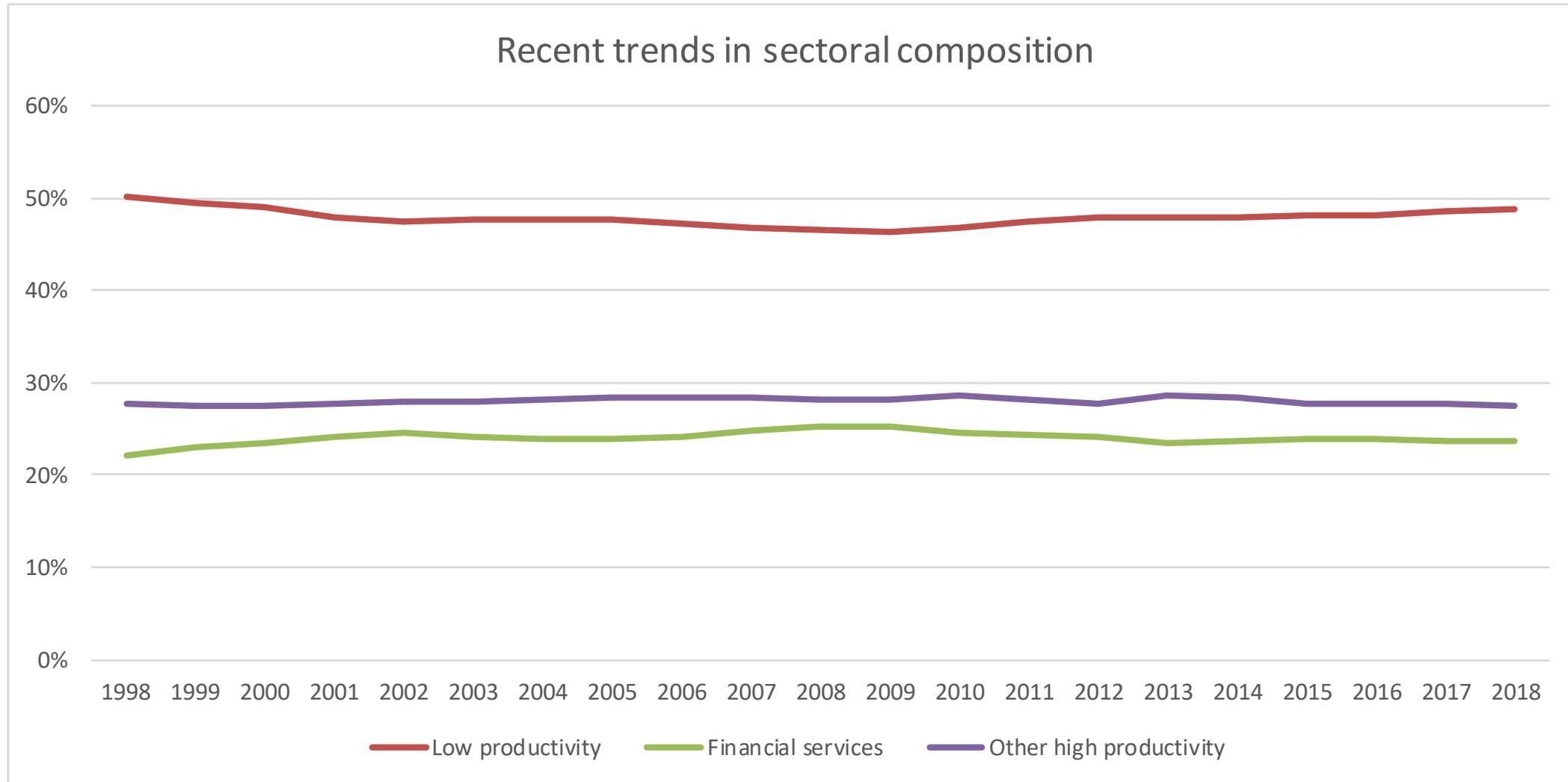
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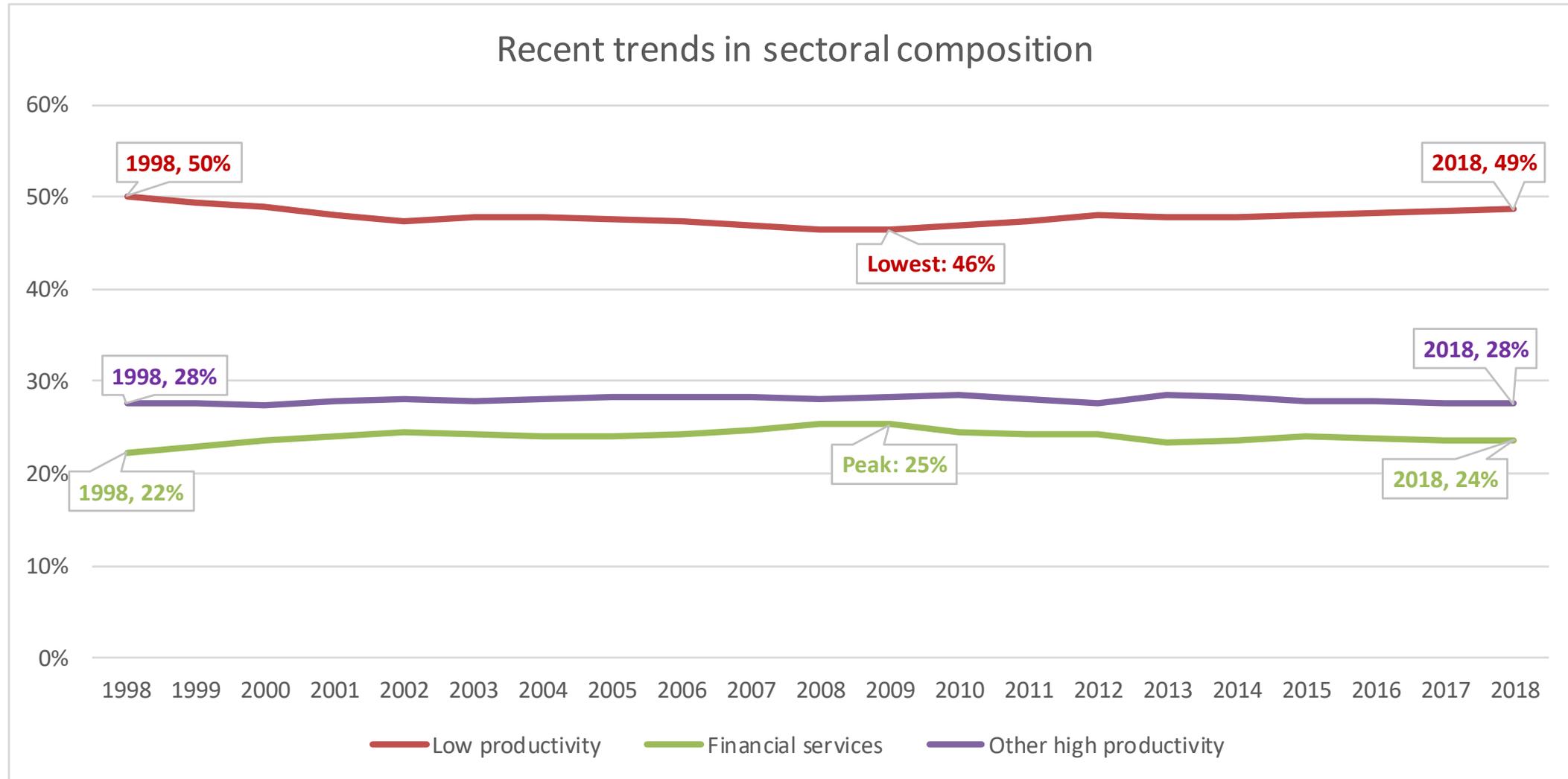
Recent trend in sectoral mix

Sectoral proportion of FTEs



Recent trend in sectoral mix

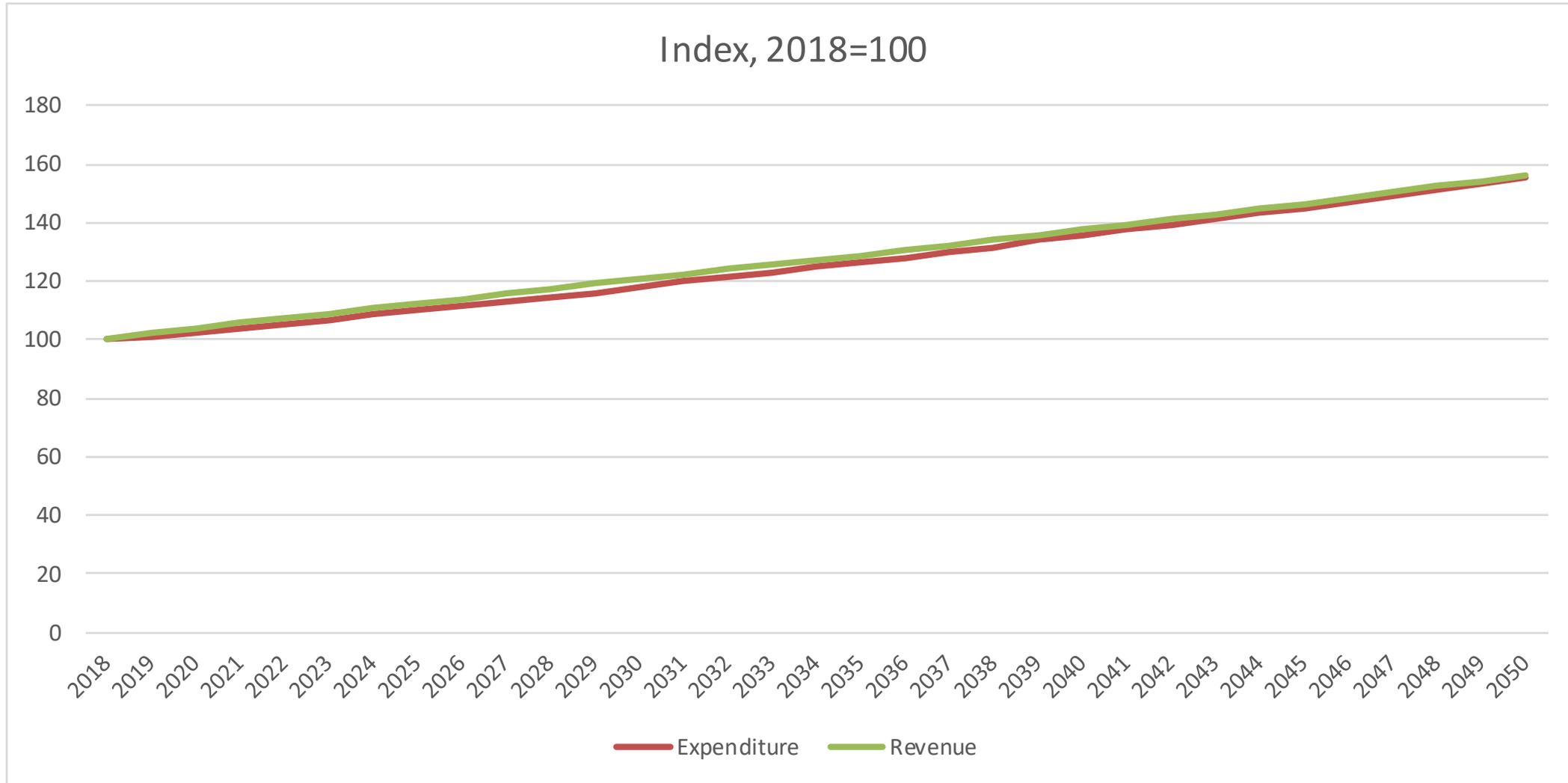
Sectoral proportion of FTEs



What if we move all three levers?

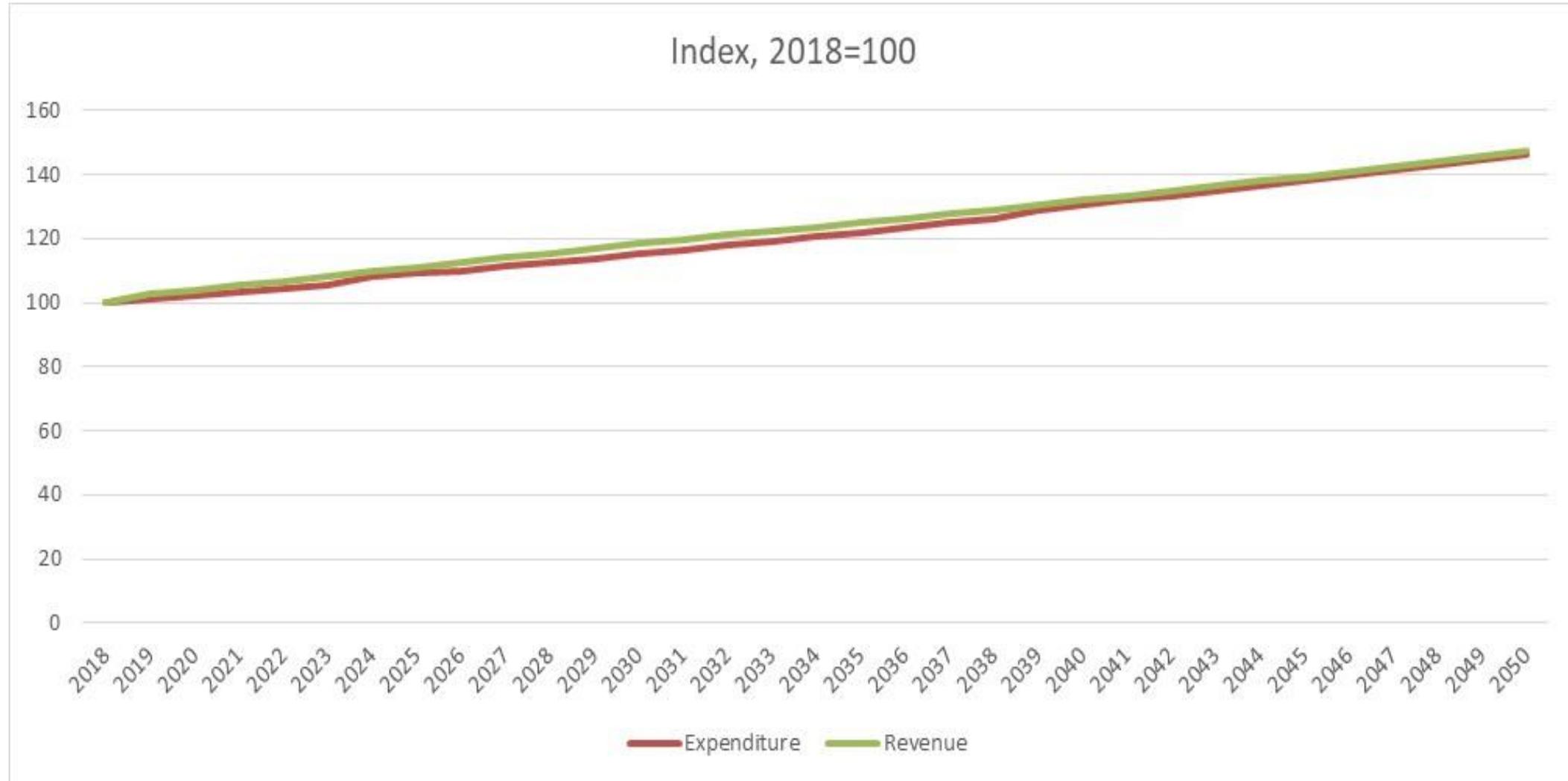
Break-even point

+1,000 migration, 0.5% productivity growth, 5% shift to FS



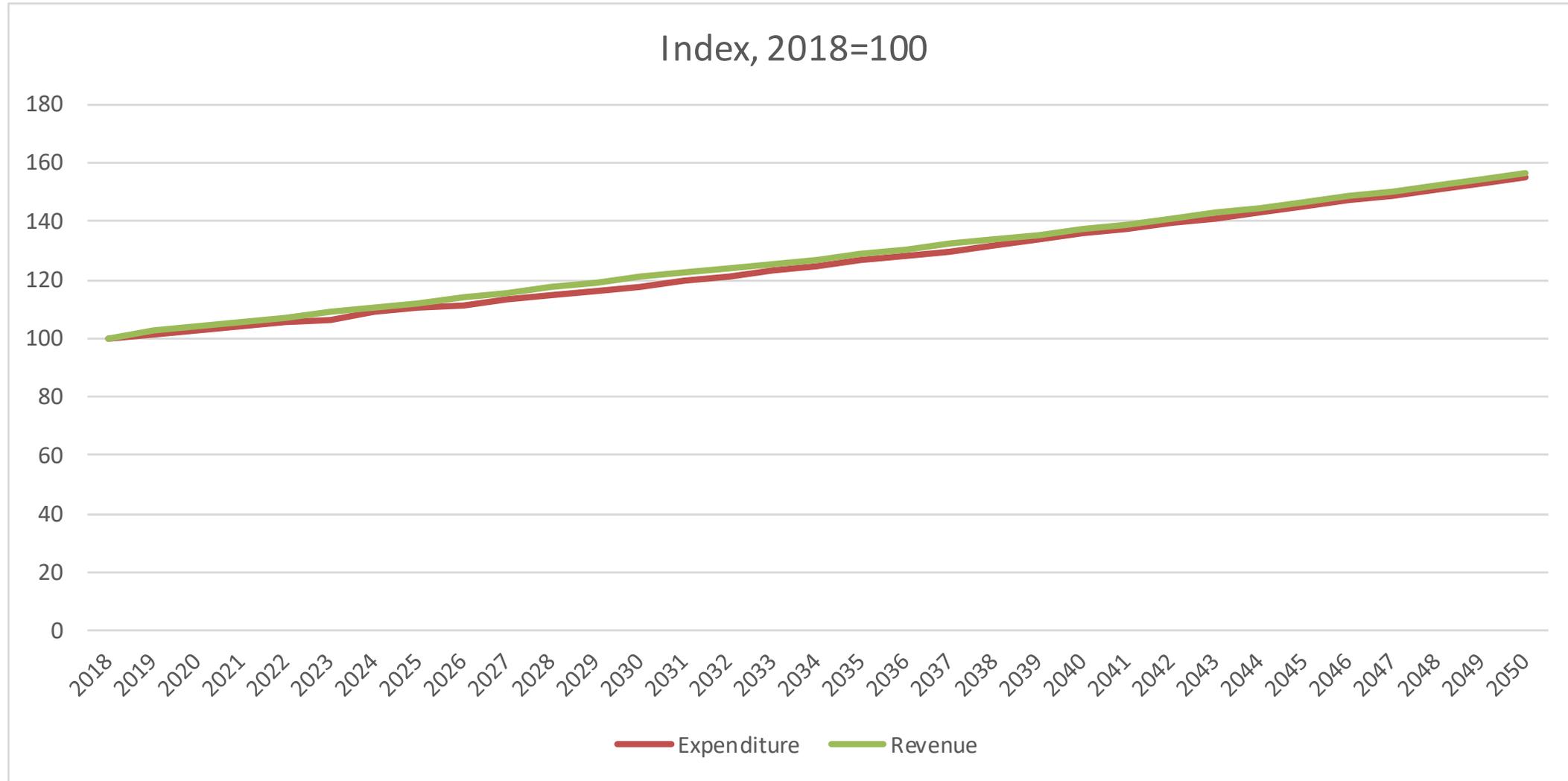
Alternative break-even point

+1,000 migration, 0.5% productivity growth, 10% shift low to other high



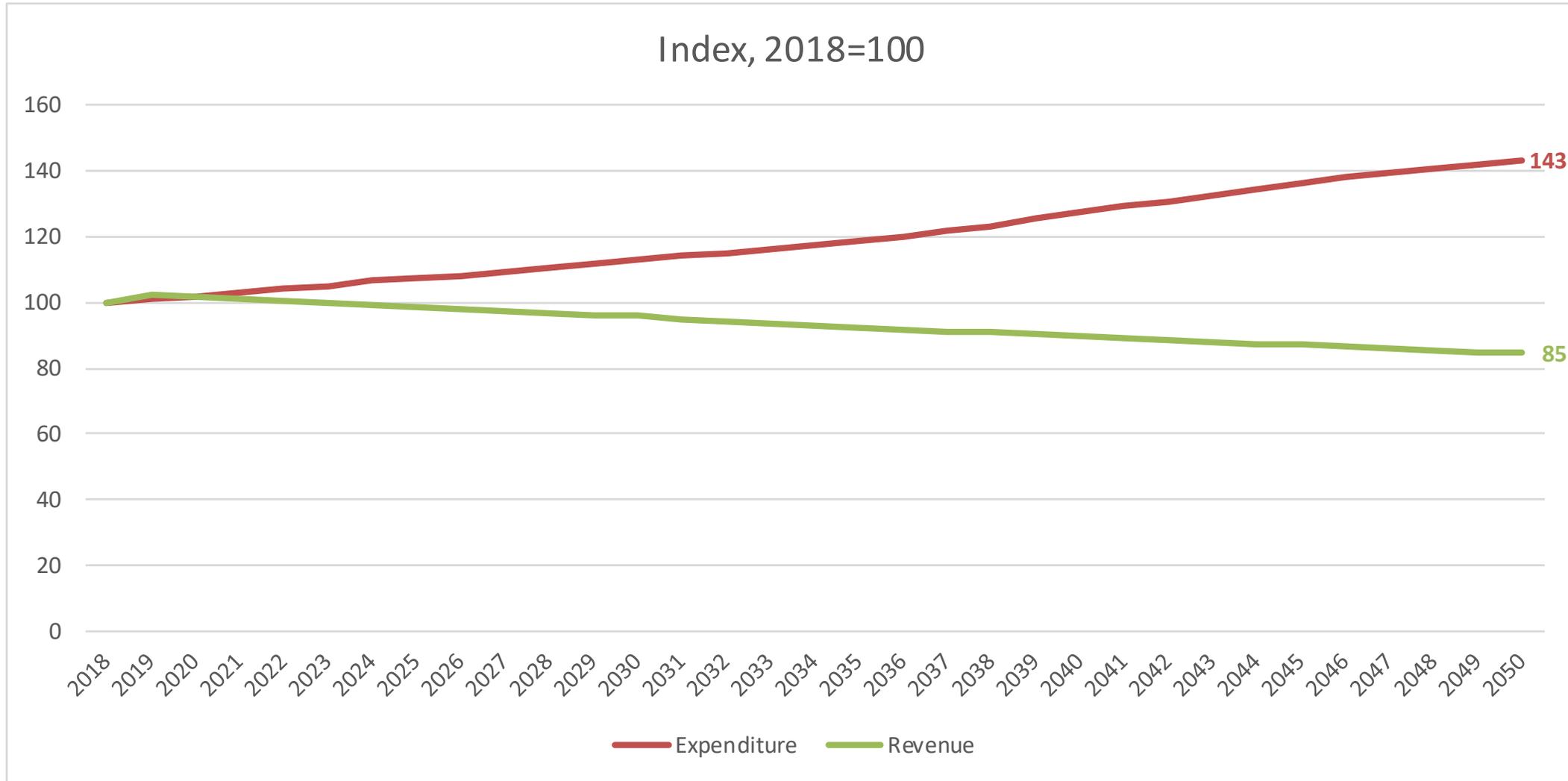
Alternative break-even point

+700 migration, 0.5% productivity growth, 8% shift to FS



If the levers move the other way...

net nil, repeat recent productivity growth, 5% shift to low income



Conclusions



- Long-term structural pressures on public finances
- Will need a number of levers
- Productivity important but may not be sufficient
- Likely need some combination of some or all of:
 - Productivity improvements within sectors
 - Focus on high-productivity sectors
 - Targeted inward migration
 - Savings and efficiencies
 - New/increased sources of revenue

Questions?