STATES OF JERSEY

ANNUAL BUSINESS PLAN 2008
(as amended 21.09.2007)

Council of Ministers

F.H. Walker	Senator	Chief Minister
T.A. Le Sueur	Senator	Treasury and Resources and Deputy Chief Minister
P.F.C. Ozouf	Senator	Economic Development
M.E. Vibert	Senator	Education, Sport and Culture
S. Syvret	Senator	Health and Social Services
W. Kinnard	Senator	Home Affairs
T.J. Le Main	Senator	Housing
F.E. Cohen	Senator	Planning and Environment
P.F. Routier	Senator	Social Security
G.W.J. de Faye	Deputy	Transport and Technical Services

W.D. Ogley	Chief Executive

ANNUAL BUSINESS PLAN 2008
PROPOSITION (as amended)

The States are asked to decide whether they are of opinion:
to receive the draft Annual Business Plan 2008 and –

a) to approve the summary key objectives and performance criteria for 2008 of the following States funded bodies as shown in the Annex to the draft Annual Business Plan, with all the objectives to be achieved within approved revenue and manpower resources –
  - i Chief Minister's Department, as detailed in pages 11 to 13 of the Annex
  - ii Economic Development Department, as detailed in pages 23 to 25 of the Annex
    Jersey Airport, as detailed in page 34 of the Annex
    Jersey Harbours, as detailed in page 39 of the Annex
  - iii Education, Sport and Culture Department, as detailed in pages 46 and 47 of the Annex
  - iv Health and Social Services Department, as detailed in pages 56 and 57 of the Annex
  - v Home Affairs Department, as detailed in pages 66 and 67 of the Annex
  - vi Housing Department, as detailed in pages 77 and 78 of the Annex
  - vii Planning and Environment Department, as detailed in page 86 to 87 of the Annex
  - viii Social Security Department, as detailed in pages 95 and 96 of the Annex
  - ix Transport and Technical Services Department, as detailed in pages 104 and 105 of the Annex
  - x Treasury and Resources Department, as detailed in pages 118 and 119 of the Annex
  - xi States Assembly and its services, as detailed in page 142 of the Annex

b) to agree that total States net expenditure for each of the years 2008 to 2012 will not exceed the amounts set out in Summary Table C, page 45 and to request the Chief Minister to present Annual Business Plans to the States within these amounts, with any additional growth in the net revenue expenditure of a States funded body being offset by compensatory savings elsewhere within the total amounts;

c) to approve the summary set out in the Summary Table A, page 43, being the gross revenue expenditure of each States funded body totalling £655,531,900, and having taken into account any income due to each of the States funded bodies, the net revenue expenditure of each States funded body totalling £559,654,400, to be withdrawn from the consolidated fund in 2008;

d) to approve the summary set out in Summary Table B, page 44, being the estimated income and expenditure and estimated minimum contribution, if any, that each States trading operation is to make to the States consolidated fund in 2008;

e) to approve each of the capital projects in the recommended programme of capital projects for each States funded body for 2008, as set out in Summary Table D, page 46 that requires £42,441,000 to be withdrawn from the consolidated fund;

f) to approve each of the capital projects in the recommended programme of capital for each States trading operation, as set out in Summary Table E, page 47, that require funds to be drawn from the trading funds in 2008;

g) to approve in principle the total net revenue expenditure for the States funded bodies, as set out in Summary Table C, page 45, for the period 2009 to 2012 and the proposed programme of capital projects for the States funded bodies for 2009 to 2012 as set out in the Summary Tables F to I, pages 48 to 51 respectively;

h) to approve the schedule of properties for disposal in 2008 in the property plan, as detailed in Summary Table K, page 53 of the report;

i) to approve the Legislation Programme for 2008, as set out in Summary Table L, pages 54 to 59 of the report.

CHIEF MINISTER

CONTENTS

Index of Tables and Charts

Annex to Draft Annual Business Plan 2008 (Separate Document)

Addendum

Introduction

As a result of the debate on the Draft Annual Business Plan 2008 the following amendments were approved. These amendments have been made on the PDF file of the Annex to the Business Plan 2008-2012 on the States internet site www.gov.je/TreasuryResources/2008 Business Plan.

All Departments
The States agreed that paragraph a) of the Proposition be amended to read:
a) To approve the summary key objectives and performance criteria for 2008 of the following States funded bodies as shown in the Annex to the draft Annual Business Plan*, with all the objectives to be achieved within approved revenue and manpower resources.*

It was also agreed that: *the 'Revenue Expenditure for Financial Forecast' as set out in the reconciliation to the Financial Forecast below Summary Table A is the figure that shall be used on which to base Departmental comparatives in the States accounts for the year ended 31st December 2008.*

Chief Minister
Objective 1 on page 11 of the Annex now includes the following additional performance/success criteria:

" (xi) Annual Business Plans to be delivered within the total amounts set in the 2008 Annual Business Plan for the years 2008 to 2012;
(xii) Additional growth for the period 2008 to 2012 to be delivered by compensatory savings elsewhere within the approved total amounts;
(xiii) Greater involvement of all States members in the business plan process."

Objective 1 on page 11 of the Annex has been amended for the eighth performance/success criterion to now read:

" (viii) Replacement for the Waterfront Enterprise Board debated by the States."

Objective 7 on page 13 of the Annex now includes the following additional performance/success criterion:

" (vi) Need for independent person or agency to receive approaches from persons raising serious concerns to be assessed.

Transport and Technical Services
Objective 2 on page 104 of the Annex has been amended for the third performance/success criterion to now read:

" (iii) Implemented Plan and funding programme developed for the Sustainable Liquid Waste Policy to include proposals to provide mains drains for areas highlighted in the five year programme proposed by the then Public Services Committee in the 2004 - 2008 Resource Plan."

States Spending Review
The Chief Minister also agreed to facilitate a States Spending Review in response to the 9th Amendment from the Public Accounts Committee which was then withdrawn. The review will involve the Corporate Management Board, three nominated Assistant Ministers, the Public Accounts Committee and the Comptroller and Auditor General with resources provided from the Chief Minister and Treasury and Resources departments.

1.a. FOREWORD

COUNCIL OF MINISTERS

The States Annual Business Plan for 2008, published today, is a significant document. It is the second Business Plan of this the first Council of Ministers and continues our successful drive to improve the quality of life in Jersey.

It sets out the Council of Ministers business proposals, confirming our determination to protect all aspects of Island life, maintain high quality public services and use the fruits of our economic success to provide proper support to the vulnerable members of our community.

It also outlines our ultimate level of spending. The Council of Ministers has promised that Jersey will live within its means and this is confirmed in our Business Plan. We are indeed fortunate to be able to fulfil our promises without putting unmanageable strain on our finances. The Council remains firm in its determination to deliver a sustainable long term future for our community and our finances. The programmes set out in this plan, if approved by the States, will achieve this balance.

The economic picture for Jersey looks bright. The States has made wise decisions in agreeing a new Fiscal Framework and already we are seeing evidence that the provisions of that Framework are what is needed to restore confidence and to turn economic downturn into real growth with increasing opportunities and employment for local people.

The Business Plan draws on the latest financial forecast. The forecast is very positive based as it is on the new health and vitality of Jersey's economy. In 2006, a better than expected economic performance resulted in a £22 million surplus in States finances and the Treasury Minister sees no reason why this pattern should not continue. However there is no room for complacency, if we are to secure a financially sustainable future we not only need to protect this surplus, but to continue with the agreed programme of fiscal reform to ensure that there is no underlying long term deficit.

The key elements in the Fiscal Framework are: economic growth, with an emphasis on local employment; combating inflation; the introduction of indirect taxation, in the form of a Goods and Services Tax; and increased efficiency in the delivery of public services.

We clearly see signs of economic growth. We are well on track with the efficiency programme and will achieve real savings of £20 million each year. GST will be introduced early in 2008 to give us the financial certainty that we require as we move towards 0/10% and the abolition of corporate taxation for all businesses, except utilities and those in the financial services industry. There is an air in government of discipline, responsibility and confidence, as we move toward the achievement of the States Strategic Plan.

I am proud to present this Business Plan and I warmly commend it to the States.

Senator F H Walker
Chief Minister **July 2007**

1.b. FINANCIAL FRAMEWORK

MINISTER FOR TREASURY AND RESOURCES

Perhaps I should begin by recalling that, in accordance with the Public Finances (Jersey) Law 2005, the draft Annual Business Plan proposes the expenditure limits for all States funded bodies for 2008, together with in-principle decisions to set spending limits for a total of five years. Following debate of the draft Annual Business Plan in September the States will then consider in December the annual Budget report that will propose the measures through which the approved expenditure limits can be funded. Thus separate decisions will be taken, at different times, on expenditure and funding.

The Council of Ministers has conducted a thorough business plan review based on its vision for Jersey from the Strategic Plan and also the financial framework within which that vision must be funded. The Council has confirmed that vision as one of sustainable investment in its priority services for the future of the Island. The financial framework for the next five years therefore remains based on ensuring that forecast budgets are balanced and sustainable over the five year planning cycle.

The latest financial forecast shows that States finances are in a very positive position, with a significant improvement in the 2006 outturn resulting in a surplus of £22 million for that year. The improving trend in States revenues, undoubtedly driven by economic growth, has also resulted in improvements to the income forecasts in future years. In accordance with the underlying principle of the financial framework the forecast financial position remains in balance over the five-year period to 2012 and sustainable with the current balance on the Consolidated Fund to at least 2013.

The expenditure proposals in this business plan have had to address

- the emerging pressures identified in last year's business plan,
- continued investment in health and social benefits and
- revised provision for pay and prices as a result of changing inflation assumptions.

Despite these pressures the underlying growth in services has been constrained to less than 2% per annum over the next three years. This has only been achieved by strict prioritisation among the individual services. The proposals show that total States spending is ahead of the predicted levels a year ago, but this is primarily due to the impact of pay and prices in the last twelve months. Much of this has been outside States control, with several UK interest rates rises driving the Island Retail Price Index, and consequently the required pay and benefit provisions, higher than previously forecast. Care must be exercised to ensure that the position remains sustainable.

On present trends the expenditure proposals remain affordable and this is demonstrated by the financial forecast. The Council is committed to continue to strive for efficiency and value for money but believes it is also essential that the level and quality of essential pubic services is protected.

Looking further ahead, and acknowledging that the forecasts beyond 2009 can only be indicative due to the significant structural changes within the 0/10% corporate tax strategy, there could still be deficits in the longer term and these must be kept under review and serve as a check against any complacency in the short term.

The best estimate of the ultimate loss of tax from the move to 0/10% is £79 million to £94 million per annum. The actual figure will not be known until 2011 and therefore until then it is not known what action, if any is required. The policy of the Council is to stick rigorously to the spending limits contained in this Business Plan and, provided the States also sticks to this commitment, then no new taxes, outside of those in the Fiscal Strategy, will need to be introduced until 2012 at the earliest. Remedial measures, if required, would be phased in with the aim of achieving balanced budgets again by 2015. Interest on the Strategic Reserve could be used, if necessary, to make up any funding shortfall in the interim, acknowledging, however, that this cannot be a long term solution.

The business planning process provides for three-year rolling financial allocations to departments. These must identify the financial implications of all current and forthcoming initiatives, as there is no General Reserve under the new Finance Law. The annual business plan review achieves that by bringing together all the major resource programmes in one integrated process. The capital, ICT, property and legislation programmes have all been reviewed with the necessary ongoing implications included by departments in their expenditure submissions. This is intended to improve financial discipline, and where departments fail to identify these consequences they must expect to meet the requirement from existing allocations. Submissions to the resource programmes are only accepted where they can be linked to strategic objectives, to ensure that any investment is in accordance with the States Strategic Plan.

The annual business plan review is also informed by the quarterly financial monitoring process which has been in place since the introduction of the new Finance Law. The Council receives reports and forecasts each quarter and, as well as informing forward planning, from 2006 this process enabled the Council to reprioritise the available allocations and address particular pressures, such as supplementation, within the agreed budget for 2006 (admittedly not without discomfort). In 2007 the Council has asked that I take a request to the States for additional expenditure in respect of supplementation and the one-off costs of vaccines to protect the Island from Pandemic Flu.

Performance reporting is also being developed alongside the quarterly financial monitoring, and the first annual performance report will be produced in respect of 2006. These outcomes could be used as part of a framework for identifying the impact of resource allocation and in future should inform more effective allocation of resources and value for money.

The financial framework also relies on the integration of strategic planning and resource allocation, and further improvements have been made this year within the individual departments. The submissions in the detailed Annex now more closely associate the key objectives of the departments with the services they provide and the resources and manpower required to deliver them. The improvements and integration will eventually also be informed by the move to GAAP accounting and the associated resource accounting initiatives. A project plan is now in place and the benefits will begin to be seen in the near future.

Following last year’s business plan, proposals were agreed alongside the 2007 Budget for a new fiscal framework, the creation of a Stabilisation Fund and a new policy for the Strategic Reserve. The fiscal framework is aimed at containing inflation, improving economic stability and creating the necessary conditions for economic growth in the Island. With the current forecasts showing accumulating surpluses and the trends in the economy remaining positive, this framework provides for transfers into the Stabilisation Fund at such times, as happened in last year’s Budget. The management of the fiscal framework is to be advised by the new Fiscal Policy Panel who will be appointed in the next few months, and leading upto the 2008 Budget serious consideration will be given once again to transferring an appropriate sum to the Stabilisation Fund. Whilst it is not clear, or simple to predict, exactly where we are in the economic cycle, what is certain is that although the economy is currently buoyant the present cycle will eventually decline and we need to prepare for that.

In summary, there are three key messages which I should like to convey:

1. The control of inflation remains a vital part of our overall policy, and future forecasts will not be delivered unless inflation can be successfully constrained.
2. If this Business Plan is to work, it is also essential that the measures approved in the Fiscal Strategy are implemented in accordance with the current timetable.
3. If the States approve the spending proposals in this Business Plan and avoid significant changes from these plans, then on this basis no proposals for new taxes, other than those within the Fiscal Strategy, need be brought forward before 2012.

Senator T A Le Sueur
Minister for Treasury and Resources **July 2007**

2. Strategic Plan Review and Performance

2.1 Strategic Plan Review

Commitments

The States Strategic Plan, which was approved by the States in June 2006, whilst starting with the premise that Jersey is a great place in which to live and work, highlights issues that need to be addressed and challenges that must be prepared for. It also sets out an outline resource framework within which these issues can be addressed and to work towards delivering the six main themes, or commitments, listed in the Plan, namely to:

- Maintain a strong, successful and environmentally sustainable economy;
- Create the environment in which everyone in Jersey has the opportunity to enjoy a good quality of life;
- Promote a safe, just and equitable society;
- Maintain and enhance the natural and built environment;
- Create a strong, recognised identity for Jersey and promote a real sense of belonging;
- Ensure that States services are necessary, of high quality and efficiently run.

It is important that the detail of the plan is kept under review to ensure that the overarching commitments and objectives are achieved. Accordingly, the Council of Ministers reviews the Strategic Plan as a matter of course during the annual business planning process, and in particular, reviews and continually updates the impact of changes in policy, or other unforeseen expenditure, on the financial framework.

This is the framework within which the Executive develops policy, allocates resources and delivers services, and each year there is the ability for Ministers, departments and Scrutiny to conduct an update through the annual business planning process. By asking the States to approve each department's key objectives/priorities and success criteria as part of the Annual Business Plan debate, States members also have an opportunity to reconfirm, or amend, the priorities originally set out in the Strategic Plan.

One of the key benefits arising from the introduction of ministerial government, and its consequential more collaborative and streamlined decision-making, is the way major policies are developed and implemented. By working together, the Council of Ministers, Corporate Management Board and departments are able to take a broad and long-term view of issues that need to be addressed. This has resulted in a number of important overarching policies which require ministers and departments to co-ordinate their activities and work closer together. Examples of these include Building a Safer Society, the Social Policy and the Migration Policy, each of which will have far reaching implications for the work of most departments.

Values

The core values of the States, which continue to guide our behaviour and working practices are that:

- We put the customer at the heart of everything we do;
- We take pride in delivering an effective public service for Jersey;
- We relentlessly drive out waste and inefficiency;
- We will always be fair and honest and act with integrity;
- We constantly look for ways to improve what we do and are flexible and open to change; and
- We will achieve success in all we do by working together.

Business Planning

Table 2.1 shows the cascade from the Strategic Plan through to the corporate and departmental business planning processes which are part of a year-round financial planning and monitoring cycle.

This year's process has evolved to become more open and transparent and provide States members and the public with a simpler format. A clear timetable for the process was set in early December when ministers brought departments' funding pressures to the table at an early stage, including a review of capital, legislation and all other resources in January. At the same time the Council considered its overarching tax and spending priorities and targets within the context of the Fiscal Strategy which led to the re-prioritisation/reallocation of resources for 2008 to 2010. The Council of Ministers proposed these to departments in early February so that departments were able to highlight the key impacts on their services. The Council of Ministers was then able to consider and reprioritise as necessary before issuing their final proposals to departments. The proposals were also released for the first time to individual Scrutiny Panels and States members. This gave Scrutiny the opportunity to influence the Council's proposals at an early stage (see below).

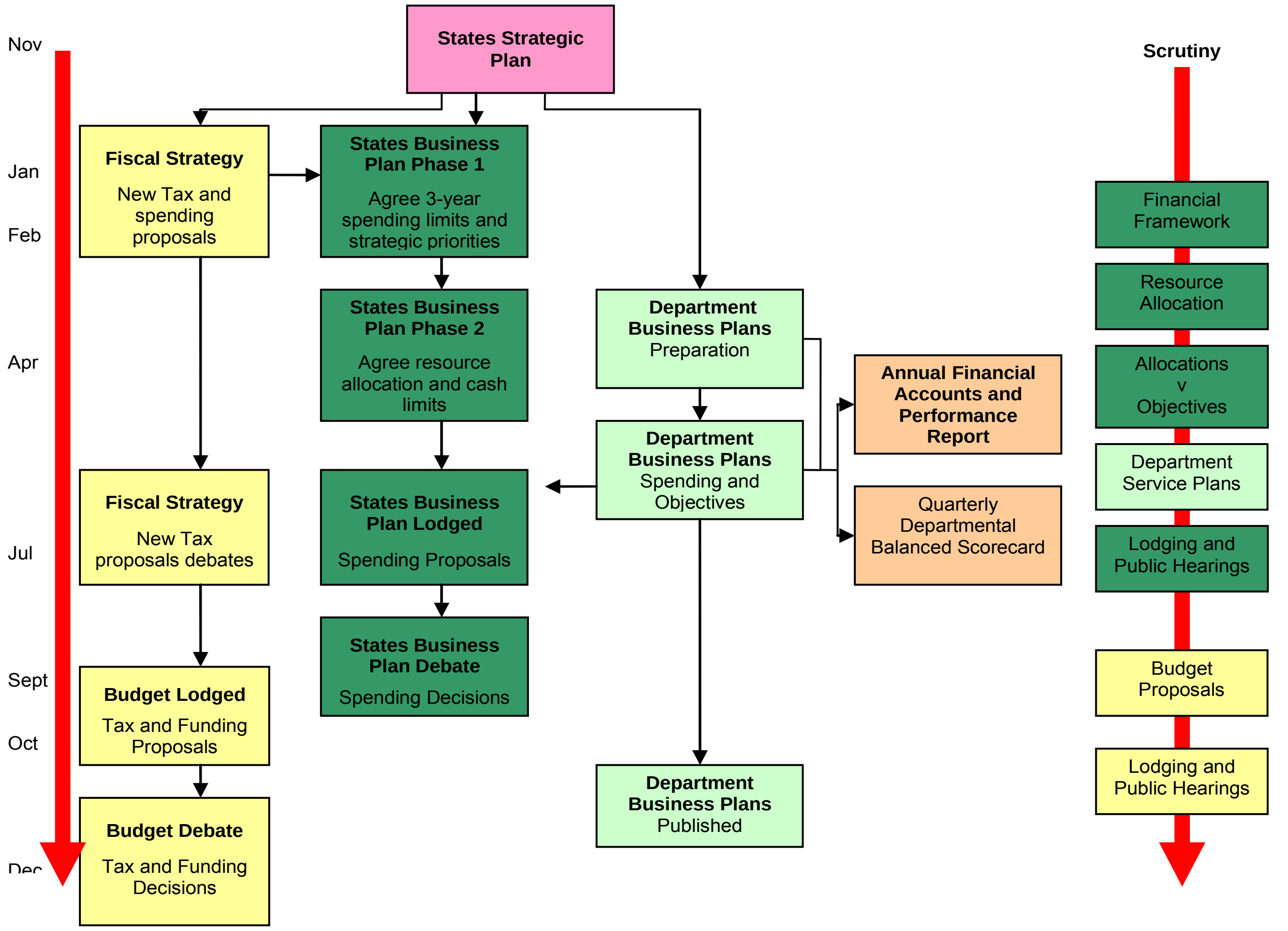
This year, key officers have assisted in developing the format of the Annual Business Plan to better integrate activity and resource allocation. Specifically:

- Each of the departmental key objectives, which States members are asked to approve, are linked directly to the commitments, objectives, and where appropriate, initiatives already approved by the States in the Strategic Plan.
- The revised format of the detailed Service Analyses provide details of each of the service budget areas, their key performance indicators – both linked back to one or more of the key objectives, changes in funding and manpower and a financial summary listing key investment areas. Departments will in future link their departmental business plan entries to the key objectives approved by the States in the Annual Business Plan. This will ensure that there is a visible cascade of objectives from the Strategic Plan down to individual task activity within departments.

This simpler presentation should provide members with a clearer picture of how department expenditure and manpower is allocated across services and any significant changes.

Table 2.1 illustrates the timetable and how the parallel streams of activity complement each other.

Table 2.1 - Business and Financial Planning Cycle



Scrutiny

The Council of Ministers considers scrutiny of the spending proposals an important part of the business planning process. To provide Scrutiny with the maximum available time to prepare, details of the process, timetable and suggestions of how scrutiny might proceed, were sent to the Corporate Services Panel in November 2006. Since then, the Corporate Services Panel has been proactively involved with regular briefings and communication throughout this process.

The opportunity for the involvement of the individual Panels was again discussed with the Chairmen's Committee at meetings in both January and February. At both meetings the Council confirmed the timetable within which the individual Panels would have the opportunity to discuss with Ministers and their departments the impact of the proposed cash limits on their ability to deliver services and Strategic Plan objectives. This timetable included provision for Scrutiny Panels to make submissions to the Council based on their findings so that they could contribute to the Council's final deliberations and proposals by the end of April. This would have resulted in a more consensual and structured input from the individual Scrutiny Panels. However, apart from the valuable collaboration with the Corporate Services Panel in looking at the overall process and spending levels, no other Panel has taken the opportunity provided to feed back and influence the Council's draft proposals in advance of lodging.

2.2 Performance

Performance Framework

The development of a performance framework which complements the planning and resource allocation processes continues. The Annual Business Plan sets out the financial and non-financial targets and objectives linked to the Strategic Plan. The framework then requires performance against these to be measured and reported annually. An Annual Performance Report, for 2006 is currently being produced and will be published for the first time this year.

Monitoring reports and balanced scorecards

Members already receive six-monthly progress reports on the individual initiatives set out in the Strategic Plan. These provide States members with a periodic update on the key projects that were agreed as part of the approval of the Strategic Plan.

Alongside this high-level monitoring, departments also produce a balanced scorecard. These are internal documents used by departments at an operational level to regularly review performance against a small set of agreed key performance indicators which then cascade down through to the activity and performance of individuals. These scorecards are then reviewed by the Corporate Management Board on a quarterly basis to assess key areas of operational performance.

Organisational Development Programme

The Organisation Development Programme puts the customer at the heart of the services that the States provides. The on-going development of customer focussed services, the implementation of process improvement initiatives, the inauguration of the Modern Manager programme and other learning and development programmes underpins the cultural shift in the delivery of public services which is necessary to bring benefits to both the public and public sector staff.

3. FINANCIAL FORECAST 2007 TO 2012

3.1 Overview

The financial forecast at Table 3.1 has been prepared from the latest estimates of States revenues and the proposed levels of States expenditure. States expenditure reflects the proposals from the Council as a result of the recent business plan review and separates the ongoing expenditure from the one-off item for income support transitional relief which is shown “below the line”. The forecasts of States revenues reflect those fiscal measures that have been approved in principle and will be implemented in 2008.

3.2 Draft Annual Business Plan

The forecasts of States revenues have been revised to reflect the trends and variations reported in the 2006 Accounts which are now complete and have reported an improved financial position. Any exceptional items have been removed and then the early trends in revenues in 2007 have been used to verify if the improvements in 2006 appear to be sustained for 2007 and therefore can be reflected in future years. In all types of revenue the improved position has continued.

The expenditure forecasts are based on the revenue expenditure proposals for the next three years from the Council of Ministers. These were agreed following a thorough annual business plan review and the resulting expenditure allocations were issued to departments in March. The proposals were then reviewed in May following improved information and assumptions about pay and prices and certain service changes. Included in these expenditure proposals are some transfers between departments, most notably the transfer of £24 million of housing subsidies to Social Security to be incorporated in the new income support scheme.

Departments have also reviewed their key objectives and these are proposed by the Council for approval for 2008. The financial implications of these objectives and the associated capital and legislation programmes are assumed to be funded within the proposed spending limits.

The Capital expenditure forecasts are based on the priorities identified by the Council of Ministers as part of the business plan review, which have now been translated into the detailed programme of allocations for the next five years as endorsed by the Council of Ministers in April.

Table 3.1
Financial Forecast 2007 to 2012

Revised Estimate 2007		<------ Forecasts 2008	2009	2010	2011	2012 ------>
£m		£m	£m	£m	£m	£m
	States Income					
420	Income Tax	435	455	470	490	510
-	0/10% Corporate Tax Structure	(3)	(3)	(67)	(72)	(77)
-	Goods and Services Tax	30	45	46	47	48
50	Impôts Duty	51	51	51	51	51
25	Stamp Duty	26	27	27	28	29
-	Tax/Stamp Duty on Share Transfer	1	1	1	1	1
33	Other Income	32	31	27	24	23
10	Island Rate	10	11	11	11	11
538	**States Income**	582	618	566	580	596
	States Expenditure					
482	Net Revenue Expenditure	505	525	545	565	583
42	Net Capital Expenditure Allocation	40	38	39	39	40
524	**Total States Net Expenditure**	545	563	584	604	623
14	**Forecast Surplus/(Deficit) for the year**	**37**	**55**	**(18)**	**(24)**	**(27)**
	One-off expenditure					
	Income Support - Transitional relief	10	6	4	2	1
14	**Revised Forecast Surplus/(Deficit)**	**27**	**49**	**(22)**	**(26)**	**(28)**
(10)	Transfer to Strategic Reserve	-	-	-	-	-

There are a number of assumptions behind the Financial Forecast in Table 3.1. These are:

Income Tax

- *2007 tax revenues are based on specific assumptions for the increase in taxable profits, earned and unearned income, but for the forecast years a general assumption of 2.5% increase in base income tax revenues is presumed.*
- *Proposals for new Company Fees as part of the 0/10% proposals will be brought forward to replace Exempt Company fees. The base forecasts have not been amended at this stage, until the new proposals are confirmed*
- *The impact of the change to a 0/10% corporate structure has been reassessed within the range £79 million to £94 million between 2008 and 2013, and the mid-point of this range is included in the forecast.*

GST

- *A broad based 3% Goods and Services Tax will be introduced in April 2008 yielding £45 million in a full year.*

Impôts Duties

- *The forecasts reflect the predicted trends in consumption, which include a drop off for some goods, but also include an assumption that there would be annual increases in duty at a level broadly equivalent to the Island RPI(x), reflecting the currently agreed Alcohol and Tobacco Strategies. The current assumptions for duty increases for 2008 are between 4% and 5%.*

Stamp Duty

- *The forecasts assume that house prices in particular will continue to increase at least in line with RPI and that house sales will remain at current volumes. No allowance is made for increases in duty which are not planned at this stage.*
- *The introduction of a tax or duty on share transfer property transactions will be proposed in the 2008 Budget.*

Other Income

- *Other income includes the European Savings Directive Retention Tax worth just over £7 million in 2007. This income is expected to reduce over time as the provisions of the tax change and the forecast reflects this reducing profile.*
- *Another consideration is in respect of the dividend from Jersey Telecom. Regardless of whether the entity is sold the dividend is likely to reduce under the increasing competitive pressure and the forecasts have been adjusted accordingly.*
- *There are a large number of other components that have the potential to increase and decrease so a cautious appraisal has been made.*

Island Rate

- *The Island Rate will increase annually according to the Island RPI as prescribed in the Rates Law.*

Revenue Expenditure

- *The increases provided within the revenue expenditure forecasts are described in detail in Section 4 of this report, and are net of the repayment of capital debt. The one off expenditure allocations required for income support transitional relief are shown separately.*
- *The effect of the programme of £20 million efficiency savings is included within the revenue and capital expenditure allocations.*
- *The 2007 expenditure has been revised from the 2007 Business Plan to reflect allocations made by the Council of Ministers to address emerging pressures and also additional allocations for Supplementation and Pandemic Flu vaccines which will be requested from the States.*

Net Capital Expenditure Allocation

- *The forecasts are in line with the programme described in detail in Section 6, after allowing for the “capital receipts (efficiency savings)” rising to £4 million per annum from 2009, to be achieved by Property Holdings.*

Forecast Surplus/(Deficit)

- *The forecasts show an improvement on previous forecasts but rely on a number of significant assumptions described above as well as adhering to the expenditure targets and implementing the fiscal strategy measures on timescale.*

Income Support – Transitional Relief

- *The forecasts indicate the current estimated profile of the £22.5 million one off funding required to provide transitional relief to parties currently in receipt of benefits but whose entitlement will be reduced as a result of the new income support scheme.*

Strategic Reserve/Stabilisation Fund

- *No further transfers are included in the forecast after the £10 million transfer in 2007, but every opportunity will be taken to transfer any one off receipts which arise over the forecast period to either the Strategic Reserve or the Stabilisation Fund. This will be reviewed in preparation for the 2008 Budget.*

The forecasts do not at this stage include any proposals for new environmental taxes or expenditure initiatives as these have yet to be set before the States.

3.3 Revised Forecasts of States Revenues

The latest forecasts of States revenues are predominantly based on the 2006 actuals and the trends of revenues in the early part of 2007. The 2006 actuals have shown a significant improvement in States revenues based on those previously forecast and have resulted in an increase in future forecasts of over £20 million per annum.

The increases have occurred in all sources of States revenues and analysis has been carried out, and then checked with early tends in 2007, to assess whether the improvements in revenues are likely to recur. The analysis showed that in most cases the revenues in 2006 should provide a robust base for future forecasts. The main exception to this rule was the special dividends, amounting to £11 million, received in 2006 from Jersey Telecom and Jersey Electricity.

The increase in income tax revenues has occurred particularly in the yield from International Business Companies and this is indicative of the return to economic growth and prosperity within the finance sector. The trend of increase in the yield from earnings was also apparent in the figures and has been reflected in the forecasts. At this stage it is not clear exactly how the new provisions for company fees will impact on States revenues, particularly exempt companies, so until these are confirmed and the analysis completed the existing assumptions have been maintained.

A small adjustment is needed to the 2006 actual for impôts duty which included a one off accounting adjustment, but after this adjustment the baseline of £51 million for impôts duty can be used for future forecasts. The assumptions are that the proposed increases in duty in future years will broadly offset the declining trend in consumption that is evident in most commodities. Allowance has also been made for the impact of the new smoking ban which is expected to reduce consumption.

The housing market and, as a result, stamp duty income remains buoyant and the trends in the first part of 2007 suggest that the revenues will continue to increase this year. There have been no stamp duty increases for four years yet the last two years' revenues have increased at around 15%. There are no current proposals for increases in the underlying rates of duty for 2008 ahead of the introduction of a tax or duty on share transfer property transactions in this year's budget. The buoyancy in the housing market should not be relied on to continue, and forecasts beyond 2007 reflect some caution with an assumption that these will only increase in line with predicted house price inflation.

The increase in other income in 2006 was predominantly from the special dividends but this income also includes the new EUSD retention tax. The 2007 estimate is for £7 million, considerably in excess of the £5 million originally forecast. The rate of this EU tax increases over the next five years and it is likely that some taxpayers will choose not to pay the tax and move their funds outside the island and the forward profile has been adjusted accordingly. This income, like the special dividends, could be considered as an appropriate item to transfer to the Stabilisation Fund and further consideration will be given in preparation for the 2008 Budget. The other items have the potential to fluctuate, so a cautious appraisal has been made.

In summary the position of States revenues is very positive and with the various 0/10% proposals being finalised more work is planned to forecast the effects of the individual changes under the 0/10% structure. It is intended that this work will inform the debate on the individual proposals and also update the forward forecasts in preparation for the 2008 Budget debate in December.

3.4 Fiscal Strategy – Remaining measures and timescales

0/10% corporate tax model – the States has agreed that in order to remain a competitive place to provide international financial services Jersey, like similar jurisdictions, will set a 0% corporate tax rate and a 10% rate for financial services companies as from 2009. This will lead to a tax revenue deficit of up to some £79 - £94 million per annum.

Following extensive research and consultation on the detailed design of the 0/10% corporate tax structure, the States approved the legislation on 30 January 2007 (P.168/2006). Subsequently, further research and consultation has taken place during 2007 on shareholder provisions and legislation will be presented to the States for approval during the Autumn 2007.

In order to help fill the revenue deficit arising from the move to 0/10% and for the Island to become somewhat less reliant on corporate and direct taxation, the States agreed in July 2005 (P.44/2005) to introduce a 3% broad-based Goods and Services Tax (GST) during 2008.

Crown Agents has been appointed to implement the GST model and the team started work on the implementation phase during early October 2006. Following extensive consultation with the business community and the wider public the States approved the GST Primary Law on 17 April 2007 (P.37/2007). Once the law has received Royal Assent the GST Regulations will be presented to the States for approval in Autumn 2007. These Regulations will outline the detailed mechanisms of the tax, and also the treatment of the Financial Services Industry to ensure that it contributes between £5-10 million in tax revenue.

Alongside this legislative timetable further work is being undertaken with the identification of business support systems and the drafting of internal procedure manuals. The latter half of 2007 and early 2008 will see a major publicity and education campaign, the delivery of technical training and the registration period of eligible GST traders. The tax is due to commence as from April/May 2008 following the introduction of the new Income Support scheme in January 2008. The new Income Support scheme was approved in October 2006 and regulations to enable its implementation will be presented to the States for approval in the Autumn 2007.

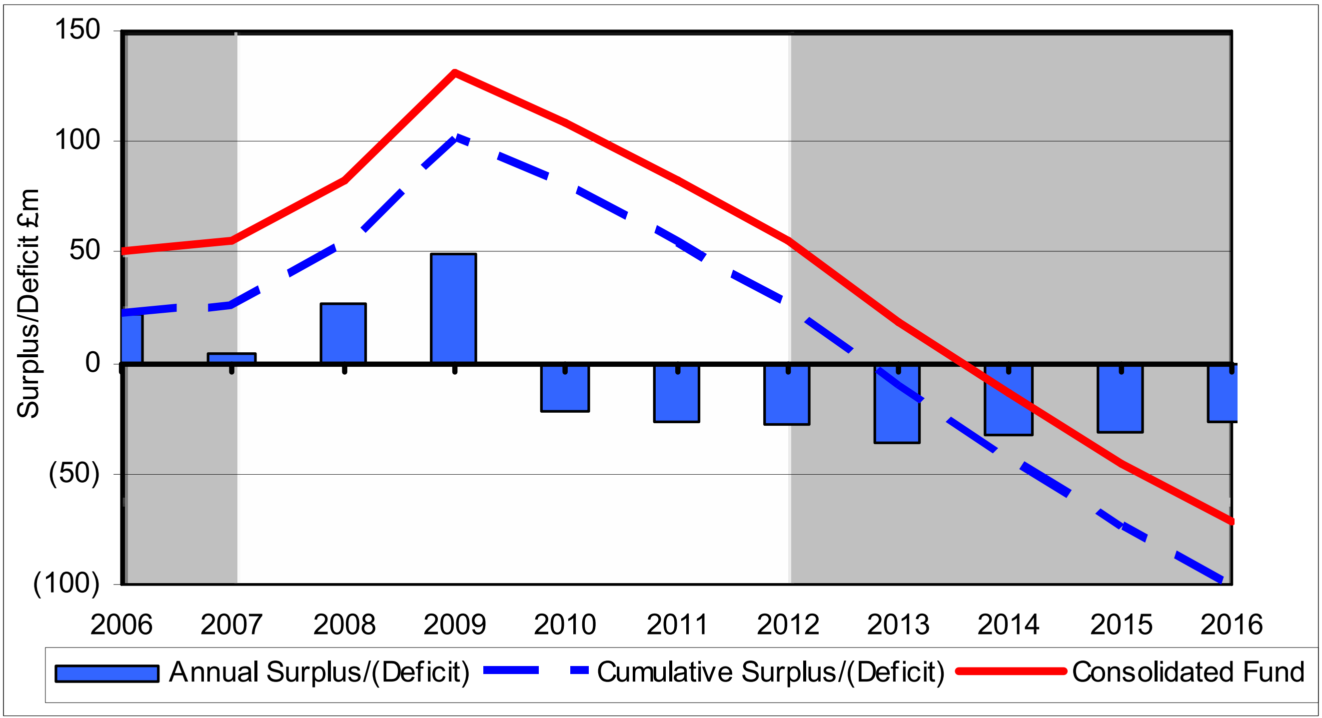
Environmental Taxes – When approving the overall fiscal strategy in 2005 (P.44/2005) the States also agreed that further research should be undertaken to see whether there are taxes on transport, energy, waste and land development which may be of benefit to the Island and which meet the States strategic objectives. During 2007 the Minister for Treasury and Resources, together with the Minister for Planning and Environment, has undertaken a consultation exercise with relevant organisations and a range of alternative proposals have been discussed. Prominent among these were proposals to increase fuel duties and to replace Vehicle Registration Duty (VRD) with a duty based on carbon emissions. Measures which will provide environmental benefits will be now be presented to the States for approval as part of the 2008 Budget to be debated in December 2007.

Other fiscal measures – ITIS and '20% means 20%' – The States has already approved and implemented the ITIS and "20 means 20" provisions. ITIS will generate additional revenues of £5 million in 2007 and the phased implementation of the "20 means 20" provisions will see tax revenues gradually increasing by £10 million over the next five years.

3.5 Balanced Budget Strategy

One of the key objectives within the States Strategic Plan is to maintain sustainable public finances and the financial framework defines the measure as a balanced and sustainable financial position over the five-year planning cycle. The graph at Table 3.2 has been developed to illustrate whether the components of the financial framework are delivering the strategic objective.

Table 3.2
Graph of indicative ten-year financial forecasts to 2016



The graph shows a bar chart representing the annual financial position which is in surplus until 2010 at which point the current forecasts are for a deficit following the introduction of the 0/10% corporate tax structure. The dashed line represents the accumulating financial position which is very positive in that it illustrates that the States is in surplus or has balanced budgets over a period beyond 2012. Finally, the solid line represents the forecast position of the States Consolidated Fund and illustrates that the current financial position is sustainable until at least 2013. For the period 2007 to 2012 the detailed figures appear in the financial forecast at Table 3.1.

The draft annual business plan covers a five year period for its financial planning and the programme of resource allocation. Three years are in detail and two years in principle and at a summary level. This breakdown is indicative of the period over which some certainty can be applied to the forecasts.

The best estimate of the ultimate loss of tax from the move to 0/10% is £79 million to £94 million per annum. The actual figure will not be known until 2011 and therefore until then it is not known what action, if any is required. The policy of the Council is to stick rigorously to the spending limits contained in this Business Plan and, provided the States also sticks to this commitment, then no new taxes, outside of those in the Fiscal Strategy, will need to be introduced until 2012 at the earliest. Remedial measures, if required, would be phased in with the aim of achieving balanced budgets again by 2015. Interest on the Strategic Reserve could be used, if necessary, to make up any funding shortfall in the interim, acknowledging, however, that this cannot be a long term solution.

The graph at Table 3.2 extends to 2016 to provide a ten-year forecast; however these forecasts can only be considered as indicative of the future financial position for planning purposes. It enables the forecasts to be kept under review and policies to be framed well in advance. However it shows clearly that the policy of balanced budgets and a sustainable financial position over the five year planning cycle is being delivered.

A number of assumptions in addition to those included in the detailed forecasts to 2010 and as part of the 0/10% proposals are made in these indicative forecasts:

- The targets for total States expenditure beyond those included in the detailed forecast allow for continued real growth in Health at 2%, protection of social benefits, and real growth in Overseas Aid funded by small reductions and reprioritisation of other services;
- The underlying States revenues, before the proposed new tax measures, are assumed to increase at a level of 2.5% in the longer-term; and
- The current economic growth plan is extended and continues to achieve economic growth of up to 2% in real terms through to 2016.

For the purposes of the indicative forecasts all other factors within the Jersey economy are assumed to remain constant or stable

Following last year's business plan proposals were agreed alongside the 2007 Budget for a new fiscal framework, the creation of a Stabilisation Fund and a new policy for the Strategic Reserve. The fiscal framework is aimed at containing inflation, improving economic stability and creating the necessary conditions for economic growth in the Island. With the current forecasts showing accumulating surpluses and the trends in the economy remaining positive then this framework provides for transfers into the Stabilisation Fund at such times, as happened in last year's Budget. The management of the fiscal framework is to be advised by the new Fiscal Policy Panel who will be appointed in the next few months, and leading up to the 2008 Budget serious consideration will be given to transferring an appropriate sum to the Stabilisation Fund. Whilst it is not clear, or simple to predict exactly where we are in the economic cycle, what is certain is that although the economy is currently buoyant the present cycle will eventually decline and we need to prepare for that. The control of inflation remains a vital part of our overall policy, and future forecasts will not be delivered unless inflation can be successfully constrained.

4. REVENUE EXPENDITURE ALLOCATIONS 2008

The proposed revenue expenditure allocations build on those approved in the Annual Business Plan 2007 and the outcomes of the business plan review for 2008 to 2010 carried out by the Council of Ministers between January and March of this year.

4.1 Annual Business Plan 2007

In the Annual Business Plan 2007, the States approved total spending allocations aimed at increases over the five year period of broadly 2.5% per annum. Within these limits revenue expenditure in 2006 increased by 3.8%, and in 2007 the proposals were for an increase of 2.8%. The Council of Ministers also agreed to take forward certain amendments and proposals at that time for which no additional funding was approved. These proposals were in respect of 3rd party planning appeals and dangerous structures, winter fuel payment system and prison education. Those proposals have been taken forward and considered alongside the priorities arising out of the annual business plan review.

The Annual Business Plan 2007 as approved by the States provides the base from which allocations for 2008 and beyond have been calculated. A summary of the movements in revenue expenditure from 2007 to 2008 is shown in Table 4.1.

Table 4.1 – Net Revenue expenditure movements from 2007 to 2008

Department	2007 Cash Limit Approved £'000	2008 Variation to Cash Limits: Pay Provision £'000	Non Staff Provision £'000	Benefit Provision £'000	Service Changes £'000	Service Transfers £'000	Efficiency Savings £'000	2008 Cash Limit Proposed £'000	% Change
Chief Minister	**14,403.4**	612.4	68.2	-	(265.9)	(36.3)	(24.6)	**14,757.2**	**2.5%**
Economic Development	**16,004.5**	161.3	324.5	-	(280.0)	(35.2)	(118.4)	**16,056.7**	**0.3%**
Education, Sport and Culture	**96,093.9**	4,112.3	449.4	-	304.6	(4,615.5)	(360.6)	**95,984.1**	**(0.1%)**
Health and Social Services	**137,094.5**	7,346.0	669.9	-	3,424.7	5.8	(639.4)	**147,901.5**	**7.9%**
Home Affairs	**39,643.7**	1,699.3	176.6	-	1,423.1	113.6	(155.1)	**42,901.1**	**8.2%**
Housing	**1,856.5**	165.1	18.9	-	60.0	(24,037.3)	(77.8)	**(22,014.6)**	**n/a**
Planning and Environment	**5,718.7**	326.6	(9.3)	-	17.8	0.0	(38.1)	**6,015.6**	**5.2%**
Social Security	**99,828.2**	88.5	71.7	5,329.7	7,010.0	24,586.0	(18.0)	**136,896.1**	**42.6%**
Transport and Technical Services	**21,241.0**	892.5	112.2	-	(116.1)	(54.2)	(198.3)	**21,877.0**	**3.0%**
Treasury and Resources	**12,882.2**	583.1	48.8	-	(53.8)	4,073.1	(658.3)	**16,875.1**	**31.0%**
Non Ministerial States Funded Bodies									
- Bailiff's Chamber	**1,178.9**	42.7	9.5	-	0.0	0.0	(5.8)	**1,225.2**	**3.9%**
- Law Officers' Department	**5,096.8**	141.4	61.2	-	0.0	0.0	(27.2)	**5,272.1**	**3.4%**
- Judicial Greffe	**3,738.4**	109.1	42.3	-	0.0	13.7	(23.4)	**3,880.1**	**3.8%**
- Viscount's Department	**1,339.2**	55.1	7.6	-	0.0	0.0	(8.5)	**1,393.4**	**4.0%**
- Official Analyst	**563.9**	20.7	4.4	-	0.0	0.0	(3.1)	**585.9**	**3.9%**
- Office of the Lieutenant Governor	**695.3**	31.3	2.7	-	0.0	0.0	(2.7)	**726.6**	**4.5%**
- Office of the Dean of Jersey	**21.1**	-	0.5	-	0.0	0.0	0.0	**21.6**	**2.5%**
- Data Protection Commission	**208.9**	11.4	(0.1)	-	0.0	0.0	(0.6)	**219.6**	**5.1%**
- Probation Department	**1,443.9**	64.1	6.0	-	0.0	0.0	(4.4)	**1,509.6**	**4.6%**
- Comptroller and Auditor General	**695.5**	6.7	14.2	-	0.0	0.0	(4.1)	**712.4**	**2.4%**
States Assembly and its Services	**4,781.6**	75.9	83.9	-	188.0	(13.7)	(31.6)	**5,084.1**	**6.3%**
Grant to the Overseas Aid Commission	**6,331.0**	-	-	-	1,032.0	0.0	0.0	**7,363.0**	**16.3%**
Total States Net Revenue Expenditure	**470,861.0**	**16,545.5**	**2,163.1**	**5,329.7**	**12,744.1**	**(0.0)**	**(2,400.0)**	**505,243.4**	**7.3%**
Interest and Repayment of Debt	**42,214.0**		2,497.0					**44,711.0**	
Income Support - Transitional Relief	**3,000.0**				6,700.0			**9,700.0**	
Total States Net Expenditure	**516,075.0**	**16,545.5**	**4,660.1**	**5,329.7**	**19,444.1**	**(0.0)**	**(2,400.0)**	**559,654.4**	

Notes to Table 4.1

1. *The Overseas Aid Commission budget is calculated in accordance with the agreed funding formula. 2008 is the last year that the current funding formula will apply and the future funding is currently under review; however an annual increase of 5% has been used as a planning assumption for 2009 and 2010. The budget currently appears as a grant from the Chief Minister's department, solely for the purpose of the expenditure allocations, as it has not yet been established as a States funded body under the new Finance Law.*

2. *For the purpose of the total expenditure allocations the repayment of internal capital debt will be approved as part of the allocation to the Treasury and Resources department to enable the repayment back to the Consolidated Fund. This is neutral in overall terms and excluded from the financial forecasts.*

3. *The provision for uprating of benefits and supplementation is shown separately from non-staff inflation as it is based on a different set of assumptions see section 4.4.*

4. *The Service changes represent allocations proposed by the Council of Ministers to provide growth in Health and Social Services and Overseas Aid, protection of benefits and to address funding pressures that have arisen since the Annual Business Plan 2007 in respect of Prison, Higher Education, Supplementation, 3rd Party Planning Appeals, a 5th Scrutiny Panel and the new Winter Fuel Payment system.*

5. *The service transfers include the transfer of £24 million of housing subsidies to Social Security for the new Income Support Scheme and transfers of property maintenance budgets (notably £4 million from Education, Sport and Culture) from other departments to consolidate the Property Holdings section in the Treasury and Resources department*

6. *The efficiency savings at £2.4 million from revenue are in addition to the £1.6 million now being found from property capital receipts in 2008.*

7. *The current estimate of the one off funding for transitional relief required within the new income support scheme is £22.5 million. £9.7 million is estimated to be required in the first year in 2008.*

8. *Further details of the changes in Departments' expenditure allocations between 2007 and 2008 are provided in the Annex to the Draft Annual Business Plan 2008.*

4.2 Emerging Funding Pressures

For the first time during 2006, as part of the new financial framework under ministerial government and within the new finance law, comprehensive financial monitoring and quarterly reporting to the Council of Ministers was carried out. Previously reporting had typically been confined to within individual departments. The process of corporate reporting to the Council identified a number of pressures during 2006 and since then in 2007, which have had to be addressed. Decisions were taken by the Council during 2006, and at the year end, to ensure that actual expenditure in 2006 did not exceed the allocated amounts as provided for within the Finance Law.

Secondly, decisions have been taken to reallocate existing expenditure budgets to provide funding to address the impact of many of the identified pressures in 2007. A balance remains unfunded in relation to the increased cost of supplementation and the one off costs in 2007 of Pandemic Flu. The Council has requested that the Minister for Treasury and Resources take to the States a proposition for additional expenditure allocations for 2007. The intention is for this to be presented in time to enable the debate at the same States session as this business plan proposition.

Finally, the Council has considered the ongoing effect of the identified pressures as part of the annual business plan review for 2008 to 2012 and the associated prioritisation of funding and resource allocation.

The main pressures which were identified through the financial monitoring process were in respect of service pressures for supplementation, the prison and higher education.

4.3 Outcomes from Business Plan Review 2008 to 2010

The Council of Ministers embarked on a review in December in which it considered the pressures and priorities from Ministers and departments and reviewed the overall spending targets and as a result determined initial priorities for any available funding. The Council was informed by the corporate financial monitoring information and the provisional outturn for 2006.

The Council considered the options identified by departments to mitigate the costs of the additional funding pressures through savings or alternatives sources of funding and having taken these into account the remaining pressures have been prioritised.

The Council concluded its initial deliberations in February and at that stage provisional cash limits were proposed to departments. Departments were then asked to identify the impacts on their services of the proposed expenditure allocations and to present these to the Council to consider and reprioritise as appropriate.

The Council considered these presentations in March and revised its proposals as appropriate before issuing revised cash limits to departments. At this stage the Council also issued the outcomes to individual scrutiny panels for their comment and consideration. The Council received no comments from the individual scrutiny panels and has therefore maintained the proposals unamended which provide for:

- additional funding in 2008 and 2009, in accordance with previous resource allocation decisions, and for 2010 in respect of growth in Health and Social Services at broadly 2% in real terms and recognising the anticipated costs of an ageing population and the anticipated demands from the forthcoming Health strategy document "New Directions";
- an increase in Overseas Aid in accordance with the existing formula in 2008 and in future years an increase of 5% per annum for Overseas Aid, as a planning assumption, in advance of proposals being brought to the States by the Overseas Aid Commission, following the current Scrutiny review. This increase is to be funded from 2010 by reductions in other services;
- providing protection for the Income Support scheme from:
    - variations to the transitional relief for Income Support;
    - further increases in funding in line with the rising trend in cost and demand of Parish Welfare;
    - child care support;
    - a winter fuel payment system; and
    - service efficiencies and price changes.
- additional funding for emerging pressures prioritised to:
    - Social Security for the increased cost of supplementation, pending the outcomes of a detailed review;
    - Home Affairs for prison education and improvements and other service pressures;
    - Education, Sport and Culture for the estimated increased costs of higher education and tuition fees;
    - Planning and Environment for the introduction of 3rd party appeals; and
    - States Assembly for the introduction of a 5th Scrutiny Panel.
- service reductions and some minor growth for other departments as a result of previous resource allocation outcomes.

The total of service changes included in previous resource allocations and those new allocations proposed by the Council equate to only 2.2% growth in expenditure. The majority of the 7.3% rise in expenditure is accounted for by the significant increase in pay, benefit and price provisions for 2008. These have been necessary as a result of revised inflation assumptions driven by recent UK interest rises. The revised inflation assumptions are outlined in section 4.4.

4.4 Revised Inflation Assumptions

Much of the total expenditure increase from 2007 to 2008 is in respect of pay and price changes. Since the Annual Business Plan 2007 was prepared, in June 2006, inflation in the UK has been rising and as a consequence interest rates in the UK have been increased several times as a measure to dampen further inflationary pressures. The short term effect of this action is to increase the Retail Price Index (RPI) in Jersey and thus stimulate higher demand for pay awards, with a knock on effect to the likely average earnings and consequently the uprating of benefits and supplementation.

In all just over 5% of the spending increase from 2007 to 2008 is accounted for in pay and price provisions. The effect is exacerbated by the delay in settling the June 2006 and June 2007 pay awards which has resulted in backdated adjustments which in turn have increased the required provisions factored into the 2008 allocations.

In simple terms the annual provisions made based on RPI predictions in June 2006 were for 2.5% increases. The effect of interest rate rises has caused the assumptions and funding required to almost double in this year's business plan.

Pay Awards
The provision for pay awards now reflects the outcomes of the latest pay negotiations and provides generally for a 2.75% award in June 2006, 4.4% in June 2007 and RPI in 2008. A number of employee groups have signed up to a three year deal through to 2008. The provision also includes an estimate of the full cost of all other pay awards.

Uprating of Benefits
The uprating of benefits which will principally become part of the new Income Support scheme from January 2008 is provided at the average of forecasts for RPI and average earnings. Supplementation uprating is provided on the basis of forecasts of average earnings.

Non staff inflation
The provision for non-staff costs is set at the States inflation target for RPI(x) of 2.5% per annum and departments are required to work within this provision and prioritise the allocation as appropriate.

Under the new Public Finances (Jersey) Law 2005 the States no longer maintains a General Reserve, and any fluctuations in pay or prices from the provisions in expenditure allocations will fall on departments. This is the case in 2007 where increased pay awards have caused an increased cost in the order of £3.5 million and whilst £1 million has been found centrally from unspent balances the remaining increase will have to be found within departments.

This will also be the case for any unforeseen expenditure and the new quarterly financial monitoring regime to the Council of Ministers is the process through which any such pressures are identified and addressed. This reporting regime has informed the annual business planning and carry forward processes and enabled early priorities to be established.

4.5 Income Support and other Service Transfers

The main functional change within the States since the last business plan is the approval of the new Income Support scheme proposals in October 2006. As a result the current plan is for the new Income Support scheme to be implemented in January 2008, incorporating benefits and allowances from the Housing and Education, Sport and Culture departments. The most significant of the service transfers is the £24 million to Social Security department in respect of housing subsidies.

In addition to the necessary transfer of benefits the development of an Income Support database and model has enabled the costs of the transitional relief to be more accurately forecast. The analysis has shown that to provide the proposed level of protection to existing benefit recipients over a transitional period of six years will cost in the order of £22.5 million and a revised profile of this sum has also been calculated. The effect of the transitional relief will be provided as one-off funding to the Social Security department and is therefore excluded from the headline expenditure analysis. The cost of transitional relief in 2008 is forecast at £9.7 million.

Further transfers have also been agreed in respect of the consolidation of the Property Holdings function within the Treasury and Resources department and many of the minor service transfers in the expenditure allocations represent these movements of property maintenance or administration budgets. In particular some £3.7 million has transferred from the Education, Sport and Culture department.

4.6 Efficiency Savings

The Change Programme began in 2005 and initially runs over a five-year period to 2009 with targets of delivering £20 million per annum efficiency savings. Initial allocations were made to the programme areas identified to drive through the efficiency savings. During the first two and a half years the allocation of the efficiency savings has been reviewed and improved, focussing more specifically on the service areas now responsible for driving the savings initiatives through.

In last year's plan a programme for the property savings was presented and showed that for a period of years £4 million would need to be found from property capital receipts. This income flow can not be maintained indefinitely and needs to be replaced by recurring savings and these are being identified through an expansion of the procurement efficiency programme and further efficiencies within property revenue expenditure in the longer term. Progress has been made in consolidating the property management function and the transfer of relevant budgets to the Property Holdings section will assist the attribution of savings in the longer term. More detail is provided with Section 7 of this report in the Property Plan

It is intended that the expanded procurement programme, led by the new Director of Strategic Procurement, will be available by the end of the year and will enable a review of procurement efficiency allocations across the States in next year's business plan.

The current allocation of the £20 million efficiencies is shown in Table 4.2:

Table 4.2 – Current profile of efficiency savings targets

Projected Profile of Corporate and Departmental Efficiency Savings						
	2005 £' 000	**2006 £' 000**	**2007 £' 000**	**2008 £' 000**	**2009 £' 000**	**Total £' 000**
Corporate Efficiencies						
HR	300	400				**700**
IT	500	440				**940**
Finance	206	494	427			**1,127**
Procurement	150	300	750	700		**1,900**
Total Support Services	1,156	1,634	1,177	700	0	**4,667**
Cross Departmental	120	120	450	450	0	**1,140**
Property						
- Revenue		400	500	600		**1,500**
- Capital			700	1,600	1,700	**4,000**
Total Corporate Efficiencies	**1,276**	**2,154**	**2,827**	**3,350**	**1,700**	**11,307**
Departmental Efficiencies	**4,724**	**1,846**	**1,173**	**650**	**300**	**8,693**
Target	**6,000**	**4,000**	**4,000**	**4,000**	**2,000**	**20,000**
Revenue Targets	*6,000*	*4,000*	*3,300*	*2,400*	*300*	*16,000*
Capital Targets	*0*	*0*	*700*	*1,600*	*1,700*	*4,000*

The individual programme area savings are then attributed specifically to the departments in which those savings are intended to accrue in the budgets through to 2009.

The States remain committed to driving out waste. We will continue to improve efficiency, enhance services and demonstrate the delivery of value for money. But when judged against other similar governments our performance shows that, on this basis, there may be limited scope for delivering further major efficiency savings over and above the £20 million we have committed to. This certainly does not mean that we are in any way relaxing the increasing financial discipline that has been displayed in recent years. Indeed as a result of amendments to the Strategic Plan, in respect of ongoing efficiency reviews, a process has been brought into place requiring departments to introduce procedures to ensure that all service areas are reviewed on a 10 year rolling basis. If service reviews are undertaken on a rolling basis it will allow resources to be focused, annually, on costing developments within the budget.

4.8 Allocations for Non Ministerial States funded bodies

In accordance with Article 8 of the Public Finances (Jersey) Law 2005 the Council of Ministers has proposed 2008 expenditure allocations to each of the Non Ministerial States funded bodies. The proposed allocations are identical to the principles by which the Ministerial department allocations were calculated.

The Council of Ministers proposed allocations are included in Table 4.1 and in the Summary Table A on page 43. Under the finance law the Council of Ministers is required to inform the States that all Non Ministerial States Funded Bodies have accepted the proposed allocations.

4.9 Allocations for the States Assembly and its services

In accordance with Article 10 of the Public Finances (Jersey) Law 2005 the Council of Ministers has proposed the 2008 expenditure allocation for the States Assembly and its services to the Privileges and Procedures Committee. The proposed allocation was in line with the financial framework in the States Strategic Plan and identical to the principles by which the Ministerial departments' allocations were calculated.

The Council of Ministers proposed allocation is included in Table 4.1 and in the Summary Table A on page 43. The Council of Ministers is required to inform the States that the Privileges and Procedures Committee has accepted the proposed allocation and the Committee's submission has been reviewed, as required, by the Comptroller and Auditor General.

4.10 Trading Operations

The Public Finances (Jersey) Law 2005, Part 4, makes provision for the States to run trading operations as part of the activities of a ministerial department.

The Economic Development department includes two trading operations:
- Jersey Airport, and
- Jersey Harbours.

The Transport and Technical Services department includes two trading operations:
- Jersey Car Parking, and
- Jersey Fleet Management.

The Finance Law requires that the revenue and trading funds of these trading operations are laid before the States for approval within the draft Annual Business Plan together with any financial return required by the States.

The finances of these trading operations are included in Summary Table B page 44 and the details of their activities are included in the Annex to the draft Annual Business Plan.

For each trading operation the Treasurer, on behalf of the Minister for Treasury and Resources, has negotiated the financial return or other arrangements between the Consolidated Fund and the respective Trading Fund. In respect of Jersey Harbours an initial review of the future capital requirements suggests that some form of external financing, beyond the extent of the current trading fund, may be required. The return from Jersey Harbours has not been renegotiated at this stage but following further assessment of the capital requirements and production of a full business case such a review is likely to be required in due course.

There are also proposals within the Property Plan, Section 7, for Property Holdings to form a States trading operation during 2009.

4.11 Manpower

The States continues to monitor and report manpower numbers twice yearly. The focus of manpower control is appropriately on actual manpower numbers and is consistent with the controls and reporting in the private sector.

Alongside the actual figures, departments identify the budgeted manpower levels as part of the draft Annual Business Plan. These figures are indicative and are based on assumptions of the required manpower levels based on the proposed funding allocations. These figures will be improved as each year's business plan provides the detail of each department and the Annex this year provides analysis of the funding and manpower allocated across services and the department's key objectives. The budgeted manpower levels must also provide for the implications of any projects within the capital and legislation programmes.

The resource allocation processes in recent years have proposed growth in priority services and further investment has been approved through the strategic plan initiatives. Despite this real growth in priority services such as health, education and social benefits the States has managed to constrain any significant growth in manpower numbers. This has been achieved because the growth in funding and associated manpower has been offset by the efficiency savings in other services from the Change Programme.

The Change Programme is achieving savings over a five-year period to 2009 through a series of transformation programmes within the support services and also by changes and improvements in working practices. The Change Programme has also affected the distribution of support staff throughout the States and this is most apparent in the increase in IT and HR staff in the Chief Minister's department, and the increases in finance staff within the Treasury and Resources department. The most recent changes have been in respect of the consolidation of property holdings staff in the Treasury and Resources department and all these staff having been transferred from other States departments.

4.12 Summary

The Council of Ministers is proposing a 7.3% increase in ongoing revenue expenditure in 2008. However, a substantial proportion of this increase (some 5.1%) relates to necessary pay and price adjustments driven by pay awards and inflation effect. The actual increase in relation to growth or improvement in services after allowing for the revenue efficiency savings is only 2.2% or £10.4 million and this increase is prioritised to health, social benefits, overseas aid and the prison.

Three-year allocations are being proposed for revenue expenditure and departments will be expected to work within these levels to deliver their agreed objectives. There will be the need for flexibility and a corporate approach, informed by the quarterly reporting process, to address any emerging or unforeseen pressures through the carry forward and annual business planning process.

The allocations to departments for revenue expenditure for 2008 to 2010 must also provide for the financial implications associated with the capital and legislation programmes which are also proposed in this business plan.

5. REVENUE EXPENDITURE TARGETS 2009 to 2012

This section covers the revenue expenditure proposals for the four years 2009 to 2012. The Council of Ministers is proposing detailed allocations to all States funded bodies for the three years from 2008 to 2010 and then overall revenue expenditure targets for the years 2011 and 2012.

5.1 Three year revenue expenditure allocations for 2008 to 2010

The Public Finances (Jersey) Law 2005 only requires one year of revenue and capital expenditure to be approved in the draft Annual Business Plan but the States Strategic Plan is based on a financial framework for five years.

The proposals from the Council of Ministers therefore include detailed allocations to departments for the next three years and higher level figures for years four and five. These are based on the allocations agreed in principle in the Business Plan 2007, which included the outcomes from the review of the Strategic Plan, and also now include the outcomes of the business plan review by the Council for 2008 to 2010.

Table 5.1 Build up of the revenue expenditure allocations through to 2012.

	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m
Business Plan 2007	**470.9**	**505.3**	**525.2**	**545.6**	**564.3**
Provision for pay and prices					
Pay awards	16.5	9.0	7.9		
Uprating of benefits	5.3	5.8	5.9		
Non staff inflation	2.2	1.6	1.8		
	24.0	16.4	15.6		
Service changes					
Protection of benefits	7.1	1.5	1.5		
Health/Overseas Aid growth	6.6	2.5	3.5		
Savings across depts	(3.3)	(0.5)	(0.2)		
	10.4	3.5	4.8		
Net Revenue Expenditure	**505.3**	**525.2**	**545.6**	**564.3**	**582.6**
Repayment of Debt	44.7	45.7	45.7	45.7	45.7
Income Support Transitional Relief	9.7	5.6	3.7	2.2	0.9
Total Net Revenue Expenditure	**559.7**	**576.5**	**595.0**	**612.2**	**629.2**

The business plan review confirmed the proposals from last year's business plan and considered in detail the new third year of the rolling three year plan, namely 2010. The Council sought to balance the overall spending constraints within the financial framework with the spending and service pressures from departments. The outcomes for 2009 to 2010 are outlined at Section 5.3. The level of service growth has been constrained to less than 1% in future years, as shown in Table 5.2, and this growth is prioritised to Health and Social Services and Overseas Aid.

Table 5.2 Increase in Net Revenue Expenditure 2008 to 2012

	2008	2009	2010	2011	2012
Provision for pay and prices	5.1%	3.2%	3.0%		
Service changes	2.2%	0.7%	0.9%		
Total increase in expenditure	7.3%	3.9%	3.9%	3.4%	3.2%

5.2 Revised inflation assumptions

It is evident from the discussion at Section 4.4 that the inflation assumptions from the Annual Business Plan 2007 have had to be revised in the light of changes to UK interest rates and which in turn have affected the assumptions about the Island RPI and average earnings.

The proposals from the Annual Business Plan 2007, prepared in June 2006, used the following assumptions in the forecasting model, namely:

- an annual increase in the wage bill of no more than 2.5%;
- an annual provision for non-staff inflation of 2.5%;
- a provision for the annual up-rating of benefits at around 3% (based on an average of forecast increases in inflation and average earnings); and
- the delivery of a programme of efficiency savings from revenue and capital, amounting to on average £4 million per annum.

The latest inflation assumptions have been informed by best estimates of UK interest rates, on Island RPI and average earnings and these have been applied to the pay and price provisions as follows:

- an increase in the wage bill in line with assumptions about the Island RPI, and from April 2008, excluding the effect of GST and other indirect taxes, in other jurisdictions an index known as RPI(y) is used;
- maintaining an annual provision for non-staff inflation of 2.5%, in line with the States target for RPI(x);
- a provision for the annual up-rating of supplementation in line with assumptions about the increase in average earnings;
- a provision for the annual uprating of the new income support scheme and other social benefits (broadly based on an average of forecast increases in RPI and average earnings); and
- a programme of efficiency savings from revenue and capital that will deliver at least £20 million per annum by 2009.

5.3 Outcomes for 2009 and 2010

The make up of the 2008 revenue expenditure is explained in detail in the previous section. The Council also considered in some detail the revenue expenditure allocations for 2009 and 2010. For 2009 and 2010 the changes other than for pay and prices that are proposed represent:

- additional growth for Health and Social Services at broadly 2% in real terms and reflecting the anticipated costs of an ageing population and the demands from the draft strategy document "New Directions";
- an increase of 5% per annum for Overseas Aid, as a planning assumption, in advance of proposals being brought to the States by the Overseas Aid Commission, following the current Scrutiny review. This increase being funded from 2010 by reductions in other services;
- providing protection for the income support scheme from:
    - variations to the transitional relief for Income Support;
    - further increases in funding in line with the rising trend in cost and demand of Parish Welfare;
    - service efficiencies and price changes.

The net effect in ongoing expenditure is that future increases will comprise only the forecast provisions for pay and prices and the real terms increase in Health funding. The Council considered whether it was feasible to continue to fund real growth in heath funding from the existing tax base and proposals for an increase in payroll contributions in the form of a Health Insurance Scheme were discussed. These proposals will be considered in more depth once the detail of the Health "New Directions" strategy is issued for consultation in September.

5.4 Revenue Expenditure Targets for 2011 and 2012

The figures for 2011 and 2012 are prepared from an extension of the principles and assumptions for 2008 to 2010, namely:

- revised inflation assumptions for pay and price provisions; and
- continued growth for Health and Social Services and Overseas Aid.

Detailed allocations have not been prepared for these years but it is clear that within the revenue expenditure ceilings there will be limited opportunity for growth unless a further programme of efficiency savings or service reductions is introduced. The increases in 2011 and 2012 which average out at 3.3% must be adhered to if the balanced budget strategy is to be delivered. The indicative forecasts through to 2016 at Section 3.5 apply these assumptions.

5.5 Annual Business Planning and Resource Allocation

The business planning process provides for an annual review, except in those years where a review of the Strategic Plan is required, which considers detailed expenditure as part of a three-year rolling expenditure programme. The annual review in 2008 has identified emerging issues and changes in priorities and has been informed by the production of departments' own annual business plans, the quarterly reporting process to the Council of Ministers, and the annual financial accounts and draft performance report.

It is also important that, as part of the annual review, departments also take account of the financial implications of bids to the capital and legislative programmes. These bids and any financial and manpower implications should be able to be linked to objectives within the current Strategic Plan. Any new financial implications are assumed to be included in the latest expenditure allocation now being proposed to the States.

With this integrated approach the full cost of existing service programmes and those costs associated with programmes to deliver other objectives within the Strategic Plan can be forecast, prioritised and provided for.

6. CAPITAL PROGRAMME 2008 to 2012

6.1 Overall Allocation

The Council of Ministers, in considering resource requirements to continue to deliver the Strategic Plan proposals, has determined that the funding available for allocation to capital works and associated expenditure should remain broadly as approved in last year's States Annual Business Plan.

A funding stream of £42 million is recommended for 2008 and 2009, rising to £43 million a year from 2010 to 2012. The drawdown of funds from the Consolidated Fund is reduced by the contribution of capital receipts from the disposal of surplus properties, as approved in the States Property Plan.

Table 6.1 - Capital Expenditure Allocation Summary 2008 to 2012

	2008	2009	2010	2011	2012
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
<u>Expenditure</u>					
Total Earmarked Funds and Rolling Allocations	**24,591**	**29,891**	**31,391**	**29,791**	**21,391**
Total Schemes	**17,850**	**12,332**	**11,798**	**13,174**	**22,246**
Total Proposed Expenditure	**42,441**	**42,223**	**43,189**	**42,965**	**43,637**
Less:					
Property Capital Receipts	(2,300)	(4,000)	(4,000)	(4,000)	(4,000)
Net Capital Expenditure	40,141	38,223	39,189	38,965	39,637

For simplicity of presentation, the financial forecasts only include the required capital expenditure net of the property capital receipts. However the significance of the contribution from property disposals must not be overlooked.

6.2 Changes from 2007 to 2011 Approved Programme

The capital programme has again been reprioritised to accommodate a number of revised spending pressures and high priority issues. The key changes between the proposed programme for 2007 to 2011 and that previously approved last year are:

- The Corporate ISD Budget allocation has been increased from £15.3 million (2008 to 2011) to £22.5 million (2008 to 2012). This additional sum is required to meet the ongoing cost of the States IT infrastructure and to provide for project work over the period, including:
    - Corporate Document Management £1.8m
    - Server Upgrade and Consolidation £2.0m
    - Population Office Systems £0.4m
    - Network Upgrade £1.0m
    - Desktop Upgrade (to Microsoft Vista) £1.7m
    - Asset Management Interface £0.9m
    - Records Management £0.5m

- £2 million is included for the Town Park development in 2009 and a further tranche of £0.5 million is provided in 2011. This brings the available funding for the ongoing investigation, remediation and development to some £4.6 million.

  Until an approved remediation route has been confirmed the total cost of the project cannot be ascertained. The logistics of providing suitable alternative car parking arrangements are key to the timing of the development of the proposed Town Park.

- Further funding of the Prison Improvement Plan to provide prisoner activities, such as workshop and education facilities, has been identified as a high priority and brought forwards to 2011.
- The relocation and refurbishment of the Oncology department of the General Hospital has been included as a new scheme in 2011.
- Replacement of the Emergency Services radio system (TETRA) is included as a new scheme in 2010.
- Funding for the remaining £24 million allocation for the social housing rolling programme, as identified in the Social Housing Property Plan 2007 to 2016 (P6/2007), has been re-profiled over 2008 to 2011.
- Funding for the Transport and Technical Services Sludge Dryer and Sewage Treatment Works (STW) refurbishment projects has been reduced from £2 million to £1 million and limited to the STW tanks only.
- Funding for the permanent reuse/recycle centre has been advanced from 2011 to 2010.
- Provision for financing the Energy from Waste plant has been revised. The previous approach was to provide £10 million per annum (on average) to reduce the impact of borrowing. The revised proposal is based on servicing a loan of £80 million over 20 years (being a prudent estimate of the life of the plant) at 6% interest, commencing midway through 2008.

  As no decision on the plant and its financing route has yet been taken, this funding stream can only be indicative.

- A further allocation of £0.4 million to the Urban Renewal Fund is proposed for inclusion in 2011.
- An allocation of £150,000 is included in 2009 as the capital element of a weather radar replacement programme to be rolled out in conjunction with the UK Environmental Agency and Meteorological Office.

  This proposal replaces the bid originally tabled by the Planning and Environment Department, which sought the direct purchase of a stand-alone radar for Jersey.

- New funding of some £4.4 million is included in 2008 to replace fire fighting equipment at the La Collette Fuel Farm. The proposed delivery system requirements are currently being assessed by consultants engaged by the Transport and Technical Services Department.

A detailed reconciliation of the movements from the previously approved 2007 to 2011 programme is contained in pages 164 and 165 in the accompanying Annex.

Competing demands for capital funding have, once again, seen bids exceed the sum available for allocation and compromises have had to be made. The Minister for Treasury and Resources recognises the continued corporate and constructive approach taken by departments during the capital allocation process, which has enabled this programme to be produced.

Departments have also been asked for their assurance that their bids have been made with the clear understanding that the revenue and manpower implications of their proposed capital programmes can be accommodated in their revenue expenditure allocations for 2008 and beyond and their understanding of this is implicit in their revenue forecasts.

6.3 Prioritisation Process

The proposed revised capital programme supports the initiatives and priorities included in the States Strategic Plan.

Following discussions with individual departments, a provisional capital programme was considered by the Corporate Management Board on 1 March 2007, with revisions to that programme tabled to a subsequent meeting on 15 March 2007.

The Corporate Management Board proposals were then discussed and agreed by the Council of Ministers, at its meeting of 12 April 2007.

6.4 Capital Programme 2008

In accordance with the Public Finances (Jersey) Law 2005, the States is asked to approve each of the capital projects in the recommended programme for each States funded body for 2008.

A summary of the proposed funding allocations for 2008 is shown at Summary Table D on page 46, with details of the individual schemes and rolling allocations provided in the accompanying capital section of the accompanying Annex starting on page 148.

6.5 Capital Programme for States Trading Operations 2008

Article 22 (1) (a) of the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations requires capital expenditure proposals of designated States Trading Operations to be approved by the States as part of an annual business plan. Under the previous Finance Law such proposals were considered in the budget debate.

For 2008 States Trading Operations comprise Jersey Harbours and Jersey Airport as part of the Economic Development department and Jersey Car Parking and Jersey Fleet Management in the Transport and Technical Services department.

A summary of the proposed capital allocations for the States Trading Operations for 2008 is shown in Summary Table E on page 47.

6.6 Capital Programme 2009 to 2012

In addition to the requirement to approve a definitive capital programme for 2008, the States is asked to approve, in principle, the proposed programme of capital projects for the States funded bodies for 2009 to 2012 as set out in Summary Tables F to I respectively, on pages 48 to 51.

The allocations for 2009 to 2011 incorporate proposed revisions from the programme agreed in principle by the States last September in the States Business Plan 2007 to 2011, which are referred to in Section 6.2 above.

The proposed programme for the incremental year 2012 includes funding for the continuation of rolling allocations and amounts for new capital works.

A summary of the proposed funding allocations for the years 2009 to 2012 is shown in Summary Tables F to I, with details of the individual schemes and rolling allocations provided in the capital section in the accompanying Annex starting in page 148.

6.7 Indicative Programme 2013 and Unfunded Items

The Council of Ministers, at its meeting of 12 April 2007, also considered the impact of projects for which funds were requested but could not be accommodated in the programme to 2012.

An initial review of 2013 to 2015 has resulted in an indicative programme for 2013 which serves to illustrate that, with significant investment needed in further inert waste disposal in these years, there may be limited headroom for other construction works. An indicative programme for 2013 is included in Summary Table J to provide States members and a list of the other major projects identified by departments is shown below without any indication of the likely year of delivery. The capital programme will continue to be subject to annual review and the priorities will be reassessed each year. The States has the ability, within the total spending limits and resources in the Consolidated Fund, to vary the levels of capital investment as appropriate.

Project	Estimated Requirement
• Church Schools - capital grants	£ 6.0m
• General Hospital - Extension and Alteration	£32.5m
• Replacement Financial Information System	£ 3.0m
• Prison Upgrade - Phases 5 and 6	£12.0m
• St Mary's Primary School	£ 4.4m
• Fire and Rescue Service HQ	£11.5m

Rationalisation of the States property stock may be a solution to the provision of additional space, or extra funds, to progress some of these schemes in a more timely fashion.

ICT Programme and Strategy

Introduction

Desktop computers, the equipment that supports them and transports information and modern telephony are collectively referred to as Information Communications Technologies or ICT.

The need to ensure the States has appropriate, up to date ICT infrastructure on which to run its systems is critical. All States departments use technology to carry out their work and many simply could not deliver the services they do securely and reliably without using computer systems.

Jersey's government and public sector face a unique set of problems in dealing with information and communication. Although the population is relatively small, it has to provide the same broad range of services as any large country. Also, in order to keep pace with the business community, other governments and the demands of the public, Jersey has no choice but to adapt and update its technology as new computer systems come into common use and older systems become obsolete.

Jersey's reliance on modern technology is not unusual. The personal computer is only 25 years old but it has become a common tool for business across the world - as indispensable as pen and paper once was. The use of computers is now firmly embedded in all areas of our lives but is a particularly important part of our working culture.

In the past, each department developed its own computer systems, tailored to its specific needs. This meant there was a lack of co-ordination, with several types of system in operation, which do not share information and cannot make use of information provided by other systems. It is a complex setup that involves duplication of equipment and staff.

It's also important to stress that the diversity of approach has been confusing and frustrating for the States' customers, many of whom are highly proficient with modern technology and expect their dealings with the States to be quick, secure and reliable.

The need to streamline, standardise and centralise (where appropriate) the States ICT systems has already been recognised and considerable progress has been achieved towards making improvements. The most significant of these has been the re-organisation of ICT staff in the States into a single team – Information Services Department (ISD). This team is responsible for all corporate ICT provision and the management of all ICT-related projects across the States. This is enabled through the ICT Programme Management Office (PMO) which has implemented an effective project management structure that other business users in the States are now starting to adopt, even for non-ICT projects.

Benefits of modern ICT

There are many reasons why Jersey should invest in technology:

- Many States functions could not be carried out at all without ICT and others would need more staff;
- Investment in technology will help the States make productivity gains and direct financial savings. ICT is needed to support all the other major changes taking place within the States organisation;
- Much of the world, and the western business world in which Jersey's economy operates, uses ICT as a way of life. Investment in technology keeps the States competitive and in business. Delivery standards and, in some cases, international standards force change in the way services are delivered here. Jersey often has no choice but to adapt as new systems and updates come into common use and older systems become obsolete;
- Planned investment over a set timescale will avoid large future expenditure when systems start to become inefficient;
- Modernisation of the States technology will bring everyone up to the same standard. This will be cheaper to maintain, more efficient and more flexible, in that staff can be more mobile;
- Efficiency gains provide the ability to do more with the same number of people or the same with fewer;
- It allows modern working practices to be developed, which will give the public wider access to information. The benefit will be to provide customers with choice in the way they do business with the States, possibly through one-stop shops or self-service web pages;
- Up to date ICT is vital to maintain security. States perimeter systems blocked more than 130,000 viruses during 2005. Recovering from a virus problem would be very expensive and time-consuming; and
- To improve public access to information and services.

Capital Programme

The proposed capital programme allocates £31 million to the ICT capital budget over the period 2008 to 2012.

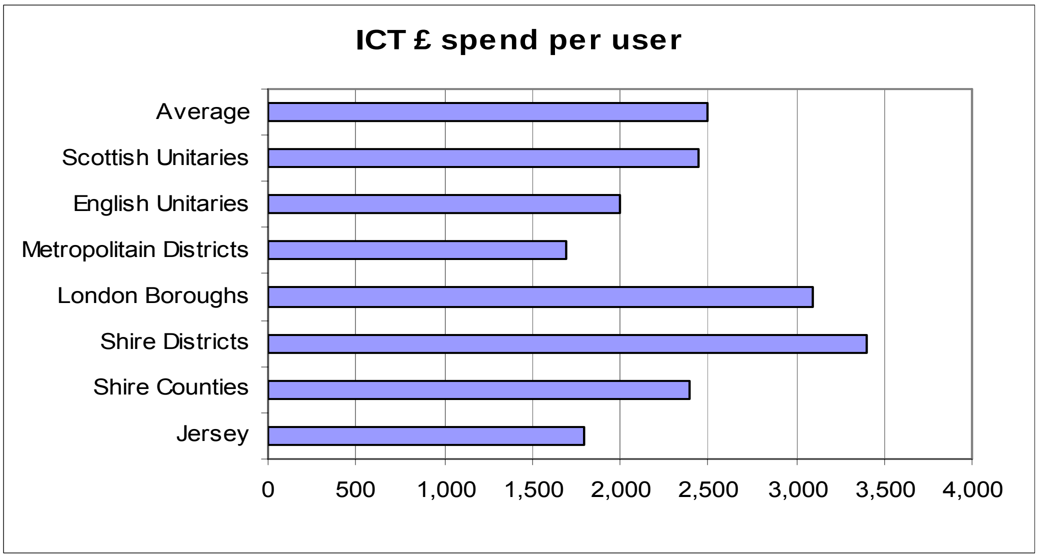
This level of funding will provide for the capital projects in Table 6.2. It should be noted that the funding provides for the ongoing capital cost of providing current systems, four projects that maintain current facilities, completion of two existing system development projects and only three projects that provide new systems.

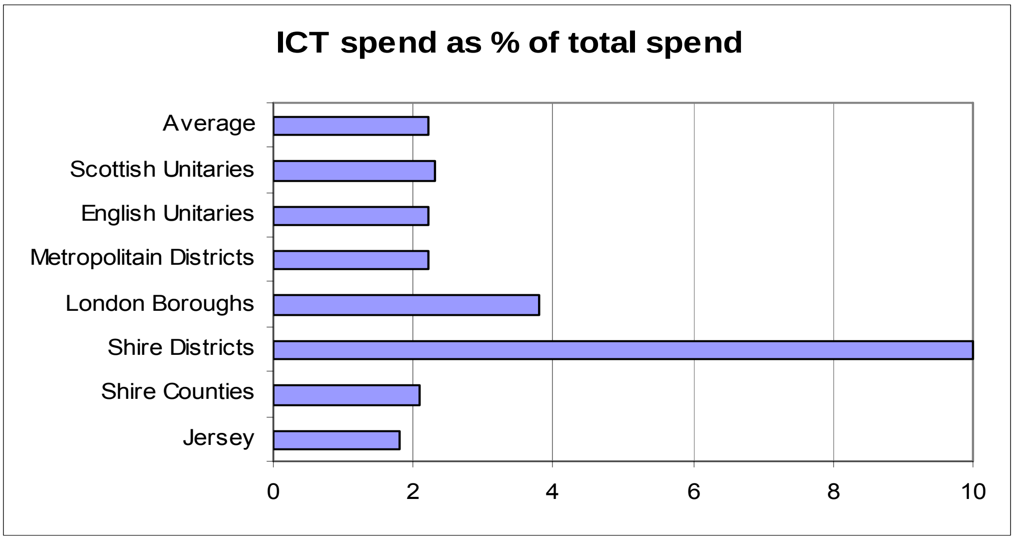
Table 6.2
ICT Capital funding allocation 2008 to 2012

Year	2008	2009	2010	2011	2012
	£	£	£	£	£
Annual Capital running costs					
Network Running Costs	997,500	1,022,438	1,047,998	1,074,198	1,101,053
Hardware Replacement	1,100,000	1,127,500	1,155,688	1,184,580	1,214,194
Licences	900,000	922,500	945,563	969,202	993,432
Project Staff and Management	890,000	912,250	935,056	958,433	982,393
Capital Maintenance Projects					
Desktop Upgrade				1,700,000	
Network Upgrade		500,000	500,000		
Server upgrade and consolidation	1,000,000	500,000			200,000
Finance System Hardware	136,000			150,000	
Committed Development Projects					
Document Management	400,000	400,000			
Records Management	100,000	100,000	275,000		
New Projects					
Health Systems	4,000,000	3,000,000	3,000,000	2,000,000	
Asset Management interfaces	300,000	300,000	300,000		
Corporate Population System	350,000	50,000			
Education IT Strategy	600,000				
Total Spend	**10,773,500**	**8,834,688**	**8,159,305**	**8,036,412**	**4,491,073**
ISD Capital Fund	(9,795,978)				
Capital Funding - Corporate ICT	(2,000,000)	(5,000,000)	(5,000,000)	(6,000,000)	(4,500,000)
Capital Funding - Health IT	(3,000,000)	(3,000,000)	(2,000,000)		
Cash Position	**4,022,478**	**3,187,791**	**2,028,486**	**(7,926)**	**1,001**

The current level of capital funding does not provide for any new development projects after 2008. Once the benchmarking review (below) has been completed there will be a full review of ICT spending, including departmental costs and capabilities.

Corporate Spending
The States' IT spend has recently been benchmarked against UK government organisations. Both in terms of spend per user and spend as a percentage of total spend, the preliminary results indicate potential under investment in this resource. The results are awaiting independent validation and will be factored into future funding considerations if confirmed.





Direct ICT Savings

As part of the States Change Programme the States ICT function was tasked with making £940,000 annual savings against revenue spend. This was achieved principally by the following initiatives:

Description	Saving (£ per annum)
New Telephone System	£350,000
Contract rationalisation	£250,000
Re-design of network	£200,000

A description and impact statement for ongoing and future ICT projects is contained in the accompanying Annex in page 166.

7. STATES PROPERTY PLAN 2008

7.1 Introduction.

In January 2006 Property Holdings took over responsibility for all States owned property with the exception of social housing and property managed by trading organisations.

The 2007 to 2011 States Business Plan set out the following objectives for Property Holdings.

- A structure which supports an effective integrated property function.
- A single corporate property administration function.
- Financial savings targets to be achieved.

The 2007 Property Plan was subject to a Scrutiny review by the Public Accounts Committee. It concluded its work in February 2007 and recommended that the States approve the 2007 Property Plan, but awaited the development of a more ambitious and comprehensive set of proposals.

In April 2007, the States approved the 2007 Property Plan, subject to one amendment, which was for the Public to retain ownership of No.1 Oxford Road, St. Helier.

The schedule of the properties that have been identified for 2008 as surplus to requirements and suitable for disposal in the future is included within the accompanying Annex to this report in page 168. However it is important to recognise that disposals are only a small part of the overall Property section of the Business Plan.

7.2 Update on Property Disposals.

Both the 2006 and 2007 Property Plans identified a number of properties for sale, which are shown, with progress as at 1 June 2007 in Tables 7.1 and 7.2 below. It should be noted that capital receipts from disposals will not mirror the annual targets set but will meet cumulative targets on a rolling basis. As at 1 June 2007, five sites have been sold, subject to contract, which will generate approximately £1.9 million.

Table 7.1 - Sites Earmarked for Disposal in 2006 Property Plan.

Site	Status
Mascot Motors	To be tendered with planning permission
Former Jersey College for Girls site	Disposal subject to confirmation
The Quarry and Anchorage, Gorey	Plans are being prepared for alternative use prior to tender
Mont Mado Shed site	Plans submitted to Planning for residential use
Mont Mado Quarry Site	Sale agreed
Chateau du Port	Sale agreed
7 Devonshire Place parking area	Sale agreed
Rozel Mill, St Martin	Under Offer
Fields 34 and 37, Queens Valley	Field 34 to be tendered – Field 37 to be retained at present

Table 7.2 - Sites Earmarked for Disposal in 2007 Property Plan

Site	Status
Hue St / Dumaresq St site	Plans submitted for planning permission
2/4 Dumaresq St and 19/20 Charing Cross	Under negotiation with possible purchaser
Seaton Youth Centre	For Tender – subject to confirmation of BLI restrictions
Samares School Houses 1 and 2	For sale through agent on completion of Le Squez Ph 1B
Headingly, La Route du Fort	For sale by tender once vacated
74 and 76 Colomberie	Lease until 2013/14 - income generating asset
Drury Lane Workshop	Architect appointed to develop residential scheme to planning permission stage
Le Rondin Farm Fields	Under negotiation
Field 373, St Brelade	For sale by tender
Acorn Lodge	Sale agreed
Belle Vue development site	Architects appointed to design scheme prior to sale by tender
1 and 2 La Mabonnerie and 12 Clos de la Ville	Sale agreed

A schedule of properties that have been identified as surplus to requirements, and proposed for disposal in 2008, is included in Summary Table K on page 53, with property details included in the accompanying Annex in page 168.

In addition to the sites for disposal, other sites have also been identified as requiring further investigation for inclusion in future disposal lists. Initial details of these are included in the accompanying Annex in page 179.

7.3 Update on the Integrated Property Management IT System

It is recognised that the installation of an integrated property management IT system is essential to provide a centralised system of property management. In addition, the system will seek to provide an up to date and accurate database of all property which will assist in accounting procedures, valuations, property maintenance, asset charging and performance indicators.

The introduction of Generally Accepted Accounting Principles (GAAP) requires up to date and accurate information regarding assets held by the States. Whilst core financial information will be held in the States financial system, it is essential that all other property information is held in an accessible format which, combined with the financial data, will provide the information necessary to monitor and improve the efficiency and effectiveness of States property.

Consolidation of property information in a single system will also provide the basis to establish and maintain key performance data, such as cost in use and space efficiency, which can be benchmarked against best performing organisations elsewhere.

The research and procurement process for selecting a single system to replace the systems currently in operation across the States is underway, with the target of implementing a fully operational system in early 2008.

7.4 Update on the Valuation of States Properties

The valuations are required for inclusion within the States' Financial Statements and have been prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP). They are also prepared in accordance with the relevant Guidance Note agreed between the Royal Institution of Chartered Surveyors (RICS) and the Chartered Institute of Public Finance and Accountancy (CIPFA).

The property assets concerned, which exclude property held by the Airport, Harbours, and Housing, have been assessed as at 31 March 2007, which is regarded as the Valuation Date. The basis of valuation particular to each asset is specified in the Appraisal and Valuation Standards of the RICS including:

- Existing Use Value for operational and non-specialised assets;
- Market Value for properties that are non-operational and either surplus to requirements or held as investments or development sites and;
- Depreciated Replacement Cost for specialised properties.

In order to comply with current accounting practices, an independent valuation of all property under the administration of Property Holdings has been carried out by external valuers in conjunction with Property Holdings' staff. It is anticipated that the final report will be completed by mid July.

Future valuations will need to be carried out on a rolling basis. The frequency and method of these will be determined in line with GAAP. It is hoped that much of this work can be carried out by our qualified in-house valuers.

7.5 Update on Condition Survey

A condition survey of all States property is being commissioned and is due to commence in September 2007. It is anticipated to take three to four months to complete. Information on building condition is currently of mixed quality and incomplete and a clear picture is needed. The data produced by the condition survey will also be integrated with energy consumption information to allow for environmental performance indicators to be used to assess the property efficiency.

The condition survey data will then be regularly updated and this information will assist in aligning ongoing expenditure on properties to future planned maintenance. It will also be used as part of the asset rent charging structure once in place.

In addition, the condition survey data will help in identifying properties which can be put forward for disposal.

7.6 Update on Composition and Remit of the Property Board

The Property Board was constituted at the Corporate Management Board (CMB) meeting held on 30 May 2007. It comprises the Chief Officers of the four main property using Departments - Health and Social Services, Education, Sport and Culture, Transport and Technical Services and Home Affairs. Meetings will be quarterly and minutes are to be reported to the CMB.

Its primary role is to represent the interests of departments receiving services from Property Holdings, to monitor the services provided and to comment on quality standards. The Board will also advise on the prioritisation of maintenance and other services and funding for capital building projects, in the latter case making recommendations to the CMB.

In the event of any dispute between the Board and Property Holdings the CMB will act as arbiter.

7.7 Update on the Transfer of Remaining Estates

Property Holdings is working closely with the remaining departments to facilitate the transfer of budgets and responsibilities for their respective property portfolios. It is intended that the conditions for transfers will be substantially complete by the end of 2007. Arrangements are in train to transfer resources from the Planning and Environment and Home Affairs Departments to Property Holdings in the second half of 2007.

This will leave only responsibility for the Health and Social Services property portfolio to be transferred. This estate is by far the most complex, both in terms of buildings and organisational arrangements, and requires a phased approach which may not be fully achieved in 2007.

7.8 Budget Position and Savings Targets.

The proposed revenue savings targets are shown in the table below. These targets remain the same as in previous years' plans. The revenue savings identified for 2006 and 2007 have been met and those for 2008 have been included in the Property Holdings budget.

Table 7.3 – Property Holdings Revenue Savings Targets

	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000	2012 £'000
Annual Additional Savings Targets	400	500	600	–	–	–	
Cumulative Impact on 2005 Base Budget	**400**	**900**	**1,500**	**1,500**	**1,500**	**1,500**	**1,500**

In agreeing to the 2006 and 2007 Property Plans the States has approved the sale of certain property (as previously identified) to generate capital receipts which will be offset against expenditure on capital projects.

The value of capital receipts in any one year will not necessarily match the annual allocation targets, which are incorporated in the States financial planning process, with receipts in the first two years expected to be greater than the annual allocation.

It is intended that the net receipts will make allowance for costs involved with the sale of the properties. These will, for example, include agents and valuers fees as well as preparation of properties in order that the best return may be achieved.

Table 7.4 – Targeted Property Net Capital Contributions

	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000	2012 £'000
Annual Net Contributions from Disposals	700	2,300	4,000	4,000	4,000	4,000
Running Total	**700**	**3,000**	**7,000**	**11,000**	**15,000**	**19,000**

This income flow can not be maintained indefinitely and needs to be replaced by recurring savings and these are being identified through an expansion of the procurement efficiency programme and further efficiencies within property revenue expenditure in the longer term, see Section 4.6.

7.9 Asset Rentals and Trading Status

<u>Asset Rentals</u>

The States, in approving the 2007 Property Plan, recognised the intention that Property Holdings will become a States Trading Operation. It remains the aim to convert to a Trading Operation and develop a system of asset rent charges in parallel with the move to GAAP compliant accounting in 2010.

A fundamental weakness of the current property arrangements is the inconsistent way in which occupiers of property are charged, or not, for the use of property assets. Where the charge is less than an equivalent 'market rent' the service is effectively receiving an imputed subsidy. This lack of consistency of approach causes a number of problems:

- there is limited incentive for departments to achieve best value in occupation and use of property, particularly generic office accommodation, as property is seen as a ‘free good’;

- cost comparison benchmarking of services with other providers (public and private sector) and historical data is skewed; and

- the lack of a rental stream that reflects the value of the properties occupied, results in an insufficient budget provision to adequately maintain those properties and no provision to meet the future replacement cost of the asset.

Property Holdings will introduce a charge in the form of an ‘asset rental’, which reflects either the market value of the asset or the cost of its replacement amortised over its useful life. This proposal is entirely consistent with the move to the resource accounting and budgeting principles that underpin GAAP.

In this way, asset rich departments will have the incentive to manage their property assets more efficiently and effectively, as the charge will form a significant proportion of the controllable base budget. It will promote the review of the use of assets as departments attempt to reduce costs to meet efficiency savings targets or employ financial resources to higher priorities.

Trading Status

The asset rental charge will form part of an occupying department’s revenue budget and will be subject to the normal budget review process, with budgets for capital charges adjusted to reflect the rationalisation or disposal of property. The rental income will be credited to Property Holdings.

Initially, there will be no impact on the States ‘bottom-line’ as the additional departmental budget allocations will be offset by a ‘credit’ budget in States of Jersey Property Holdings.

This fundamental change in approach will, however, provide a direct relationship between rental payments and Property Holding’s ‘landlord’ obligations, which has not hitherto existed. This relationship best lends itself to Property Holdings operating as a States Trading Operation, with the ability to use its Trading Fund for investment in States property assets, supported by a relevant business case, which provides a return in a period beyond the current financial year.

The Minister for Treasury and Resources will bring forward, in 2008, detailed proposals for both the creation of an asset rental structure and the formation of Property Holdings as a States Trading Operation from 2009.

7.10 Co-Location of Services

It is essential that, to deliver an efficient and effective service, the various elements of Property Holdings that are currently in four different sites be co-located in a single building. This rationalisation forms part of the developing office strategy and the search for a suitable location is continuing.

7.11 Update on Recent Reviews of Property Holdings

In recent months Property Holdings has undergone two reviews into its operation; the Public Accounts Committee report on the States Property Plan and the Corporate Services Scrutiny Panel Report into the proposed sale of the former JCG site.

Property Holdings is in the process of formalising a robust disposal policy, which addresses the procedures for identifying surplus property, its marketing and subsequent disposal route. The policy will create a framework within which property disposals are conducted whilst recognising that a flexible approach may sometimes be needed for more complex sites.

It is appreciated that the existing provisions of Standing Order 168 will need to be reviewed. It is intended that a structure be created which will allow States Members to debate the more significant and high profile sites for disposal. In addition, a simpler and streamlined approach for the disposal of lower value, less strategic properties will also be investigated. It is intended that the proposed strategy, including the review of Standing Order 168, will be published for consultation later in 2007.

7.12 Office Accommodation Rationalisation

The States currently occupies over 420,000ft^2 of office space over more than 40 locations. These sites range from large, purpose built complexes such as Morier House, to smaller units such as Library Chambers.

It is recognised that there are potential revenue savings to be made by rationalising office accommodation across the States. The aim of this is to free up both leased office space – resulting in revenue savings – and freehold office space – for subsequent disposal.

The process of identifying where such space and revenue savings can be made will begin in the second half of 2007. In order to identify which properties can be freed up, Property Holdings will undertake a review of office space needs which will involve an assessment of the following elements;

- Current portfolio – areas, locations, running costs and environmental factors.
- Departmental space usage – comparisons of space per employee against UK benchmarking.
- Consideration of changes to working practices – hot desking, flexible working hours, home working.
- Co-location of linked departments – it may be possible to locate certain departments within the same complex which could release other sites.

This work will involve a co-ordinated approach with the various Departments involved. Initial assessments of current usage and staffing levels will need to be undertaken by Departments with Property Holdings retaining overall ownership of this project.

It is acknowledged that whilst there is potential for significant savings to be made through rationalisation, it must be recognised that a shift in cultural attitudes towards office working is needed to enable these savings to be made. Consultation with other stakeholder groups, such as Human Resources and Information Services department will also be needed.

7.13 Strategic Property Plan

The Public Accounts Committee's report on the 2007 States' Property Plan recognised...' that the Plan represents no more than a first step towards achievement of the policy objectives set out in P.93/2005...'.

To develop a comprehensive property strategy for the States, the Treasury and Resources Department will bring forward, in early 2008, a fully developed Strategic Property Plan that draws from the work streams described above.

It is intended that the Strategic Property Plan will incorporate an outline based around guidelines issued through the Royal Institution of Chartered Surveyors and the (then) Office of the Deputy Prime Minister (now the Department for Communities and Local Government) for the formulation of Corporate Asset Management Plans.

It is proposed that the Strategic Property Plan includes the following framework.

Corporate Vision and Strategy and its Property Implications

- Identification of the current property portfolio in terms of property type and by Department..
- Alignment of departmental property needs to meet States Strategic aims.

  This will incorporate Departmental Asset Management Plans and Business Plan data.

Structure and Roles and Responsibilities

- The existing structure of Property Holdings as an organisation to meet States Strategic aims.
- The business processes for linking Property Holdings with Departments, the Property Board and States through the preparation of the Departmental Asset Management Plans for inclusion in the Strategic Property Plan.

Inclusion and Engagement

- Identification of key stakeholders in the delivery of property and associated services.
- The Strategic Property Plan will engage with key stakeholders and ensure that their views and experience are used appropriately. This will include users, the public, other associated bodies and service contractors.

Implementation and Review

- Through the Asset Management Process, Departments will contribute to the gathering of important information which will assist in determining property strategy.
- These processes will include the following.
    - Option Appraisal
    - Whole Life Costing
    - Capital Project Prioritisation
    - Procurement
    - Project Management
- This will identify underperforming property assets; those which are surplus to requirements, those which require significant investment and the nature and type of proposed acquisitions.

Performance Management and Data

- The processes will be underpinned by a series of nationally recognised Key Performance Indicators (KPIs) by which property performance can be measured.
- Property will be assessed on KPIs which will evaluate;
    - Property efficiency – such as rental costs, maintenance costs and occupancy rates.
    - Property effectiveness – including workplace productivity, environmental sustainability and operability.

  KPIs will be an essential tool in identifying inefficient or ineffective property. It will be particularly useful in the Office Rationalisation Programme.

Capacity Building

- This section will monitor and support practices aimed at maintaining and improving professional standards within Property Holdings.
- The Department administers States assets which are of significant value. It is essential that the best qualified staff are employed and retained to continue this work.
- The Department currently has professionally recognised staff from a broad spectrum of fields such as,
    - Architectural, Engineering,
    - Mechanical and Electrical Consulting,
    - Quantity and Building Surveying,
    - Finance,
    - Valuation
    - Project Management.

8. LEGISLATION PROGRAMME

Purpose
The setting of the legislation programme is a significant part of the annual consideration of States resources. A programme ensures that demands on the law drafting resource are properly prioritised. It is also an aide to predicting and planning for the impact of future legislation on the financial and manpower resources of the States.

The proposed programme for 2008
The number of drafting days bid for in 2008 exceeded the number of days available and so each bid was assessed and prioritized according to the following criteria -

- Its relevance to the strategic aims and objectives proposed in the States Strategic Plan;
- Whether or not the financial and manpower resources required within the States for its implementation are sustainable within the framework of the States Strategic Plan;
- Its financial impact on the private sector; and
- Its readiness to proceed.

This year, departments have co-operated by agreeing to drop bids which, although allocated time in the 2006 legislation programme, are no longer expected to proceed, and to defer other bids to 2009. In addition, a small number of projects that have been stalled for a significant period of time have been dropped from the list of work in progress. These changes to work in progress and the existing legislation programmes for 2006 and 2007 have been made in order that new bids assessed as having a greater priority can be accommodated in 2008. The proposed bids and changes were subject to initial review by the Corporate Management Board and final review by the Council of Ministers. Stakeholders attended at each review.

A brief description of the proposed programme for 2008 is included as Summary Table L at page 54. A detailed description of the proposed programme, including the financial and manpower assessments and links to the States Strategic Plan, is provided in the accompanying Annex to the draft Annual Business Plan 2008, in pages 182 to 189

The year ahead
It became apparent, in assembling the proposed programme, that there needs to be a greater flexibility in handling the legislation programme for the future. Priorities may change and new, critical issues emerge which cannot await an allocation of drafting time in 2009. Whilst a small reserve of drafting time (50 days) is allocated each year for contingencies, that reserve may be quickly exhausted. Therefore, the programme will be kept under a rolling review by the Council of Ministers with the object that, if necessary, lower priority items which can be deferred are put back to make way for more urgent and higher priority items.

Work completed June 2006 to May 2007
This period has been dominated by implementation of the fiscal strategy and related topics, in particular, the Goods and Services Tax (Jersey) Law, the Income Tax (Amendment No. 26) (Jersey) Law (20% means 20%), the Income Tax (Amendment No. 28) (Jersey) Law (the first phase of 0%/10%) and the Income Support Law. In addition, packages of subordinate legislation have been enacted to implement the following Laws - the Animal Welfare Law, the Planning and Building Law, the Regulation of Investigatory Powers Law and the Waste Management Law.

A list of work completed, a summary of work in progress and lists of items in the 2006 and 2007 legislation programmes (adjusted as described above) on which instructions have not yet been delivered, together with an emerging programme for 2009, containing items which departments have agreed to defer, are provided in the Annex to the draft Annual Business Plan 2008, in pages 190 to 204.