

STATES OF JERSEY

**BUDGET STATEMENT 2011
AND
EXPENDITURE PROPOSALS
FOR 2012 AND 2013**

**MINISTER FOR
TREASURY AND RESOURCES**

PROPOSITION

BUDGET STATEMENT 2011 Including Expenditure Proposals for 2012 and 2013

THE STATES are asked to decide whether they are of opinion –

- a) to agree that total States net expenditure for 2012 and 2013 should not exceed £690,200,000 and £680,300,000 respectively, as set out in Summary Table A on page 50, with these sums including a minimum of £65,000,000 of savings proposals by 2013;
- b) to approve the estimate of total taxation revenue in 2011 of £521,319,000 as set out in Summary Table B on page 75 of the Budget Statement, with the sum to be raised through existing taxation measures and the proposed changes to income tax, goods and services tax, impôts duty, stamp duty and land transactions tax for 2011 as set out in the Budget Statement;
- c) to agree that the sum of £31,000,000 be transferred from the Stabilisation Fund to the Consolidated Fund in 2010, in addition to the amount of £37,000,000 agreed on 19 December 2009 in P179/2009, resulting in a total transfer of £68,000,000;
- d) to agree that the sum of £46,000,000 be transferred from the Stabilisation Fund to the Consolidated Fund in 2011.

MINISTER FOR TREASURY AND RESOURCES

P157/2010

ADDENDUM

Introduction

As a result of the debate on the Draft Budget Statement 2011 which concluded on 10th December 2010, the following amendments were approved:-

Provision for Central Reserves

In order to reduce the provision for Central Reserves in 2012 and 2013, for the figure “£694,200,000” for 2012 substitute the figure “£690,200,000”; for the figure “£688,300,000” for 2013 substitute the figure “£680,300,000”; and in Summary Table A on page 50, for the figure “£13,000,000” substitute the figure “£9,000,000”, and for the figure “£17,000,000” substitute the figure “£9,000,000”.

Raise revenue from certain companies trading in Jersey

To agree that a new mechanism should be put in place to ensure that additional revenue is raised from certain non-locally owned non-finance companies trading in Jersey as is raised from locally owned companies trading in the Island, and to request the Minister for Treasury and Resources to bring forward for approval the necessary legislation to give effect to this decision so that the new system can be fully implemented by 1st January 2012, provided that to do so would not jeopardise the integrity of Jersey’s business tax regime or its international competitive position.

Summary

The agreed Amendments to the Budget 2011 do not affect the estimates for total taxation revenue (£521.3 million), total States income (£565.3 million), estimated deficit (£54.6 million) or the Consolidated Fund Balance (£10.8 million) at the end of 2011.

The amendment to the provision for Central Reserves reduces total States net expenditure by £4 million in 2012 and £8 million in 2013.

Note:

A number of minor textual changes and updating of summary tables have also been made to the document to reflect the above amendments and information from the debate itself.

Contents

	Page
Part A – Introduction and Background	
1. Foreword	6
2. Executive Summary	13
3. Economic Outlook	17
4. Financial Forecast	20
Part B – Comprehensive Spending Review Part 2	
5. Background to the CSR	31
6. CSR Part 2 Process	32
7. CSR Part 2 Proposals 2012-2013	35
8. Capital Programme 2012-2013	40
9. Improved Financial Management	48
10. Summary Table A – States Expenditure 2011 - 2013	50
Part C – Budget Statement 2011	
11. Fiscal Strategy Review	52
12. Income Tax Proposals	59
13. Goods and Services Tax Proposals	64
14. Impôts Duty Proposals	67
15. Stamp Duty Proposals	70
16. Ongoing Reviews	72
17. Financial and Manpower Implications	74
18. Summary Table B – States Income 2011	75
19. Summary Table C – Consolidated Fund 2011	76
Index of Figures	
Figure 3.1 September Business Tendency Survey results	18
Figure 3.2 Forecasts for the Jersey economy	19
Figure 4.1 Income tax forecast	21
Figure 4.2 Revised central financial forecast – before and after CSR, FSR and Budget proposals (As Amended)	23
Figure 4.3 Forecast range of outcomes for the financial position (As Amended)	25
Figure 4.4 Summary of proposed FSR and Budget measures	26
Figure 4.5 Revised central financial forecast including CSR, FSR and Budget Proposals (As Amended)	27

	Page	
Index of Figures (continued)		
Figure 4.6	Forecast for the Consolidated Fund and Stabilisation Fund balances (As Amended)	28
Figure 7.1	Savings proposals by Department	36
Figure 7.2	User Pays proposals by Department	36
Figure 7.3	Growth proposals by Department	37
Figure 7.4	Summary of impact of CSR proposals	38
Figure 7.5	Comparison with 2011 Business Plan (As Amended)	39
Figure 8.1	Previously approved 2011 Capital Programme and “in principle” Capital Programme 2012-2013 (estimated costs)	41
Figure 8.2	Proposed revised Capital Programme 2012-2013 (estimated costs)	42
Figure 8.3	Housing Capital Programme 2011 and Proposed Indicative Programme 2012-2013 (estimated costs)	45
Figure 8.4	2012-2013 Capital Programme funding and net allocation from the Consolidated Fund	46
Figure 8.5	Trading Organisations Indicative Capital Programme	47
Figure 11.1	Impact of 5% GST by income and spending	54
Figure 11.2	The distributional impact of the two FSR measures (graph)	57
Figure 11.3	The distributional impact of the two FSR measures: Single person (table)	58
Figure 11.4	The distributional impact of the two FSR measures: Married couple, 2 children, £300k mortgage (table)	58
Figure 11.5	The distributional impact of the two FSR measures: Pensioner couple (table)	58
Figure 12.1	Exemption thresholds for years of assessment 2010 and 2011	61
Figure 12.2	Impact of increasing exemption limits for some households	61
Figure 12.3	Proposed allowances for years of assessment 2010 and 2011	62
Figure 14.1	Duty increases proposed for 2011	68
Figure 14.2	A comparison of typical 2010 tax and duty levels for a range of commodities	69
Figure 14.3	2010 retail prices excluding tax and duty – comparisons with the UK (June 2010)	69
Figure 15.1	Proposed changes to stamp duty and Land Transactions Tax rates	70

Part A

Introduction and Background

1. Foreword

MINISTER FOR TREASURY AND RESOURCES

This Budget is a pivotal one for the Island as, like many other economies around the world, we have to face up to our fiscal challenges. Before any of the measures proposed in this Budget are considered, the deficit is forecast to be £112 million by 2013. Agreeing the proposals set out in this Budget and those accompanying it in the Comprehensive Spending Review (CSR) Part 2 will mean we put States finances back on a sound footing in the post financial crisis world. In doing so we will lay solid foundations to build on our economic success and enhance the high quality of Island life we all enjoy.

We face these fiscal challenges for two reasons. Firstly, the global recession has undermined our tax revenues, particularly those from the financial services sector, and the latest estimates show a significant decrease in our tax revenues this year as a result. Forecasts show that this deterioration is unlikely to be quickly reversed. Let us be clear that this is not as a result of zero/ten, as compensating revenue raising measures are already in place – 3% GST, efficiency savings, 20 means 20 and economic growth.

Secondly, our fiscal situation has been exacerbated by an inability to control States spending. There has been a tendency for spending to rise year after year relative to previous plans, resulting in a significant increase in recent years.

The Council of Ministers' strategy to respond to this gap between our spending and income is a considered and clear three part plan.

1. **Cutting spending through the CSR:** to maximise spending savings, without inflicting unintended damage on front line services, in order to minimise the need for tax rises.
2. **Economic Growth:** to boost the economy in order to maximise jobs for Islanders and tax revenues.
3. **Raising taxes through the Fiscal Strategy Review (FSR):** to increase taxes only as much as is necessary to fund important investment and in a way which is fair and supportive of economic growth.

1. The Comprehensive Spending Review

The Council of Ministers has taken careful account of States members and Islanders' views and set a new challenging target for a minimum of £65 million savings by 2013. This is a significant saving and we are intent on delivering it without serious detriment to the level and performance of front line services. The highest priority for savings is through efficiency in existing practices and re-organisation of functions where this will reduce costs and improve performance. It is inevitable that some services will be cut

but this will be done in a way that maintains the high standards of our key public services.

We all benefit from the high standards of our schools and health service and they are an important and valuable part of Island life. That is why the Council of Ministers is committed to ensuring that savings are well planned and targeted and have minimal impact on these front line services. We are also phasing them over three years with the larger savings only taking place in the later years, as is the case with the tax rises proposed as part of the FSR.

With over 50% of States spending on salaries and benefits, it would be unrealistic to assume that savings can be achieved without reducing manpower. However, phasing them in with the greater reductions in spending in 2012 and 2013 should allow time for the economy to begin to recover and help prevent a rise in unemployment. In addition, some of the savings in 2012 and 2013 may lead to public sector employment being transferred to the private or third sectors if they take on some aspects of service delivery.

The independent review of States staff terms and conditions identified potential savings, including pensions, of between £32 million and £42 million, but savings of this level could not be achieved in the short term and could be damaging to the economy. The Council of Ministers has proposed £14 million of savings as an achievable target by 2013 and staff and unions will have the opportunity over the next three years to shape which savings options are adopted. We will need to continue to work with staff and unions over the longer term to deliver further savings identified after 2013 and in the body of the report. The consultation that has already taken place with staff representatives will continue.

The objectives of the CSR are also to improve financial management, longer term financial planning and financial reporting. This involves introducing a new culture with greater certainty for departments over a number of years coupled with the flexibility between years to manage within agreed spending limits. Central reserves are being provided to manage forecast variations and unforeseen expenditure so that spending limits can be controlled. Importantly, provision is being made for restructuring costs which will be essential to deliver the savings proposed.

Finally, if we are to bring about fundamental change to the way government works in Jersey, we will need to go beyond 2013, further than the proposals set out in the CSR. The CSR must in time evolve into a strategic change programme that runs beyond the current three year horizon and addresses the fundamental questions of how government should be organised and the activities in which it should and should not be involved. Delivering the CSR in the next three years is going to stretch the public sector to the limit. It will take time to extend it into a strategic change programme and it will require major planning and investment to be successful and feed into future Strategic Plans.

2. Economic growth

A prudent level of economic growth has been assumed even in these difficult times. The CSR and FSR strategies are designed to ensure that Jersey remains competitive and so can continue to grow.

The financial forecasts contained in this report are predicated on a return to economic growth of 1% next year and further moderate growth of about 2% in 2012 and 2013. To factor in any stronger growth given the significant uncertainties around the global and local economies would be unwise.

We will of course be doing everything we can to ensure that we maximise economic growth going forward regardless of the global economic position. I will work with the Economic Development Minister to put in place the right policies to maximise growth. The first step has already been taken by allocating all of the £158 million in the Stabilisation Fund for fiscal stimulus to support local employment and businesses through the worst of the global downturn. This is a significant investment by the States and it will ensure we have a healthier economic base from which to build.

3. Fiscal Strategy Review

Personal tax

Taxation, and personal taxation in particular, are controversial issues and this was apparent in the responses to the FSR consultation paper issued in June. Nearly 1,000 Islanders and many representative organisations contributed to this consultation and their input was much appreciated. Clear themes emerged from the responses that are representative of the different views in the Island. Involve (the independent charity commissioned to write up the responses to the consultation) summarised them as:

“...there seem to be two widely held perspectives; one which emphasises the high cost of living for those on lower incomes and wants to see a more progressive taxation system.....and another perspective of concern that increased taxes on the wealthy will lead to Jersey losing financial services and affluent residents to international competitors...”

This leaves me with a very difficult balancing act. No single measure will achieve the twin objectives of raising money in a fair way, where the better off pay a higher proportion of their income, while also minimising the impact on the economy. To deal with the latter point, the FSR tax increases announced today will be phased in over three years, with greater increases in later years.

An important aspect of fairness is that the better off contribute more. That is why I have asked that the Social Security Minister brings forward proposals to introduce 2% social security contributions above the ceiling for both employers and employees from January 2012. This will make the Social Security Fund more self-sustaining and reduce the need to supplement the fund from general taxation.

The increase in social security contributions will mean that those earning above the ceiling (£44,232 in 2011) pay more. Employers also pay more where they employ people earning above the ceiling. Those on low incomes and earning less than £44,232 will be unaffected by this change.

This proposed change to social security contributions will not take place until January 2012 so that employees and employers have time to prepare for the increase. It also protects against a rise in employment costs – however moderately – until the economy has as much time as possible to recover.

Although the Goods and Services Tax (GST) is controversial there is little doubt that it raises money in an efficient way that does minimal damage to the economy. It is for these reasons that I have proposed an increase in GST from 3% to 5% from 1 June 2011.

The Council of Ministers and I recognise that people are concerned about the impact a rise in GST will have on the less well-off in our Island. That is why I also propose, in the interests of fairness, to compensate those on income support and maintain an adequate GST bonus for those on low incomes but not receiving income support.

An increase in GST is preferred to an increase in domestic property rates because of the complexity of changing rates in Jersey and the potential difficulties in addressing issues of unfairness.

I have paid close attention to the views of businesses and Islanders about the potential impact of a higher rate of tax on the Island. There is a clear difference of views within the population between those that feel a higher rate of tax would be fair and those that think it would seriously damage our economy.

It needs to be recognised that much of our economy is reliant on the relatively low rate of income tax. The finance industry has been built on this low rate, and to change it would create the perception of instability and a high likelihood of a net decrease in revenues over time. It is difficult to provide empirical evidence to support this conclusion. However, understanding that much of the finance industry is highly mobile leads to the conclusion that an increase in our very long standing 20% income tax rate will create an incentive for business and individuals to move elsewhere. This would result in a loss of jobs and a loss of tax revenue, leaving a higher tax burden on the rest of us. This is particularly the case when our closest neighbour and key competitor has a 20% income tax rate. Even the suggestion that we are considering a higher rate of tax has been detrimental to our ability to attract new business. It is for these reasons that I believe we should commit to maintaining the current rate of income tax at 20%, removing the uncertainty around what has been the bedrock of the Jersey economy for so long - our low tax rates and stable personal tax system.

Business Tax

International businesses that use our Island also need to contribute more and, following consultation with industry, I propose to increase the International Services Entity (ISE) fees paid by many international companies (that are eligible) from £100 to £200. Eligible companies can pay the ISE fee to satisfy their obligation to GST.

4. Annual Budget proposals

As well as dealing with the key proposals concerning the FSR, this year's Budget will, as usual, address a number of other taxation issues.

I propose that impôts should rise this year in real terms across the board. This will both recoup some of the revenue lost as a result of the States decision not to increase impôts last year, and will also support the policies of the Minister for Health and Social Services. I have limited the increase in fuel duty, however, as I am mindful that this is less of a discretionary spend for many Islanders than alcohol and tobacco. Higher rates of stamp duty on higher value properties have been considered by the States in recent years and I am proposing that we should increase the stamp duty rates and Land Transaction Tax rates on property values over £1 million with effect from 1 June 2011. I am also proposing that profits arising from the exploitation of land in Jersey and importation of oil are brought into the charge to income tax at 20%. Finally, I am proposing that income tax exemption thresholds increase in line with average earnings growth, which will give most help to those on lower incomes currently paying tax at what I recognise is a difficult time.

Even when these proposals are factored in we should not forget that, relative to most other jurisdictions in the world, we will all still benefit from low rates of taxation – whether that is GST, income tax or social security contributions.

5. Ongoing reviews

I committed in my Budget last year to commission an independent review of the 1(1)(k) regime. I am considering the recommendations from the review and plan to provide initial conclusions in advance of the Budget debate itself.

The Business Tax Review is continuing and a significant amount of work has been carried out. I would like to thank all of those who responded to the consultation paper on such an important issue. Focus is now on the assessment of our zero/ten regime by the European Union's (EU) Code of Conduct Group. At its meeting in November the Code Group concluded that the zero/ten regime as a whole gave rise to harmful effects and recommended that a High Level Working Party considers further the scope of the Code. No changes will be proposed to zero/ten before the High Level Working Party has concluded its review and I will then be in a position to provide a further update in December. We continue to work closely with the UK and other Code Group members and I am confident that Jersey will continue to be in a strong position as a result.

I committed, as part of the Business Tax Review, to investigate whether it is possible to recoup the corporate tax revenue lost from certain non-finance companies with

Jersey based business activities on the introduction of zero/ten, without unintended economic consequences. I am still committed to do this but am awaiting the completion of the Business Tax Review before concluding this matter. I will comment further on this matter in December. **This commitment has been formalised following a successful amendment to the Budget.**

6. Summary

This is a difficult Budget but we are facing tough economic times and action needs to be taken now. I have considered and rejected borrowing or using more of our reserves as a means of delaying the Council of Ministers' three-part plan. However, I believe that this would simply be putting off the inevitable. Neither of these options is sustainable when we face an ongoing imbalance between spending and taxation as they do not address the underlying issues. By 2011 we will already have borrowed significantly from reserves, exhausting the £158 million in the Stabilisation Fund in order to support the economy from the worst of the global recession. However, we cannot delay forever – there is no economic merit in doing so – and we must now face up to the decisions we have to make and take positive action.

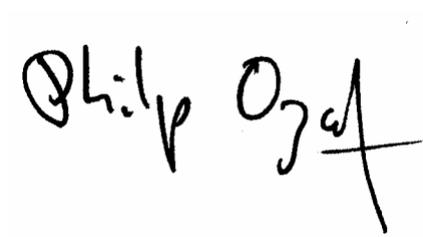
It must be remembered that the figures included in this statement are based on best estimates. The central estimates of tax revenues are within a forecast range, and that range extends to around £35 million above or below the central forecast by 2013. The outturn could therefore be significantly different to the central estimates on which this Budget is based. The Consolidated Fund balance is forecast to be just under £11 million in 2011 and only just in balance in 2013 which shows there is very little room for manoeuvre. If outturn on tax revenues come in the lower range of forecasts, or economic conditions are weaker than expected then we will be required to consider further options to ensure we do not run negative balances on the Consolidated Fund. To commit to borrowing or using the Strategic Reserve at this early stage would remove large parts of the flexibility we may need if we have to deal with either of these eventualities.

The Fiscal Policy Panel has already reminded us that we should be planning to run surpluses again once the economy recovers. To go down either the route of borrowing or using our reserves also puts us in a much weaker position to rebuild the Stabilisation Fund and address any future economic problems.

I urge members to support the 2012 and 2013 expenditure proposals and the 2011 Budget as an integral part of the Council of Ministers' three part plan. In doing so, together we can:

- Deliver the required savings but without inflicting unintended damage on front line services and therefore maintain the high standard of public services we all enjoy.
- Implement tax increases in a fair and progressive manner that will minimise the impact on the economy.
- Provide the stability and certainty that Islanders and our businesses need to continue to deliver future economic success.

- Be confident that we faced up to our responsibilities now and avoided making things harder for us all in the future.
- Put in place a sound, credible and deliverable plan to restore public finances to good health by 2013.

A handwritten signature in black ink, appearing to read "Philip Ozouf". The signature is written in a cursive, somewhat stylized font. The first name "Philip" is written in a larger, more prominent script, and "Ozouf" follows in a similar but slightly smaller script. There is a long horizontal stroke at the end of the signature.

Senator Philip Ozouf
Minister for Treasury and Resources

October 2010

2. Executive Summary

Expenditure Proposals for 2012 and 2013

The Council of Ministers proposed savings of £12 million for 2011 which were agreed by the States as Part 1 of the Comprehensive Spending Review (CSR). The Council is now proposing total spending limits for 2012 and 2013 which increase the level of savings to a minimum of £65 million by 2013.

The bases for determining the expenditure proposals for 2012 and 2013 are as follows:

- The outcomes of the major reviews for Education, Sport and Culture, Home Affairs and Court and Case Costs and initial outcomes for Employee Terms and Conditions provide a significant part of the detailed proposals.
- Targets have been set for the major reviews of Health and Social Services and Social Security and these will be completed in 2011, in order to inform the 2012 Business Plan.
- Proposals for savings from departments, including user pays charges, amount to just under £46 million, with an initial £14 million targeted from options for employee terms and conditions and a further £6 million from corporate procurement.
- Central provisions are also provided for unforeseen items and to provide some flexibility to manage within the overall spending limits. These will only be used as a last resort and the target will be to underspend against each year's total spending limits.
- Further central provisions are set aside for the restructuring of services which will be essential to facilitate the level of savings proposed.
- Proposals for the Capital Programme for 2012 and 2013 have also been agreed within the spending limits and substantial progress on an indicative programme through to 2017 has also been made.

Ministers have committed to these proposals and for the outcomes of the major reviews and indicative savings proposals for all departments to be published for information.

Further improvements to financial management, financial reporting and longer term financial planning are also being developed and will be delivered during 2011 as part of the implementation of the wider CSR process.

Budget Statement 2011

The 2011 Budget includes the proposed FSR measures that are required (in addition to the significant savings outlined above) to take the first step towards balancing the Island's finances. There are also a number of smaller measures that form part of the normal annual Budget process.

The key features of the 2011 Budget are as follows:

FSR proposals

The FSR measures proposed in this Budget are a critical part of the Council of Ministers' three part plan to address the forecast deficits. The tax increases are those which are necessary after the £65 million savings have been delivered through the CSR to bring the Budget back to balance in 2013 and provide the funding for key public services.

There are two key elements to the FSR:

- The introduction of 2% social security contributions above the ceiling for employees and employers from January 2012; and
- Raising GST from 3 to 5% with compensation for those on low incomes from 1 June 2011.

These two changes achieve the twin aims of delivering a package which is fair – where those on higher incomes pay more in cash terms and as a proportion of their income – and which minimises any impact on our competitiveness and wider economy.

International businesses must also contribute to the package. Therefore, the Treasury Minister is proposing to increase the basic International Services Entities (ISE) fee from £100 to £200. This will raise approximately £3 million in additional revenues.

Other Budget measures

Income Tax proposals

- Increase income tax exemption limits by 1.1% in line with the increase in average earnings for 2010.
- Bring profits arising from the exploitation of land and importation of oil and related products in to the charge to income tax.
- Introduce changes to the Income Tax (Jersey) Law 1961 which will help the department to carry out enhanced compliance checks and increase the collection of tax that is properly due.
- Introduce a £250 late filing fee for company tax returns which is the same as for personal tax returns.
- Introduce changes in some tax calculations to make it easier for Jersey resident shareholders of companies to complete their tax returns.
- Introduce amendments to provide greater clarity in the current pensions tax legislation.

Goods and Services Tax proposals

- Introduce amendments to provide greater clarity in provisions which apply to GST registered businesses.
- Introduce amendments to the late return penalty, £50, and late payment surcharge, 2.5%.

- Increase the value of a gift from £10 to £100 before it is treated as a supply for GST purposes.
- Introduce various other changes to provide greater flexibility for the business community.

Impôts Duty proposals

The Minister’s impôts duty proposals are to increase the duty on alcohol, fuel and tobacco by 6.2%, 4.9% and 11.1% respectively. This represents:

- 58 pence on a litre of spirits
- 7 pence on a bottle of wine
- 2 pence on a pint of ordinary beer
- 35 pence on a packet of 20 cigarettes
- 2 pence on a litre of unleaded petrol

The proposed increases support the Health Minister in responding to health concerns relating to alcohol and tobacco, and are consistent with new strategies that are being developed including a policy which in time would bring duty and tax on alcohol and tobacco in line with UK levels.

The Health and Social Services department supports the proposals which are in line with the current States alcohol and tobacco strategies.

Stamp Duty and Land Transactions Tax proposals

The Minister proposes to introduce further bands of stamp duty for higher value properties worth over £1 million as follows:

Property value (£)	Current	Proposed
1,000,001 - 1,500,000	3%	3.5%
1,500,001 - 2,000,000	3%	4%
>2,000,001	3%	5%

This also applies to Land Transactions Tax so that purchases of share transfer property are treated similarly to freehold property transactions. The changes will be introduced from 1 June 2011.

Financial forecasts

The financial forecasts have been revised for the 2011 Budget Statement and to inform part 2 of the CSR process.

The latest forecast shows that:

- £23 million of additional expenditure has been approved by the States Assembly for 2010, made up of £8 million of carry forward approval and additional expenditure approved in P64/2010 of £15 million.

- Central provisions to cover similar restructuring costs and other contingencies are included in the forecasts for 2011, 2012 and 2013 of £15 million, £19 million and £19 million respectively (as amended).
- Income tax receipts have deteriorated by £12 million from the Business Plan for 2010 and by lesser amounts in future years, mainly due to larger than expected falls in financial services profits.
- There remains a significant range of possible outcomes within the income forecasts, increasing from +/- £15 million in 2011 to +/- £35 million by 2013.
- Forecast deficits have increased to £112 million by 2013 before any CSR or FSR remedial action.
- The Capital Programme continues to receive annual funding of less than £20 million per year up to 2013.
- Increased savings proposals and the proposed Budget measures would achieve balanced budgets by 2013.
- The balance of the Consolidated Fund is forecast at only £11 million for 2011.
- The Stabilisation Fund will be exhausted by 2011, representing a £158 million investment in the economy by the States.

3. Economic Outlook

The world economy is only just emerging from the worst economic downturn since the 1930s. The latest forecasts from the International Monetary Fund (IMF) are that the world economy will grow by 4.8% in 2010 and 4.2% in 2011 although the IMF points out that recovery is likely to be “slow and sluggish”¹.

Central banks and governments across the world have so far prevented a replay of the 1930s Great Depression through the massive policy response they put in place. The larger economies have returned to growth this year but recovery remains fragile, not least because once the policy stimulus is withdrawn it is unclear how strong the underlying economies will be. A ‘double dip’ global recession is still a risk although it is not a central scenario for most economic forecasters.

Although the decline in global activity may have abated, the fallout remains. That is, the significant deterioration in government finances, the sharp rise in public debt and widespread unemployment in the leading economies across the globe.

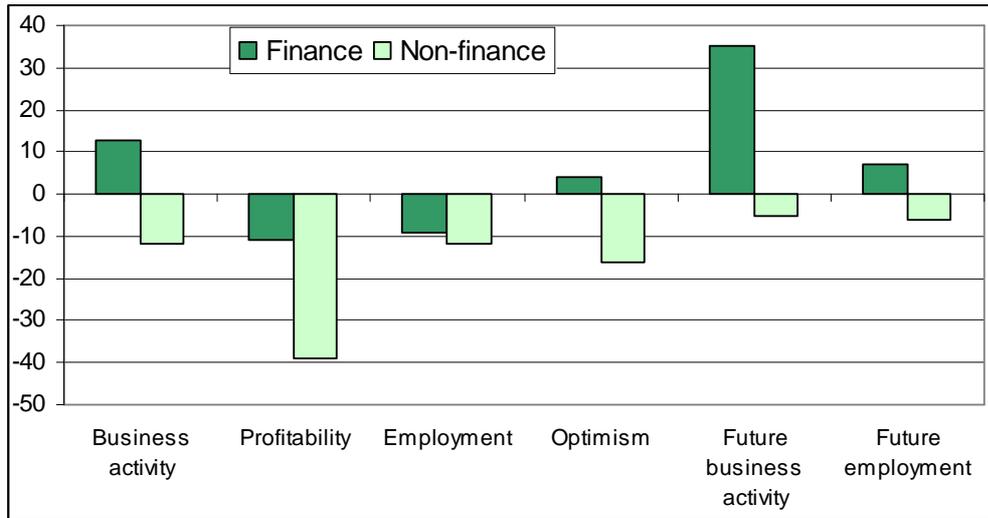
From a Jersey perspective it would be imprudent to rely on a quick global rebound to repair the damage. We must plan for the fallout of what is now being called the ‘great recession’ to be long lasting.

There is little doubt now that the local economy has been significantly affected by the global economic environment. The profitability of our financial services sector fell by almost half in 2009 although, excluding any large one-off fluctuations, the fall was lower, but still substantial, at 25%. This has been driven by the impact of low interest rates on banking profitability. Not surprisingly, employment in the finance sector fell by over 500 last year and a further 110 in the first six months of this year. These reductions in employment have been predominantly full-time jobs and concentrated in the banking sector where employment is the lowest it has been since June 2006. The September Business Tendency Survey (Figure 3.1) shows there is scope for cautious optimism with finance firms reporting a further rise in business activity and they are more optimistic about future business. However, profitability still remains under significant pressure.

¹ IMF World Economic Outlook October 2010

Figure 3.1: September Business Tendency Survey results

Relative position of key business indicators (% balance*)



*% balance = % of firms reporting increase less % reporting decrease

Source: States of Jersey Statistics Unit

The impact of the downturn has been felt more widely than in the financial services sector. Unemployment reached nearly 1,300 in August, 380 higher than a year ago. Younger people have been affected more, with more than a quarter of those actively seeking work being teenagers aged between 16 and 19.

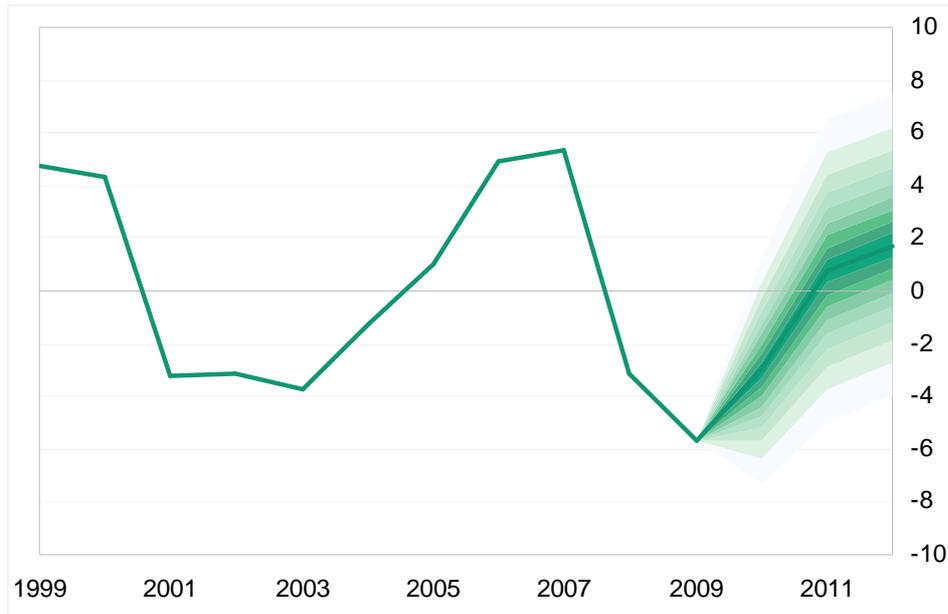
Gross Value Added (GVA) fell by 6% in 2009, with the financial services sector recording the largest real-term fall at 12%. The only sectors to report positive growth in 2009 were agriculture and transport and communications.

Overall retail sales volumes have begun to stabilise after significant falls since 2008. However, non-food volumes are still well below their level in 2008 and fell in the second quarter of 2010. The September Business Tendency Survey shows that in the non-finance sector as a whole business activity is still falling, profitability remains under pressure, employment is being reduced and firms are still not optimistic about future business.

Under such circumstances it was right that the States agreed – on the advice of the Fiscal Policy Panel (FPP) – to use the Stabilisation Fund to support local employment and businesses. This has allowed the deficits forecast for 2010 and 2011 to be financed without recourse to significant fiscal tightening. In addition, it enabled £44 million of discretionary fiscal stimulus to be applied in a timely, targeted and temporary manner and invested in projects that had intrinsic value and which were required anyway. This has provided vital support for businesses and jobs at a time when it is most needed.

The most recent forecasts for the Jersey economy (Figure 3.2) point to a further decline in GVA this year. Next year should see a weak recovery with growth of about 1% predicted, and further moderate growth in 2012 of 2%. The FPP will publish their latest assessment of economic conditions and the outlook for States finances in November and members will have their latest advice ahead of the Budget debate.

Figure 3.2: Forecasts for the Jersey economy
% change in GVA



Source: States of Jersey, Economics Unit

4. Financial Forecast

Background

The financial forecast has been produced twice this year, in March to inform the preparation of the draft 2011 Business Plan, and then in October to inform the draft 2011 Budget and CSR Part 2 proposals.

The latest forecast incorporates States expenditure approvals agreed in the recent Business Plan and an updated estimate of all States income and expenditure. The economic assumptions on which the future forecasts are based have also been revised.

Analysis of the Forecast (October 2010)

Expenditure approvals

Since the Budget 2010, £23 million of additional expenditure was approved by the Assembly in 2010, by means of a carry forward approval for £7.6 million and P64/2010, an approval under Article 11(8) of the Public Finance (Jersey) Law 2005 for £15 million. That additional expenditure was £8.5 million for court and case costs, £6 million for a voluntary redundancy scheme and £0.5 million for initial funding of procurement savings initiatives.

The expenditure allocations for 2011 were approved by the States in the 2011 Business Plan with only two amendments, one amendment being balanced by a reduction in the Central Reserves fund and the other amounting to a minor reduction in the overall spending envelope of £6,632.

Part 2 of the CSR process is now largely complete and the outcomes and proposed expenditure allocations for 2012 and 2013 are detailed in Part B of this report. In summary the proposals are to increase the level of savings in net revenue expenditure to £65 million by 2013, which represents a further £15 million of savings than agreed in the 2011 Business Plan.

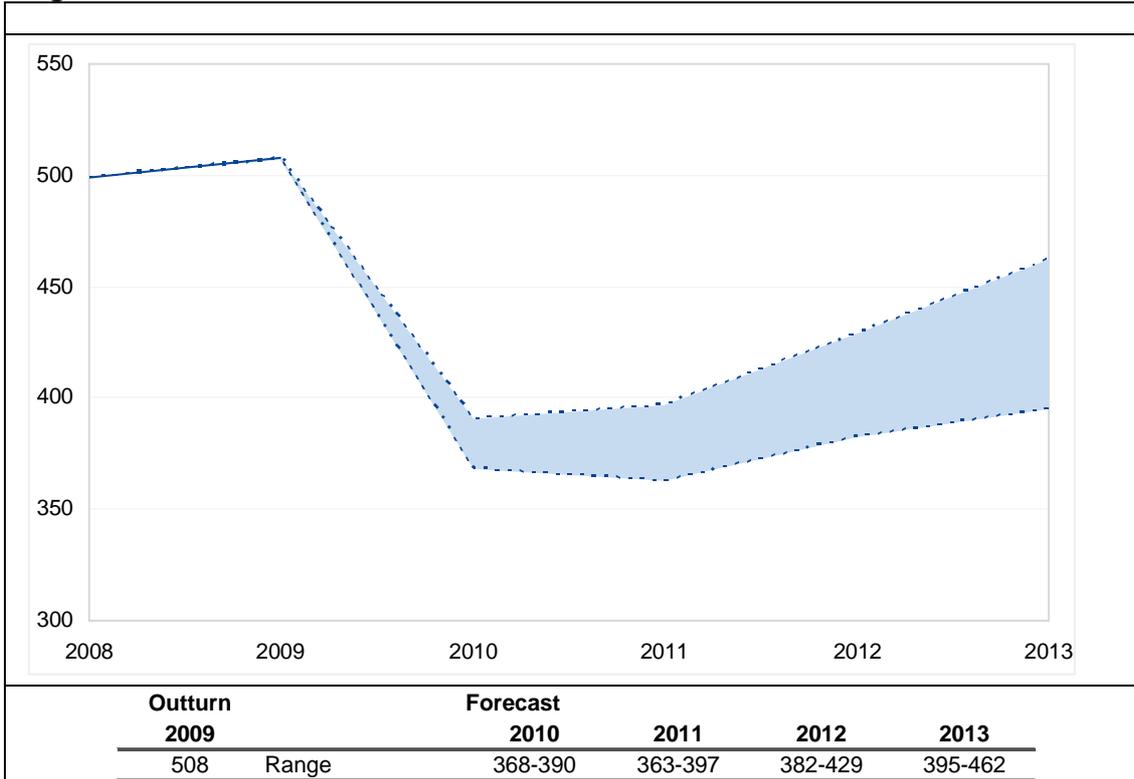
The revised forecasts for States income have identified a number of variations which are summarised as follows.

Income Tax

The income tax assessments for the current year are substantially complete and show that the expected receipts for 2010, based on the year of assessment 2009 are £12 million lower than previously forecast. The main driver of the reduction is a larger than expected fall in financial services profits and its impact on tax revenues.

In September and October 2010 the Tax Forecasting Group (TFG) met to discuss the latest income tax forecast. The forecast agreed by the Group is set out in Figure 4.1 below.

Figure 4.1: Income tax forecast



The TFG set out the following reasons as to why there is a range of uncertainty increasing to about 8% on either side in the forecast by 2013:

- The forecast for 2010 is still subject to a high degree of uncertainty due to the number of assessments not yet complete and the difficulty of predicting how much tax will be paid by new taxpayers.
- The forecast for the whole period is based on the latest estimated assessments. Assessments that are too high are generally appealed by taxpayers early in the year, whereas assessments that are too low are not. In these cases there may be unexpected and sometimes significant payments of tax late in the year.
- The global recession and the fact that we are currently in a year of transition in our tax regime makes forecasting particularly uncertain.

The main reasons for the variation between the current forecast and the forecast included in the Business Plan 2011 are new data on income tax assessments relating to year of assessment 2009 and more recent data and assumptions on economic variables such as economic growth and interest rates.

Goods and Services Tax (GST)

The first full year of data from the GST system showed a slightly lower than predicted return in 2009 which has been reflected in future years.

The expectation is that the effect on GST revenues of the economic downturn remains limited on what is essentially a consumption tax. This is also the trend seen in the UK in respect of VAT receipts in previous downturns.

Impôts duties

As with GST the importation and consumption of commodities subject to impôts duties do not seem to have been materially affected by the downturn. The forecast for 2010 remains in line with the returns expected in March.

The long-term trend of revenue goods put to duty is declining which reflects the balance between the objectives of the twin health strategies to reduce consumption and that of raising additional revenue from increasing impôts duties. Consequently, annual increases in duty, at least in line with inflation, are fundamental to maintain the current level of revenues in the future. The forecast numbers for 2011 do not include any proposed increases in rates as these have been reflected in the “routine Budget proposals” line in Figure 4.2. These Budget proposals are summarised in Figure 4.4.

Stamp duty

So far in 2010, the housing market has seen a reduction in property prices from the 2009 position. The most recent figures indicate that in the first six months of the year, turnover of properties sold is about the same as that seen for the first half of 2009 but is significantly lower than that of previous years. It is expected that the levels of property turnover we are seeing now will continue in 2011 but a gradual recovery is predicted in future years.

2010 saw the introduction of a Land Transactions Tax (LTT), for which a cautious yield of £1 million was estimated. The actual return to date from this tax suggests the estimate was appropriate; a small projected increase for the year is included in the financial forecast.

Other income

There are two main variations in the forecasts of other income. Firstly, the current and forecast revenue from EU Savings Directive (EUSD) Retention Tax has decreased significantly. The previous forecasts had assumed a diminishing return as the level of retention tax increased, but now we believe there will be a more significant loss of revenue in the next couple of years as a result of further changes to the retention tax rate, eventual move to automatic exchange of information and lower investment returns on these funds.

The other main variation in the forecasts is in respect of investment income from cash balances. This is the return from the investment of the States “current account”, the Consolidated Fund, and also funds from the Currency and Coinage account. With interest rates at an all time low the investment income forecast has reduced. The size of the Consolidated Fund to invest has also reduced.

In addition, changes have been made to the way various funds are managed. A Consolidated Income Fund (CIF) was launched to provide a simple and cost-effective way of pooling funds for investment purposes.

Overall financial position

The revised financial forecast at Figure 4.2 showing the overall position for the States of Jersey continues to predict substantial deficits in each of the three forecast years.

**Figure 4.2: Revised central financial forecast (As Amended)
– before and after CSR, FSR and Budget proposals**

Probable 2010 £m		Forecasts		
		2011 £m	2012 £m	2013 £m
	States Income			
379	Income Tax	380	405	430
47	Goods and Services Tax	48	49	50
50	Impôts Duty	51	51	51
20	Stamp Duty	20	22	25
23	Other Income	30	23	21
11	Island Rate	11	11	11
530	States Income	540	561	588
2	Increase in CIF asset value	2	3	3
532	States Income plus increase in CIF value	542	564	591
	States Expenditure			
586	2011 Business Plan - pre CSR	613	637	660
23	Additional Central Provision	9	9	9
	Additional Restructuring Provision	6	10	10
(8)	Projected underspend	(10)	(3)	(3)
32	Net Capital Expenditure Allocation	13	14	19
633	Total States Net Expenditure	631	667	695
(101)	Forecast Surplus/(Deficit) for the year	(89)	(103)	(104)
	Less: CSR Part 1 Savings	12	25	50
	Less: CSR Part 2 Savings		10	15
	Less: Target for Fiscal Strategy Review	18	46	47
	Less: Target for routine Budget proposals	4	8	8
(101)	Forecast Surplus/(Deficit) for the year	(55)	(14)	16

Assumptions:

There are a number of assumptions behind the central financial forecast in Figure 4.2.

Income Tax

- The base income tax forecasts are drawn from the 2010 tax assessments for earnings and profits in 2009 and the current economic assumptions for GVA and other factors.
- The Tax Forecasting Group (TFG) has agreed forecasts using the income tax forecast model to apply the range of economic assumptions to the current data from the different income tax schedules to estimate a range of impact of the economic downturn and future tax revenues.
- The range of the income tax forecast can be seen in Figure 4.1
- As this is the first year of impact of the change to the zero/ten corporate structure and new personal tax anti-avoidance provisions, there is additional uncertainty, making forecasting particularly difficult.

Goods and Services Tax

- 2009 was the first full year of revenues and showed a slightly lower return (by £3 million) than expected which has been reflected in the future forecast.
- The future forecasts assume there will be little or no impact of the downturn and this is supported by the UK experience of stable VAT receipts during past economic downturns.

Impôts Duty

- The forecast assumes that the predicted trends in consumption are maintained, which include a drop off for some goods and that the current policy of increasing duties at rates at or above the Island RPI is maintained.
- There is an economic assumption that Impôts duties do not fluctuate significantly with the economic cycle.

Stamp Duty

- The forecast assumes that the activity seen in 2010 will continue in 2011.
- The assumption regarding house prices has been amended to reflect fall-off in price in 2010 followed by zero growth in 2011.
- The estimated impact of the new Land Transactions Tax continues to assume that £1 million per year will be collected.

Other Income

- The impact of much lower interest rates and the reduction in cash balances arising from future deficits has had a significant impact on these income forecasts. The assumptions from States advisors are for a slow recovery in investment returns.
- In addition, future returns from EUSD Retention Tax are expected to fall with the anticipated change in the retention tax rate and eventual move to automatic exchange of information.

Increase in CIF asset value

- In 2010 a Common Investment Fund (CIF) was launched to provide a simple cost-effective way of pooling funds for investment purposes.
- Income previously recognised as investment income of the Consolidated Fund is now recognised as an increase in the CIF asset value and as an increased value of the Consolidated Fund forecast.

Island Rate

- The Island Rate will increase annually according to the Island RPI (March) as prescribed in the Rates Law and the proposed rate is reported annually to the States by the Comité des Connétables.
- The economic downturn should not affect Island Rates.

Total States Net Expenditure

- The forecast for total States net expenditure reflects proposals in the Business Plan including amendments agreed during the debate but excludes depreciation which is a non-cash item.
- The forecast assumes that the total spending envelope for 2011, agreed in the Business Plan, and 2012/13 as set out in this Statement, are achieved and that further potential underspends against these targets must also be delivered.
- Following the Budget debate, the central provision in 2012 and 2013 has been reduced to £9m per annum in accordance with Amendment 8

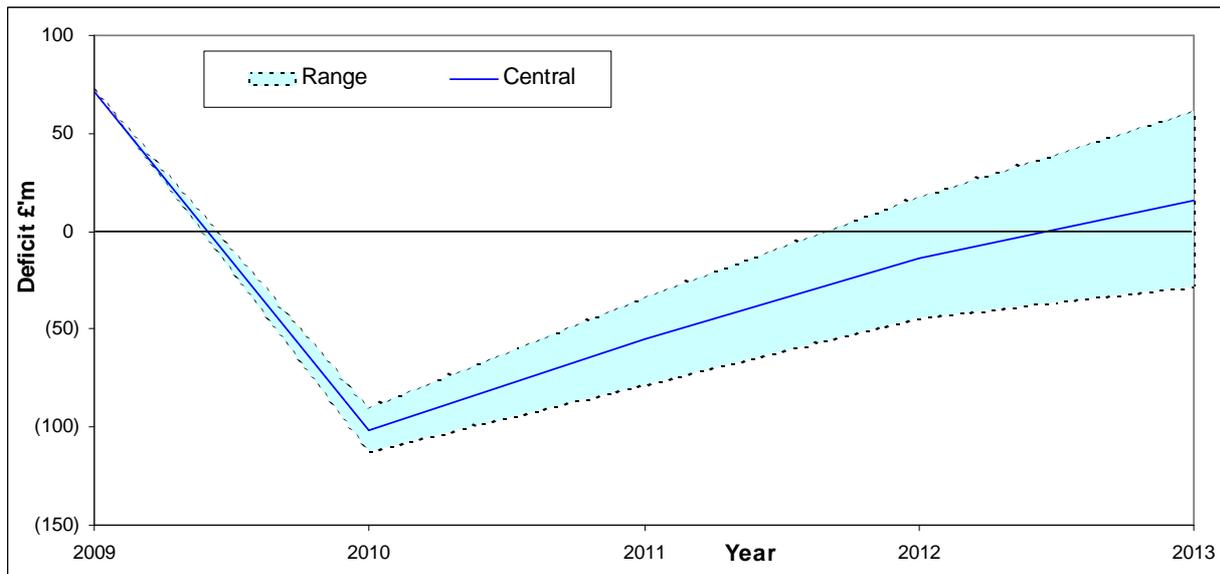
The figures represent the central range within the forecast and should be thought of as indicative. The forecast is only as accurate as the assumptions on which they are based. The range of deficits resulting from the economic assumptions reflect the uncertainty that currently exists.

This position clearly demonstrates the need for not only normal annual Budget measures but also other ways of “balancing the books”. The Comprehensive Spending Review proposals and the Fiscal Strategy Review proposals are designed to meet this requirement.

However, there are still high levels of uncertainty in the forecasts and the achievement of the forecast financial position relies on States spending not increasing above the levels agreed by the States, a position which has not previously been adhered to, and that expected levels of income are achieved.

Certain items in the Financial Forecast can realistically only be estimated within ranges which reflect the possible outcome of various economic assumptions. However, in order for the States of Jersey to set a Budget, a figure from within the central range of forecasts is used for each of these items. Examples of these items include income tax, investment income and income support expenditure. The graph at Figure 4.3 illustrates the potential range of outcomes over the forecast period.

Figure 4.3: Forecast range of outcomes for the financial position (As Amended)



Proposals to address the deficit

The Minister for Treasury and Resources has committed to bring forward proposals to address the projected deficits and to return to balanced budgets by 2013. The three part plan comprises; firstly the £65 million target for expenditure savings from CSR Parts 1 and 2; secondly, proposals from the FSR and other routine budget measures; and thirdly, the gradual introduction of the FSR and budget measures over the next three years to allow for any improvements targeted in economic growth or other forecast variations to arrive at balanced budgets by 2013.

A breakdown of the various FSR and other Budget elements is shown in Figure 4.4.

Figure 4.4: Summary of proposed FSR and Budget measures

	2011 £m	2012 £m	2013 £m
Fiscal Strategy Review (FSR) measures:			
Income			
2% increase in GST to 5% from 1 June	16	29	30
ISE fee increase	3	3	3
Expenditure			
GST compensation (i.e. income support)	1	2	2
2.0% employee soc sec above ceiling Jan 2012		-8	-8
2.0% employers soc sec above ceiling Jan 2012		-8	-8
Total FSR measures	18	46	47
Other routine budget measures:			
Income			
Impôts duty	3	3	3
Stamp duty	1	2	2
Other measures		3	3
Total other routine budget measures	4	8	8
Total FSR and Budget measures	22	54	55

The FSR proposals result in an increase in income by means of:

- a 2% increase in GST from 1 June 2011 raising around £30 million per year; and
- an increase in the level of contribution from International Services Entities fees by £3 million.

The FSR also proposes that a 2% increase in the social security contribution from employees and employers, above the existing ceiling, will result in a reduced contribution to supplementation required out of the States Consolidated Fund by approximately £16 million; shown in Figure 4.4 as a reduction in expenditure.

In addition to this, the FSR proposal to increase the rate of GST would be complimented by an appropriate increase in the level of income support, shown as additional expenditure.

The other Budget measures proposed include:

- an above RPI increase in Impôts duties, compensating for the amendment to the 2010 Budget which resulted in no increase to duties during 2010;

- a change to the structure of stamp duty rates for properties over £1 million; and
- a number of minor income tax changes affecting the 2011 year of assessment which will result in a small increase in income 2012

More information on all of these proposals can be found in the relevant sections of the Budget Statement, Part C of this report.

If these proposals are approved, a revised financial forecast would result as shown in Figure 4.5.

**Figure 4.5: Revised central financial forecast (As Amended)
Including CSR, FSR and Budget proposals**

Probable 2010 £m		Forecasts		
		2011 £m	2012 £m	2013 £m
	States Income			
379	Income Tax	380	408	433
47	Goods and Services Tax	67	81	83
50	Impôts Duty	54	54	54
20	Stamp Duty	21	24	27
23	Other Income	30	23	21
11	Island Rate	11	11	11
530	States Income	563	601	629
2	Increase in CIF asset value	2	3	3
532	States Income plus increase in CIF value	565	604	632
	States Expenditure			
586	Net Revenue Expenditure proposals	592	585	578
23	Additional Central Provision	9	9	9
	Additional Restructuring Provision	6	10	10
(8)	Projected underspend			
32	Net Capital Expenditure Allocation	13	14	19
633	Total States Net Expenditure	620	618	616
(101)	Forecast Surplus/(Deficit) for the year	(55)	(14)	16

Stabilisation Fund

In 2009 the States agreed to apply £44 million of the Stabilisation Fund to a discretionary fiscal stimulus package with the balance of the Fund to be applied to enable public services to be maintained as States revenues reduced during the downturn and additional expenditure on benefits was required. According to the latest forecast (Figure 4.6) £68 million will be required in 2010 with a further transfer of £46 million required in 2011, after which the Stabilisation Fund will be exhausted.

Consolidated Fund

With projected deficits at a substantial level for both 2010 and 2011, the Consolidated Fund continues to require transfers from the Stabilisation Fund in order to ensure it is not overdrawn and to maintain a minimum balance to provide for unforeseen items and manage variations in States revenue forecasts, as recommended by the FPP.

At the end of 2010 there will be an estimated balance of £20 million (Figure 4.6). After the Stabilisation Fund is exhausted in 2011 only a small balance, estimated at £11 million will remain in the Consolidated Fund against a predicted deficit in 2012 of £14 million.

Figure 4.6: (As Amended)
Forecast for the Consolidated Fund and Stabilisation Fund balances

Probable 2010 £m	Consolidated Fund	Forecasts		
		2011 £m	2012 £m	2013 £m
53	Opening Balance	20	11	(3)
(101)	Forecast Surplus/Deficit for the year	(55)	(14)	16
68	Transfer from the Stabilisation Fund	46		
	Estimated Consolidated Fund Balance			
20	Central scenario	11	(3)	13

Probable 2010 £m	Stabilisation Fund	Forecasts		
		2011 £m	2012 £m	2013 £m
114	Opening Balance	46	0	0
(68)	Transfer to Consolidated Fund	(46)		
	Estimated Consolidated Fund Balance			
46	Central scenario	0	0	0

The Public Finances (Jersey) Law 2005 does not allow a budget to be set projecting the Consolidated Fund as overdrawn for the relevant year so any amendments would require an alternative funding option. There is therefore little room for manoeuvre.

The forecast balance for 2012 shows a small negative balance. This, combined with the need to return to surplus once the economy has recovered, means that the outturn

will need to be closely monitored and further options may need to be considered to deal with this.

In future years the phasing in of tax proposals and other measures in the annual budget will need to ensure the Consolidated Fund remains in balance as required by the Public Finance Law.

Part B

Comprehensive Spending Review Part 2

Expenditure Proposals for 2012 and 2013

5. Background to the CSR

The Comprehensive Spending Review (CSR) is part of the three part plan to address the structural deficit, along with encouraging economic growth and the Fiscal Strategy Review.

The 2011 Business Plan report identifies in detail the various components and principles of the CSR. In summary the objectives of the review have been to:

- control States spending by setting tough but achievable savings targets and realistic growth proposals;
- improve financial management across the States by ensuring incentives are built in to the budgeting system to encourage improved decision making;
- extend the States planning horizon so that clear three-year plans are made and adhered to;
- bring greater transparency to financial planning and provide more complete cost information for decision making; and
- deliver better value for money and good management of assets and investments.

The process began in January and has developed in two parts.

Firstly, a minimum of £10 million of savings or user pays proposals were identified to be delivered in 2011. These proposals were worked up by departments, considered by Ministers and proposed in the 2011 Business Plan. The debate in September discussed the proposals and although there were significant amendments the States still approved £12 million of savings and user pays measures for departments.

Secondly, a more detailed and extensive review was carried out by all departments of how to deliver a minimum of £50 million savings by 2013. This Part 2 process also involved detailed external reviews of the major spending departments as well as Court and Case Costs and Terms and Conditions. The extent of the appropriate level of savings was discussed as part of the 2011 Business Plan debate and the Chief Minister committed during that debate to explore a higher level of savings and bring forward proposals alongside the Budget. The CSR Part 2 process and outcomes are detailed in Sections 6 and 7 respectively.

A parallel process to develop a prioritised capital programme within an agreed spending envelope, initially focussing on 2011 and then developing proposals for 2012 and 2013, is outlined at Section 8.

The CSR is about controlling public spending but it is also about introducing a culture and framework of longer-term financial planning and improved financial management and reporting. The principles of this aspect of the CSR were explained in some detail in the 2011 Business Plan and are summarised further in Section 9, together with initial proposals for improved financial management and reporting from the Treasury.

6. CSR Part 2 Process

The CSR Part 2 process began in February when all departments were asked to begin work to identify the options for a minimum of £50 million savings by 2013.

Initially, the focus was to identify options which could deliver savings by 2011 and be considered for the 2011 Business Plan. For many departments this early work identified opportunities for savings that could be delivered in later years and these options have been explored and worked up further for the Part 2 proposals.

For the reviews of major departments, governance structures were put in place involving the appointment of external consultants and independent on-Island reviewers. Political project boards and independent steering groups have been established and the latter included independent chief officers, with the ability to draw on external specialists if required.

For capital prioritisation, a series of officer and political workshops have considered the proposals for 2012 to 2017. This process considered all the schemes submitted by departments for inclusion in the programme and the outcomes of the process are detailed in Section 7.

Major Reviews

Governance Structure

An independent Steering Group was set up for each major review and included:

- An independent reviewer who also chaired the group. On two Steering Groups (Health and Social Services and Home Affairs), there was a further independent reviewer;
- The departmental Chief Officer;
- An independent Chief Officer; and
- One of the Chief Executive, the Deputy Chief Executive or the Interim Treasurer.

The groups met regularly under defined terms of reference and appointed external consultants as required. Internal resource was also available both from within the individual departments and also from the central CSR team. The terms of reference for each of the reviews were agreed by the Project Board comprising the Chief Minister, the Treasury and Resources Minister and the relevant Minister dependent on the nature of the review. For the Terms and Conditions Review, the States Employment Board acted as the Project Board.

Independent Reviewers

The Council of Ministers has been fortunate to appoint seven independent reviewers to contribute to the CSR process and their input has been invaluable. The independent reviewers have not only chaired their respective major review groups but also met regularly as a group to share and discuss findings and experience.

Review	Independent Reviewer(s)
Health and Social Services	John Mills (Chair) and Paul Marett
Education, Sport and Culture	Stephen Regal (Chair)
Home Affairs	Chris Ambler and Tom Binet (Joint Chairs)
Social Security	Review yet to commence
Court and Case Costs/Criminal Justice System	Philip Taylor (Chair)
Terms and Conditions	Tony O'Neill (Chair)
Independent Reviewers Group	Philip Taylor (Chair)

External Consultants

The major reviews for Home Affairs, Court and Case Costs and Terms and Conditions have involved external consultants working with the departments concerned. The Education, Sport and Culture department has conducted a wide range of individual reviews on most aspects of its services and employed external advice as appropriate. An external peer review was then conducted to consider and challenge the proposals from the individual education reviews.

The major reviews for Health and Social Services and Social Security are due to commence shortly. For Health and Social Services the outcomes of the department's initial work has been reviewed by the independent Steering Group. The Steering Group has recommended a number of proposals to be pursued for 2012 and 2013 but has also recommended that a major strategic review is required. Expressions of interest from external consultants are currently being considered and the intention is that this review will be completed, including consultation, in the summer 2011.

Targets have been proposed for savings from the Social Security department but the intention is that the detail of the savings options will await the outcomes of the income support review. This started in late summer and will continue into spring 2011, reporting in time for the 2012 Business Plan.

Peer Reviews

The outcomes of the work by departments and the various external consultants have been considered by the relevant Ministers and by the independent Steering Groups. The independent Steering Groups have prepared reports with recommendations to inform and assist the work of the Council of Ministers. These reports have also been made available to States members.

For the non-ministerial departments, a series of 'Star Chamber' meetings have been held to consider the departments' proposals. These meetings have either involved the

Chief Minister or Minister for Treasury and Resources, an independent States member, the Chair of Independent Reviewers and a representative of the CSR central team.

Council of Ministers workshops

Ministerial Peer Review

The Council of Ministers has held a number of workshops during the Part 2 process. The initial workshops in late September involved a political peer review - of both the Steering Groups' recommendations and all other departments' savings proposals - by other Ministers enabling them to challenge and question the department Minister and the Chair of the independent Steering Group. This challenge process was supported by Assistant Ministers, the relevant department Chief Officers and the central CSR team.

Revised Targets

The Council of Ministers has also considered the balance between savings, FSR proposals and more routine budget measures required to address the deficits. The Council's deliberations have been informed by the revised financial forecast and the view from the 2011 Business Plan debate that a majority of States members would prefer targets of more than the initial £50 million from savings.

As a basis for the workshops, Ministers agreed to target a minimum of £65 million from the proposed savings, which after the proposed Budget measures would leave a target for FSR proposals of £47 million by 2013.

Allocation of savings, growth and user pays

The final series of workshops in early October brought together the outcomes of the peer reviews and also considered the proposals for growth and user pays. As a result of the workshops, initial allocations for individual departments were agreed together with targets for the Corporate Savings and Terms and Conditions reviews.

Initial Department Cash Limits for 2012 and 2013

The outcomes of the workshops have enabled initial cash limits for departments to be calculated which are within the target total spending limits. The Council of Ministers has committed to working towards these initial cash limits and the delivery of the outcomes from the CSR Part 2 process. These outcomes may vary as the individual proposals are worked up and the detail for each year will be presented in the 2012 and 2013 Business Plans in due course. Any variations in the proposals will be accommodated within the total spending limits now proposed for 2012 and 2013.

Further detail of the outcomes from the workshops is provided in Section 7.

7. CSR Part 2 Proposals 2012-2013

Targets for CSR Part 2

The Council of Ministers initially proposed spending limits for 2012 and 2013 as part of the 2011 Business Plan for debate in September. Following an amendment from the Corporate Services Scrutiny Panel to increase the savings in each of the years 2011 to 2013, the Chief Minister withdrew the proposition relating to future years but committed to additional savings by 2013 as part of the CSR Part 2 process.

Following the various workshops discussed in Section 6, the Council is now proposing that a minimum of £65 million of savings and user pays initiatives be proposed by 2013.

Savings

The proposals for £65 million of savings by 2013 are made up as follows:

	£m
2011 Department savings	12.0
2012/13 Department savings	30.4
2011/12/13 User Pays	2.2
2012/13 Corporate Savings	6.5
2012/13 Staff Terms and Conditions	<u>14.0</u>
Total Savings by 2013	<u><u>65.1</u></u>

The savings for 2011 to 2013 have been allocated to individual departments and initial cash limits have been calculated. The Council of Ministers is proposing a total spending limit for 2012 and 2013, calculated from the initial cash limits and central provisions and the capital programme allocation for these years. See Summary Table A for details.

The department savings for 2012 and 2013 agreed at the workshops and the 2011 savings agreed in the 2011 Business Plan are summarised in Figure 7.1.

Figure 7.1: Savings proposals by Department

Departments	2011 Savings Proposals £'000	2012 Savings Proposals £'000	2013 Savings Proposals £'000	Total Savings Proposals £'000
Chief Minister	118	150	269	537
Economic Development	346	579	836	1,761
Education, Sport and Culture	2,288	2,982	5,553	10,823
Health and Social Services	3,700	1,545	1,545	6,790
Home Affairs	954	1,119	1,581	3,654
Housing	286	592	679	1,557
Planning and Environment	208	306	495	1,009
Social Security	1,863	1,500	2,500	5,863
Transport and Technical Services	855	1,257	2,033	4,145
Treasury and Resources	918	1,287	1,955	4,160
Non Ministerial States Funded Bodies	397	673	623	1,693
States Assembly and its Services	58	176	152	386
Departmental Total:	11,991	12,166	18,221	42,378
Corporate Initiatives				
- Procurement	-	3,000	3,500	6,500
- Terms and Conditions	-	7,000	7,000	14,000
Grand Total:	11,991	22,166	28,721	62,878

The indicative proposals for savings by departments have been published separately for information, together with the outcomes of the major reviews which have been completed.

User Pays

The proposals amount to over £2 million of the total of £65 million. The detail of the proposals from departments was considered at the workshops and the proposals agreed are set out in Figure 7.2.

Figure 7.2: User Pays proposals by Department

Departments	2011 User Pays £'000	2012 User Pays £'000	2013 User Pays £'000	Total User Pays Proposals £'000
Chief Minister	11	11	11	33
Economic Development		128	128	256
Education, Sport and Culture		137	144	281
Health and Social Services	43	500	500	1,043
Home Affairs	5	-	87	92
Housing		-	-	-
Planning and Environment	5	-	300	305
Social Security		-	-	-
Transport and Technical Services	36	-	100	136
Treasury		-	-	-
Non Ministerial States Funded Bodies	30	-	-	30
States Assembly and its Services		-	-	-
Departmental Total:	130	776	1,270	2,176

Growth proposals

Departments submitted a range of growth proposals for 2012 and 2013 and these were considered by officers and Ministers. A provision for £15 million growth by 2013 was made in the original spending envelope and to date £3.6 million has been allocated as part of the 2011 proposals.

Ministers are proposing that a further £6.1 million growth be allocated in 2012 and £0.3 million growth allocated in 2013. After allowing for variations in the revised forecasts of social security expenditure, a further saving against original cash limits of £3 million in 2013 is proposed.

Other growth in cash limits

The detail of the growth proposals agreed for inclusion within the 2012 and 2013 total spending limits are shown in Figure 7.3. In addition to these figures it is proposed that the Health and Social Services cash limit should retain the commitment in previous business plans for 2% real growth of approximately £3.5 million a year for 2012 and 2013. It is further proposed that the 5% a year increase in Overseas Aid (approximately £0.4 million) will also be maintained in 2012 and 2013. These growth amounts do not appear in Figure 7.3 that follows, as this table only shows new growth items.

Figure 7.3: Growth proposals by Department

Departments	2011 Growth Proposals £'000	2012 Growth Proposals £'000	2013 Growth Proposals £'000	Total Growth Proposals £'000
Chief Minister	200	-	-	200
Economic Development	-	-	-	-
Education, Sport and Culture	350	3,652	150	4,152
Health and Social Services	1,600	-	-	1,600
Home Affairs	875	1,304	186	2,365
Housing	-	172	-	172
Planning and Environment	-	-	-	-
Social Security	-	-	-	-
Transport and Technical Services	-	-	-	-
Treasury	607	1,022	(25)	1,604
Non Ministerial States Funded Bodies	-	-	-	-
States Assembly and its Services	-	-	-	-
Departmental Total:	3,632	6,150	311	10,093

Other adjustments to total spending limits

The estimated savings that can be delivered from the Terms and Conditions Review and from Corporate Procurement savings cannot at this stage be allocated to departments. These will remain as unallocated provisions in the total spending limits for 2012 and 2013.

The total spending limits also include estimates for other adjustments including:

- The revised forecasts for Social Security expenditure in 2011 to 2012 indicating potential savings against previous forecasts, but with a small increase required in 2013. The latter is more than offset by the saving in the original CSR growth provision for 2013.
- There are a number of expenditure adjustments as a result of the FSR proposals, these being:
 - a reduction in the States' contribution to Social Security funding from the FSR proposal to increase the Social Security contributions by 2% above the ceiling from 2012 equating to about £16 million;
 - an increase in all departments' cash limits from 2012 to provide for the additional States employer contributions required at 2% for all employees earning above the Social Security ceiling; and
 - an increase in income support and GST bonus to mitigate the effect of the increase in GST to 5% for those on lower incomes.
 The net effect is a reduction in expenditure of approximately £14 million a year.

Impact of proposals on departments

The original objective of the CSR was for departments to identify options from which a minimum of £50 million of savings and user pays could be determined. Figure 7.4 illustrates that the impact of the current proposals on individual departments is clearly not a simple pro rata exercise.

Figure 7.4: Summary of Impact of CSR Proposals

Departments	Savings Proposals £'000	User Pays Proposals £'000	Growth Proposals £'000	Net CSR Impact (Saving) £'000	CSR Impact on Cash Limit %
Chief Minister	(537)	(33)	200	(370)	7%
Economic Development	(1,761)	(256)	-	(2,017)	12%
Education, Sport and Culture	(10,823)	(281)	4,152	(6,952)	6%
Health and Social Services	(6,790)	(1,043)	1,600	(6,233)	3%
Home Affairs	(3,654)	(92)	2,365	(1,381)	3%
Housing	(1,557)	0	172	(1,385)	10%
Planning and Environment	(1,009)	(305)	-	(1,314)	13%
Social Security	(5,863)	-	-	(5,863)	6%
Transport and Technical Services	(4,145)	(136)	-	(4,281)	10%
Treasury and Resources	(4,160)	-	1,604	(2,556)	6%
Non Ministerial States Funded Bodies	(1,693)	(30)	-	(1,723)	9%
States Assembly and its Services	(386)	-	-	(386)	10%
Departmental Total:	(42,378)	(2,176)	10,093	(34,461)	
<u>Corporate Initiatives</u>					
- Procurement	(6,500)			(6,500)	
- Terms and Conditions	(14,000)			(14,000)	
Grand Total:	(62,878)	(2,176)	10,093	(54,961)	

Note: Growth of 2% p.a. for Health and 5% p.a. for Overseas Aid was agreed in previous Business Plans

Figure 7.4 shows that the shortfall from certain departments has been made up by savings of almost £6 million proposed for Social Security, which were not part of the original target, and by savings proposed from corporate procurement and the review of Terms and Conditions.

Comparison to 2011 Business Plan proposals

In the 2011 Business Plan indicative spending levels for 2012 and 2013 were initially proposed and then withdrawn. The Council of Ministers is now proposing reduced total spending limits which incorporate:

- additional CSR savings proposals;
- a reduction in the growth allocation originally set aside;
- revised Social Security expenditure forecasts; and
- the impact of FSR proposals on expenditure.

The impact of FSR proposals on expenditure is made up of the cost of mitigating the impact on those on lower incomes from the increase in GST offset in 2012 and 2013, and the reductions in supplementation funded by the increase in Social Security contributions.

Figure 7.5 shows a reconciliation of the current proposed net spending limits with the indicative levels in the 2011 Business Plan.

Figure 7.5: Comparison with 2011 Business Plan (As Amended)

2010 £'m		2011 £'m	2012 £'m	2013 £'m
	Business Plan 2011			
621	- Total Net Revenue Expenditure (excl: Provisions)	638	649	647
	Add: Central Provisions			
23	- Provision for Central Reserves	9	9	9
	- Provision for Restructuring	6	10	10
	Changes from 2011 Business Plan			
	Increased savings targets	(5)	(10)	(15)
(8)	Other cash limit variations	(5)	(3)	(3)
	Impact of FSR Proposals on expenditure	1	(14)	(14)
636	Total Net Revenue Expenditure (excl: Provisions)	644	641	634
	46 Revised Proposals - Total Capital Allocation	38	49	46
682	Total States Net Expenditure	682	690	680

8. Capital Programme 2012 - 2013

Introduction

Alongside revenue expenditure and fiscal measures, the CSR Part 2 process reviewed the proposed capital programme for the years 2012 and 2013.

States members are asked to consider the indicative programme, with specific reference to the changes to the 'in principle' programme that was approved in the 2010 Business Plan and their implications.

Background

The States, in approving the 2010 Business Plan, approved "in principle" allocations for capital expenditure for 2011 - 2014.

In accordance with Article 12 of the Public Finances (Jersey) Law 2005, the States approves the specific programme of works for each year in the Business Plan that precedes the year of allocation.

The 2011 Programme was agreed by the States Assembly as part of the 2011 Business Plan proposals that were debated in September 2010.

Figure 8.1 contains the 2011 capital programme approved in the 2011 Business Plan together with the "in principle" capital programme for the period 2012 to 2013 as approved in the 2010 Business Plan.

The Council of Ministers is now proposing an indicative programme within a financial envelope for 2012 and 2013 for the period covered by the CSR process (Figure 8.2).

These programmes have been adjusted for the transfer of funding between revenue and capital for GAAP accounting purposes and exclude Housing projects funded from alternative sources, which are addressed separately in Figure 8.3.

Figure 8.1: Previously approved 2011 Capital Programme and “in principle” Capital Programme 2012 – 2013 (estimated costs)

Department	Description	2011 (£'000)	2012 (£'000)	2013 (£'000)
Various	Equipment and Minor Capital	1,355	1,355	1,355
TTS	Infrastructure Works	2,750	2,750	2,750
EDD Airport	'Below Ground' works	4,750	5,000	7,000
EDD Harbour	Gorey Pier Restoration		2,966	
ESC*	FB Fields Running Track			535
ESC*	Les Quennevais Artificial Pitch Replacement			613
ESC*	St Martins School		7,732	
Home Affairs*	Prison Improvement Works - Phase 4	9,249		
Home Affairs*	Police Relocation - Sinking Fund		2,000	
H&SS*	Oncology Extension and Refurbishment	2,664		
TTS	Refurbish Sludge Digester/STW Tanks	1,000		
TTS	Refurbish Clinical Waste Incinerator			1,000
TTS	STW - Secondary Treatment Upgrade			7,000
Housing	Allocation to Rolling Programme	381	1,400	3,000
		22,149	23,203	23,253
	Less Contributions from non-Housing Property Disposals	(9,000)	(4,000)	(4,000)
	Net Allocation from Consolidated Fund	13,149	19,203	19,253
*Construction projects to be delivered by Jersey Property Holdings				

Proposed changes to the 'In Principle' 2012 - 2014 Capital Programme

The Council of Ministers is proposing a revised programme for the period 2012 - 2013 as set out in Figure 8.2 below.

Figure 8.2: Proposed Revised Capital Programme 2012-2013 (estimated costs)

Department	Description	2012 (£'000)	2013 (£'000)
	Replacement Assets	2,506	1,621
TTS	Infrastructure Assets	6,956	6,956
H&SS*	ICU - Infection Control	1,537	
H&SS*	Outpatient Facilities - Infection Control and Capacity	1,922	
H&SS*	Renal Dialysis - Infection Control and Capacity	844	
H&SS*	Maternity Theatre SCBU - Patient Safety, Privacy	1,494	
H&SS*	Upgrade of Main Theatres - Infection Control	1,429	2,274
Home Affairs*	Police Station Relocation - Tranche 4	2,000	
ESC*	FB Fields Running Track Replacement		535
ESC*	Les Quennevais Artificial Pitch Replacement		613
ESC*	St Martin's School Replacement		7,732
ISD	Upgrade Microsoft Desktop Technology	752	663
ISD	Web Development	170	200
ISD	ERP - Upgrade / Replacement		1,000
TTS	Refurbishment Clinical Waste Incinerator		1,000
	Major Works Proposed for Funding	10,148	14,017
Total Proposed for Funding		19,610	22,594
Less Contributions from non-Housing Property Disposals		(5,500)	(3,300)
Net Allocation from Consolidated Fund		14,110	19,294

*Construction projects to be delivered by Jersey Property Holdings

The main variations between the two programmes for 2012 and 2013 are:

- The overall allocation from the Consolidated Fund in 2012 is some £5 million less than proposed in the 2010 Business Plan. This represents the second tranche funding adjustment to reimburse the £10 million additional funding allocated to the Town Park project in 2010.
- Improved allocation for other asset replacement funding.

The assets replacement information held in the JD Edwards financial system was used to identify assets that will reach the end of their expected useful life in the period 2011 - 2013. The data was critically reviewed by departments to produce a prioritised replacement programme based on specific asset replacements.

An assessment was made by the Transport and Technical Services Department that a minimum sum of around £7 million is required annually, on average, to maintain a 'steady state', broadly split between:

- Highways £4 million
- Sewers £2 million
- Sea Defences £1 million

This equates to an annual investment of 1% of the total assets value and implies an average useful life of 100 years across all the asset classes.

Other changes to the Capital Programme include:

- The funding of £12 million for the airport 'below ground' works in 2012 and 2013 has been removed from the programme. The Council of Ministers is also proposing that the balance of funding of £4.25 million contained in the 2014 'in principle' programme be deleted.

This funding stream must be replaced in order that the Airport Trading Fund is not exhausted. The Economic Development Department is evaluating the potential to levy a government Airport Passenger Duty Tax on departing passengers to provide for necessary airport capital works.

- The Council of Ministers considers that the Harbours Department should prioritise the Gorey Pier restoration works against other calls on the Harbours' Trading Fund and so this funding has been removed.
- Following a review by the newly appointed hospital Managing Director a number of upgrade works at the General and Acute Hospital have been identified as urgent, comprising:

2012

- ICU - Infection Control
- Renal Dialysis - Infection Control and Capacity
- Outpatient Facilities - Infection Control and Capacity

2013

- Maternity Theatre SCBU - Patient Safety, Privacy & Dignity
- Upgrade of Main Theatres - Infection Control and Reliability

- The replacement of St Martin's school is retained within the programme, but has been deferred from 2012 to 2013. However, following Amendment 4 to P157/2010 the Minister for Treasury and Resources has committed to consider a two phase approach to St Martin's school which might represent appropriate design works, resolving site acquisition, preparation and drainage issues being carried out in 2012 followed by construction in early 2013.

- The proposed programme includes three Information Services Department (ISD) projects for which funding was not previously identified but for which there is an urgent need within the period.
 - States website development - £370,000 is required in 2012/2013 to develop the States web infrastructure to enable transactions to be supported.
 - Replacement of Microsoft Desktop Technology - the current version of the operating software ceases to be supported and will require replacement across the States from 2012.
 - ERP upgrade or replacement - the current States 'enterprise' system, JD Edwards, will need to either be replaced or be upgraded to the most recent version in the period 2013 to 2015. A total allocation of £3.3 million is required to complete this project.
- The indicative programme within the 2010 Business Plan included a sum of £14.5 million to upgrade the sewage treatment works secondary treatment works, allocated in two tranches (£7 million in 2013 and £7.5 million in 2014). This funding stream has been deferred by one year to the indicative programme for 2014 to 2017, which will be brought forward for consideration in the 2012 Business Plan.

TTS is currently undertaking a feasibility study to determine the most cost effective solution that will ensure full regulatory compliance. The review will also consider the future delivery structure for these services and how they should be funded in the long term.

- The Philips Street Shaft project was not previously included in the 'in principle' programme approved in the 2010 Business Plan. However the most cost effective approach is to commence the works before the development of the Ann Court site.

Phase 1 of the scheme will locate the shaft on the Ann Court site and is estimated to cost £1.5 million. This will be funded by TTS from its enhanced infrastructure asset funding and be integrated into the development proposals for the site.

With the shaft located in Ann Court, the tunnelling in Phase 2 that is required to connect the shaft to the tunnel can be carried out in low level rock rather than high level water-bearing soft ground, thus significantly reducing the risk of water ingress and settlement of adjacent buildings.

The estimated cost for Phase 2 is £3.5 million and this will need to be accommodated with the overall future capital allocation to TTS.

Housing

The Housing Department will manage its future stock requirements from within its existing asset base, through the reinvestment of disposal receipts from assets identified in P6/2007, to improve efficiency and effectiveness of its portfolio. The full

extent of the programme is dependant upon the achievement of the required level of capital receipts.

The proposed indicative capital programme set out in Figure 8.2 above does not include any funding for the Housing Department. This represents a reduction of funding for the department's proposed capital programme of £1.4 million in 2012 and £3 million in 2013, for which an alternative funding source is required or the proposed programme must be reprioritised.

Where an appropriate new revenue stream can be generated, the Minister for Treasury and Resources will consider supporting external borrowing by the Housing department in support of its objectives. Detailed proposals will be brought forward for consideration in due course.

In addition, the 'in principle' Capital Programme in the 2010 Business Plan included funding of £1.6 million in 2012 to fund the continuation of the heating system replacement programme. This funding was to be transferred to revenue in 2012 as the works are of a maintenance nature.

This funding has now been removed from the proposed indicative capital programme and the Housing Department will reprioritise its planned maintenance programme funded from its revenue budget to continue the roll out of replacement heating systems. To achieve this, end year flexibility is required for the years 2010 to 2013 and this principle has been agreed by the Minister for Treasury and Resources.

The proposed indicative Housing Capital Programme is set out in Figure 8.3.

Figure 8.3: Housing Capital Programme 2011 and Proposed Indicative Programme 2012 – 2013 (estimated costs)

Description	2011 (£'000)	2012 (£'000)	2013 (£'000)
Le Squez Phase 3	309	3,198	
Le Squez Phase 4		960	13,571
La Collette Phase 1	5,226		
La Collette Phase 2	1,442	12,580	
La Collette Phase 3			3,310
De Quetteville Court High Rise	515	6,396	
Jardin des Carreaux	2,060		
Pomme D'Or Farm	6,901		
Convent Court			180
Acquisitions of Life-long homes		6,396	6,620
Total Cost of Housing Schemes	16,453	29,530	23,681
<u>Housing Funding Sources:</u>			
Assumed Borrowing for Lifelong Homes		6,396	6,620
Use of Unspent Balances c/fwd	72	4,034	61
Asset Disposals	16,000	17,700	14,000
Consolidated Fund	381		
Withdrawn Capital Programme Allocation		1,400	3,000
Total Housing Funding Sources	16,453	29,530	23,681

Summary financial position

The proposed Capital Programme funding and net allocation from the Consolidated Fund is set out in Figure 8.4 below.

Figure 8.4: 2012 - 2013 Capital Programme funding and net allocation from the Consolidated Fund

	2012	2013
	(£'000)	(£'000)
Replacement Assets	2,506	1,621
Infrastructure Assets	6,956	6,956
Non-Housing Major Works	10,148	14,017
Housing Projects	29,530	23,681
Total Proposed Capital Expenditure	49,140	46,275
<u>Less:</u>		
Non-Housing Property Disposal Receipts	5,500	3,300
Housing Disposal Receipts	17,700	14,000
Other Housing Funding Sources	11,830	9,681
Total Other Funding Sources	35,030	26,981
Net Allocation from Consolidated Fund	14,110	19,294

The 2012 Business Plan will bring forward details of the finalised 2012 programme, together with an 'in principle' programme from 2013 to 2017, for endorsement by the States Assembly in September 2011.

Trading Organisations

The States Trading Organisations are also undertaking a review of their respective capital programmes. Figure 8.5 below sets out the current proposals for 2011 to 2013.

Figure 8.5: Trading Organisations Indicative Capital Programme

Description	2011 (£'000)	2012 (£'000)	2013 (£'000)
<u>Airport</u>			
Minor Capital Assets	300	300	300
Purchase and installation of replacement Touch Down Wind equipment	100		
Purchase of replacement runway sweeper	234		
X-rays for hand baggage	180		
CCTV at Security Checkpoints	200		
CCTV Airport Wide	300		
Departures Hall access lobby	300		
Instrument Runway Visual Range equipment replacement	363		
Replacement Fire Tender		605	
Instrument Landing System replacement		1,592	
Replacement of Distribution and Standby Switch gear (Phase 1)			1,574
Total Airport	1,977	2,497	1,874
<u>Harbours</u>			
Elizabeth Trailer Park Reconfiguration	400		
Offshore Beacons	100	100	100
Elizabeth Terminal Phases 3 & 4	350	600	
Pilot/Workboat		1,000	
La Collette Tanker Berth			250
CCTV Phase 2	150		
Elizabeth Harbour EB Walkways	850		
Minor Capital Assets	495	565	365
Gorey Pierhead		2,966	
Port Crane	1,900		
St Helier Marina pontoons	175		
St Helier Marina Gate Replacement	450		
Piers & Quays Remediation			200
Duke of Normandy Refit			250
St Helier Marina Pile Replacement	150		
RoRo No.5 Replacement/Upgrade	300		
New North Quay Sub Station Upgrades	500		
Total Harbours	5,820	5,231	1,165
<u>Jersey Car Parking</u>			
Installation of New Charging System	1,000		
<u>Jersey Fleet Management</u>			
Replacement Plant and Vehicles	1,500	1,000	1,200
Total Trading Organisations	10,297	8,728	4,239

9. Improved Financial Management

Good financial management is an essential element in the delivery of high-quality public services.

Against the background of rapidly changing economic circumstances, the States of Jersey must be confident that it has a financial planning, monitoring and forecasting structure in place that gives assurances that the organisation is meeting its strategic and operational objectives.

Standards of financial management that may have been suitable in the past will not necessarily be fit for dealing with future challenges. If the States is going to deliver its strategic objectives and implement the changes identified by the CSR process, management needs to have a thorough understanding of the financial performance to date and forecast outturn for the year. Variances must be identified as soon as possible so that management can take corrective action.

Financial information needs to be integrated with non-financial performance and activity information, forming the basis for financial forecasts and enabling value for money to be monitored.

Financial reporting must be up-to-date and fit for purpose to allow management to run the organisation effectively. It needs to be presented in a way that is easy to understand and use and highlights any issues of which management need to be aware.

In order for the States to achieve the improvements to its financial management, departmental finance staff need to move away from transactional processing and concentrate on understanding and monitoring financial issues.

The quality of financial governance and leadership from the Treasury is important. A restructuring and strengthening of the Treasury team took place with effect from 1 June 2010 with additional senior and professional level posts created.

A Finance Change Team has been established within Treasury. Their remit is to identify, review and map current financial processes, make recommendations and use their change management expertise to implement the changes. These changes are not restricted to the finance function. They also include corporate initiatives relating to information systems, procurement and human resources.

Having established process owners, the Finance Change Team is working with them to agree the changes to these processes to bring about improvements in business controls and other financial and operational benefits.

The Treasury is also working closely with departments this year to develop an appropriate financial planning and performance framework to be in place in 2011.

Improvements include:

- Longer-term financial planning:
 - ensuring plans reflect corporate priorities
 - establishing greater certainty for departments
 - allowing flexibility within spending limits
- Standardised reports;
- In-year forecasting of States income;
- Closer monitoring of Capital expenditure;
- Forecast Balance Sheets;
- Cashflow estimates; and
- Key Financial Performance Indicators.

In the Strategic Plan the States of Jersey committed to deliver clear and informative accounts in line with recommended commercial practice, implementing Generally Accepted Accounting Principles (GAAP). The introduction of GAAP accounting will deliver a range of benefits, principally improved accountability, transparency and decision making.

The States will be publishing a full set of GAAP compliant financial statements for the 2010 financial year. This will lead to more disclosures, providing standardised, better information, presented on a commercial basis. Adopting these accounting standards will lead to improved transparency and accountability and will give more clarity around financial performance enabling better decision making.

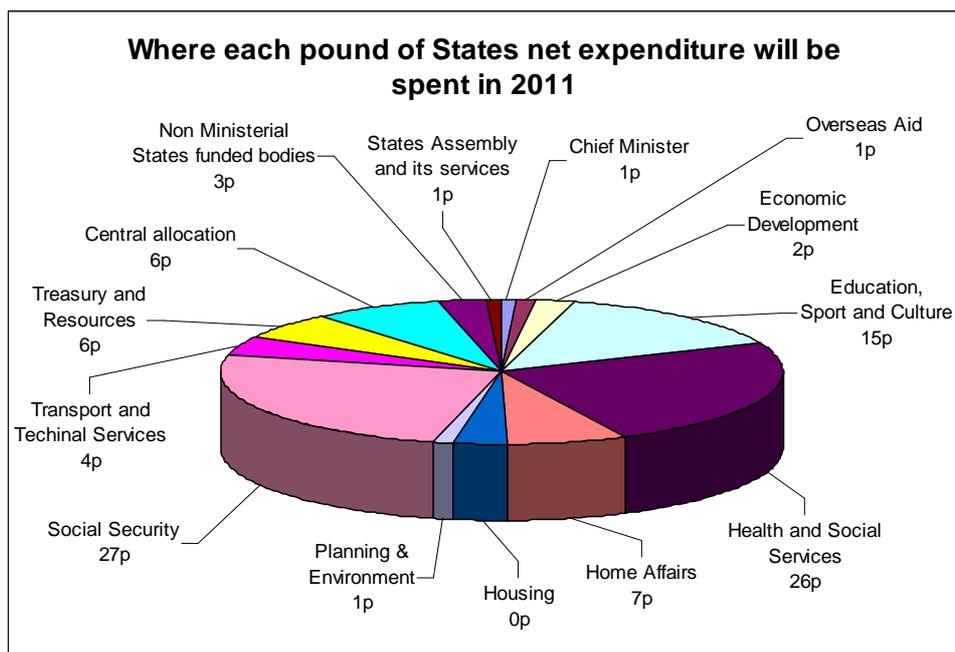
Good financial management is an essential element of good corporate governance and forms part of the firm foundations of an organisation, underpinning service quality and improvement. Good financial management may not be very visible, but the lack of it is very noticeable.

10. Summary Table A (As Amended) – States Expenditure 2011 to 2013

2010 Expenditure Allocation £'000	States Funded Bodies	2011 Expenditure Allocation £'000	2012 Expenditure Allocation £'000	2013 Expenditure Allocation £'000
612,867	Net Department Expenditure Allocation	628,938	622,000	615,000
	Add: Central allocations			
23,000	- Provision for Central Reserves	8,862	9,000	9,000
	- Provision for Restructuring	6,000	10,000	10,000
£ 635,867	Total Net Revenue Expenditure Allocation	£ 643,800	£ 641,000	£ 634,000
£ 46,087	Capital Expenditure Allocation	£ 38,149	£ 49,200	£ 46,300
£ 681,954	Total States Net Expenditure Allocation	£ 681,949	£ 690,200	£ 680,300

Adjustments to reconcile to Financial Forecasts:

£ 635,867	Net Revenue Expenditure Allocation	£ 643,800	£ 641,000	£ 634,000
(£ 34,500)	Depreciation - non cash item	(£ 37,073)	(£ 37,000)	(£ 37,000)
£ 601,367	<i>Net Revenue Expenditure Allocation (as shown in financial forecasts)</i>	£ 606,727	£ 604,000	£ 597,000
£ 46,087	Capital Expenditure Allocation	£ 38,149	£ 49,200	£ 46,300
(£ 4,000)	Property Capital Receipts	(£ 9,000)	(£ 5,500)	(£ 3,300)
(£ 10,000)	Housing Capital Receipts	(£ 16,000)	(£ 17,700)	(£ 14,000)
	Other Housing Funding Sources		(£ 11,800)	(£ 9,700)
£ 32,087	<i>Net Capital Expenditure Allocation (as shown in financial forecasts)</i>	£ 13,149	£ 14,200	£ 19,300
£ 633,454	<i>Total States Net Expenditure Allocation (as shown in financial forecasts)</i>	£ 619,876	£ 618,200	£ 616,300



Part C

Budget Statement 2011

11. Fiscal Strategy Review

The Fiscal Strategy Review public consultation on personal taxation ran from June through to August this year. It highlighted that the fall in tax revenues as a result of the global recession, combined with the States inability to bring spending under control, could leave the States facing an ongoing deficit of about £100 million if no action was taken. It focused on the third part of the Council of Ministers' three part plan to deal with these fiscal challenges – how we might be able to increase taxes in a way which is fair (those on higher incomes pay a higher proportion of their income in tax than those on lower incomes) and supportive of economic growth.

The Green Paper highlighted a number of options which could raise significant revenues, their respective advantages and disadvantages including who would pay and what the effects might be. Not all of the measures had the support of the Minister for Treasury and Resources and concern was highlighted from the start that higher rates of income tax could pose serious risks to our economy, potentially including a mid to long term decline in tax revenues.

The four options in the paper were assessed against key criteria and in particular the need to keep the economy vibrant and the need to treat people fairly. They were increases in:

- Goods and Services Tax;
- Social Security contributions;
- Domestic rates; and
- The rate of income tax.

The detailed supporting analysis to the Green Paper highlighted that there were clear trade-offs between the options. GST and domestic rates would have the least impact on our economy and its ability to create employment and tax revenue to fund public services. However, those on higher incomes while paying more in cash terms would not pay a higher proportion of their income.

A higher rate of income tax and increased Social Security contributions above the ceiling would meet the requirement to raise money in a progressive way but would pose greater risks to the economy. In particular, a significant increase in social security contributions above the ceiling would make it less attractive for highly skilled, high earning people to work in Jersey and would also increase the cost of employing people and doing business in the Island.

The proposal here is slightly different to that included in the Green Paper in that it is an increase in contributions above the existing ceiling but at a lower rate and uncapped. This is considered to be a fairer way of increasing social security contributions.

The Green Paper also highlighted that while a higher rate of income tax might initially affect higher earners, by making Jersey significantly less competitive it would create a real incentive for them to move elsewhere, taking with them the jobs and business they generate in our economy. Ultimately all Islanders would be affected and would face an increased tax burden as a result.

Nearly 1,000 Islanders and many representative organisations contributed to this consultation and their input was much appreciated. Involve² were commissioned to write up the responses to the consultation. It is not surprising they found that many people hold strong views about personal taxation. There were clear themes that emerged from the responses that are representative of the different views in the Island. Involve summarised them as follows:

“.....there seem to be two widely held perspectives; one which emphasises the high cost of living for those on lower incomes and wants to see a more progressive taxation system.....and another perspective of concern that increased taxes on the wealthy will lead to Jersey losing financial services and affluent residents to international competitors.....”

The full report on the consultation responses is available at www.gov.je but it is worth focusing on some of the key findings that Involve highlight in three areas:

Competitiveness: *“A number of concerns were raised that increased taxation would reduce Jersey’s international competitiveness and lead to emigration and loss of States’ revenue, in particular related to the finance industry. Concerns for Jersey’s competitive position were raised in relation to all tax options, although these concerns were more common in relation to Income Tax and Social Security than for the other tax options.....”*

Fairness: *“.....The interpretation of fairness varied across the people who responded. Responders were both concerned that increases in rates and GST would force low income people out of Jersey and that increases in Social Security payments and Income Tax would lead to high income residents leaving the Island.”*

Savings: *“One theme which did receive broad support was the principle that tax rises should be less of a priority compared to cost savings in public sector spending. One of the most common themes was a sense that the public sector was inefficient and that savings were both possible and necessary.....”*

As Involve point out, the “consultation has not provided one simple solution to the taxation question” and therefore leaves a very difficult balancing act. No single measure can achieve the twin objectives of minimising the impact on the economy and raising money in a fair way, where the better off pay a higher proportion of their income. Although GST is unpopular there is little doubt that it raises money in an efficient way that does minimal damage to the economy. It is for these reasons that a moderate increase in GST is proposed from 3 to 5% from 1 June 2011. This is preferred to an increase in domestic rates (which would also minimise the impact on the economy) because of the complexity of changing rates in Jersey. In addition, it would be much harder to address the perceived issues of unfairness with an increase in domestic rates, such as for those living in large properties but with little income.

The Council of Ministers recognises that people are concerned about the impact an increase in GST will have on the less well off in our Island. However, it is a myth that

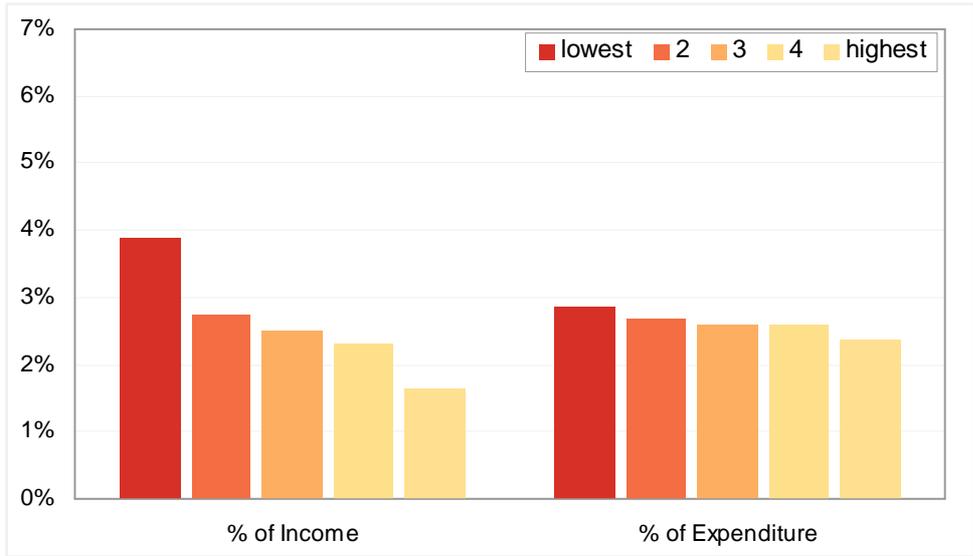
² Involve is an independent charity whose principal activity is showing how public participation can positively change the lives of individuals and improve working practices of institutions.

GST is a very regressive form of taxation. This can appear to be justified if the impact of GST on households across the income spectrum is considered as a proportion of income. This is shown in the left hand chart in Figure 11.1 below where the lowest quintile pays a significantly higher proportion of their income as GST. However, as the Institute for Fiscal Studies (IFS - the independent authority on fiscal matters in the UK) points out “looking at a snapshot of the patterns of spending, VAT paid and income at any given moment is misleading because incomes are volatile and spending can be smoothed through borrowing and saving”. This is because the low income group can contain people whose current income is low but whose lifetime earnings could be relatively high, for example, students that may be borrowing to finance expenditure, retirees running down savings or those who are temporarily out of work.

For these reasons the IFS concludes that expenditure is a better measure of living standards and that the impact of VAT should be looked at as a percentage of average household expenditure, with households ranked on the basis of expenditure. When this is done for the UK the IFS concludes that “the current VAT system is seen to be mildly progressive”.

In Jersey, the data limitations only allow households to be ranked by income but it is possible to calculate the expenditure of households in the different income quintiles and estimate the proportion that 5% GST would make up. The second chart in Figure 11.1 shows that GST looks much less regressive than in the first chart. GST at 5% would only account for about 2.9% of the amount a lower income household spends and this falls to just less than 2.5% for higher income households. If it was possible to rank households by expenditure in Jersey and calculate GST as a proportion of their expenditure this difference is likely to reduce further. This suggests that the impact of GST is not very regressive as is commonly perceived in Jersey and could in fact be closer to being a proportional tax.

Figure 11.1: Impact of 5% GST by income and spending
 % of income/expenditure by quintile



Source: Economics Unit calculations

The aim of the Council of Ministers’ three part plan to address the deficit is to raise any additional tax revenue required in a fair way. For these reasons it is proposed to

compensate the less well off for the impact of the rise in GST. This will be done by increasing income support for those that receive it and maintaining an adequate GST bonus for those on low incomes but not receiving income support.

The effort to increase revenues in a fair way is also why it is proposed that the Social Security Minister bring forward proposals to introduce social security contributions at 2% above the ceiling (£44,232 in 2011) from January 2012. This will mean that those earning above the ceiling pay more, and employers also pay more where they employ people earning above the ceiling. In addition, those on low incomes and earning less than the ceiling will be unaffected by this change.

As is the case with the CSR, the FSR tax increases will be phased in over a number of years. The 2% increase in social security contributions above the ceiling will not take place until January 2012 so that employees and employers have time to prepare for the increase and so that employment costs do not rise – however moderately – until the economy has as much time as possible to recover. This will also give the Social Security Minister time to make the required changes in legislation.

The Minister for Treasury and Resources has paid close attention to the views of businesses and Islanders about the potential impact of a higher rate of tax on the Island. There is a clear difference of views within the population between those that feel a higher rate of tax would be fair and those that think it would seriously damage our economy. Those that favour a higher rate of tax seem to believe that we can tax the better off significantly more without any impact on Islanders in general.

It needs to be recognised that much of our economy is reliant on the relatively low rate of income tax. The finance industry has been built on this low rate, and to change it would create the perception of instability and a high likelihood of a net decrease in revenues over time. It is difficult to provide empirical evidence to support this conclusion. However, understanding that much of the finance industry is highly mobile leads to the conclusion that an increase in our very long standing 20% income tax rate will create an incentive for business and individuals to move elsewhere. This would result in a loss of jobs and a loss of tax revenue, leaving a higher tax burden on the rest of us. This is particularly the case when our closest neighbour and key competitor has a 20% income tax rate.

There were some striking responses to the consultation on the issue of a higher rate of tax that highlighted just how serious the risks are.

“It is difficult to overestimate the danger to Jersey of such a move. Jersey is well known for its long-standing and stable tax regime which people understand. Jersey faces strong and increasing competition from other financial centres and would find it much more difficult to attract talented people at the specialised and high earning end of the pay spectrum and once business leaves it would not return. The 20% income tax rate should be sacrosanct...” (individual online response)

“... We would strongly argue against a higher income tax rate as it will transmit all the wrong signals about Jersey. Internationally mobile businesses and employers will undoubtedly view a higher tax rate

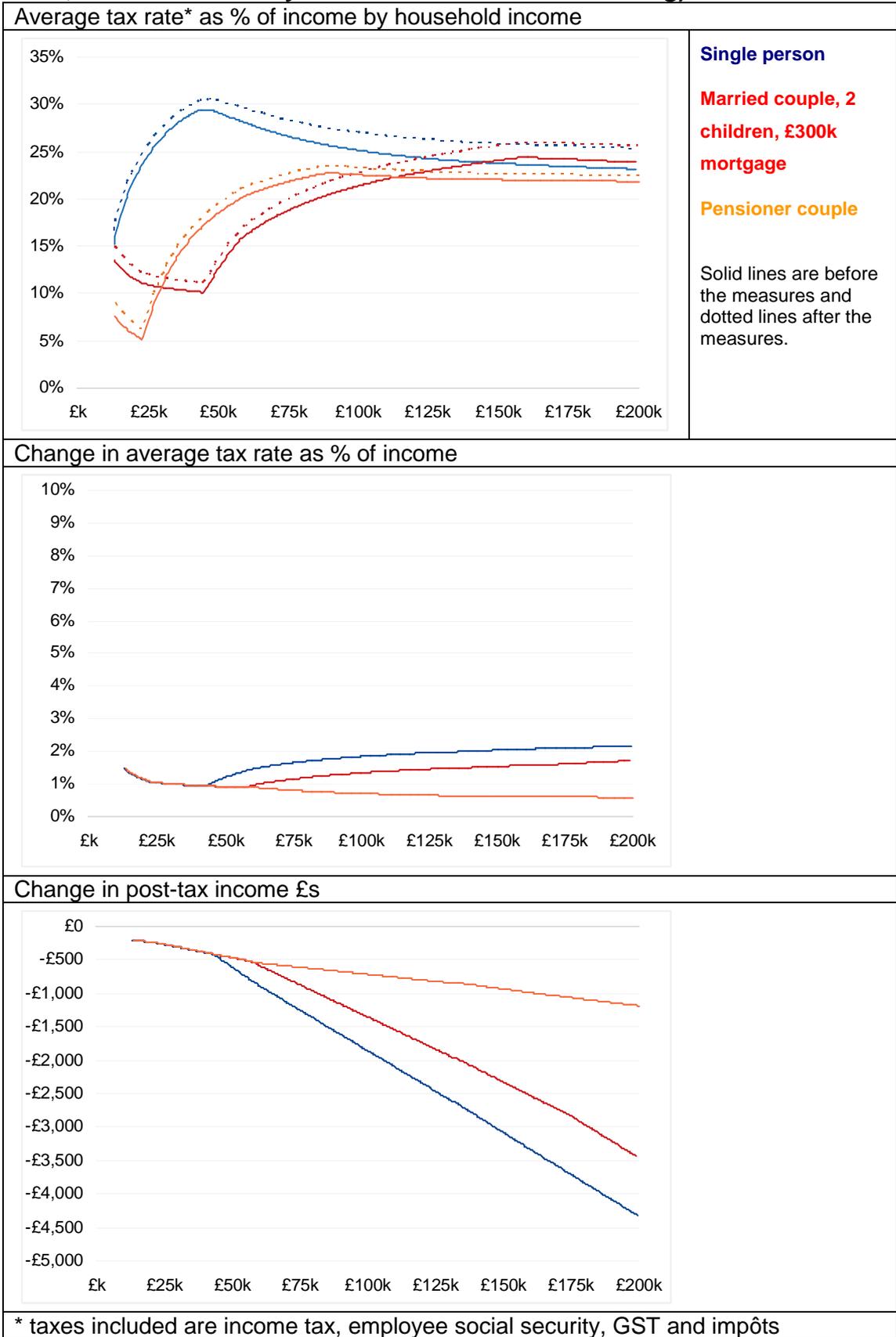
unfavourably. This will influence decisions about where businesses are established or grow...” (Ernst & Young)

“If higher levels of taxation were imposed on these individuals there is a substantial risk that they will leave the Island. Besides losing the direct tax contribution, there is also a fundamental risk that without their input businesses would not grow, jobs and opportunities will not be created and therefore overall tax revenues will actually fall...” (Grant Thornton)

Even the suggestion that a higher rate of tax is being considered has been detrimental to our ability to attract new business. It is for these reasons that maintaining the current rate of income tax at 20% is important to the future success of Jersey, thereby removing the uncertainty around what has been the bedrock of the Jersey economy for so long - our low and stable personal tax system.

The key elements of the FSR are therefore proposed to be the increase in GST and introduction of 2% social security contributions above the ceiling. The charts in Figure 11.2 show the distributional impact of this package on some illustrative households. The first chart shows the average tax rate (taxes included are income tax, employee social security, GST and impôts) before and after the change for the three household types and at different household income levels. The second chart shows the change in the average tax rate for the various households at different income levels and the third the change in money terms.

Figure 11.2: The distributional impact of the two FSR measures (2% on GST, 2% social security contributions above the ceiling)



Figures 11.3 to 11.5 present the same information in tabular form and for a cross section of household incomes.

Figure 11.3: Single person

Household income	Additional tax	Additional tax (% of income)
£25,000	£262	1.0%
£50,000	£588	1.2%
£75,000	£1,231	1.7%
£100,000	£1,837	1.8%
£125,000	£2,442	2.0%
£150,000	£3,055	2.0%

Figure 11.4: Married couple, 2 children, £300k mortgage

Household income	Additional tax	Additional tax (% of income)
£25,000	£262	1.0%
£50,000	£463	0.9%
£75,000	£856	1.2%
£100,000	£1,337	1.3%
£125,000	£1,817	1.5%
£150,000	£2,305	1.5%

Figure 11.5: Pensioner couple

Household income	Additional tax	Additional tax (% of income)
£25,000	£262	1.0%
£50,000	£463	0.9%
£75,000	£606	0.8%
£100,000	£712	0.7%
£125,000	£817	0.6%
£150,000	£930	0.6%

It is clear from these charts and tables that the two measures generally combine to deliver a package that is progressive – those on higher incomes pay more and a higher proportion of their income – and this is before the less well-off are compensated for the impact of GST through income support and the GST bonus. For pensioners the impact is not progressive as they will not be affected by the change in social security contributions. However, this means that pensioners at each income level in the examples above are affected the least in cash terms and as a proportion of their income from the FSR proposals.

These are the right solutions because they minimise the impact on our competitiveness and the wider economy while those on higher incomes will contribute more both in cash terms and as a proportion of their income. Businesses will also make a significant contribution. The right balance has been struck between raising money in a way that is fair but also in a way that does not risk significant economic damage by driving away businesses and individuals leaving an even higher tax burden on the remaining Islanders.

12. Income Tax Proposals

Background

The following proposed measures are important for continuing to improve how our taxes work both within the States and with people and businesses.

Detailed Proposals for 2011

Submission of company accounts - Jersey resident shareholder declarations

Currently accounts may be submitted voluntarily in support of personal tax returns. It is proposed that the law be amended to make it a requirement for the Jersey resident shareholders of Jersey companies to submit a copy of the company accounts in support of their shareholder declarations. This will enhance the Comptroller's ability to check the compliance of Jersey resident shareholders.

Late filing fee for company tax returns

It is proposed that the law is amended to introduce a late filing fee for the late submission of company tax returns. The fee will be £250 and the deadline date and time will be 6.00pm on the last Friday in July. This fee is the same for personal tax returns.

Provision to raise an additional tax assessment

It is proposed that the law is amended to allow the Comptroller to raise an appropriate additional assessment to income tax on any person who refuses to supply any document or information required in support of any declaration made on their income tax return.

Calculation of ITIS effective rate

It is proposed that the law is amended with regard to the calculation of the ITIS effective rate to statutorily factor in any significant shortfall in the collection of tax due on employment income. This tends to happen when an individual's earnings increase significantly. This will ensure that the tax is collected earlier, avoid the individual falling into arrears and potentially reduce the level of tax written off when an individual leaves the Island with tax outstanding.

Profits arising from the exploitation of land

It is proposed that all profits arising from quarrying and other similar exploitation of land in the Island are brought within the Schedule A, under which profits are taxed at 20%. Schedule A already brings into charge to tax all profits and gains arising from rents and other receipts arising from land.

Increasing compliance for non-resident landlords

Certain non-resident landlords with rental income arising in Jersey are not fulfilling their tax obligations by failing to pay the tax due on their rental income. It is proposed that the law be amended to empower the Comptroller to order any tenant to deduct tax when there is a non-compliant non-resident landlord, to ensure Jersey tax relating to rental income, including any arrears, is collected.

Amendments to occupational and private pensions tax legislation

Various amendments are proposed to ensure greater clarity in, and to remove ambiguities from, the current pensions tax legislation.

Calculation of deemed interim dividend

This proposal will make it easier for many Jersey resident shareholders of Jersey trading companies to complete their tax returns. The calculation of deemed interim dividends will now factor in all cash dividends paid out of the same relevant profit by the 31 December of the following year.

The shareholder will now declare on their personal tax return:

- the deemed interim dividend; and
- the cash dividend paid out of relevant profits for the financial period.

There will no longer be a need to declare a tax credit. It will not result in any more or less tax being paid.

Calculation of profits for attribution

This proposal will also make it easier for many Jersey resident shareholders of Jersey investment companies to complete their tax returns.

The shareholder will now declare on their personal tax return:

- the attributed profit less the cash dividend paid; and
- the cash dividend paid out of attributable profits for the financial period.

There will no longer be a need to declare a tax credit. It will not result in any more or less tax being paid, nor will it affect the timing of when that tax is due and payable.

Calculation of deemed interim dividends following the sale of shares

The profits of a Jersey company for the periods to and from the date of transfer or sale of its shares may be significantly different. It is proposed that the law is amended to provide for an alternative calculation of deemed distributions by reference to the periods to and from the date of transfer or sale of the shares in order to produce a more equitable apportionment of the taxable deemed distributions. A similar amendment is proposed where a court orders the disposal of shares.

Payment of tax by trustee

The law currently provides that, where a trust owns shares in a Jersey company, the Comptroller shall assess the trustees of the trust as agent of a Jersey resident beneficiary in respect of any tax due on deemed distributions or attributed profits. It is proposed that the law is amended to provide that the Comptroller may instead assess the Jersey resident beneficiary of a trust on deemed distributions or attributed profits if the trustees fail to comply with the provisions as set out in the law.

Profits arising from importation of oil and related products

It is proposed that all profits arising to companies importing oil into the Island to be used as fuel for vehicles, boats, aircraft and heating are brought within the 20% tax charge currently levied on utility companies under Article 123C(3).

Exemptions and Allowances

Exemptions

The Minister proposes to increase the Income Tax Exemption limits for the year of assessment 2011 by 1.1% (the increase in average earnings in 2010) which will mostly affect individuals and tax revenues in 2012. Figure 12.1 shows this increase in exemption limits and Figure 12.2 shows the tax savings for some examples of households.

Figure 12.1: Exemption thresholds for years of assessment 2010 and 2011

	2010	2011
Single Person	£12,650	£12,790
Single Person (aged 63+)	£14,110	£14,270
Married Couple	£20,280	£20,510
Married Couple (aged 63+)	£23,220	£23,480

Figure 12.2: Impact of increasing exemption limits for some households

Household	Income	2010 tax liability	2011 tax liability	Tax saving
Single, no children	£15,000	£634	£596	£38
Married, 2 children, wife not working	£35,000	£2,354	£2,292	£62
Married, no children, wife working	£65,000	£10,859	£10,797	£62
Married, 1 child, £150k mortgage @ 5%	£40,000	£2,489	£2,427	£62
Single Pensioner (aged 63+)	£20,000	£1,590	£1,547	£43
Married Pensioner (aged 63+)	£25,000	£480	£410	£70

Allowances

The established “20 means 20” provisions will result in the fifth and final year of the withdrawal of tax allowances in 2011 for those on higher incomes.

The allowances for the years of assessment 2010 and 2011, as proposed under 20 means 20, are shown in Figure 12.3. This shows that for taxpayers affected by 20 means 20 the allowances are fully withdrawn by the 2011 year of assessment. However, for the purposes of the assessment of taxpayers under the 27% marginal rate, all tax allowances remain unchanged.

Each year the withdrawal of tax allowances from higher earners on the standard 20% tax rate increases the income tax yield.

Figure 12.3: Proposed allowances for years of assessment 2010 and 2011

	At Marginal 27% rate		At Standard 20% rate	
	2010	2011	2010	2011
Single Person	N/A	N/A	£520	£0
Married Person	N/A	N/A	£1,040	£0
Earned Income (max)	N/A	N/A	£680	£0
Wife's Earned Income (max)	£4,500	£4,500	£900	£0
Child Allowance	£3,000	£3,000	£3,000	£3,000
Child Allowance (higher education)	£6,000	£6,000	£6,000	£6,000
Additional Allowance*	£4,500	£4,500	£4,500	£4,500

**for people with single-handed responsibility for children*

Tax Facts

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

The tax threshold, i.e. the point above which an individual starts to pay income tax, is determined by the individual's personal circumstances. For example, a married couple, who are both working and have two children (one at university), paying mortgage interest of £7,500, do not become liable to income tax in 2010 until their income exceeds £41,280. For 2011 this would increase to £41,510 under the current proposals, calculated as follows:

	2010	2011
Married Couple Exemption	£20,280	£20,510
Wife's Earned Income (max)	£4,500	£4,500
Child Allowance	£3,000	£3,000
Child Allowance (higher)	£6,000	£6,000
Mortgage Interest	£7,500	£7,500
Total	£41,280	£41,510

Comparisons

The historically generous tax thresholds in Jersey mean that many Islanders still pay less tax than in most neighbouring territories.

The **income tax payable by a married couple** in 2010 with a joint income of £40,000, without children or a mortgage, is as follows:

Isle of Man	£2,208
Jersey	£4,109
Guernsey	£4,380
United Kingdom	£5,805

The **income tax payable by a married pensioner** in 2010 (aged 63+) with an income of £25,000, without a mortgage, is as follows:

Isle of Man	£260
Jersey	£480
Guernsey	£720
United Kingdom	£3,312

Updates

Deemed rental charge (Blampied proposals)

As announced in Budget 2010 paragraphs (g) and (ga) of Article 115 have been abolished. This removes tax exemptions for UK Superannuation funds.

As part of the Business Tax Review, further consideration is being given to whether and how some non-finance, non-Jersey owned companies can contribute to the Island's tax revenues. The main focus of the Business Tax Review is now on the EU Code of Conduct assessment of the zero/ten regime and no changes will be contemplated until that review is completed. Further announcements will be made during 2011.

Share options and share awards

Following the completion of the consultation process it has been decided that no amendment will be made to the Income Tax Law at present but further consideration will be given to this matter during 2011.

13. Goods and Services Tax Proposals

Background

The first proposal below is vital as part of the overall FSR package of measures to help meet the Island's structural deficit. The other proposals look to improve how our GST system works both within the States and with people and businesses.

Detailed Proposals for 2011

Increase the GST rate from 3% to 5%

A commitment was made not to increase GST for three years following its introduction in May 2008 and that commitment will be met. The FSR proposal is to increase the GST rate from 3% to 5% from 1 June 2011. The protection of the less well-off in our society from the impact of GST is maintained in this proposal and the income support system and GST bonus will be adjusted accordingly.

The proposal maintains its broad-based coverage with few exclusions by zero-rating or exemption. If further exclusions were introduced the tax system would become more complicated, the compliance costs for business and the administration costs for the States would both increase, and a higher rate would be required to generate the same revenue yield.

As was the case when GST was introduced, the Treasury Minister recognises the difficulties faced by the Jersey hospitality industry (in particular hotels) in providing prices to tour operators for accommodation in Jersey before the proposed increase in GST can be approved. The Minister will allow a similar concession which in effect will delay the imposition of the 5% rate to this sector until 1 January 2012.

International Services Entities (ISEs)

Eligible financial services companies may apply for ISE status. In order to ensure that the finance industry continues to make an appropriate contribution to GST revenues, it is proposed to increase the basic fee from £100 to £200 for these companies from 1 January 2010. Further details regarding the basis for this increase are included below.

Transfer of going concern (TOGC)

Amendments are proposed to provide greater clarity for what are intended to be business friendly provisions that apply to GST registered businesses.

Value of gift not subject to GST

It is proposed that the value of a gift before it is treated as a supply (and taxable) for GST purposes should be increased from £10 to £100.

Powers and penalty

Amendments are proposed to the late return penalty and late payment surcharge which based on live tax experience are considered to fall disproportionately on smaller GST registered businesses.

Adjustments by the use of tax credit and debit notes and supplies by agents

Various changes are proposed to provide greater flexibility for the business community.

International Services Entities (ISE) Fees

Eligible financial services companies and the clients of the financial services industry may apply for ISE status, which allows them to satisfy their obligations under GST by payment of an annual fee. The level of the fee depends on the regulatory status of the company, and the basic ISE fee is £100. Approximately 33,000 entities, including companies and other vehicles such as limited partnerships, are subject to the £100 fee, and this makes up the majority of the total GST contributed by the finance industry.

The proposal is to increase the £100 ISE fee to £200 from 1 January 2011, raising in the region of £3 million a year. In setting the level of this increase, consideration was given to ensuring that the financial services industry continues to make an appropriate contribution to GST revenues, and also to ensuring that the total statutory fees paid by Jersey companies are set at a competitive level.

A commitment was given by the Treasury and Resources Minister during the 2010 Budget debate to review the current level of charges for Annual Company Fees in Jersey following a proposed amendment to the 2010 Budget.

This review was conducted throughout 2010. In the course of this review and following consultation with the public and businesses, it was identified that:

- Many Jersey companies pay an annual £100 fee to be approved as an International Services Entity (ISE) under the GST legislation and an annual company fee of £150 so that the total statutory contribution is £250.
- As a result, when comparing Jersey to other international finance centres, it is necessary to consider the combined fee rather than Annual Company Fees in isolation.
- The total annual statutory fees paid by most companies in Jersey are lower than those in our main competitors even when taken together.
- Increasing the ISE element of the total fee emerged as the preferred option by respondents to the consultation, as to increase the Annual Company Fee would directly affect local trading companies.

As ISE status is not generally applicable to local trading companies, it has the advantage of not increasing annual costs for these companies.

This proposal if agreed by the States would bring the total annual statutory fees payable by international companies to £350, which is broadly in line with our closest competitors.

14. Impôts Duty Proposals

Background

Each year, in advance of the budget, the proposals for Impôts duties are reviewed against the prevailing economic conditions, financial position and the States Strategies on Alcohol and Tobacco.

The Minister's proposals for 2011 are consistent with these strategies.

Proposals for 2011

The Minister is continuing the policy of including the proposed duty increases in the Budget Statement ahead of Budget Day, and the proposals for 2011 are indicated in Figure 14.1. The Minister continues with this consistent policy in relation to increases in duty, and importers now expect increases at budget time and make any decision regarding extra stocks accordingly.

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

- The most recent rate of inflation, (+2.8% at the time of writing, June 2010);
- Specific references to excise duty (Impôts) in the September interim report of Jersey's Fiscal Policy Panel;
- Results of the recent public consultation on personal taxation;
- Excise duty rates (Impôts) previously proposed in the 2010 Budget, but amended during the debate;
- Current tobacco and alcohol strategies;
- Informal consultation with Health and Social Services and the Economics Unit;
- That excise duty (Impôts) on fuel has remained static for two years; and
- That excise duty (Impôts) on tobacco and alcohol has remained static for one year.

As it is now customary it is proposed that this year's increases in duty will not take effect until midnight on 31st December 2010.

Alcohol

The Minister believes that for 2011 the correct basis for duty increases should be with reference to the duty increases proposed but not introduced in the 2010 Budget.

Accordingly the Minister proposes that the duty on alcoholic beverages should rise by 6.2%. This would raise an additional £1 million per year.

Tobacco

The policy of increasing duty on tobacco at a level above the cost of living is being continued. The 'Tobacco Strategy for Jersey' has as an objective; "to ensure that the cost of tobacco products increases annually over and above the level of inflation".

The proposed new duty rates are 11.1% higher than the current rates which would raise an additional £1.3 million a year.

This is consistent with the Minister's policy of above inflation increases, as while the short-term effect is a small increase in the Retail Price Index, in the medium to long-term increases in indirect taxation reduce inflationary pressures.

The increase in tobacco duty is intended to discourage consumption and the Health and Social Services Department believe that the policy is having success.

Undoubtedly the high cost of tobacco is playing an important part in reducing consumption but there is also evidence to show that locals and tourists are increasingly turning to duty free sources for their tobacco supplies. The Customs and Immigration Service continue to monitor this activity and personal importations in excess of the allowance are frequently detected. There is however at this time no evidence or intelligence to suggest that there has been a marked increase in passengers evading Impôts duty by exceeding their statutory allowances or that commercial quantities of cigarettes are being smuggled into the Island.

Fuel

Excise duty on fuel has remained static for the past two years. The Minister considers it appropriate to propose a 4.9% increase for 2011 which would raise an additional £1 million a year.

The Minister's proposals are summarised in the following table.

Figure 14.1: Duty increases proposed for 2011

	Current duty	Proposed duty	Increase
Litre of Whisky @ 40%	£9.37	£9.95	58 pence
Bottle of table wine	£1.12	£1.19	7 pence
Pint of beer/lager < 4.9% abv	£0.28	£0.30	2 pence
Pint of beer/lager > 4.9% abv	£0.42	£0.45	3 pence
20 King Size cigarettes	£3.15	£3.50	35 pence
Litre of unleaded petrol	£0.41	£0.43	2 pence
Litre of Diesel	£0.41	£0.43	2 pence

Comparisons with neighbouring jurisdictions

Figure 14.2:
A comparison of typical 2010 tax and duty levels for a range of commodities

	Jersey Duty	Jersey GST @ 3%	Guernsey Duty	UK Duty	UK VAT @ 17.5%	France Duty	France TVA @ 19.6%
Litre of Whisky @ 40%	£9.37	£0.55	£9.67	£9.52	£2.38	£4.96	£2.12
Bottle of table wine	£1.12	£0.16	£1.34	£1.69	£0.89	£0.02	£0.59
Pint of beer/lager @ 4.5% abv	£0.28	£0.08	£0.34	£0.44	£0.38	£0.06	£0.74
Pint of beer/lager @ 5.5% abv	£0.42	£0.10	£0.34	£0.54	£0.45	£0.07	£0.77
20 King Size cigarettes	£3.15	£0.15	£2.99	£3.79	£0.88	£2.94	£0.75
Litre of unleaded petrol	£0.41	£0.03	£0.37	£0.58	£0.18	£0.50	£0.19
Litre of Diesel	£0.41	£0.03	£0.37	£0.58	£0.18	£0.35	£0.16

Note: The prices shown are based on a narrow range of sources, but are for equivalent products. There will be considerable price variations in each jurisdiction, especially for wine and beer. Fuel prices are also subject to rapid change.

Figure 14.3:
2010 retail prices excluding tax and duty – comparisons with the UK (June 2010)

	Jersey Retail Price	Jersey Duty	GST	Price net of duty & GST	Duty & GST as % of price	UK Retail price	UK Duty	UK VAT	Price net of duty & VAT	Duty & VAT as % of price
Litre of Whisky	£18.99	£9.37	£0.55	£9.07	52%	£16.00	£9.52	£2.38	£4.10	74%
Pint of standard Beer	£2.68	£0.28	£0.08	£2.32	13%	£2.58	£0.44	£0.38	£1.76	32%
20 King Size Cigarettes	£5.23	£3.15	£0.15	£1.93	63%	£5.88	£3.79	£0.88	£1.21	79%
Litre of Unleaded Petrol	£1.05	£0.41	£0.03	£0.61	42%	£1.18	£0.58	£0.18	£0.42	64%

Note: These figures are before the impact of the budget proposals

Figure 14.3 illustrates that in all the above examples of dutiable products the proportion of price made up by duty and tax is significantly lower in Jersey than the UK. Even after allowing for other cost factors in Jersey and the lack of economies of scale there could still be a greater margin in the retail price of products in Jersey than exists in the UK.

Vehicle Emissions Duty (VED)

In September 2010 Vehicle Emissions Duty (VED), an excise duty that is in the main calculated with reference to motor vehicles CO₂ emissions, was introduced. VED has an estimated annual revenue yield of £2 million.

There are no proposals to change VED in this year's Budget.

15. Stamp Duty Proposals

Background

So far this year, the housing market has seen a reduction in property prices compared to last year, with the number of properties sold being about the same. It is expected that the levels of property turnover we are seeing now will continue in 2011 but a gradual recovery is predicted in future years.

In the 2010 Budget the Treasury Minister stated that the review of stamp duty would be considered as part of the Fiscal Strategy Review.

The level of stamp duty was reviewed as part of the work that was carried out during the review and formed part of the consultation on personal taxation earlier this year.

The possibility of further changes to stamp duty, such as on the duty on the registration of borrowings and commercial property share transfer, are still under review.

Proposals for 2011

Stamp duty rates

Further bands of stamp duty for higher value properties of over £1 million are being proposed (as shown in Figure 15.1). This applies to wills of immoveable estate as well as freehold property transactions.

Figure 15.1: Proposed changes to stamp duty and LTT rates

Property value (£)	Current	Proposed
0 - 50,000	0.5%	0.5%
50,001 - 300,000	1.5%	1.5%
300,001 - 500,000	2%	2%
500,001 - 700,000	2.5%	2.5%
700,001 - 1,000,000	3%	3%
1,000,001 - 1,500,000	3%	3.5%
1,500,001 - 2,000,000	3%	4%
>2,000,001	3%	5%

A discount is available to a “first-time buyer” purchasing a property up to £400,000 and for any buyer through the “Jersey Homebuy” scheme. These will continue to apply to freehold and share transfer transactions.

Land Transactions Tax (share transfer)

On 1 January 2010 Land Transactions Tax was brought into effect. This tax ensures that residential share transfer property transactions in Jersey attract tax at a rate

exactly equal to the stamp duty which would have been paid on the purchase of a freehold property.

Associated borrowing is also taxed in the same way that stamp duty is paid for borrowing on freehold properties, and similar provisions to provide exemptions and discounts to first-time buyers also apply.

Further bands of Land Transactions Tax for higher value properties of over £1 million are being proposed so that it remains consistent with stamp duty.

Judicial fees

Judicial fees are charged for court services such as for the acknowledgement of debts and matrimonial causes.

It is proposed that all judicial fees are increased to reflect more closely the actual costs incurred. Many have not changed since 2004. Typical increases in fees are from £50 to £60 or from £100 to £120.

There are also a number of changes proposed to the way fees are collected to reduce the difficulty in collecting payments in certain situations.

16. Ongoing Reviews

Independent review of the States tax functions

An independent review of the States tax functions has been commissioned. The review is ongoing and the final report will be delivered shortly.

The review has identified a large number of opportunities for improvements to the way the tax functions operate which if implemented will result in greater efficiencies, better tools to ensure all taxes due are collected and a more appropriate focus on the development of tax policies.

Additional investment will be required to deliver the savings and improved collection but the net position will be a positive contribution. This will be taken into account when considering future budget measures.

The opportunities identified are currently being explored and so further information will be provided in the Minister's Budget speech in December.

Business Tax Review

In his Budget 2010 statement, the Treasury Minister announced that there would be a review of Jersey's business tax regime in light of the changing international views on tax matters. A significant amount of work has been carried out during the year including a detailed review of alternative regimes which led to a public consultation during the summer.

The Treasury Minister committed to investigate whether it is possible to recoup the corporate tax revenue lost from certain non-finance companies with Jersey based business activities on the introduction of zero/ten, without unintended economic consequences. This commitment has been formalised following a successful amendment to the Budget. Work will continue on this in 2011.

The EU Code of Conduct on Business Taxation Group met in September 2010 and started the anticipated assessment of Jersey's zero/ten regime. Assessment of the regime is part of the normal review process of the Code Group. Representatives from Jersey attended the meeting and presented our case to the Group. The purpose of this meeting was to give the Member States an opportunity to fully understand the regime so that they could properly consider the application of the Code. They met again in November 2010 to further consider the regime and concluded that taken as a whole, Jersey's zero/ten regime gave rise to harmful effects.

Understanding the views of the Code Group is an important step in this review and there will be further engagement with the UK and the EU Commission in the coming weeks. A further update was provided in the Minister's Budget speech in December.

The next step will be the further consideration of the scope of the Code by the High Level Working Party on tax issues. Once that review is complete, further consideration will be given to any changes that may be necessary to Jersey's zero/ten regime.

Review of the 1(1)(k) regime

In the Budget last year, the Treasury Minister committed to commission an independent review of the 1(1)(k) regime. The Treasury Minister considered the recommendations from the review and in the Budget asked the Housing Minister to increase the minimum tax contribution for new applicants to £125,000 a year. The Treasury Minister also announced the intention to bring new legislation to the Assembly in 2011 to ensure Jersey continues to attract wealthy individuals, thereby increasing the tax contribution.

A paper prepared by the Adviser to the States of Jersey on International Affairs setting out the history of the regime has been issued with the aim of dispelling popular misconceptions.

17. Financial and Manpower Implications

Financial Implications

The financial implications of the Budget proposals are included in the financial forecast at Figure 4.5 and in detail are as follows:

GST

- The proposed 2% increase in GST to 5% from 1 June 2011 is estimated to generate £16 million in 2011.
- An increase in ISE fees will generate £3 million in 2011.

Impôts Duty

- The proposal to increase impôts duties is estimated to generate additional States income of £3.3 million in 2011. This is made up of:
 - £1 million from fuel duty;
 - £1 million from alcohol duty; and
 - £1.3 million from tobacco duty

Stamp Duty and Land Transactions Tax

- The introduction of the proposed increased bands for properties of £1 million and above will generate an estimated £1 million in 2011.

Manpower Implications

The proposals within the Budget Statement 2011 will be implemented without any increase to current approved manpower levels.

18. Summary Table B – States Income 2011

States Income Analysis - Sources of Income			
2009 Actual £	2010 Revised Estimate £		2011 Estimate £
		Income Tax	
250,357,000	255,000,000	Employees	268,000,000
43,300,000	45,000,000	Self Employed and Investment Holders	47,000,000
214,433,000	79,000,000	Companies	65,000,000
508,090,000	379,000,000	Total Income Tax	380,000,000
47,142,000	46,600,000	Goods and Services Tax	66,812,000
		Impôts Duty	
4,172,000	3,964,000	Impôts on Spirits	4,041,000
6,340,000	6,309,000	Impôts on Wines	6,766,000
870,000	828,000	Impôts on Cider	906,000
5,324,000	5,234,000	Impôts on Beer	5,391,000
13,856,000	12,944,000	Impôts on Tobacco	13,231,000
20,685,000	20,254,000	Impôts on Motor Fuel	21,247,000
125,000	150,000	Impôts on Goods Imported	150,000
-	500,000	Vehicle Emissions Duty	2,000,000
51,372,000	50,183,000	Total Impôts Duty	53,732,000
23,578,000	19,875,000	Stamp Duty	20,775,000
630,182,000	495,658,000	Total Taxation Revenue	521,319,000
10,306,000	10,636,000	Island Rate	10,912,000
		Other Income	
3,439,000	-	Interest on Cash Balances	-
14,754,000	12,015,000	Dividends	13,690,000
3,740,000	3,700,000	New Company Fees via Financial Services Commission	3,700,000
1,031,000	1,200,000	Income Tax Penalties	1,000,000
331,000	-	Currency and Coinage Surplus	-
276,000	236,000	Interest and Repayments on Loans	195,000
442,000	2,900,000	Financial Returns from States Trading Operations	2,455,000
8,886,000	2,870,000	Commission from European Union Retention Tax	2,750,000
643,000	470,000	Miscellaneous Income	6,882,000
33,542,000	23,391,000	Total Other Income	30,672,000
-	2,100,000	Increase in CIF asset value	2,400,000
£ 674,030,000	£ 531,785,000	Total States Income plus increase in CIF value	£ 565,303,000

19. Summary Table C – Consolidated Fund 2011

	£	2010 Estimate £	£	2011 Forecast £
Estimate of Unallocated Consolidated Fund Balance brought forward - 1st January		53,000,000		19,330,000
Movements in Year				
Income				
Income Tax	379,000,000		380,000,000	
Goods and Services Tax	46,600,000		66,812,000	
Impôts Duties	50,183,000		53,732,000	
Stamp Duty	19,875,000		20,775,000	
Island Rate	10,636,000		10,912,000	
Other Income	23,391,000		30,672,000	
Income to the States		529,685,000		562,903,000
Increase in CIF asset value		2,100,000		2,400,000
Repayment of Capital Debt/Depreciation		34,500,000		37,073,000
Capital Receipts and Vote Transfers		14,000,000		25,000,000
Unallocated Funds Available		633,285,000		646,706,000
Expenditure				
Revenue Expenditure Allocation from Business Plan	586,368,000		615,802,000	
Additional Expenditure Approved	23,000,000		-	
Forecast variations	(8,000,000)		(9,075,000)	
Repayment of Capital Debt/Depreciation	34,500,000		37,073,000	
Capital Expenditure Allocation	46,087,000		38,149,000	
Total Net Expenditure Allocation to States Funded Bodies		681,955,000		681,949,000
Transfer to Strategic Reserve		-		-
Proposed Transfer from Stabilisation Fund		68,000,000		46,000,000
Proposed Transfer to Stabilisation Fund		-		-
Estimated Unallocated Balance in Hand at 31 December		19,330,000		10,757,000
SUMMARY				
		2010 Estimate £		2011 Forecast £
Unallocated Consolidated Fund Balance brought forward - 1st January		53,000,000		19,330,000
Forecast surplus/(deficit) for the year		(101,670,000)		(54,573,000)
Transfer to Strategic Reserve		-		-
Proposed Transfer from Stabilisation Fund		68,000,000		46,000,000
Proposed Transfer to Stabilisation Fund		-		-
Estimated Unallocated Balance in Hand at 31 December		19,330,000		10,757,000

The Public Finances (Jersey) Law 2005 requires the balance on the Consolidated Fund at the end of 2011 to be estimated, reflecting the effect of the tax and funding proposals in this Budget, and those expenditure allocations agreed in the Annual Business Plan in September. The States is asked to note the estimated balance of **£10,757,000**.