STATES OF JERSEY

BUDGET REPORT 2006

Finance and Economics Committee

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States of Jersey

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Foreword

Finance and Economics Committee

I am pleased to present the 2006 Budget at the end of a year which has seen a return to economic growth, a fall in the rate of inflation, rising employment, a reduction in public expenditure in real terms and the approval of the tax reforms which will ensure continued economic prosperity and sustainable funding for essential public services.

This year has seen the achievement for the first time, in June 2005, of the States' inflation target of RPI(X) of 2.5%. Whilst the latest inflation rate of 1.9% is a cause for celebration there is no room for complacency in the long-term battle against inflation. One of the main ways the States can reduce inflation is by keeping its own expenditure under control and not budgeting for deficits. The growth in public expenditure has reduced from over 10% in 2001 to 2.7% in the current budget. And I am delighted that the States has overwhelmingly supported public expenditure only growing by no more than 2.6% a year for the period 2006 to 2010.

Perhaps the only real disappointment in this year's budget is the small increase in the deficit predicted for 2006 to £8 million, mainly as a result of a decline in revenues from company tax and impôts duties. This decline in traditional tax revenues provides further affirmation of the need to introduce the new taxes agreed by the States in June in order to finance essential services such as health, education, and social benefits for those on low incomes.

Good progress is being made with the delivery of the fiscal strategy. The States approved the economic growth plan, which will help drive additional tax revenues, the Income Tax Instalment Scheme (ITIS) will commence in January 2006, and Crown Agents have been appointed to manage the implementation of the Goods and Services Tax in 2008. Proposals are also being brought forward in the next year for taxes which support the States environmental objectives.

There is widespread support for the introduction of ITIS, though some concern has been expressed about its short term consequences for both individuals and the economy. My Committee remains convinced that the early introduction of ITIS is essential for social reasons but has decided to mitigate the impact by limiting increases in duty on petrol and alcohol to no more than inflation, and by deferring the phasing out of income tax allowances for higher earners (20% means 20%) until 2007. My Committee remains, however, fully committed to making the overall tax system more progressive by increasing the tax contribution from higher earners.

This year's budget also includes measures intended to assist local businesses, including a reduced duty rate of 50% for small distilleries and small cider producers and a reduced rate of Vehicle Registration Duty on second hand vehicles.

This is the last year the States will approve the detailed spending plans contained in the Budget Annex, as well as the tax measures in the Budget debate. Under the new Public Finances Law, future spending plans will be approved during the States Business Plan debate in September, with the Budget debate being reserved for tax and funding proposals.

My Committee's key aims are continued prosperity for the people of Jersey, full employment, low inflation and sustainable public services delivered through a strategy based on an internationally competitive corporate tax regime, tight control of public expenditure, increased public sector efficiency and phased new tax measures. This Budget represents a further positive step towards the implementation of this strategy for the Island's economy.

In conclusion I should like to record my appreciation of the contributions made by Committee Presidents, States Members and Chief Officers in creating this document. Above all I should like to thank the members of my Committee and even more a small but dedicated team of staff working under the aegis of the Treasurer of the States, without whom this Budget and its comprehensive supporting documentation could not have been produced so swiftly and so effectively.

Senator Terry Le Sueur
President
Finance and Economics Committee

November 2005

Executive Summary

Key features of the 2006 Budget are as follows:

Updated Financial Forecasts 2006 – 2010

- The financial position has deteriorated since the States Business Plan 2006-2010 with reductions in the revenues from Income Tax and Impôts Duties increasing the deficit in 2006 to £9 million before any budget measures.
- Increases in Impôts Duties, broadly in line with inflation, will reduce the 2006 Budget deficit by £1 million to £8 million.
- Implementation of the measures in the Fiscal Strategy, in accordance with the agreed timetable, will enable a return to balanced budgets by 2008.

Income Tax

The Committee's main income tax proposals in the 2006 Budget are:

- tax exemptions and allowances are frozen for 2005;
- in accordance with the Island's commitment to Ecofin, the cessation of the International Business Company (IBC) facility to ensure that no new IBC's are capable of being formed from 1st January, 2006; and
- an expansion of the category of non-residents' pension plans that can have exemption from Jersey income tax, thus improving Jersey's competitive position.

In addition to these new measures, the Committee will also be progressing the following initiatives in 2006 in furtherance of the agreed Fiscal Strategy:

- Goods and Services Tax;
- the EU Savings Directive and OECD Tax Information Exchange Agreements;
- 20% means 20%, which has been deferred until 2007;
- current year basis of assessment for profits and related provisions;
- the '0/10' corporate structure and related provisions; and
- new information and enforcement powers.

Impôts Duty

The Committee's Impôts Duty proposals are:

- increase alcohol and tobacco duties broadly in line with the rate of inflation and in accordance with the Alcohol and Tobacco Strategies representing:
  - Δ 29 pence on a litre of spirits;
  - Δ 3 pence on a bottle of wine;
  - Δ 1 penny on a pint of beer; and
  - Δ 11 pence on a packet of 20 cigarettes.
- introduce a reduced 50% duty rate for small distilleries and small cider producers to encourage local businesses;
- in respect of Fuel Duty and Vehicle Registration Duty (VRD):
  - Δ increase duty on all road fuel by 1 penny a litre; and
  - Δ maintain the underlying rates of Vehicle Registration Duty.
- introduce a new discounted rate of Vehicle Registration Duty for second hand vehicles.

Executive Summary

Stamp Duty

The Committee's main proposals for Stamp Duty are:

- to maintain the existing Stamp Duty rates on property purchases;
- to introduce anti-avoidance measures in respect of:
  - Δ duty payable on the transfer of property between sole and joint ownership;
  - Δ licences now being explicitly treated in the same way as leases within the regulations.
- to introduce provisions for fees on applications made under the new Children (Jersey) Law 2002.

The Committee will continue with plans to introduce Stamp Duty for Share Transfer transactions on the grounds of equity as charged to do so by the States.

States Expenditure Proposals

The Committee's proposals, approved in the States Business Plan 2006-2010, focussed the control of States spending on total net revenue and capital expenditure increases at around 2.5% over the next five years.

The expenditure proposals for the 2006 Budget are:

- an increase in total States net expenditure of 2.7% to £480 million;
- a reduction in the capital programme from £43 million in 2005 to £39 million in 2006; and
- no allocation to the General Reserve for unforeseen contingencies, requiring Committees to manage their affairs within cash limits.

Despite the tight control on spending increases, the revenue and capital resource allocation processes have allowed funds in 2006 for:

- additional revenue funding of £6.5 million targeted at the priority areas of Health and Social Services, Education, the Prison Service and Social Benefits; and
- a number of high priority capital projects, including:
  - Δ the urgent remediation work needed at St. Catherine's breakwater;
  - Δ the first allocation for the £30 million "below ground" works projects at the Airport;
  - Δ three projects in the first phase of the £80 million Solid Waste Strategy;
  - Δ allocations for projects at Hautlieu, Mont A L'Abbé and Grainville schools;
  - Δ the replacement of an MRI Scanner at the General Hospital; and
  - Δ further essential investment in the Island's sewer and sea defence infrastructure.

Financial Forecast 2005 to 2010

Probable 2005 (restated) £' 000		<— Estimates 2006 £' 000	2007 £' 000	2008 £' 000	2009 £' 000	2010 £' 000 —>
	Income					
370	Income Tax	385	403	417	432	381
47	Impôts	46	44	43	41	40
17	Stamp Duty	17	17	17	17	17
22	Other Income	24	24	24	24	24
456	Total Income	472	488	501	514	462
	Expenditure and Transfers to Reserves					
425	Total States Net Revenue Expenditure	441	454	467	480	490
43	Capital Allocation	39	39	39	39	42
-	Transfer to Strategic Reserve	-	-	-	-	-
468	**Total States Net Expenditure**	480	493	506	519	532
(12)	**Deficit for the year**	**(8)**	**(5)**	**(5)**	**(5)**	**(70)**

Notes:

Income

- The forecasts reflect the latest estimates of States revenues revised in September 2005.
- The presentation has been revised to show income tax fees for late submission/payment within "Other Income" as part of the General Revenues to the States, previously this appeared within the Finance and Economics Committee's income.
- The figures for 2010 are indicative, based on a number of assumptions about the reduced tax revenues from the new '0/10' corporate tax structure.

Expenditure

- The expenditure figures in the financial forecast represent the proposals approved in the States Business Plan 2006-2010.
- The 2005 net revenue expenditure has been restated to reflect the transfer of income tax fees to "Other Income" of the General Revenues.

Capital Fund

- The unallocated balance on the States Capital Fund is estimated to be £6 million at 31st December 2006 as shown on page 12.
- The relevance of the Capital Fund is that the 'Public Finances Law' does not permit this figure to fall below zero.

Report of the Finance and Economics Committee

1. FINANCIAL FORECASTS 2005 - 2010

1.1 2005 Budget

The 2005 Budget predicted a budget deficit in 2006 of £4 million, based on a revenue expenditure increase of 2.6% and capital expenditure of £43 million. This deficit was forecast to reduce to £1 million in 2008 and then to return to a small surplus in 2009 based on the forecast rise in States revenues at that time.

Table 1.1
Financial Forecast – 2005 Budget (restated from November 2004)

	Budget 2005 £m	Estimate 2006 £m	Estimate 2007 £m	Estimate 2008 £m	Estimate 2009 £m
Total Income	460	474	487	499	512
Total Expenditure	466	478	489	500	511
Deficit	**(6)**	**(4)**	**(2)**	**(1)**	**1**

1.2 States Business Plan 2006 to 2010

Following the deferral of the "20% means 20%" proposals in the 2005 Budget and a fall in the actual 2004 Impôts Duties, the Committee was faced with an increased deficit in advance of the 2006-2008 resource allocation process. The Committee, aware of the service pressures and increased pay awards that would need to be addressed in the expenditure allocation, therefore proposed to Presidents that the overall expenditure increase be constrained to around 2.5% by reducing the annual capital allocation to £39 million.

These proposals were accepted by Presidents and revenue and capital allocations to Committees for 2006 were agreed within an overall expenditure increase of 2.7% per annum.

In June 2005, the States approved the Economic Growth Plan (P38/2005), and the financial forecasts for the States Business Plan 2006-2010 were revised to reflect the anticipated profile of tax revenues which should be generated by the underlying initiatives for economic growth within the Plan.

Table 1.2
Financial Forecast – States Business Plan 2006 to 2010 (July 2005)

	Probable 2005 £m	Estimate 2006 £m	Estimate 2007 £m	Estimate 2008 £m	Estimate 2009 £m	Estimate 2010 £m
Total Income	456	477	489	501	515	461
Total Expenditure	467	479	492	504	517	530
Deficit	**(11)**	**(2)**	**(3)**	**(3)**	**(2)**	**(69)**

The States Business Plan 2006-2010 reflected a financial position very similar to that in the 2005 Budget, despite a number of underlying changes as described above, and presented the prospect of a broadly balanced budget in advance of the move to the '0/10' corporate tax structure in 2009.

1.3 2006 Budget

Since the production of the States Business Plan in July, the forecasts for all States revenues have been reviewed and the financial position also reflects the proposals for States expenditure that were approved in the States Business Plan.

These forecasts show a further reduction in the revenues expected for Impôts Duties based on the evidence of actual figures in the first part of 2005. There is also a deterioration in the 2006 forecast for income tax, based on the current year tax assessments.

The net effect of these changes is to increase the deficit in 2006 to £9 million, reducing to £6 million in 2009, before the 2006 Budget proposals, as shown in Table 1.3.

The Committee's objective is to return to balanced budgets by 2008, and although at this stage it is showing small deficits, it is confident that the timely implementation of the remaining measures approved in the Fiscal Strategy (P44/2005) will achieve that objective.

In addition, the Committee will continue its policy of small increases in existing taxes and is proposing a budget deficit of £8 million in 2006. It would not be sensible at this stage to increase personal tax allowances as this would permanently worsen the size of the deficit.

Table 1.3
Financial Forecast – 2006 Budget (November 2005)

	Probable 2005 £m	Estimate 2006 £m	Estimate 2007 £m	Estimate 2008 £m	Estimate 2009 £m	Estimate 2010 £m
Deficit as shown in 2005 Budget	**(6)**	**(4)**	**(2)**	**(1)**	**1**	**(81)**
Adjusted Deficit as per States Business Plan 2006 – 2010	**(11)**	**(2)**	**(3)**	**(3)**	**(2)**	**(69)**
Reduction in Impôts Duty estimates (Sept 2005)	(2)	(2)	(3)	(3)	(4)	(4)
Reduction in Income Tax estimates (Sept 2005)	-	(5)	-	-	-	-
Other variations	1	-	-	-	-	2
Revised Deficit before Budget proposals	**(12)**	**(9)**	**(6)**	**(6)**	**(6)**	**(71)**
Proposed Measures 2006 Budget						
Existing measures						
- Increase in Impôts Duties	-	1	1	1	1	1
Deficit in 2006 Budget	**(12)**	**(8)**	**(5)**	**(5)**	**(5)**	**(70)**

1.4 Balancing the budgets in the longer term

The indicative financial forecast for 2010, shown on page v, illustrates clearly the importance of the States decision to approve the Fiscal Strategy proposals (P44/2005) in July. Even after the inclusion of the additional revenues from the approved Economic Growth Plan (P38/2005) and the introduction of the Income Tax Instalment System, the States is still faced with a forecast deficit in the order of £70 million in 2010. These projections also assume that States expenditure increases remain within the modest levels set in the recent States Business Plan debate of an average of around 2.5% per annum over the next five years.

Next year, the Committee will bring forward further proposals, after research and consultation, in relation to the environmental tax options contained in the Fiscal Strategy.

1.5 The “Public Finances Law”

The new Public Finances (Administration) (Jersey) Law 200-, the “Public Finances Law”, has been prepared as part of the legislative framework required alongside the new draft States of Jersey Law to facilitate the move to Ministerial Government. A new “Public Finances Law” would have been required in any event to bring the previous 1967 legislation up to date and modernise the associated processes. In doing so the objective has also been to reduce unnecessary bureaucracy and to develop alongside the legislation a practical guide in the form of a new Accounting Manual. This will provide a modern financial control framework encapsulating best practice for all staff involved in States finances.

The new “Public Finances Law”' establishes a Consolidated Fund, in place of the existing Capital Fund and provides a simplification of the current funding structure. In essence this will represent a single States bank account for its operational activities and the annual Budget from next year will vote monies to and from this Fund. As with the current provisions, the new “Public Finances Law” prevents the States from setting a budget which effectively means that States finances would be overdrawn, i.e. a budget deficit would only be allowable if there were sufficient provision in the new Consolidated Fund. On the basis of the current financial forecasts the States finances are indeed projected to become overdrawn in 2007 unless the tax measures in this year’s Budget, including the freezing of tax allowances and exemptions, are approved.

2. FISCAL STRATEGY

2.1 Introduction

The purpose of the Fiscal Strategy is to identify a tax and spending framework which is affordable and sustainable and which safeguards the economy of the Island for future generations.

The Fiscal Strategy is an essential part of the overall States Strategic Framework, and in particular supports two of the Aims of the States Strategic Plan:

- Aim One – To create a strong and competitive economy.
- Aim Nine – To balance the States income and expenditure and improve the delivery of public services.

Report of the Finance and Economics Committee

2.2 Framework for Expenditure

The Business Plan 2006-2010, approved by the States in September 2005, outlined the spending framework for the next five years in the form of limiting increases in total States net expenditure to a target of 2.5% growth per annum.

These targets reflect the Strategic Plan and Fiscal Strategy objectives to constrain expenditure growth to a level below the underlying increase in the Retail Price Index.

These targets have been translated into 2006 Committee cash limits and provisional Committee allocations for 2007 and 2008, which represent financial targets for business planning.

Committees are currently refining their Annual Business Plans for 2006, which will then form the basis for the three-year plans that follow. These will be complete by December 2005.

2.3 Framework for Taxation

Following on from the initial proposals (P106/2004), the States approved the Fiscal Strategy (P44/2005) in June 2005, which laid out the fiscal measures necessary to balance budgets in the short and medium term, together with a timetable for implementation which would achieve the smooth transition to a new corporate tax structure from 2009.

The first step was to introduce the Income Tax Instalment System (ITIS) in the 2005 Budget and this will come into effect and generate additional revenues from 1st January 2006.

The Economic Growth Plan (P38/2005) was approved in May 2005 and contained initiatives to generate an additional £20 million in annual tax revenues by 2009.

The remaining measures, which will be subject to further research and consultation but were approved in principle, are to be implemented over an agreed timetable leading up to the introduction of the new corporate tax structure. These measures include:

- the phasing out of tax allowances for taxpayers on higher incomes from 2007, commonly known as "20% means 20%";
- a broad-based Goods and Services Tax (GST) to be introduced in 2008 at a rate of 3%, fixed for at least 3 years;
- the introduction of imputation provisions requiring Jersey residents to pay personal tax based upon the profits of the Jersey companies in which they have a beneficial interest, (known as 'look-through' arrangements), by 1st January 2009; and
- the introduction of environmental taxes which may include additional taxes on the ownership and use of motor vehicles, on the production and disposal of waste, on the consumption of energy and a development gains tax to be considered in conjunction with the development of planning gains.

The final component of the Strategy relates to the proposals for an Income Support System, which will include provisions to mitigate the effect of the introduction of GST on those with low incomes. This will be brought forward for approval by the Employment and Social Security Committee, in liaison with the Finance and Economics Committee, to be implemented prior to, or simultaneously with, the introduction of GST.

Report of the Finance and Economics Committee

2.4 Finance and Economics Committee Strategy

The Committee's main objectives in relation to States finances, for the period 2006 to 2010 are to:

- restrict increases in total States net expenditure to affordable levels, within the expenditure framework in the Fiscal Strategy and States Business Plan;
- deliver allocations to Committees within the overall spending targets and in accordance with States priorities;
- demonstrate value for money from public services; and
- ensure the delivery of a policy for balanced budgets by 2008.

In support of these key objectives the Committee will also:

- facilitate a process of resource allocation to reflect any significant change in strategic priorities following the review of the Strategic Plan by the new Council of Ministers to enable Business Plans to be produced for 2007 to 2009;
- introduce an annual performance report to be published alongside the Financial Report and Accounts and continue the development of States accounting practices and financial systems to move to achieve internationally accepted accounting standards and reporting;
- maintain the policy, agreed in conjunction with the Policy and Resources Committee, to bring the level of provision for annual increases in the States pay bill to sustainable levels, broadly in line with the current forecasts of increases in States revenues;
- provide professional support to the Change programme through the individual transformation processes necessary to achieve the £20 million efficiency savings target;
- continue to control levels of capital spending closely and phase projects, where necessary, to achieve the constraint in total States spending, yet providing sufficient funds to ensure the ongoing maintenance of essential infrastructure;
- further research and consult on the measures approved in the Fiscal Strategy (P44/2005) and to then implement those measures in accordance with the agreed timetable;
- restrict the extent of external borrowing to a minimal level and only use external borrowing to finance activities which have revenue streams to make the repayments; and
- develop the principles agreed for the Strategic Reserve as part of the Economic Growth Plan, accepting that in the current economic circumstances no transfers are likely, but with an objective to establish a "stabilisation fund" through contributions to the reserve as economic growth allows.

2.5 Inflation

The Committee has been particularly pleased with the continuing reduction in the underlying inflation rate RPI(X). This has fallen consistently over the last two years, reaching the Anti-Inflation Strategy target of 2.5% in June 2005, and most recently 1.9% in the 12 months to September 2005. The Committee is determined that this excellent progress is sustained as it views RPI(X) as the key measure of inflation, primarily influenced by on-Island pay and price movements.

The 'All-Items' RPI, at 2.0% to September 2005, is also at its lowest level since consistent price data has been available from the 1970's in Jersey. The RPI has fallen significantly in recent quarters as the effect of increasing interest rates in the UK have fallen out of the index.

The Committee is not able to control interest rates, however it will continue to endeavour to reduce inflationary pressures by constraining the growth in States spending to a level below the forecasts of inflation. The expenditure framework within the Fiscal Strategy, approved in the States Business Plan, is intended to bear down on inflation and a return to balanced budgets will further reduce inflationary pressures.

3. REVENUE EXPENDITURE 2006

3.1 Net Revenue Expenditure 2006

The States approved, in the Business Plan, an increase of 2.7% in total States spending which allowed greater flexibility between the revenue and capital allocations. The revenue expenditure has increased by 3.8% in 2006 which primarily reflects the cost of the pay awards and service pressures. This increase has only been afforded due to the significant reduction in the capital allocation from £43 million in 2005 to £39 million in 2006.

After allowing for the cost of pay and price increases the resource allocation process agreed to provide just over £6.5 million to priority services. The scope for additional funding was provided by the second tranche of the Change programme which has identified a further £4 million of efficiency savings which will be delivered in 2006.

3.2 2006 to 2008 Resource Allocation Process

The resource allocation process was simplified for 2006 and sought to resolve priorities at a Committee level. The proposals from Committees were summarised by the Chief Officer Group identifying the impacts of the different options for the Presidents. The Presidents then determined the appropriate priorities at a Committee level.

The appropriate provisions for pay, price and benefits inflation from the forecasting model were confirmed by Presidents. This was particularly important as this is the first year in which the full cost of future pay awards are included in future Committee cash limits and there is no central contingency.

The outcomes identified in Table 3.1 reflect the priorities determined by the Presidents which have resulted in the additional funding being allocated to Health and Social Services, Education, Home Affairs and for social benefits. The most significant service reductions are targeted at the Environment and Public Services, Economic Development and Policy and Resources Committees.

Table 3.1
Outcomes of 2006 to 2008 Resource Allocation Process

Committee	Additional Funding £'000	2006 Service Reductions £'000	Net Position £'000	Additional Funding £'000	2007 Service Reductions £'000	Net Position £'000	Additional Funding £'000	2008 Service Reductions £'000	Net Position £'000
Policy and Resources	-	(174.8)	(174.8)	-	(100.0)	(100.0)	-	(100.0)	(100.0)
Privileges and Procedures	553.0	(4.0)	549.0	-	(80.0)	(80.0)	-	(80.0)	(80.0)
Finance and Economics									
- Finance and Economics Departments	417.0	(234.6)	182.4	-	(80.0)	(80.0)	-	(50.0)	(50.0)
- Grant to Overseas Aid Commission	162.0	-	162.0	530.0	-	530.0	353.0	-	353.0
Environment and Public Services	159.0	(377.7)	(218.7)	-	(297.0)	(297.0)	-	(300.0)	(300.0)
Economic Development	418.0	(703.0)	(285.0)	150.0	(423.0)	(273.0)	150.0	(400.0)	(250.0)
Health and Social Services	3,000.0	(93.1)	2,906.9	3,000.0	-	3,000.0	3,000.0	-	3,000.0
Education, Sport and Culture	2,235.0	(972.0)	1,263.0	485.0	(325.0)	160.0	634.0	(634.0)	-
Home Affairs	600.0	(29.0)	571.0	300.0	-	300.0	300.0	-	300.0
Employment and Social Security	600.0	(63.4)	536.6	1,400.0	-	1,400.0	1,500.0	-	1,500.0
Housing	1,454.0	(404.4)	1,049.6	600.0	(190.0)	410.0	250.0	(190.0)	60.0
Harbours - La Collette	-	(10.0)	(10.0)	-	(10.0)	(10.0)	-	(10.0)	(10.0)
Total - All Committees	**9,598.0**	**(3,066.0)**	**6,532.0**	**6,465.0**	**(1,505.0)**	**4,960.0**	**6,187.0**	**(1,764.0)**	**4,423.0**

3.3 Efficiency Savings

The public sector reforms programme is charged with delivering £20 million of efficiency savings by the end of 2009. An initial allocation of the efficiency savings was attempted in the 2005 Budget and much work has been carried out to improve these allocations and to reduce the impact on the direct services to the public.

The initial work identified a distinction between corporate and departmental savings with the intention of maximising the proportion of savings to be found in the corporate support services of finance, human resources, information technology, procurement and property. A series of transformation projects, one on each corporate support service area, have now identified over £11 million savings from these areas.

A further aspect of the transformation work is to transfer the majority of support service budgets to the Centre to maximise the opportunities for efficiency savings. It has not been possible to complete all this work in time for the 2006 Budget but the budget transfers and improved allocation of savings will be incorporated in new Ministry budgets before January 2006.

3.4 Pay Awards

This is the first year that a full provision for current and future pay awards is being made in Committee cash limits. The new "Public Finances Law" does not provide for a General Reserve so there will be no central contingency. This will require Committees to manage their affairs within their cash limits.

The extent of the provision for pay awards will be able to be reviewed as part of the annual resource allocation process, where any changes in the funding required will need to be prioritised against competing service and strategic priorities.

The scale of the pay awards allocation in 2006 is the result of this change in funding, but also incorporates provision for the two-year pay deal recently negotiated with the employee groups for June 2004 (2.5%) and June 2005 (3.5%).

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The 2006 Budget includes a provision for the required increase in the employer's contribution to the PECRS in order to provide a long term solution to the pre 1987 debt. The funding proposal P190/2005 was approved in the States in September 2005.

The result of all these changes is reflected in the breakdown of 2006 net revenue expenditure shown at Table 3.2.

Table 3.2
Increases in Committee Net Revenue Expenditure from 2005 to 2006

Committee	2005 Budget (restated) £'000	Pay [2] Awards £'000	PECRS [3] Provision £'000	Non-staff Inflation £'000	Resource Allocation Process £'000	Efficiency Savings £'000	2006 Cash Limits £'000	2005/2006 Change %
Policy and Resources	6,280.6	354.9	13.4	36.4	(174.8)	(462.1)	6,048.4	(3.7%)
Privileges and Procedures	5,233.4	190.0	7.1	82.3	549.0	(63.2)	5,998.6	14.6%
Finance and Economics								
- Finance and Economics Departments	24,433.7 [1]	1,182.8	53.9	228.3	182.4	(231.3)	25,849.8	5.8%
- Grant to Overseas Aid Commission	5,524.0	-	-	-	162.0 [6]	-	5,686.0	2.9%
Environment and Public Services	26,965.9	1,752.2	22.5	94.9	(218.7)	(463.1)	28,153.7	4.4%
Economic Development	15,665.2	237.9	64.0	306.6	(285.0)	(161.5)	15,827.2	1.0%
Health and Social Services	121,315.4	8,584.5	277.7	567.6	2,906.9	(1,232.6)	132,419.5	9.2%
Education, Sport and Culture	87,254.2	5,571.8	55.8	408.0	1,263.0	(816.5)	93,736.3	7.4%
Home Affairs	37,696.9	2,432.9	107.7	160.0	571.0	(383.4)	40,585.1	7.7%
Employment and Social Security	82,727.1	134.2	6.4	2,415.2 [4]	536.6	(68.3)	85,751.2	3.7%
Housing	497.1	228.9	10.4	167.7	1,049.6	(118.0)	1,835.7	269.3% [7]
Legislation	48.2	-	-	1.2	-	-	49.4	2.5%
Harbours - La Collette	(136.0)	-	-	(3.7)	(10.0)	-	(149.7)	(10.1%)
General Reserve - Pay Provision	11,794.3	-	-	-	-	-	-	-
Total Net Revenue Expenditure	**425,300.0**	**20,670.1**	**618.9**	**4,464.5**	**6,532.0**	**(4,000.0)**	**441,791.2**	3.9%

Notes to Table 3.2

1. The 2005 Budget has been restated to reflect the transfer of income tax fees from the Finance and Economics Committee cash limit to General Revenues.
2. The pay award allocation includes the funds provided in the General Reserve in 2005 for the two-year pay deal recently agreed from June 2004 and for the first time includes a provision for future pay awards in this case from June 2006 at 2.5%.
3. The PECRS provision is in respect of the proposals (P190/2005) to address the pre 1987 debt by increased employer contributions as approved by the States in September 2005.
4. The non-staff inflation includes an increase for the uprating of benefits, principally in the Employment and Social Security Committee.
5. The efficiency savings allocation is provisional ahead of the outcomes from the transformation projects for Finance, HR, IT and Procurement and these allocations will be improved in the 2006 Ministry Budget in preparation for January 2006.
6. The Overseas Aid budget adjustment is in accordance with the agreed funding formula and for the purpose of this year's Budget, the grant to the new Commission will be included within the Finance and Economics Committee cash limit.
7. The extraordinary variation for the Housing Committee reflects a significant change in the net budget; however this represents only a small variation (3.5%) on the Committee's gross expenditure of £37 million.
8. Further details of the reasons for changes in Committees' cash limits are provided in the Budget Annex 2006.

4. NET REVENUE EXPENDITURE 2007 TO 2010

4.1 States Business Plan 2006 to 2010

The States approved the Business Plan 2006-2010 which proposed total States net expenditure increases of around 2.5% per annum over the five year period. These targets are consistent with the expenditure framework required as part of the Fiscal Strategy and States Strategic Plan.

The allocations for 2007 and 2008 represent financial targets for business planning and reflect the current priorities as determined by the outcomes of the resource allocation process.

The revenue targets for 2009 and 2010 reflect the total spending framework approved by the States of increases of 2.5% per annum and the capital allocations for these years of £39 million and £42 million respectively.

The States Business Plan will in future agree all the expenditure proposals for both revenue and capital under the new "Public Finances Law". A three-year business planning process is being developed and the States approved, for the first time, three-year Committee allocations for revenue expenditure, where 2007 and 2008 allocations are to be used as financial targets.

4.2 States Business Plan 2007 to 2011

Following the transition to a Ministerial System of Government from 1st January 2006, the new Council of Ministers will undertake a review of the current States Strategic Plan and determine the new strategic priorities and objectives of the States for the next three years.

The financial targets for 2007 and 2008, together with the capital allocations, will then need to be reviewed alongside any change in priority brought about by this strategic review. A process of business planning will then be needed to translate these strategic priorities into objectives and priorities for ministries and in turn identify the impact on States services.

Once these priorities are clear at both a strategic and ministry level then the funding implications for individual services can be assessed and used to inform a resource allocation process for both revenue and capital.

These processes will lead to the production of a new States Business Plan 2007-2011 which will begin to identify all the resource implications necessary to deliver the objectives of the new States Strategic Plan. The new States Business Plan will be lodged in July 2006 and debated in the States in September 2006.

Future years' resource allocation processes will then determine the individual ministry allocations and this will be influenced by the changing service and strategic priorities of the Council of Ministers and the States. These allocations must however be made within the overall spending constraint which must also accommodate the other components of the forecasting model for pay and price increases.

Report of the Finance and Economics Committee

5. GENERAL RESERVE

The General Reserve has previously provided a contingency for items unforeseen at the time of setting budgets and a provision for any pay and pension awards which have not yet been agreed. With increasing financial constraint and discipline the Committee has been writing down these balances and no formal allocation for unforeseen items is proposed this year.

As part of the Committee's policy towards three-year cash limits a provision for the cost of future pay awards has been included in cash limits from 2006 and no further transfers of a central pay provision to the General Reserve is proposed. This will require Committees to manage their affairs within cash limits and is in accordance with the new 'Public Finances Law' to be effective from 1st January 2006 which removes the provision for a General Reserve. Any remaining balances on the Reserve would transfer to the new Consolidated Fund.

6. CAPITAL

The States, in approving the Business Plan 2006-2010, agreed the detailed programme and individual capital projects for 2006. The States also approved in principle the programme and capital projects for 2007 to 2010.

The planning of a five-year programme has been achieved despite a significant reduction in the annual capital allocation from £43 million in 2005 and £45 million per annum in the years 2006 to 2009 to a new allocation of £39 million per annum for 2006 to 2009, only increasing to £42 million in 2010.

Not only has a significant reduction been achieved but an extensive re-prioritisation of the capital projects previously included has resulted in funds being released to enable the inclusion of new priority projects such as the new Solid Waste Strategy and the "below ground" works at the Airport.

This has only been possible as a result of the co-operation of all States Committees and departments working together with the Members and Officers concerned to deliver a re-focussed programme based on current objectives and priorities.

Report of the Finance and Economics Committee

Table 6.1
Summary of Capital Programmes 2005 and 2006

2005 Restated £m		2006 £m
22.6	Building and Civil Engineering Works (see page 7)	20.2
4.0	Equipment and Minor Capital	3.8
26.6		24.0
-	Central Planning Vote	0.5
4.5	Corporate IT Vote	-
-	Land Acquisition Vote	(1.5)
5.0	Loan Sanction Repayments	4.0
2.0	Housing Development Fund	3.2
-	Tourism Development Fund	1.0
-	Airport 'Below Ground' Works	2.8
3.0	Foul Sewer Reconstruction and Extension	2.0
1.5	Sea Defence Strategy	1.0
-	Highways Infrastructure	1.5
-	Urban Renewal	0.2
42.6	**Total**	**38.7**

Despite the reduced allocation a reprioritisation across the five-year programme has enabled a number of high priority projects to be allocated in 2006, including:

- the urgent remediation work needed at St. Catherine's breakwater;
- the first allocation for the £30 million "below ground" works project at the Airport;
- three projects in the first phase of the £80 million Solid Waste Strategy;
- allocations for the projects at Hautlieu, Mont A L'Abbé and Grainville schools.;
- the replacement of an MRI Scanner at the General Hospital; and
- further essential investment in the Island's sewer and sea defence infrastructure.

The Finance and Economics Committee recognises the need to maintain allocations to capital at a level sufficient to preserve and develop the Island's infrastructure. The Committee was conscious that £39 million was a minimum allocation and will encourage the review of the allocation once the new Council of Ministers establishes its strategic priorities.

This process will also be informed in the next year by the work of the new States Property organisation (States of Jersey Property Holdings) which will be considering, amongst other initiatives a rationalisation of States assets.

Report of the Finance and Economics Committee

7. STRATEGIC RESERVE

The Strategic Reserve was established in 1986 and as at 31st December 2004 had a balance of £418 million, which represents rather less than one year's expenditure of the States.

The use and purpose of the Reserve was considered in some detail in the Economic Growth Plan (P38/2005). The Plan identified a number of principles which included the establishment of a Stabilisation Fund, which could be used to inject funds into the economy at times of decline, and draw contributions at times of economic growth.

This would allow a greater flexibility for the use of the Reserve while still maintaining its primary purpose which is to safeguard the Island against significant economic downturn, natural disasters or other major unforeseen events.

At this time of small financial deficits it is not possible to make positive contributions to the Reserve or indeed the Stabilisation Fund. However, the Committee has committed to provide pump-priming funding, from other sources, to support the initiatives within the Economic Growth Plan once the business cases are developed.

8. TRADING COMMITTEES

The Committee for Postal Administration (CPA) is included in this year's Budget for the last time. In preparation for incorporation and to build a robust financial position, the CPA has not been required to make a return to the States and the repayment of the PECRS liability upon incorporation will mean, according to current forecasts, that no ordinary dividend will be forthcoming in the short to medium-term.

The remaining trading committee of Harbours and Airport continues to evaluate the best vehicles for its future business activities and in doing so continues to review its forward business plan.

In relation to the Airport, the significant investment in infrastructure required precludes a return being made to the States in the near future, as all the operating surpluses will be reinvested in infrastructure. The scale of the infrastructure investment has also necessitated a contribution from the States Capital Fund which has been able to be prioritised for the first time in the new Capital Programme for 2006. This contribution for "below ground" works will continue for a period of years at around £3 million per annum.

Jersey Harbours' Business Plan includes provision for a financial return to the States based on an increasing proportion of its operating surplus, reaching 25% by 2009.

The States also agreed in the Business Plan to include provision in the Capital Programme for 2006 funding for the necessary remediation works at St. Catherine's Breakwater, which is not directly part of Jersey Harbours' operating activities. The trading surpluses from Harbour activities are being re-invested in the trading fund for future capital requirements.

Report of the Finance and Economics Committee

9. OTHER STATES INCOME

9.1 States Investments

States investment income now includes:

- the returns from the remaining trading Committees of Postal and Harbours and Airports;
- the return from States investments in Jersey Electricity (JEC) and Jersey Water (JNWWC);
- the return from the Financial Services Commission;
- the surplus from Jersey Currency and Coinage; and
- the surplus on the investment of temporary cash balances.

The Committee’s role, on behalf of the States, as major shareholder at JEC and JNWWC has seen an increase in the returns expected in 2005 and future years. The Committee also regularly reviews the return achieved by Fund Managers in respect of the investment of the States cash balances.

The funding of the Financial Services Commission, in particular the company registry, and the associated return to the States will be reviewed in the near future as part of the change to a new company fee alongside the new ‘0/10’ corporate tax structure from 2009. As part of the review, the Committee will be considering the opportunity to recover some or all of the income from the current Exempt Company fees, which will be lost as part of the proposed ‘0/10’ changes in 2009.

The current intention is to introduce a common fee which would satisfy the new conventions and treat all companies equally. The level of the new company fee will need to be a balance between recovering the Exempt Company income (£600) and a sustainable registration charge for all local companies, currently £150. Following consultation with the business community, the new fee would be introduced from 1 January 2009.

9.2 Other Income

The States also has a small number of income streams which are not directly associated with the activities of Committees or future Ministries and these are managed and reviewed within General Revenues. With the introduction of ITIS there will be a change in the arrangements for the Late Filing Fee and Late Payment Surcharge and as a result this income is being transferred from the Finance and Economics Committee cash limit to General Revenues in 2006.

9.3 Island Wide Rate

The Island Wide Rate Law (P170/2005) will result in the States receiving in the order of £10 million, collected by the Parishes, from 2006. This income to General Revenues will offset the increased expenditure to be incurred by Employment and Social Security in respect of the transfer from the parishes of the liability for native welfare and residential care, ultimately becoming part of the new Income Support System in 2007.

Until such time as the recently approved Island Wide Rate Law is in force, which is likely to be after the 2006 Budget debate, but before 1st January 2006, neither the expected income nor the associated expenditure can be included in the Budget. These adjustments will be made as part of the transitional arrangements and included in the 2006 Ministry Budget at a later date.

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10. INCOME TAX

10.1 Background

Income tax revenues are subject to the volatility in the economy, particularly the high proportion of those revenues which are derived from tax on corporate profits. The tax revenues for 2005 and 2006 are based on interest and earnings in 2004 and 2005 respectively, and corporate profits for 2003 and 2004. Consequently, it is reasonable to expect some certainty in these forecasts. The forecasts beyond 2006 are much less certain and will also be influenced by the proposed changes in the Island's tax structure.

10.2 Latest Estimates – September 2005 for the period 2005 to 2009

Forecasts of tax revenues are now produced three times each year, one in January, projected on the actual tax revenues of the previous financial year, an update in June to inform the States Business Plan, and a further forecast in September for the Budget which by that time can be based on the current year's tax assessments.

Table 10.1
Trends in Income Tax Revenues 2001 to 2006

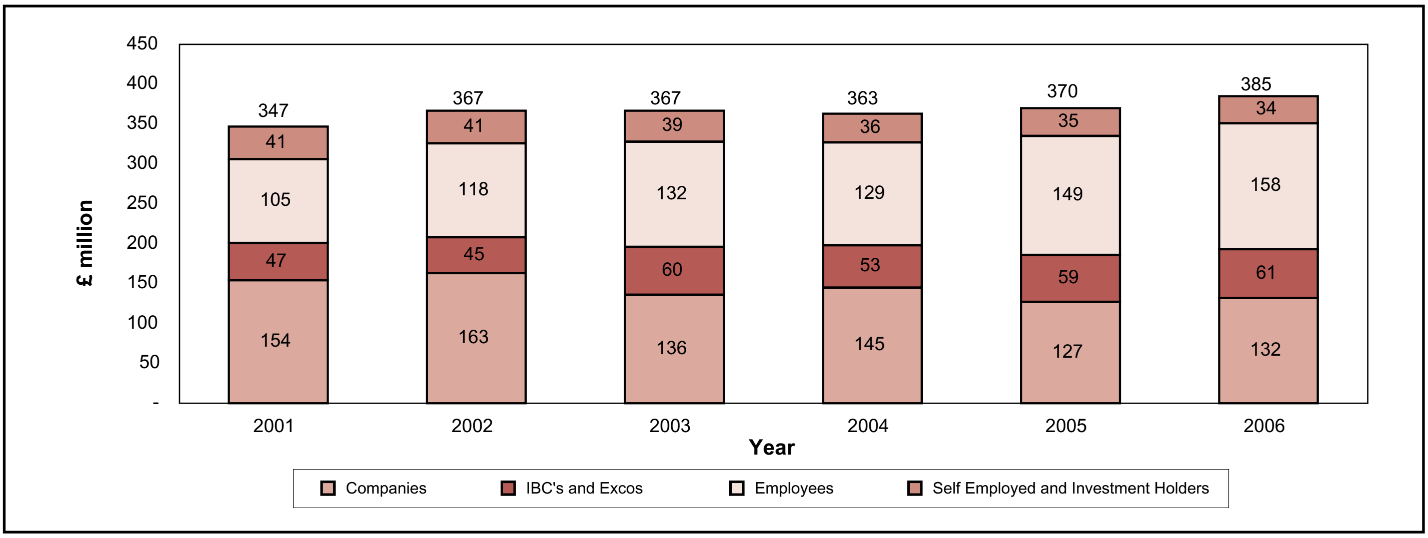


Table 10.1 shows that a decline in corporate tax revenues is expected in 2005, as some income tax companies anticipate the '0/10' corporate tax structure. There is the prospect for a slight increase in corporate tax revenues in the next few years as the economy shows signs of recovery.

The recent decline in corporate tax revenues has been partly offset by further growth in personal tax revenues, which in contrast, has exceeded forecasts. This is partly due to the Committee's policy of freezing exemptions and allowances, although this was subject to amendment in the 2004 Budget. This policy has brought more taxpayers into the tax net, and the increases are also influenced by the long-term shift in employment from the agriculture and tourism industries to better paid jobs in the financial sector.

Table 10.2
Variations in the Income Tax Estimates from Budget 2005

Income Tax Forecast	Actual 2004 £m	Probable 2005 £m	Estimate 2006 £m	Estimate 2007 £m	Estimate 2008 £m	Estimate 2009 £m
Budget 2006	363	370	385	403	417	432
Budget 2005	360	370	383	396	409	423
Increase in Forecast	**3**	**-**	**2**	**7**	**8**	**9**

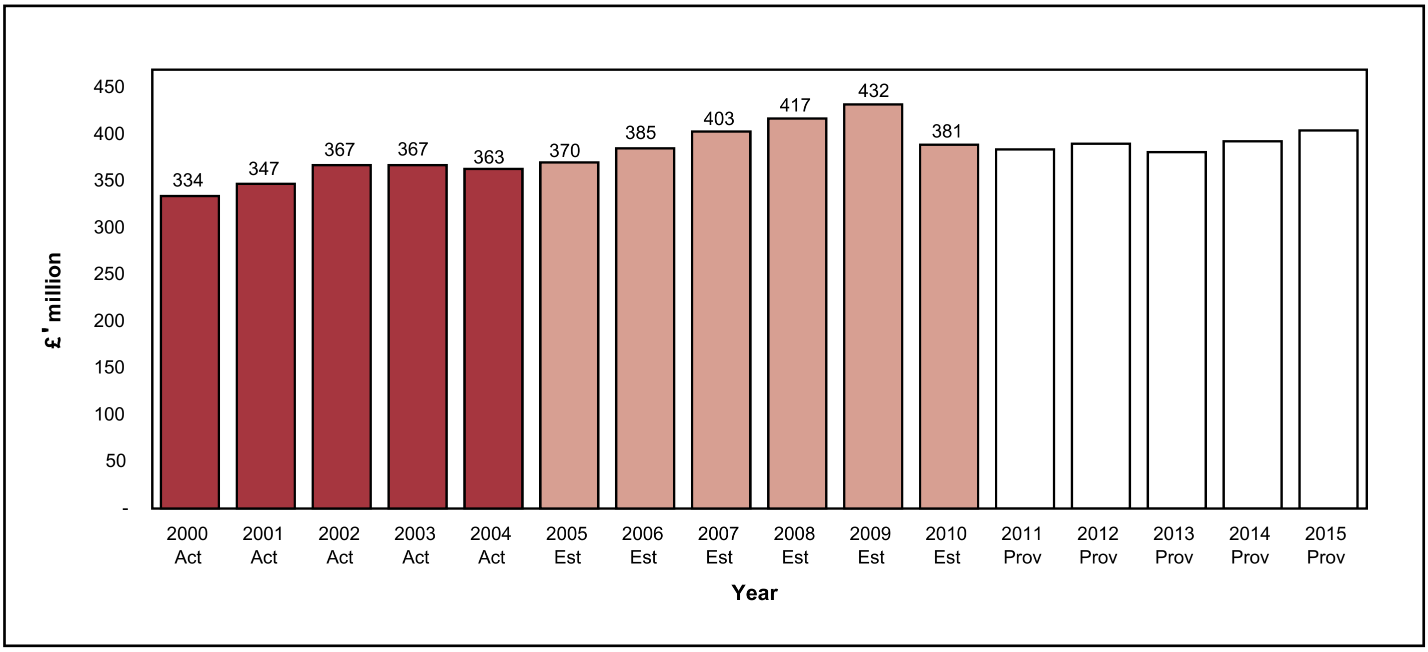
The latest forecasts in Table 10.2 show a general improvement on those produced a year ago. The increases largely reflect the profile of additional revenues over the next five years, anticipated as a result of the approval of the Economic Growth Plan and then partly offset by the deferment of the 20% means 20% proposals.

10.3 Latest forecasts – September 2005 for the period 2010 – 2015

The income tax forecasts produced for the States Business Plan looked ahead over a ten-year forecast period in order that the full impact of the move to a new '0/10' corporate structure could be illustrated. The projected fall-off in income tax revenues in 2010 is shown in Table 10.3. Based on all the assumptions made in the financial forecast on page v, this would translate to a deficit in States revenues in the order of £70 million in 2010.

Table 10.3

Income Tax Receivable 2000 to 2015



Report of the Finance and Economics Committee

10.4 Income Tax Proposals

In the 2006 Budget the Finance and Economics Committee proposes:

- tax exemptions and allowances are frozen for 2005;
- in accordance with our commitment to Ecofin, the cessation of the International Business Company (IBC) facility to ensure that no new IBC's are capable of being formed from 1st January, 2006;
- electronic filing of Income Tax Returns by approved tax agents;
- an expansion of the category of non-residents' pension plans that can have exemption from Jersey income tax;
- minor amendments to the Income Tax Instalment System introduced in last year's Budget;
- amendments to the late filing fee and the late payment surcharge provisions; and
- the repeal of provisions whereby the appointment and removal of the Comptroller would be decided by the States.

In addition to these new measures, the Committee will also be progressing the following initiatives:

- Goods and Services Tax;
- the EU Savings Directive and OECD Tax Information Exchange Agreements;
- 20% means 20%;
- current year basis of assessment for profits and related provisions;
- the '0/10' corporate structure and related provisions; and
- new information and enforcement powers.

10.5 Exemptions and Allowances

The Committee is proposing that the 2004 exemptions and allowances are maintained for the year of assessment 2005, affecting tax collectible in 2006. It is estimated that the freezing of exemptions and allowances will increase tax receipts by some £3 million. The result is that they would remain at current levels, which are:

Exemptions	Jersey
- Single Person	£11,020
- Single Person (aged 63+)	£12,300
- Married Couple	£17,680
- Married Couple (aged 63+)	£20,250

Allowances

- Single Person	£2,600
- Married Person	£5,200
- Earned Income (max)	£3,400
- Wife's Earned Income (max)	£4,500
- Child Allowance	£2,500
- Child Allowance (higher education)	£5,000
- Additional Allowance*	£4,500

*for people with single-handed responsibility for children

The effect of the Committee's policy of freezing exemption limits and allowances has been to increase the proportion of persons on the Comptroller's database who actually pay tax and gradually widen the tax net. However, this still means that about a quarter of the Island's taxpayers are not liable to pay any income tax.

TAX FACT

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 2005 until their income exceeds £37,180, calculated as follows:

Married Couple Exemption	£17,680
Wife's Earned Income (max)	£4,500
Child Allowance	£2,500
Child Allowance (higher)	£5,000
Mortgage Interest	£7,500
	£37,180

TAX FACT

The historically generous tax thresholds in Jersey mean that despite the freezing of most allowances and exemptions for several years, many Islanders still pay less tax than in most neighbouring territories. It should also be noted that 17.5% VAT is an additional tax burden in the Isle of Man and the UK.

The **income tax payable by a married couple** in 2005 with a joint income of £30,000 is as follows:

Isle of Man	£1,355
Jersey	**£2,111**
Guernsey	£2,800
United Kingdom	£4,323

The **income tax payable by a married pensioner** in 2005 (aged 63+) with an income of £20,000 is as follows:

Jersey	**£NIL**
Guernsey	£220
Isle of Man	£355
United Kingdom	£2,203

The figures in respect of the Isle of Man reflect its competitive policy for direct taxation which this jurisdiction is able to adopt because of its significant indirect tax revenue.

10.6 Summary of other proposed changes for 2006:

International Business Company (IBC)

In accordance with our commitment to Ecofin as laid out at paragraph 15 of the Code of Conduct Group (Business Taxation) Report to the Ecofin Council on 7th March, 2003, Article 123B of the Income Tax (Jersey) Law 1961 is being amended to ensure that no new IBC's are capable of being formed after 31st December, 2005. The Article will remain in force until the extension of benefits given to certain existing IBC's ceases at the end of 2011.

Electronic filing of Income Tax Returns

This will enable approved tax agents to submit their clients' Income Tax Returns electronically without the need, as now, to also submit a formally signed paper Income Tax Return. An amendment to the Income Tax (Jersey) Law 1961 is not required, this matter being enabled by an amendment to the Electronic Communications (Jersey) Order 2000.

Report of the Finance and Economics Committee

New pensions vehicle for non-residents

In response to representations made by the Island's pension industry, it has been decided to make the Island more attractive to those non-residents who wish to use it as a base for their pension savings. In the past, those people have been restricted to dealing with insurance companies but from next year, under the legislation now proposed, they will be able to have a greater degree of say about how their pension funds are invested.

Income Tax Instalment System (ITIS)

These are minor amendments to the legislation introduced at last year's Budget. They enable the Comptroller to issue a provisional effective rate notice to the employee's employer as well as to the employee and gives him the power to immediately sue an employer for recovery of ITIS monies deducted from employee's salaries if not remitted by the appropriate date.

Implementation of ITIS is now well advanced and goes 'live' in January, 2006. ITIS will ensure that employees will no longer have to find a large lump sum at the end of the year to pay their tax bill, the monthly instalments deducted by their employer and sent to the Income Tax Office on a monthly basis from February, 2006 onwards being sufficient, in most cases, to meet their 2005 tax bill.

Further information on ITIS is available on a special section at www.incometax.gov.je as well as in a new leaflet available at the Income Tax Office Help Desk and all Parish Halls.

In this first year of implementation the Comptroller of Income Tax will be particularly sympathetic to the financial circumstances of those having difficulty budgeting for the revised arrangements.

Late filing fee and late payment surcharge

These provisions ensure that the late filing fee and late payment surcharge penalties are no longer kept by the Comptroller to meet the costs of running the Income Tax Office. They are now to be paid into the General Revenues.

Appointment and removal of Comptroller

Following the move to Ministerial Government, the appointment and removal of the Comptroller will no longer be subject to the approval of the States Assembly, such matters in the future being vested in the States Employment Board which will oversee the employment and management of States employees.

Report of the Finance and Economics Committee

10.7 Other initiatives

Goods and Services Tax (GST)

At the end of June 2005 the Comptroller of Income Tax, on behalf of the Finance and Economics Committee, invited tenders from suitably qualified organisations for the task of implementing GST. The Committee, at its meeting on 22nd September 2005, awarded the contract to the internationally renowned Crown Agents. Officers from that organisation will be based at the Income Tax Office and will start their work on implementation, in association with the Comptroller, in early October. Draft legislation, on which full consultation will take place, is anticipated by the end of the year.

EU Savings Directive / OECD Tax Information Exchange Agreements

The Regulations required by the Taxation (Implementation) (Jersey) Law relating to the EU Savings Directive and the Jersey / USA Tax Information Exchange Agreement have already been, or will very shortly, be enacted. They give the Comptroller of Income Tax, who will act as the Competent Authority in the Island, the necessary powers required to execute these international agreements.

20% means 20%

The Finance and Economics Committee stands by the principle of taxing those with the highest disposable incomes the most. However, it is aware that the recent introduction of the restriction of mortgage interest tax relief and taxation of benefits in kind on households, followed by the introduction of ITIS from January 2006, may cause additional funding difficulties for taxpayers, and also risks dampening economic prosperity. The Committee has therefore taken the decision to defer for one year the implementation of the 20% means 20% scheme.

In reaching this decision the Committee has also listened to the feedback on its proposals for 20% means 20%, both before and after the fiscal strategy debate in the summer. The Committee will use the time before the next Budget to carefully consider all views and conduct further analysis of its impact on personal circumstances before bringing forward its proposals next year.

Current year basis of assessment for profits

These proposals will change the preceding year basis of assessment for trading profits to a current year basis, with appropriate transitional provisions to prevent tax avoidance and leakage. They are linked to the introduction of the ‘0/10’ corporate tax reforms. The relevant legislation is likely to be included in next year’s Budget.

The ‘0/10’ corporate structure and related provisions

An intensive work programme involving full consultation with all stakeholders is anticipated from January 2006. Legislation is likely to be included in next year’s Budget.

New information and enforcement powers

This work-stream will also be included in the intensive work programme anticipated for the ‘0/10’ corporate tax reforms and legislation is also likely to be included in next year’s Budget.

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11. IMPÔTS

11.1 Latest Estimates 2005 to 2010

Since the 2005 Budget the forecasts of impôts duty revenues have fallen fairly significantly; this can be explained by:

- an unusually high level of impôts duty revenues in 2003, which inflated the forward forecasts published in the 2005 Budget. The revenues in 2004 then fell back to the long term trend and as a result the forward forecasts for the 2006 Budget have been adjusted and show a reduction of £5 to £6 million per annum from 2005 onwards;
- a second factor which has been the fall-off in importation of tobacco over the last 12 months, this, according to a recent survey can be partly explained by an increasing trend of duty free purchases being brought back to the Island, and not necessarily all due to reduced consumption. This has caused the most recent £3 million reduction in impôts duty forecasts.

The long term trend for dutiable alcohol and tobacco goods shows a continuing decline and there are a number of reasons for this decline including reduced consumption, fewer tourists and duty free sales. Reduced consumption is good news in the respect that this is the objective of the Tobacco and Alcohol strategies and is in accordance with Health policies.

Of all the impôts goods only the demand for fuel remains relatively unaffected by price changes.

11.2 Announcement and Effective Date of Increases

The Committee is continuing its policy of including the proposed duty increases in the Budget Report ahead of Budget Day, and the proposals for 2006 are indicated at Section 11.6 and in Table 11.1.

The Committee has adopted a consistent policy in recent years in relation to increases in duty, and importers now expect increases at budget time and make any decision regarding extra stocks accordingly.

As it is now customary it is proposed that this year's increases in duty will not take effect until midnight on 31st December 2005.

11.3 Alcohol

The Alcohol Strategy for Jersey was adopted by the States in 2004. One of the Strategy's aims is to reduce consumption, and price increases are identified as a potential tool. At the same time it recognises that there is a need to ensure that duty increases do not have a negative impact on the Island's economy, in particular local producers and the hospitality industry.

The Committee has taken forward certain initiatives and following consultation with local businesses is able to make some **new proposals which will assist local producers.** The Committee proposes a reduced rate of 50% of the current impôts duty for spirits distilled by small distilleries and cider produced by small cider producers. Small distilleries are defined as those distilling less than 2,000 litres of spirits per year and small cider producers those that produce less than 20,000 litres of cider per year. These proposals would apply to all small producers both in and out of the Island but the principal effect will be to assist local businesses that produce such alcoholic products. The reduction in revenue yields is estimated to be only a modest £16,000. There is already a concession for small breweries.

Notwithstanding these new reduced rates the Committee has taken note of the aims of the Alcohol Strategy and believes that for 2006 the correct basis for the duty increases should be around the increase in the Retail Price Index.

Accordingly **the Committee proposes that the duty on alcoholic beverages should rise by 3.6%.**

The percentage increase on the retail price would be significantly lower than the duty increases. The current differentials between duty and retail price can be seen in Table 11.2.

11.4 Tobacco

The policy of increasing duty on tobacco at a level above the cost of living is being continued. The 'Tobacco Strategy for Jersey 2003 – 2007' 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 represent an increase equivalent to 11 pence on 20 king size cigarettes.**

The Committee is also aware that with falling duty revenues, as outlined at 11.1, a balance needs to be reached between the objectives of the Tobacco Strategy and the generation of revenues.

The increase in tobacco duty is intended to discourage consumption and the Health and Social Services Department believe that the policy is having success. There is no doubt that there has been a dramatic downturn in the amount of imported tobacco that is charged to duty, evidenced by the much larger than expected shortfalls in duty collected. 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 service will be monitoring this activity.

11.5 Fuel

The Committee continues to consider all issues regarding the duty for fuel and in particular the need to address environmental issues and also the high margins which appear to exist in the retail price of fuel in Jersey. **The proposed increase in fuel duty is 1 penny per litre.**

The Committee remains keen to pursue, together with the Economic Development Committee, the issue of high price margins in monopoly markets. There still appears to be significant scope to encourage competition to reduce the retail price and offset the effects of the duty increases.

Report of the Finance and Economics Committee

In December 2004 a report by the firm 'Consultancy Solutions for the Oil Industry' concerning the Fuel Farm at La Collette was presented to the Economic Development and Finance and Economics Committees. One of the recommendations was to apply a standard method of measuring hydrocarbon oil at 15 degrees centigrade which would yield an extra £40,000 in duty per year. The Impôts Department will be applying this method of calculating the volume of fuel from 2006.

The relative margins within the retail price between Jersey and the UK can be seen in Table 11.3.

11.6 Duty Increases for 2006

Table 11.1
Duty Increases Proposed for 2006

	Current Duty	Proposed Duty	Increase
Litre of whisky	£7.96	£8.25	£0.29
Bottle of table wine	£0.95	£0.99	£0.04
Pint of beer <5% alcohol	£0.22	£0.23	£0.01
Pint of beer >5% alcohol	£0.33	£0.35	£0.02
20 king size cigarettes	£2.76	£2.87	£0.11
Litre of unleaded petrol	£0.37	£0.38	£0.01

11.7 Comparisons with neighbouring jurisdictions

Table 11.2
A Comparison of Typical 2005 Tax and Duty Levels for a Range of Commodities

	Jersey	Guernsey	UK	France
Litre of whisky @ 40%	£7.96	£5.03	£10.36	£6.16
Bottle of table wine	£0.95	£0.80	£1.76	£0.39
Pint of beer < 5% alcohol	£0.22	£0.13	£0.62	£0.59
Pint of beer > 5% alcohol	£0.33	£0.20	£0.76	£0.82
20 king size cigarettes	£2.76	£2.07	£3.77	£2.71
Litre of unleaded petrol	£0.37	£0.07	£0.61	£0.54
Litre of diesel	£0.37	£0	£0.61	£0.40
1800 cc family car	£625	£0	£2,322	£2,548

The higher rates of duty in Jersey, compared to Guernsey, reflect our strategies against alcohol and tobacco and similarly those increases in road fuel in support of environmental initiatives. However, Guernsey's recent Economic and Taxation Strategy proposes that impôts duty increases will be part of their package to raise additional revenues to alleviate the loss of corporate tax revenues in the future.

Table 11.3
2005 Retail Price Margins – Comparisons with the UK

	Jersey Retail Price	Jersey Duty	Price net of Duty	Duty as % of price	UK Retail price	UK Duty	UK VAT	Price net of Duty and VAT	Duty and VAT as % of price
Litre of whisky	£16.34	£7.96	£8.38	49%	£17.00	£7.82	£2.53	£6.64	61%
Pint of beer <5%	£2.23	£0.22	£2.01	10%	£2.20	£0.29	£0.33	£1.58	28%
20 king size cigarettes	£4.55	£2.76	£1.79	61%	£4.75	£3.06	£0.71	£0.98	79%
Litre of unleaded petrol	£0.94	£0.37	£0.57	39%	£0.92	£0.47	£0.14	£0.31	66%

These figures are before the impact of the budget proposals.

Table 11.3 illustrates that in all the above examples of dutiable products the proportion of price made up by duty is significantly lower in Jersey than the UK. Even allowing for other cost factors in Jersey there would appear to be a much greater margin in the retail price of products in Jersey than exists in the UK. It is the level of these price margins which needs to be further investigated and addressed.

The introduction of the Competition Law from 1st November, 2005 will provide an opportunity to progress a number of these initiatives in the coming year.

11.8 Vehicle Registration Duty (VRD)

Vehicle Registration Duty was introduced on 1st January 2003 and applies to all vehicles, when they are first registered in Jersey, except for certain specific exemptions. Hire cars have a reduced rate of 15% of the full rate.

The Committee is proposing no change in the basic levels of VRD for 2006 but will propose new rates for previously registered vehicles.

In May 2005 the States approved the Committee's Fiscal Strategy which, amongst other things, proposed a Goods and Services Tax (GST) to be introduced in 2008. The Committee announced that Vehicle Registration Duty would be repealed upon the introduction of GST. The revenue that would be lost when VRD is repealed is intended to be replaced by a new environmental tax on motor vehicles. The issue of environmental taxes is being dealt with in a separate piece of work considering options for a wide range of indirect taxes that led to proposals to the States in February 2005 as part of the Fiscal Strategy.

The Committee has decided that there should be no major changes to VRD given its imminent repeal but does recognise that anomalies relating to previously registered vehicles imported into Jersey need to be addressed. The reasons are that the current flat rates of VRD based on the engine size of vehicles do not take into account the reduced value of second hand vehicles and can create a distortion in ultimate value.

The Committee has consulted with motor industry representatives and, taking their views into account, proposes lower rates of VRD that are roughly in line with the depreciation rate in value for these vehicles. The proposed new rates would be:

- 65% of the full rate for vehicles between one and two years old;
- 50% of the full rate for vehicles between two and three years old; and
- 40% of the full rate for vehicles over three years old.

Vehicles up to one year old would continue to attract the current full rates of VRD. The reduction in revenue yield of these reduced rates is estimated to be £380,000.

12. STAMP DUTY PROPOSALS

12.1 Background

For the second year running the Committee's proposals for this budget centre on the closure of loopholes in the existing regulations.

The Committee proposes to freeze Stamp Duty rates on property purchases this year.

The Committee is pleased by the reaction in the market to the move last year to remove Stamp Duty on the transfer of remaining mortgages for principal private residences, although it notes with regret the significant costs charged in many cases for mortgages to be moved.

The Committee would like to extend this provision to other sectors of the economy, however is wary to do so until such a time that anti-avoidance mechanisms are in place to prevent the exploitation of such provisions and the resulting loss in income. It is accordingly pursuing such anti-avoidance legislation as a priority.

The Committee and Treasury continue with plans to introduce Stamp Duty for Share Transfer transactions on the grounds of equity as charged to do so by the States.

12.2 Avoidance of Stamp Duty

As in 2004, evidence suggests that certain commercial transactions are being structured with the aim of minimising the charge to stamp duty in ways which in the Committee's opinion fall outside the spirit of the stamp duty regulations. In particular, advantage has been taken of the clauses enabling transfers between sole and joint ownership to be liable to duty on a "net" or cash consideration basis. Consistent with last year's changes to regulations, such transactions will now be liable to duty upon the greater of the gross value of the share in the property transferred or the cash consideration paid.

Transfers made further to divorce proceedings or transfers of the matrimonial home between spouses will remain liable to administration charges only.

Following last year's increases to duty payable under lease transactions, the convention of charging licences over property as being liable to stamp duty as if they were leases has been challenged. Accordingly, the Committee is removing any ambiguity such that licences are now explicitly treated in the same way as leases within the regulations.

Other very minor changes in wording are also being proposed also to provide clarity and as a result of existing wording becoming obsolete.

12.3 Children (Jersey) Law 2002

The coming into force of the above Law in 2005 gave rise to applications previously not covered by the Schedule of Stamp Duty and Fees. As a temporary measure, in accordance with powers given to him, the Deputy Bailiff made provision for fees to be charged against such applications at rates consistent with charges for similar applications elsewhere with the Schedule of Fees.

The Committee is proposing to make those charges permanent, as per the following Table 12.1.

Table 12.1 Schedule of Fees Children (Jersey) Law 2002.

Action	Fee
(a) Application for order in relation to parental responsibility	£90
(b) Application for order appointing guardian	£90
(c) Application for record of disclaimer of appointment as guardian	£90
(d) Application for contact order, prohibited steps order, residence order or specific issue order	£90
(e) Application for leave to change child's surname or to remove child from Jersey	£90
(f) Application for order relating to financial provision	£90
(g) Request, made on Form C2 in the Children Rules 2005, for leave to obtain directions (other than in relation to Preliminary Directions hearings and Case Review hearings)	£50
(h) Application under Schedule 1 that is contested, for each half day or part of a half day	£200

No charges are to be made for public law applications and the Registrar and Deputy Registrar of the Family Division will also be able to waive or reduce the above fees in appropriate circumstances, such as hardship.

12.4 Fees for Petty Debts Actions

In 2004, the States approved increases to fees charged by the Courts Service for various services charged, to reflect more reasonably the costs of providing those services. Omitted from those increases were those relating to Petty Debts actions as the Committee wished to give them further consideration.

Further to that consideration the Committee now proposes increases to those fees (as per Table 12.2 below), which have been reduced from the increases originally proposed as a balance between charging a fee which more closely reflects the cost of the service whilst recognising that increasing the fee fully would only serve to place people in further debt.

Table 12.2 Fees for Petty Debts Action

Level of claim	Existing fee	New fee
£	£	£
1 to 100	2	6
101 to 500	10	15
501 to 1,000	10	20
1,001 to 2,500	25	30
2,501 to 10,000	40	40

13. ENVIRONMENTAL AND LAND DEVELOPMENT TAXES

The States asked in the Fiscal Strategy (P44/2005) for proposals relating to the introduction of environmental and other taxes primarily aimed at meeting the environmental objectives of the States Strategic Plan 2005-2010 to be brought forward for consideration.

13.1 Environmental taxes

Work has begun on identifying appropriate environmental taxes for Jersey in respect of the ownership and use of motor vehicles, the production and disposal of waste and the consumption of energy. VRD will be replaced by an environmental tax in 2008.

Environmental objectives can be achieved through taxation in various ways, all of which will be explored. These are:

- to change behaviours by making an activity more costly;
- to change behaviour by making an alternative activity relatively less expensive e.g. differential taxes on leaded and unleaded fuel, and diesel, and also between 'hybrid' and conventional vehicles, or on the basis of engine size or emissions; and
- where the behaviour itself is found to be little changed by these price signals (inelasticity) to use the revenues raised to create alternatives that promote change (e.g. better public transport), or which reduce the environmental impact of an activity (e.g. grants for home insulation), or which provide some mitigation for the environmental damage being caused (e.g. tree planting or habitat creation).

It is likely, therefore, that the final proposals will be a mix of tax and incentives that in net terms make little or no contribution to overall revenues, but which will meet environmental policies and objectives. The measures will be brought to the States in 2006 for implementation in 2007/2008 and onwards. They will be fully integrated with the objectives of the Solid Waste Strategy and the Sustainable Travel and Transport Plan.

Report of the Finance and Economics Committee

13.2 Land Development taxes and a Land Value tax

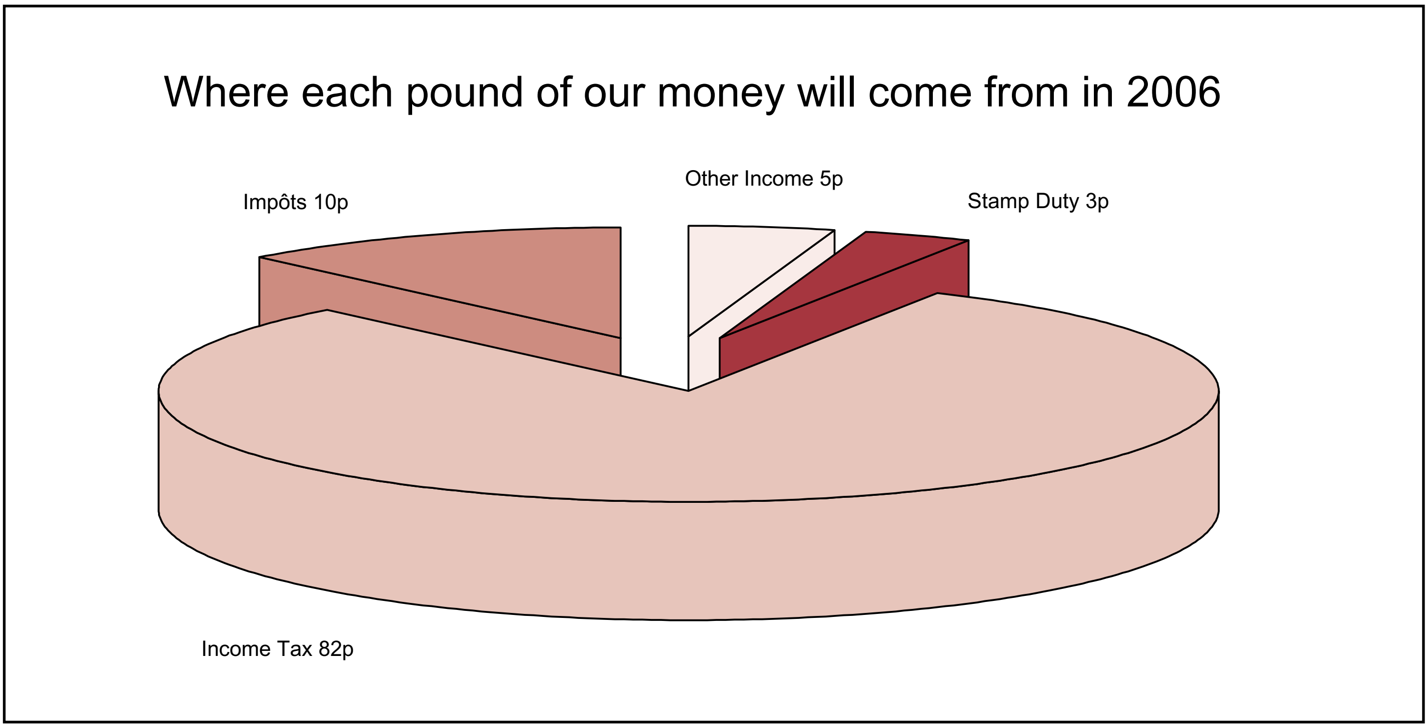
Work has begun to look at the options for these taxes and in particular to examine their potential relationships with the land use planning regime and the impact on land prices and the availability of land for development. The principle of the Development Gains tax is to capture the increase in values that occurs when land or property is developed.

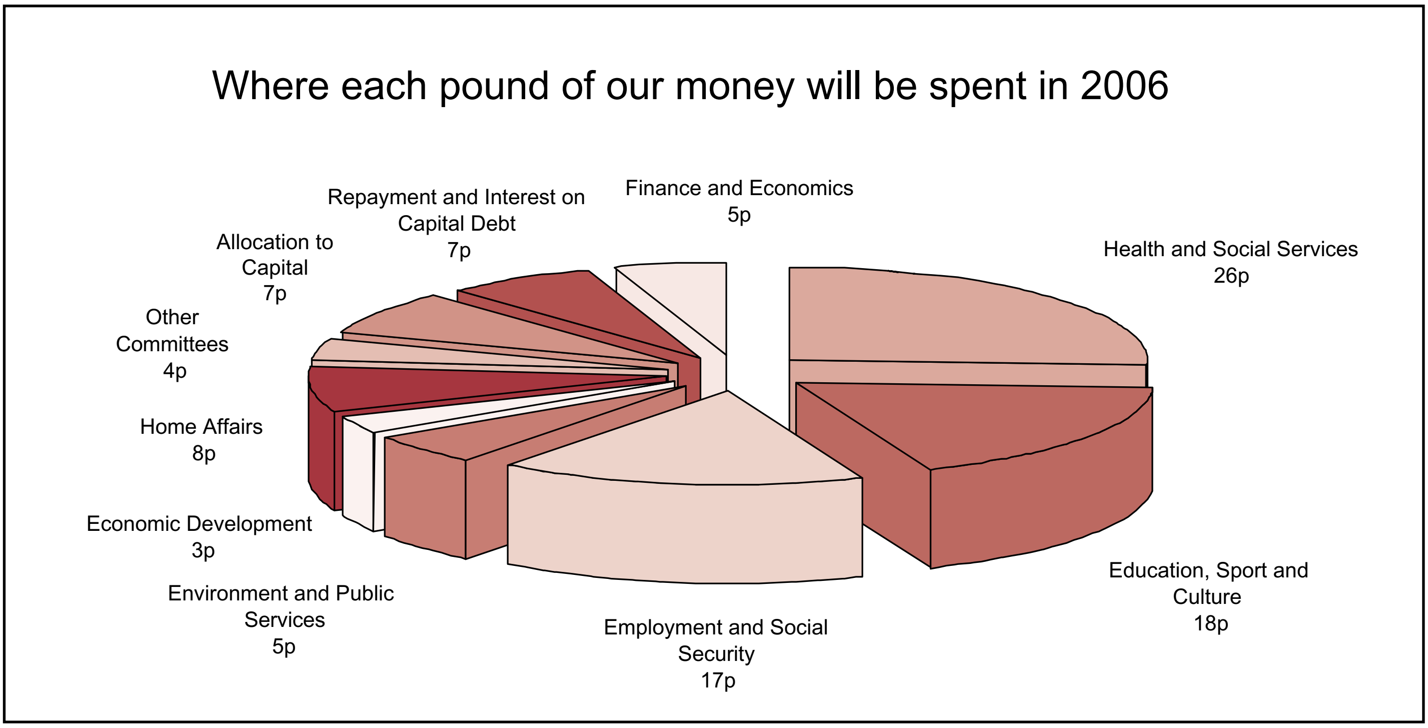
A Land Value tax is a way of generating tax revenues using the value of land held as a basis for assessment. It will be necessary to examine the efficiency of such an approach as well as its social and economic consequences, as well as the currently uncertain impact of the new Rates Law.

An initial assessment of the usefulness of these taxes will be brought forward in 2006.

Summary of
Revenue Estimates

Analysis of Income and Expenditure





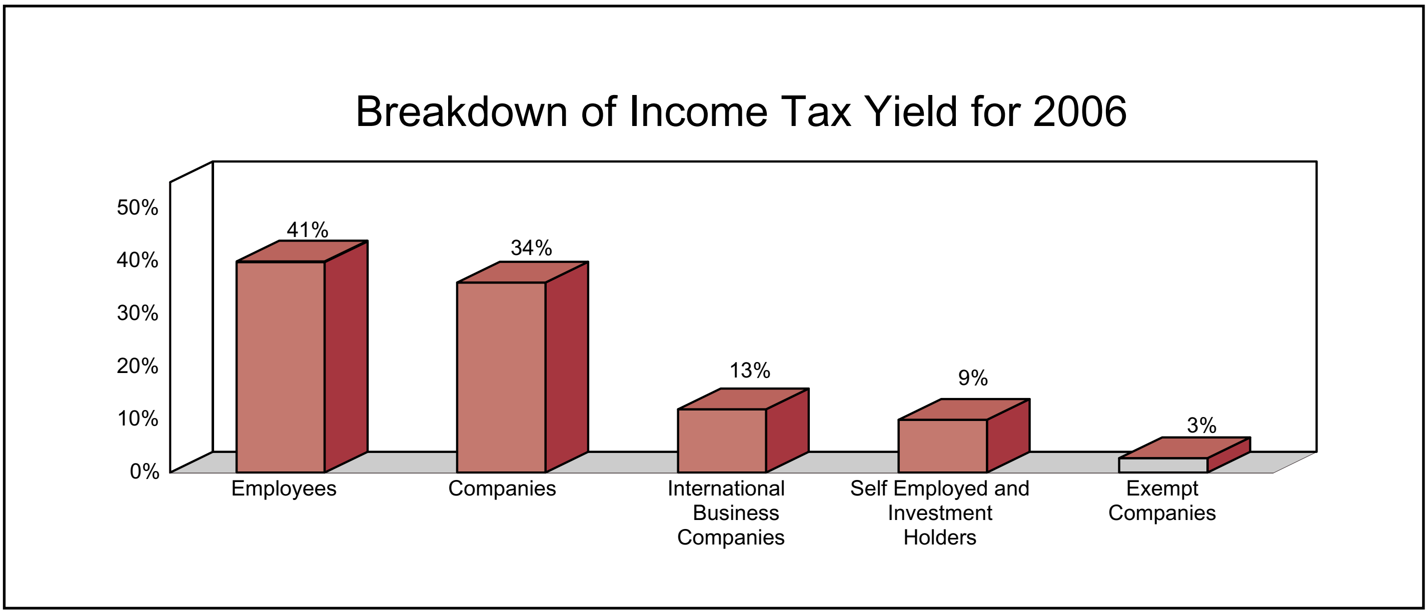
Taxation and Investment Income

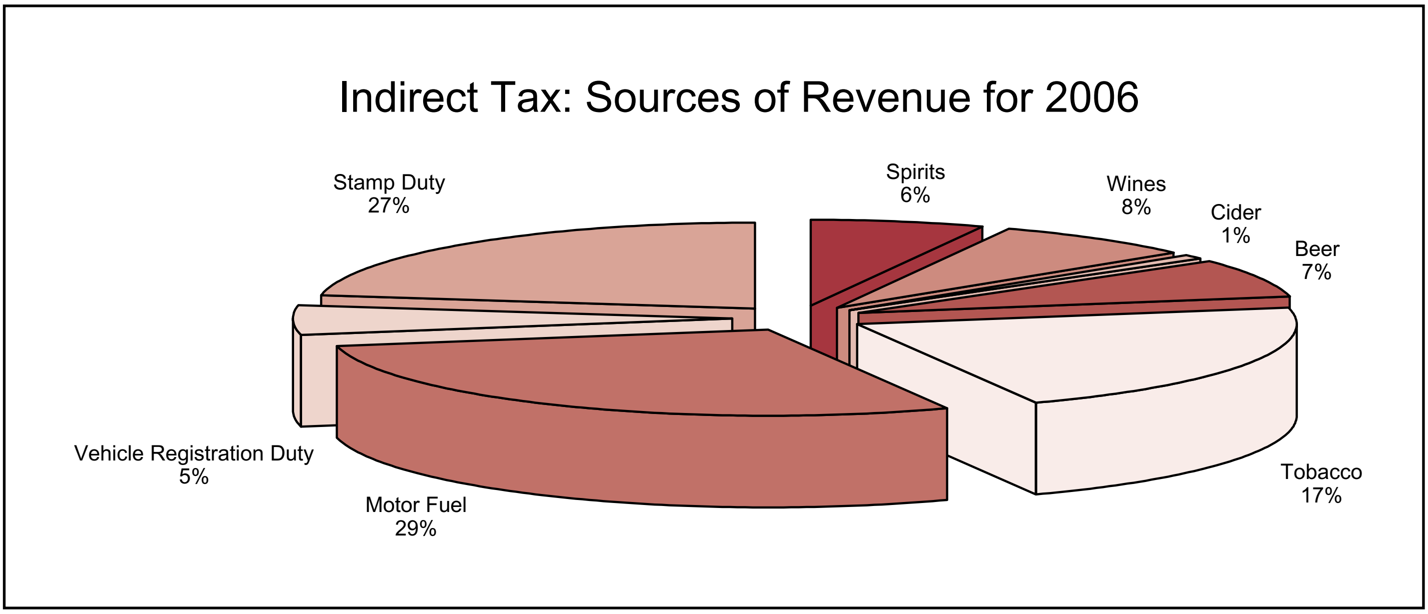
Income Analysis - Sources of Income

2004 Actual (Restated) £	2005 Estimate (Restated) £		2006 Estimate £
19,852,000	22,208,000	**Other Income**	23,975,000
		Indirect Taxation	
3,781,000	3,590,000	Impôts on Spirits	3,519,000
4,873,000	4,774,000	Impôts on Wines	4,896,000
532,000	532,000	Impôts on Cider	550,000
4,708,000	4,521,000	Impôts on Beer	4,590,000
13,913,000	11,743,000	Impôts on Tobacco	10,992,000
18,660,000	17,981,000	Impôts on Motor Fuel	18,364,000
136,000	100,000	Impôts on Goods Imported	100,000
3,687,000	3,481,000	Vehicle Registration Duty	3,101,000
50,290,000	46,722,000	Impôts	46,112,000
15,203,000	17,000,000	Stamp Duty	17,000,000
362,993,000	370,000,000	**Income Tax**	385,000,000
£ 448,338,000	**£ 455,930,000**		**£ 472,087,000**

Note: Other Income includes late payment surcharge and late filing fees previously under Finance and Economics Committee income.

Taxation and Investment Income





Non-Trading Committee Cash Limits 2006

Net Revenue Income and Expenditure

COMMITTEE	Annex Page Ref	Authorised Revenue Expenditure £	Income £	Net Revenue Expenditure £
Policy and Resources	9 to 13	7,176,400	1,128,000	6,048,400
Privileges and Procedures	17 to 19	6,089,600	91,000	5,998,600
Finance and Economics				
- Finance and Economics Departments	24 to 30	65,348,100	3,002,000	62,346,100
- Grant to Overseas Aid Commission	32	5,686,000	-	5,686,000
Environment and Public Services	37 to 40	46,570,700	18,417,000	28,153,700
Economic Development	46 to 50	16,852,200	1,025,000	15,827,200
Health and Social Services	57 to 61	148,057,500	15,638,000	132,419,500
Education, Sport and Culture	67 to 70	104,807,300	11,071,000	93,736,300
Home Affairs	78 to 82	42,880,100	2,295,000	40,585,100
Employment and Social Security	88 to 91	85,756,200	5,000	85,751,200
Housing	96 to 98	37,323,700	35,488,000	1,835,700
Legislation	101	49,400	-	49,400
Harbours and Airport - La Collette	101	138,300	288,000	(149,700)
		£ 566,735,500	**£ 88,448,000**	**£ 478,287,500**
Adjustments:				
Finance and Economics				
Interest and Repayments on Capital Debt		(36,900,000)	(403,800)	(36,496,200)
Total Cash Limit		**£ 529,835,500**	**£ 88,044,200**	**£ 441,791,300**

Note:
The existing Public Finances Law does not recognise the Overseas Aid Commission so a grant is included under the Finance and Economics Committee for this year's Budget, in future this will appear under Chief Minister.

In previous years the Finance and Economics Committee income has included income tax fees; these have now been transferred to Other Income under General Revenues on page 2, this has caused a change in the revenue expenditure totals since those approved in the States Business Plan 2006-2010.

Summary Cash Limits 2005-2010

Summary Cash Limits 2005-2010

COMMITTEE	2005 Cash Limits (restated) £'000	2006 Cash Limits £'000	2007 Cash Limits £'000	2008 Cash Limits £'000	2009 Cash Limits £'000	2010 Cash Limits £'000
Policy and Resources	6,281	6,048	6,055	6,057		
Privileges and Procedures	5,234	5,999	6,005	6,005		
Finance and Economics						
- Finance and Economics departments	24,434	25,850	26,136	26,612		
- Grant to Overseas Aid Commission	5,524	5,686	6,216	6,569		
Environment and Public Services	26,966	28,154	28,056	27,920		
Economic Development	15,665	15,827	15,571	15,507		
Health and Social Services	121,315	132,420	137,652	143,035		
Education, Sport and Culture	87,254	93,736	95,329	96,742		
Home Affairs	37,697	40,585	41,498	42,427		
Employment and Social Security	82,727	85,751	89,666	93,792		
Housing	497	1,836	2,396	2,618		
Legislation	48	49	51	52		
Harbours and Airport - La Collette						
Reclamation Scheme	(136)	(150)	(164)	(179)		
Total Committee Cash Limit	**£ 413,506**	**£ 441,791**	**£ 454,466**	**£ 467,156**	**£ 479,500**	**£ 489,500**
General Reserve						
Pay award and pension contingency						
In year unforeseen contingency	11,794					
Total Net Revenue Expenditure	**£ 425,300**	**£ 441,791**	**£ 454,466**	**£ 467,156**	**£ 479,500**	**£ 489,500**

Note:
The existing Public Finances Law does not recognise the Overseas Aid Commission so a grant is included under the Finance and Economics Committee for this year's Budget, in future this will appear under Chief Minister.

In previous years the Finance and Economics Committee income has included income tax fees; these have now been transferred to Other Income under General Revenues on page 2, this has caused a change in the revenue expenditure totals since those approved in the States Business Plan 2006-2010.

Summary of Trading Activities

Operating Accounts of the Trading Activities

COMMITTEE	Annex Page	Operating Income £	Authorised Operating Expenditure £	Gross Operating Surplus £	Capital Servicing £	Financial Return £	Transfer to Trading Fund £
Harbours	105	12,632,500	9,313,100	3,319,400	1,709,300	253,643	1,356,457
Airport	111	21,766,400	15,209,800	6,556,600	2,666,000	-	3,890,600
Postal	116	54,500,000	48,323,000	6,177,000	-	-	6,177,000
Total Trading Committees		88,898,900	72,845,900	16,053,000	4,375,300	253,643	11,424,057
Car Parks Trading Account	118	5,123,400	4,431,200	692,200	-	-	692,200
Total All Trading Activities		**£ 94,022,300**	**£ 77,277,100**	**£ 16,745,200**	**£ 4,375,300**	**£ 253,643**	**£ 12,116,257**

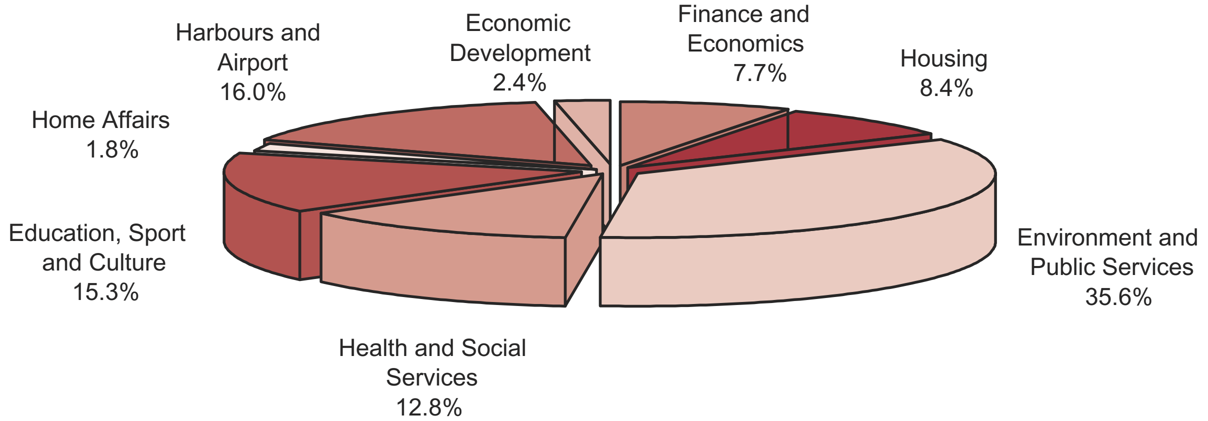
Trading Funds of Trading Activities

COMMITTEE	Annex Page	Opening Balance £	Additions £	Expenditure £	Balance Carried Forward £
Harbours	106	1,453,979	1,411,407	1,876,804	988,582
Airport	112	22,999,969	7,431,600	7,051,200	23,380,369
Postal	116	9,276,777	6,177,000	2,334,000	13,119,777
Total Trading Committees		33,730,725	15,020,007	11,262,004	37,488,728
Car Parks Trading Account	118	7,275,646	692,200	280,000	7,687,846
Total All Trading Activities		**£ 41,006,371**	**£ 15,712,207**	**£ 11,542,004**	**£ 45,176,574**

Committees' Capital Expenditure Estimates

Capital Expenditure

2006 Recommended Capital Allocation by Committee



Capital Allocation Recommended by the Finance and Economics Committee for 2006

Out-turn[1] Cost £'000		Amount Voted £'000	Amount Voted £'000
	Finance and Economics		
500	Central Planning Vote	**1,361**	
	Capital Reserve Vote (Fluctuation and Risk)[1]	**1,794**	
			3,155
	Housing		
3,200	Housing Development Fund	**3,200**	
250	Minor Capital Pre-determined Allocation	**250**	
			3,450
	Environment and Public Services		
2,000	Foul Sewer Reconstruction and Extensions	**2,000**	
1,000	Sea Defence Strategy	**1,000**	
1,500	Highways Infrastructure	**1,450**	
200	Urban Renewal	**200**	
4,549	In-Vessel Composting	**4,212**	
1,660	Reuse and Recycling Centre	**1,533**	
3,458	Relocation of Refuse Handling Plant	**3,240**	
800	Minor Capital Pre-determined Allocation	**800**	
250	Minor Capital Allocation - Indoor Markets Refurbishment	**250**	
			14,685
19,367	**Carried Forward**		**21,290**

Capital Expenditure

Out-turn[1] Cost £'000		Amount Voted £'000	Amount Voted £'000
19,367	**Brought Forward**		**21,290**
	Health and Social Services		
2,195	Central Sterile Supplies Department	**2,000**	
296	Crematorium Gardens Extension	**277**	
1,143	MRI Scanner Replacement	**1,103**	
1,900	Minor Capital Pre-determined Allocation	**1,900**	
			5,280
	Education, Sport and Culture		
2,108	Mont A L'abbé (Phase 1)	**1,665**	
5,201	Grainville (Phase 3)	**4,371**	
250	Minor Capital Pre-determined Allocation	**250**	
			6,286
	Home Affairs		
457	Aerial Ladder Vehicle	**424**	
300	Minor Capital Pre-determined Allocation	**300**	
			724
	Economic Development		
1,000	Tourism Development Fund	**1,000**	
			1,000
	Harbours and Airport		
2,841	Airport 'Below Ground' Works	**2,841**	
4,136	St Catherine's Breakwater - Remediation	**3,773**	
			6,614
£ 41,194	**Total Capital Expenditure**		**£ 41,194**

The Capital Programme can be analysed as follows: **£'000**

	Amount included within the Financial Forecast	**38,694**
Less:	Loan Sanction Repayments:	
	Hautlieu School	**(4,000)**
	Funds Transferred from existing Capital Votes:	
	Deletion of Belle Vue Residential Home	**5,000**
	Acquisition of Land - Reduction in Major Reserve	**1,500**
		£ 41,194

Note 1:
The outturn cost represents the final cost of a project and comprises the base project estimate including fees and the estimated inflation (fluctuation) on the project. Funds for this increase have been included in the Capital Reserve Vote.

Capital Expenditure

Capital Expenditure to be Financed from Trading Funds

	£'000	£'000
Harbours		
Minor Capital Assets	**300**	
Works to extend useful economic life of assets and safeguard income	**1,297**	
Asset Replacement programme	**889**	
Elizabeth Warehouse Project *	**12,065**	
Contingency for unforeseen urgent repairs	**401**	
		14,952
Airport		
Operations Building - Fit out (previously 2007)	**1,190**	
Part Demolition of 1937 Building and Remove Asbestos (previously 2007)	**728**	
Emergency Air Traffic Control Communications	**111**	
LCD 2k x 2k Displays for Air Traffic Control	**200**	
Minor Capital Assets	**381**	
		2,610
Public Services Car Parks Trading Account		
Concrete Degradation Repair Work	**180**	
Structural Work on Multi-Storey Car Parks	**100**	
		280
Total Capital Expenditure to be financed from Trading Funds		**£ 17,842**

* Subject to any necessary approvals (including financing).

The above amounts are the full capital costs budgeted in respect of capital expenditure projects commencing in 2006.

Capital Fund Forecast 2006

	£	2005 Probable £	£	2006 Estimate £
Capital Fund balance at 1 January 2005	21,350,771			
Add: Unallocated balance on General Funds 1 January 2005	(1,221,220)			
Transfer of provision to Capital Fund	6,750,000			
Balance of Funds		**26,879,551**		**14,942,351**
Income				
Income Tax	370,000,000		385,000,000	
Impôts Duties	46,722,000		46,112,000	
Stamp Duty	17,000,000		17,000,000	
Other Income	20,253,000		22,250,000	
Return from Trading Committees	412,700		253,643	
Harbours Capital Repayments and Interest	1,542,100		1,471,000	
Total Income to the States		**455,929,800**		**472,086,643**
Non-Trading Committees				
Revenue Expenditure	501,592,400		529,835,500	
Revenue Income	88,086,700		88,044,200	
Total Non-Trading Committee Cash Limits	413,505,700		441,791,300	
Appropriation to the General Reserve	11,794,300		-	
Total Net Revenue Expenditure of Non-Trading Committees		**425,300,000**		**441,791,300**
Capital Expenditure of Non-Trading Committees		**42,567,000**		**38,694,000**
Transfer to Strategic Reserve		**-**		**-**
Total Expenditure and Transfer of the States		**467,867,000**		**480,485,300**
Forecast Deficit in Total States Expenditure for the year		**(11,937,200)**		**(8,398,657)**
Total Balance on Capital and General Funds brought forward as at 1 January		**26,879,551**		**14,942,351**
Forecast deficit for the year		(11,937,200)		(8,398,657)
Estimated Balance in hand at 31 December		**14,942,351**		**6,543,694**
Outstanding Loan Sanction Liabilities		4,000,000		-
Unallocated Balance in Hand at 31 December		**10,942,351**		**6,543,694**

Summary of Estimates

Estimated Income and Revenue Expenditure for 2006

	£	2006 Estimate £	£
Income			
Income Tax			385,000,000
Impôts Duties			46,112,000
Stamp Duty			17,000,000
Other Income			22,250,000
Trading Committees			
Expenditure	77,221,200		
Income	88,898,900		
		11,677,700	
Estimated Transfer to Trading Funds		11,424,057	
Net return from Trading Committees			253,643
			470,615,643
Less:			
Non-Trading Committees			
Revenue Expenditure	529,835,500		
Revenue Income	88,044,200		
Total Non-Trading Committee Cash Limits	441,791,300		
Appropriation to the General Reserve	-		
Total Net Revenue Expenditure of Non-Trading Committees before Capital Servicing		441,791,300	
Capital Servicing			
Repayment of Capital Debt	36,900,000		
Interest Received on Capital Debt	403,800		
Net Capital Repayments		36,496,200	
Total Net Revenue Expenditure of Non-Trading Committees after Capital Servicing			478,287,500
Estimated deficit on General Funds for the year			(7,671,857)
Less:			
Estimated surplus in General Funds brought forward at 1 January 2006			3,285,076
Estimated Deficit to be transferred from Capital Fund			(4,386,781)

Summary of Estimates

Estimate of the Transactions on the Capital Fund for 2006

	2006 Estimate		
	£	£	£
Estimated balance at 1 January 2006			11,657,275
Transfer to Strategic Reserve			-
Capital repayments and receipts			37,967,200
Transfer to the Income of the revenue account (as above)			(4,386,781)
			45,237,694
Capital Expenditure as recommended by the Finance and Economics Committee (see pages 70 and 71)		34,694,000	
Plus: Loan sanction repayments		4,000,000	
			38,694,000
Estimated balance at 31 December 2006			6,543,694