

**STATEMENT TO BE MADE BY THE CHIEF MINISTER
ON TUESDAY 11TH OCTOBER 2016**

Medium Term Financial Plan Addition

Jersey is in a strong position. We have considerable reserves, minimal debt and assets of nearly £6 billion. We are in this position because we have consistently looked ahead and prepared for the future, and we want to keep it that way. The Medium Term Financial Plan will maintain this success for future generations by allocating investment to our key public services.

We are prioritising health, education, St Helier, economic growth and essential infrastructure. In order to do this we will increase productivity and efficiency, reduce costs, reprioritise our spending and introduce some user pays charges. These measures will help us provide the investment that's needed, while broadly balancing our books by 2019.

Two weeks ago this Assembly approved the Medium Term Financial Plan. This plan sets the direction of the island's public finances for the next three years and provides a comprehensive financial planning structure for the States.

The approval of this plan has given the go-ahead for investment in projects that will make a real difference to islanders. A number of announcements will follow in the coming weeks and months to update islanders on the progress of this work.

The Fiscal Policy Panel supported our overall fiscal approach and accepted that, post Brexit, it was reasonable to extend the target for fully balanced budgets to the next MTFP period.

We must also act on what the FPP advised in August: the States should support the economy in the short term and move towards a more sustainable position in the medium term, irrespective of the exact future relationship between the UK and the EU.

The recent news on our economic performance has been encouraging – GVA growth was stronger than expected in 2015 and employment is at an all-time high in the private sector. While employment in the public sector is down 350, employment in the private sector is up 1,600 and in the finance sector it is up by 190.

Members, on balance, decided not to approve the proposed health charge. By 2019 this will leave a funding gap of £15m per year.

Ministers remain committed to the important investment in Health and social care, as outlined in the plan. But we are also committed to ensuring we can afford the investment and do not undermine our progression towards sustainable finances. So we are considering how to achieve this planned investment in a sustainable, affordable way.

We plan to take time to explore the options for replacing ongoing States income as this will not be a quick fix. We will engage with Scrutiny and States Members as we develop these options, and will be issuing invitations to a number of workshops in the New Year.

In the short term we also need to manage the £5m shortfall in Health's 2017 Cash Limit. We are proposing first to look at underspends in 2016. Indications are that savings are ahead of target

and some of the resulting underspend could be given to Health in 2017. We will then work with all departments to develop more sustainable options for 2018 and 2019.

We do understand concerns about the change in the balance of taxation in recent years. While we strongly believe that the zero-ten corporate tax regime is essential to Jersey's prosperity, we have listened to those concerns and are reviewing various aspects of our personal taxation system. The Taxes Office is currently reviewing the tax regime for high value residents introduced in 2011 to see whether it is achieving its aims.

The Statistics Unit is reconciling the population figures with the Taxes Office's records of the number of taxpayers. The Taxes Office is also collecting more information from companies taxed at 0%.

We will analyse the impact of immigration on public finances, investigate the tax gap, and review the model used to forecast personal income tax. This is a significant amount of work and it will need to be carefully considered before any alternative proposals are brought forward. Jersey needs to remain competitive, and certainty and stability are essential for a healthy economy.

We want the system to be fair to islanders as well as competitive for our economy. 44% of Jersey's economy comes directly from an industry that thrives because of our position in a highly competitive arena. Many other business sectors also benefit from activity in financial services. We have just published some detailed tax data in response to a question from Deputy Le Fondre. It shows the combined impact of the various changes that have been made to our taxation system since 2005.

Broadly speaking – the data shows that the higher earners in our community are paying more income tax now than they did in 2005, while the lower earners are paying less, and are receiving more in benefits. Generous income tax thresholds have protected people on lower incomes from paying any income tax, and have reduced the tax paid by middle earners.

Our income tax threshold for a single person is more than £14,000 – that compares to £10,000 in Guernsey and £10,600 in the UK. This exempts lower earners from paying income tax and the long term care charge, and it reduces the amount paid by those on the marginal rate of tax.

About 30% of Islanders don't pay income tax. Of those that do, most are on the marginal rate and the vast majority pay much less than 20% of their income in income tax. In fact the average rate of income tax is closer to 13%. All the data gathered will inform work by the Treasury and Taxes Office to develop sustainable revenue raising measures as a potential alternative to the health charge. This work will involve engagement with States Members and Scrutiny through workshops and briefings and will culminate in measures proposed as part of Budget 2018.

I am grateful that Members supported the three year spending plan. Departments are now getting on with work that will improve the lives of islanders. As I've said, Ministers will now reflect on the views expressed by Members during the debate, and will hold workshops to draw on those views in developing ways to fund the growing cost of health care.

We will continue to draw on the expert independent economic advice as the local and global outlook changes and we will ensure we maintain enough flexibility in our plans to respond to change. There will be another update of FPP economic assumptions and States income forecasts next spring, before any proposals are finalised.