6 FINANCIAL

6.1 Taxation and capital expenditure

GENERAL SITUATION

Taxation and capital expenditure are significant issues for business confidence and the quality of life in general. The introduction of the zero-ten corporate tax policy in 2008 represents a significant loss of States revenue. As a result, capital expenditure will be strictly limited. The way in which the States manages and accounts for its fixed property assets should be seen as very much a part of the larger land and property picture.

KEY FACTS

- The YBG's annual Business Trends Survey (2006) showed that the most significant factors under States control affecting business confidence were Taxation (41%) and Capital Expenditure (14%).
- The net loss of government revenue as a result of the introduction of zero-ten is predicted to be £25 million at the end of 2009.
- Real Capital Expenditure (CapEx) has varied year on year: from £50 million in 2005 to £42 million in 2006 and an expected £58 million in 2008.
- The estate for which the States is responsible is valued at somewhere in the order of £1.8bn.
- The revised TRP proposals (2008) will raise an additional £3.9 million per annum.
- Focusing on the use of planning covenants for the delivery of affordable housing, the ERM report (2006) estimated that planning covenants could secure on-site provision of up to 44 affordable dwellings per annum (20% intermediate and 10% social) and financial contributions in lieu of on-site provision amounting to £1.55 million per annum.

Key Issues 6.1.1

KEY ISSUES

6.1.1 Linking public and private sector investment decisions

Under-investment in strategic infrastructure and in the public realm could seriously impact on the capacity to cope with development and change and could undermine private investor confidence. There may also be knock-on effects in terms of, skills shortages and crime and disorder. Filling the funding gap for upgrading our infrastructure and improving the public realm will require innovative approaches to public finance. We need to consider smart finance initiatives, so that capital expenditure and public assets can be used to lever in private finance.

Given the depth of local finance expertise, and the extent to which the corporate tax burden has been lifted, there may be scope to tap the finance industries capacity to support close-ended funds, investment trusts and bonds tied to Special Purpose Vehicles and/or scope to levy tax increments.

The new system of TRP provides an opportunity to capture the uplift in value of Approved Development Sites. For example, the tariff for an Approved Development Site is five times higher than the tariff for a domestic garden. In addition, where the footprint of a new building exceeds the original footprint of any buildings on a site, a further tax increment will be levied.

A report by ERM consulting services (Billet d'État XXV, 2007), examined the use of planning conditions and covenants to secure benefits in kind, ensure delivery/compliance and regulate future use and management. The report recommended the use of covenants to facilitate transfers of land and secure financial payments to the exchequer.

Key Issue 6.6.1

How can we tap the potential to achieve sustainable economic growth by harnessing the link between public decisions to invest in new infrastructure and private decisions about funding new development?