STATES OF JERSEY

DRAFT MEDIUM TERM FINANCIAL PLAN ADDITION FOR 2017 – 2019 (P.68/2016) – COMMENTS

Presented to the States on 23rd September 2016
by the Health and Social Security Scrutiny Panel

STATES GREFFE

COMMENTS

Introduction

1. On 30th June 2016, the *Draft Medium Term Financial Plan Addition for 2017 – 2019* (*P.68/2016*) was lodged by the Council of Ministers. This followed the States' approval of the Strategic Plan 2015 – 2018 and the Medium Term Financial Plan 2016 – 2019 which agreed detailed expenditure allocations for 2016 and the total States expenditure limits for 2017 – 2019.

2. The Panel has undertaken a short review of the MTFP Addition. The Panel received a briefing from Officers of the Health and Social Services Department and held a Public Hearing with the Minister on 26th July 2016. The Panel also held a Public Hearing with the Minister for Social Security on 20th July 2016.

3. The Panel engaged the Chartered Institute of Public Finance and Accountancy ("CIPFA") as its expert adviser. The adviser's full report can be found in the attached **Appendix**.

4. The review has highlighted a number of issues which the Panel believes may be of interest to States Members and which have been set out below. For ease, the Panel has separated its Comments into 2 sections – Health and Social Services, and Social Security.

The Health and Social Services Department

Overview

5. The Health and Social Services Department made £4.6 million of savings in 2015 and a further £3 million is planned to be delivered in 2016. Therefore the Department should have made £7.6 million of savings in total by the end of 2016. The Department is planning to make a further £5.7 million of savings between 2017 and 2019. The MTFP Addition explains that the Department will do this by –

   - Reviewing and improving long-term care services
   - Reviewing charges and subsidies
   - Working with the e-Government team and Digital Jersey to streamline services through technology
   - Reducing transformation funding (P.82/2012) by £1 million

6. Additional funding proposed for Health and Social Services amounts to £38.5 million per annum by 2019. In addition the Council of Ministers proposes a further £1.65 million per annum to be available from 2017 in an earmarked provision for initiatives to support vulnerable children[1].

7. The Department is proposing a reduction of 12 full-time equivalent ("FTE") posts between 2017 and 2019. These can be broken down into the following areas –

[1] Draft Medium Term Financial Plan Addition for 2017 – 2019, June 2016, p.61

- 4 FTE from developing and modernising workforce management and practices
- 1 FTE from reviewing and designing hospital bed management
- 2 FTE from delivery of e-solutions and automation of processes
- 5 FTE from further phasing of P.82/2012 plans/further delivery of cash releasing efficiencies.

8. The MTFP Addition explains that efficiencies through pay restraint will equate to approximately £24.8 million (to be achieved by 2019) –

	2016	2017	2018	2019
	£'000	£'000	£'000	£'000
Savings	525	1,087	1,487	1,817
Efficiencies	21,793	29,244	38,020	46,317
Efficiencies - Pay Restraint	10,894	16,725	20,701	24,826
User Pays	695	1,181	2,661	4,575
Total Proposed Department Savings	**33,907**	**48,237**	**62,869**	**77,535**

9. The Panel is not convinced that the health proportion of this target will be achieved because the long-term pay package has not yet been agreed. It is the Panel's view that there will always be a demand for higher pay within parts of the health profession which will make it increasingly difficult to achieve the health proportion of the £24.8 million target by 2019.

Savings and efficiencies

10. The Department plans to deliver an ambitious range of efficiencies which will reportedly enable reductions in costs while retaining the full range of services delivered. The total amount of efficiencies is approximately £1.6 million in 2017, £3.6 million in 2018 and £4.8 million in 2019.

11. One of the efficiencies identified by the Department is "*further phasing of P.82/2012 plans/further delivery of cash releasing efficiencies*" which aims to produce £500k of savings in 2018 and £1.2 million of savings in 2019.

12. As noted in the Strategic Plan 2015 – 2018, healthcare re-design will need significant investment as trying to prolong the current system would cost more in the long term[2]. Therefore, it is important that services outlined in phase 2 of the re-design programme are delivered successfully. In that regard, the Panel notes that the Department has also agreed to reduce the request for P.82/2012 funding by £1 million (by 2019) as part of the savings requirements[3]. The Director of Finance and Information explained that the outline business cases for new services in phase 2 of P.82/2012 work will be delivered with slightly reduced resources[4].

[2] Strategic Plan 2015-2018, p.6
[3] Draft Annex to the Medium Term Financial Plan Addition for 2017-2019, p.97
[4] Public Hearing with the Minister for Health and Social Services, 26th July 2016, p.11/12

13. The Panel's adviser explained that some of the estimates contained within the efficiencies table appear to be rounded to the nearest £100,000 with the suggestion that these were more aspirational rather than being founded on detailed workings particularly on the "*further phasing of P.82/2012 plans/further delivery of cash releasing efficiencies*".[5]

14. The Panel is troubled that the Island is slipping behind in what was intended in terms of healthcare provision and that the planned re-design of services, as set out in P82/2012, will not be delivered in a timely manner.

15. Another area of efficiencies considered by the Panel was "*review, develop and re-design adult social care and long-term care provision"* which aims to produce £200k of savings in 2017, £400k in 2018 and £500k in 2019. The Department's intention is to review long-term care services provided and/or funded by the Department. The Department will work jointly with the Social Security Department to review the funding arrangements for all levels of long-term care in order to ensure a consistent approach is being undertaken.

16. The Panel asked for further detail around the review of long-term care provision and what a consistent approach meant. The Managing Director of Community and Social Services explained: "*…a consistent approach is about making sure that the policies and legislation and regulations that are in place are planned consistently. The assessment of need is obviously a critical starting point for that and then building a care package around that where the individual has some choice and control. Certainly if I was having a complex care plan I would want to have some control over who delivered that"*[6].

17. The Panel is concerned that individuals currently receiving a publicly funded service provided by the Department may be paying for the same service in the future as a result of the review into long-term care provision. An example was attributed in particular to respite care –

"**Deputy J.A. Hilton:**
I think it would be fair to say that there are some adults currently receiving free respite care who will not in the future because they will not qualify under the new criteria that the departments will be applying. Is that fair to say?

The Minister for Health and Social Services:
I do not think you can say "will not". I think you could say at this stage "may not" and that needs to be looked at. It is not "will not".".

18. The Panel also noted a further 2 areas where the Department plans to make efficiency savings: "*Developing and modernising workforce management and practices*" and *"Developing and modernising practice in the hospital".* The Panel requested further detail on these proposals and noted that the Department plans to make changes to medical rotas, review the skill mix of staff and increase controls over medical locum spend and bank cover. The Panel queried whether these changes are dependent on recruitment of sufficient levels of staff within the hospital. The Minister explained: *"We believe when we go to the*

[5] CIPFA Report, paragraph 1.8
[6] Public Hearing with the Minister for Health and Social Services, 26th July 2016, p.14

marketplace that we do attract the right people, and that is shown by the fact that we only have a 5 per cent nurses vacancy rate. The 2 areas that we have challenges in are nationally where people have challenges around mental health and theatre."[7]

19, The Panel is aware that it is generally accepted that vacancy levels start to become problematic at 5%. The Panel believe that the Department must provide greater effort to reduce the vacancy rate below 5%.

20. The Panel's adviser states: *"Whilst we have been generally impressed with the way Health and Social Services application of a rigorous approach to in-year resource management, it certainly appears that the service is more focussed on managing in-year pressures and looking "one year ahead in detail". This is attributed to significant cost/demand pressures"*.[8]

21. As noted in the overview section, the Department plans a reduction of 12 FTE posts between 2017 and 2019. Commenting on this proposal the adviser said: *"the overall employee tracking suggests that a further 59.5 posts will be added to the Health and Social Services line although it is not clear whether the 12 FTE Health posts will be redeployed within the growth positons or service transfers"*[9].

'User Pays' Charges

22. In total, there are nearly £17 million of 'user pays' charges proposed by the MTFP Addition. As stated in the distributional analysis of the MTFP proposals (P.68/2016 Add.(2)) compiled by the Chief Economic Adviser: "*the main economic rationale for ['user pays' charges] falls into making more efficient use of government resources and in particular that the consumers of the service have regard to the cost. Where a public service is provided for free there is a risk that it will encourage overconsumption, imposing unnecessary costs on society and making government less efficient"*[10].

23. Furthermore, the Chief Economic Adviser makes the point that applying this rationale in practice is fraught with difficulties: "*public services generally provided by government means that some services may be more suitable for such an approach than others although there will be many services which it is hard to place a value on. Pricing is critical as getting prices too low or too high can encourage over or under consumption neither of which is efficient and without costs to society"*[11].

24. In relation to the Health Department, the proposed 'user pays' charges amount to over £3 million and are split into 3 broad areas[12]:

[7] Public Hearing with the Minister for Health and Social Services, 26th July 2016, p.18
[8] CIPFA Report, paragraph 1.7
[9] CIPFA Report, paragraph 1.10
[10] P.68/2016 Add.(2) Distributional analysis of the MTFP proposals, June 2016, p.57
[11] P.68/2016 Add.(2) Distributional analysis of the MTFP proposals, June 2016, p.57
[12] P.68/2016 Add.(2) Distributional analysis of the MTFP proposals, June 2016, p.69

- Hospital charges (£1.2 million)
- Environmental health charges (800k)
- A mixture of other charges, including reduced travel subsidies.

25. The Department provided the Panel with further detail of 'user pays' charges. In relation to travel subsidy the Department is currently revising its policies to introduce a more equitable approach which will improve the experience for those with multiple journeys. The Minister explained: *"That is one that I am particularly keen to look at because there will be people who are making multiple trips who, because their income is just above the line, are getting little or no support and others who make one trip but get total support.*[13]*"*.

26. The Panel is concerned that travel subsidies will reduce given that places elsewhere (such as Guernsey and the Isle of Man) give greater assistance in this area to their residents. The Panel accepts however, that Guernsey provide fewer services on-Island compared to Jersey.

27. The other 'user pays' proposals currently being considered by the Department are –

    (a) The introduction of a trading operation to allow it to raise private patient charges to market rates (rather than the current States policy of cost recovery).
    (b) A review of the community dentistry provision.
    (c) A charge for using the birthing pool for a homebirth (project agreed).
    (d) Utilising capacity in the laundry service to generate revenue.
    (e) Patient prescriptions.
    (f) Review of existing charges for scans and other services.

<u>Health Charge</u>

28. The States are being asked to approve, in accordance with P.82/2012, the introduction of an income-based health charge. Details of the charging mechanism and legislation will be proposed and debated as part of the Budget 2017. The health charge aims to raise £7,500,000 in 2018 and £15,000,000 in 2019[14].

29. Although the detail will be included in the Budget 2017, the MTFP Addition explains that in order to raise the additional revenue required in 2018 and 2019, the health charge should mirror the long-term care contribution which is levied by the Social Security Department[15].

30. The Panel's adviser explains that although the health charge is being described as a "charge" it is in effect a tax: *"Given that there is no discernible linkage between usage and liability, the term "charge" is inaccurate as it is in effect a Tax (perhaps no different from the Long-Term Care Contribution). Essentially it appears to be a hypothecated tax yet the Health Account does not directly benefit from the resultant income e.g. appearing within the revenue account for*

[13] Public Hearing with the Minister for Health and Social Services, 26th July 2016, p.23
[14] Draft Medium Term Financial Plan Addition for 2017-2019, June 2016, p.3
[15] Draft Medium Term Financial Plan Addition for 2017-2019, June 2016, p.98

Health. We are advised that the "charge" is routed through the Consolidation Fund with the Health Account getting the additionality through growth"[16].

31. To support the introduction of a new health charge it is also proposed that £5 million a year should be transferred from the Health Insurance Fund to the Consolidated Fund. To achieve these transfers, primary legislation will need States approval and a Proposition has already been lodged by the Minister for Social Security[17].

32. As mentioned earlier, the Department has been allocated £38.5 million of growth for the next 3 years. The Panel asked whether the extra £5 million a year from the Health Insurance Fund was included within that figure. The Director of Finance and Information explained: "*The £38.5 million is new money coming into the department for the implementation period to maintain our services and standards. The £5 million H.I.F. (Health Insurance Fund) money does not give us any additional spending power, so it is £38.5 million separate from the H.I.F. £5 million*[18]*"*. It is the Panel's view that monies expressly raised by means of a health charge should be hypothecated and paid to the Department's budget.

33. The Panel also concurs with the adviser's view that the health charge is in effect a tax. The Panel wishes that this MTFP would demonstrate a more honest and realistic approach to the necessity of public funding.

Future Hospital

34. The MTFP Addition provides some detail regarding the funding of the future hospital. It explains that the Treasury Department has developed provisional funding considerations and options. It also says that that the preferred funding solution is likely to be a blended solution of using existing Reserves and internal or external financing options[19].

35. On the hospital topic the Panel's adviser said: "*The magnitude of the capital cost of the New Hospital Project at approximately £466m is such that it will undoubtedly require a mixed approach to funding sources. The level of recurring revenue costs is not highlighted or featured within the MTFP II Addition narrative. Against current and future provision such an assessment of both capital and revenue running costs will be absolutely essential in order to assess overall affordability. As there is a current structural imbalance between income and expenditure within the overall MTFP modelling, the financing of the project capital cost and expectations around recurring revenue provision may be extremely challenging – especially where States revenues are falling behind revenue spend".*[20]

[16] CIPFA Report, paragraph 1.28
[17] Draft Health Insurance Fund (Miscellaneous Provisions) (Amendment No. 2) (Jersey) Law 201-
[18] Public Hearing with the Minister for Health and Social Services, 26th July 2016, p.30
[19] Draft Medium Term Financial Plan Addition for 2017-2019, June 2016, p.129
[20] CIPFA Report, paragraph 1.48

The Social Security Department

Overview

36. In 2015 and 2016 the Social Security Department plans to make savings of £0.7 million and benefit changes of £4.9 million. The Department plans to make a further £2.8 million of savings and deliver the balance of £4.9 million of benefit changes between 2017 and 2019. The MTFP Addition explains that the Department will do this by –

- promoting financial independence
- improving targeting of benefits
- continuous improvement (through LEAN methodology) will improve existing customer service and enable new services without increasing costs
- gradual savings will be made as staff leave and are not replaced.

37. In order to support a new targeted Christmas Bonus and renewal of the Food Cost Bonus, £0.8 million of growth will be allocated between 2017 and 2019.

38. The Department is proposing a reduction of 15 FTE posts between 2017 and 2019. These can be broken down into 2 areas –

- 5 FTE from an Efficiency Savings Programme 2017 – 2019 enabled by LEAN, including efficiencies in Grant-Aided Bodies
- 10 FTE from reviewing the *Back to Work* Services.

Savings and Efficiencies

39. The Department plans to produce efficiency savings in 2 main areas; efficiencies made through an Efficiency Savings Programme (including Grant-Aided Bodies) and a review of the *Back to Work* service. The total amount of efficiencies are approximately £900k in 2017, £1.9 million in 2018 and £2.8 million in 2019.

40. The Department is proposing a loss of 10 FTE from the *Back to Work* service. The Panel was concerned about how the *Back to Work* scheme could continue delivering the same level of service with less staff. The Panel notes in particular that, on 31st July 2016, 1,330 people were registered with the Social Security Department as actively seeking work. Although this figure has dropped compared to 2015, the number of people registered as long-term actively seeking work (registered for more than 12 months) has increased slightly[21].

41. During the Public Hearing with the Minister for Social Security, the Chief Officer advised the Panel that the reduction in headcount within the *Back to Work* service will be managed through natural turnover.

42. The Chief Officer told the Panel: *"...if we find perhaps the labour market worsens for some reason or if the labour market picks up, as it is quite good at the moment, for example, then we can ebb and flow and balance that. We do believe that the number of people we will be supporting by 2019 will be lower than it is now and also some of the support we provide employers, and as well*

[21] Statistics Unit, Registered Actively Seeking Work, June 2016

as some of the individuals we support, we can reduce the amount of expenditure there"[22].

43. A reduction of 10 FTE staff within the *Back to Work* service would save the Department approximately £500,000. A further £1.5 million will come from a reduction in employment incentives such as the amount of training provided to *Back to Work* customers and a reduction in the Foundations programme. The Chief Officer advised the Panel that a level of flexibility to make savings would be retained within the *Back to Work* service[23].

44. The Panel does not view the Department's plans as credible particularly because of the economic outlook by the Fiscal Policy Panel: "*The Fiscal Policy Panel has lowered its economic growth forecasts for Jersey for 2016 and 2017. The economy is now expected to grow by just below 0.5% in real terms in 2016 and be largely flat in 2017 and 2018, although there is an even larger band of uncertainty around these forecasts than previously."*[24]

45. The Department is also proposing a loss of 5 FTE from an Efficiency Savings Programme enabled by LEAN including efficiencies in Grant-Aided Bodies. The Panel noted that a reduction in grants and subsidies payments will decrease from the present figure of £3.4 million to £3.1 million in 2019. The Panel understands that the areas affected are the Jersey Employment Trust (JET), the Jersey Advisory and Conciliation Service (JACS), the Health and Safety Council and employer incentives offered by the *Back to Work* Scheme[25].

46. The Chief Officer said: "*All 3* [organisations] *have agreed to make reductions over the 2016, 2017, 2018 and 2019 period at a total of roughly 8 per cent of their budget. We have had discussions with them over that and they have committed to make those changes and obviously we are here to support them if they need support in terms of resources to help make those changes. All 3 grant bodies have professional people in them and they have the confidence they can make the changes*[26]."

47. Commenting on the overall FTE numbers within the MTFP Addition the Panel's adviser said: "*The FTE numbers within the MTFP Addition relating to approved structure do not highlight the extent to which vacancies are being carried (and financed) across the States. …some 897 FTE posts were vacant as at June 2016 representing some 12.9% of the overall staffing establishment.*

The corresponding position for Social Security against 8.9% in June 2016 is 18.7 FTE or 7.4% and 18.8 FTE or 7.8% is also relatively consistent and much higher than what we had expected for the service. It may well be the case that this level of staffing vacancies imposes no negative impact on service provision and that Social Security may be able to deliver the proposed efficiency savings on staffing without undue effort."[27]

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[22] Public Hearing with the Minister for Social Security, 20th July 2016, p.18
[23] Public Hearing with the Minister for Social Security, 20th July 2016, p.22
[24] Jersey's Fiscal Policy Panel, Annual Report, August 2016, P.2
[25] Public Hearing with the Minister for Social Security, 20th July 2016, p.34
[26] Public Hearing with the Minister for Social Security, 20th July 2016, p.35/36
[27] CIPFA Report, paragraph 1.13

48. The Panel was concerned that, in order to make the efficiency targets, JACS and JET would reduce their staffing levels. Particular concern was given to JET as they assist the most vulnerable people in society. The Panel wrote to both organisations asking them how their organisations would be affected should a reduction in grants be administered.

49. JACS confirmed that they were made aware of the 8% reduction in 2015 and subsequently put in place a 3 year business plan which allows them to continue to deliver the service at the same standard whilst retaining the same staffing levels.

50. JET explained that despite their best efforts there has been the need to lose posts within the organisation. This has been achieved by not replacing those staff who have left the organisation. The posts which have been lost have come from across the organisation thereby reducing the likelihood of a negative impact in services being felt by clients. The posts have been lost in the following areas –

1 – Employment services
1 – Transition service
2 – Acorn enterprises
1 – STEPS (supported training employment preparation scheme).

51. JET also advised that when faced with a reduction in funding it has been necessary to examine services to establish which were not financially sustainable in the medium to long term. In that regard, the gardening service was identified as not being financially sustainable and 6 Horticultural Assistants and 4 Supervisors were notified that they were at risk of redundancy. JET explained that although this was a difficult time, all staff in this area found alternative employment either within JET or externally.

Duties, Fees, Fines & Penalties

52. The Panel noted that the Department's income is set to increase over the MTFP period under "*Duties, Fees, Fines & Penalties*" – £885,600 in 2016 which is forecast to increase to £1,235,800 in 2017 and £1,165,500 in 2018 and 2019[28]. The Department explained that this refers to the income that is collected by the Department relating to the Population Office.

53. The Panel wrote to the Chief Minister's Department to request further detail. The Panel notes that the increase in income refers to proposed fee adjustments in relation to the Control of Housing and Work (Jersey) Law 2012. The Chief Minister's Department is currently considering a range of proposals that are a combination of increased fees, new fees and changes to fee structures. This includes –

(a) Uprating the cost of a registration cared for registered persons in line with inflation. The current cost is £75, but this is likely to increase to a figure of approximately £80.

[28] Draft Annex to the Medium Term Financial Plan Addition for 2017-2019, July 2016, p.121

(b) Increasing the fee payable for registration cards by high net-worth residents from £5,000 to £7,500.

(c) Increases for business employing licensed staff. The current cost is £175 per annum per permission, but this is likely to increase to a figure of approximately £225.

(d) Increases in the fees payable by businesses visiting Jersey. The likely change would be to introduce a scaled fee, with a new top rate of £5,000 for businesses undertaking a contract in the Island for longer than 12 months. The current top rate is £1,500 for contracts of longer than 90 days.

(e) Fees for companies purchasing land and property. The current fee is nil, and the new fee is likely to be £500 with a nil charge for transactions with a value below a *de minimis* level of £5,000.

(f) Creating a charge for employment agencies. The likely fee would be £500 per registered permission held.

54. The Panel asked whether any of the above changes would need States approval but was advised that all fees would be implemented by Ministerial Order.

55. The Social Security Department explained that finance officers have taken the proposals and forecasted the income likely to be received should the proposals be enacted[29].

[29] Public Hearing with the Minister for Social Security, 20th July 2016, p.3

APPENDIX

CIPFA REPORT

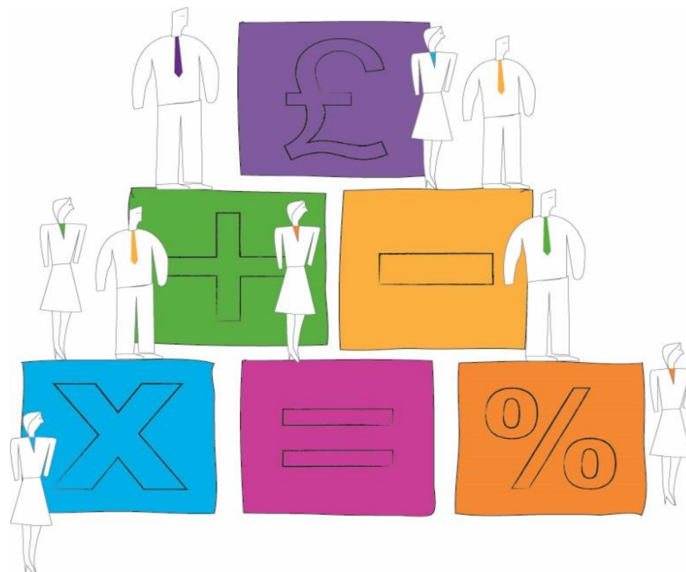
States of Jersey
States Assembly

États de Jersey
Assemblée des États

States of Jersey
Health and Social Security Scrutiny Panel

MTFP II Addition 2016 – 2019

August 2016



CIPFA (Chartered Institute of Public Finance and Accountancy)
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1. Panel Assessment

1.1 In May 2016, the States of Jersey commissioned CIPFA Business – Finance Advisory (the commercial arm of the Chartered Institute of Public Finance and Accountancy) to support the work of the Health and Social Security Scrutiny Panel in the Review of the Medium-Term Financial Plan Addition submission MTFP II 2016 – 2019.

1.2 This paper highlights high level issues that we see as being relevant to the work of the Health and Social Security Scrutiny Panel arising from our review.

High Level issues

1.3 For the purposes of the Health and Social Security Scrutiny Panel we have identified the following six issues that could be considered along with other issues identified by the panel. These are as follows:-

- Efficiency Savings
- Central Growth Allocations
- Health Charge
- Health Insurance Fund Movements
- User Pays
- Funding the New Hospital

Efficiency Savings

1.4 The MTFP II Addition highlights that Health Spending is an obvious strategic priority some of which is an extension of P82:

"The MTFP II 2016-2019 included proposals for almost £40 million per annum in additional funding for increased costs and new Health services by 2019. This additional funding represents continuing investment in the P82/2012 Health Transformation proposals but also to continue the policy of additional funding of 2% p.a. to maintain the ongoing investment in service standards and healthcare inflation."[30]

1.5 In order to pay for such investment the department has been tasked with making efficiency savings. Indeed Pages 61 outlines the following:

"The Health and Social Services Department continues to participate in the corporate commitment to deliver savings through efficiencies and review of services. As part of that the Department put forward a range of savings options and user pays charges."

1.6 In our previous work for the Corporate Services Scrutiny Panel on the 2016 Budget we commented positively on the approach adopted in continuously appraising Health Budgets:

[30] MTFP II Addition – Page 97

5.7 *Within overall budget strategy it is acknowledged that Health and Education activities have been provided with a degree of protection – in terms of investment/growth. However, we were able to acquire additional evidence on the processes used to challenge budget lines, deliver cost reduction and efficiency savings and the recalibration of base budgets.*

5.8 Health and Social Services applies its own semi-annual spending review process. This is a rigorous process of testing budget headings within a 'bottom up approach'. 'Red Book' revenue expenditure savings of some £12 million has been readily absorbed and the service is actively involved in reallocating counterfactual savings through this spending review process in pursuit of a continuous approach of optimising resources. The department has an extremely advanced understanding of cost pressures synonymous with Health – as well as delivering Health within the island context and has become adept at adapting to developing pressures and unforeseen challenges. In the context of public services, Health is regarded as being the most complex (next to Defence) of services to manage. Relevant challenges include the matching of available resources to growing service delivery pressures including rapidly changing demographic trends and scientific advances/advanced commercial provision as well as growing user expectations.

5.9 Through the semi-annual spending review process the department has been able to deliver required 'Red Book' savings as well as manging down some £9.5 million of additional internal cost pressures. The department is committed to establishing a zero base budget review process and starting with Children's Services, it is anticipated that the full department will be able to accommodate full zero basing within a five year rolling review period. The department has a highly detailed asset replacement programme with a Fixed Asset Replacement quantum for 2016 of £3.305 million. This programme includes specialised equipment and is fully tracked to the Fixed Asset Register.

5.10 The HSSD Financial Plan 2016–19 is highly developed and it is our considered view that at HSSD, arrangements for Budget Setting and financial performance management are strong and should be highly commended.[31]

1.7 Whilst we have been generally impressed with the way Health and Social Services application of a rigorous approach to in-year resource management it certainly appears that the service is more focussed on managing in-year pressures and looking 'one year ahead in detail'. This is attributed to significant cost/demand pressures. Looking at the required Efficiency Savings for Health and Social Services highlighted in Appendix 2 as follows:

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[31] CIPFA – States of Jersey – Corporate Services Scrutiny Panel- Budget 2016 – P18

Department	2015/2016 Saving £'000	2017 Saving £'000	2018 Saving £'000	2019 Saving £'000	Total FTE Impact
Health and Social Services Department					
Efficiencies					
Efficiencies savings from Procurement review		165.0	385.0	632.0	-
Redesign patient catering provision		200.0	200.0	200.0	-
Reduce cost of UK contracts for specialist care		200.0	300.0	400.0	-
Review, redesign and re-tender services provided by third parties		200.0	300.0	300.0	-
Workforce management initiatives around performance and absence management			100.0	100.0	-
Developing and modernising practice in the hospital		200.0	500.0	500.0	-
Developing and modernising workforce management and practices		252.0	652.0	652.0	4.0
Review and redesign hospital bed management.		200.0	300.0	300.0	1.0
Delivery of e-solutions and automation of processes		60.0	60.0	60.0	2.0
Review, develop and redesign adult social care and long-term care provision		200.0	400.0	500.0	-
Further phasing of P82/2012 plans / further delivery of cash releasing efficiencies		-	500.0	1,200.0	5.0
Total Efficiencies		**1,677.0**	**3,697.0**	**4,844.0**	**12.0**
Savings					
Review secondary care outpatient prescriptions		100.0	200.0	200.0	-
Total Savings		**100.0**	**200.0**	**200.0**	-
User Pays					
More equitable application of subsidies and means testing, targetting those most in need and maximising income where appropriate		225.0	425.0	625.0	-
Total User Pays		**225.0**	**425.0**	**625.0**	-
Sub Total: Health and Social Services Department		**2,002.0**	**4,322.0**	**5,669.0**	**12.0**
2015 -2016 savings	**7,552.0**	**7,552.0**	**7,552.0**	**7,552.0**	
Total: Health and Social Services Department	**7,552.0**	**9,554.0**	**11,874.0**	**13,221.0**	

1.8 Some of our initial concerns were around the fact that some of these estimates appear to be rounded to the nearest £100,000 with the suggestion that these were more aspirational rather than being founded on detailed workings particularly on the "Further phasing of P82/2012 plans/further delivery of cash releasing efficiencies."

1.9 A further issue was the extent that these efficiency lines are cashable savings rather than counterfactual savings – unused budgetary provision that is ultimately redirected on another expenditure heading.

1.10 On the total impact on employees the efficiency savings proposals identified a reduction of some 12.0 FTE posts within Health and Social services and 15.0 FTE posts within Social Security (to be realised from the efficiency proposals). However the overall employee tracking suggests that a further 59.5 posts will be added to the Health and Social Services line[32] although it is not clear whether the 12.0 FTE Health posts will be redeployed within the growth positions or service transfers:

States Funded Bodies	Approved 2016 FTE from MTFP	Service Transfer and Other Changes 2017 - 2019	Indicative Growth 2017 - 2019	Indicative Savings (up to) 2017 - 2019	Revised 2017 - 2019 FTE for MTFP Addition (up to)	Establishment FTE (up to)	Contingency FTE
Ministerial Departments							
Chief Minister	235.3	11.5	-	(20.5)	226.3	226.3	
- Jersey Overseas Aid Commission	1.5	-	-	-	1.5	1.5	
External Relations	7.0	-	-	-	7.0	7.0	
Community and Constitutional Affairs	699.0	0.5	-	(33.5)	666.0	651.1	14.9
Economic Development, Tourism, Sport and Culture	137.7	(12.4)	-	(7.0)	118.3	118.3	
Education	1,719.4	-	31.2	(26.6)	1,724.0	1,724.0	
Department of the Environment	114.9	14.0	-	(8.0)	120.9	115.9	5.0
Health and Social Services	2,748.0	(11.5)	59.5	(12.0)	2,784.0	2,756.0	28.0
Department of Infrastructure[1]	551.9	(3.0)	-	up to (103.5)	up to 544.9	544.9	
Social Security	253.0	-	-	(15.0)	238.0	238.0	
Treasury and Resources	200.9	1.0	-	(21.0)	180.9	180.9	
Non Ministerial States Funded Bodies							
Bailiff's Chambers	10.0	-	-	-	10.0	10.0	
Law Officers' Department	72.0	-	-	-	72.0	72.0	
Judicial Greffe	45.2	0.5	-	-	45.7	45.7	
Viscount's Department	21.9	-	-	-	21.9	21.9	
Official Analyst	9.4	-	-	(0.8)	8.6	8.6	
Office of Lieutenant Governor	13.7	-	-	-	13.7	13.7	
Office of the Dean of Jersey	-	-	-	-	-	-	
Office of the Data Protection Commissioner	-	-	-	-	-	-	
Probation Department	32.3	-	-	-	32.3	32.3	
Comptroller and Auditor General	1.5	-	-	-	1.5	1.5	
States Assembly and its Services	27.0	-	-	(0.5)	26.5	26.5	
States Trading Operations							
Jersey Car Parking	24.0	-	-	-	24.0	24.0	
Jersey Fleet Management	29.0	-	-	-	29.0	29.0	
Total[2]	6,954.6	0.6	90.7	up to (248.4)	up to 6,897.0	up to 6,849.1	47.9

Notes for information:

1. It has been estimated that the impact of savings in 2015 and 2016 for Department for Infrastructure would release up to 33.0 FTE staff, though these are not reflected in the revised 2016 baseline FTE. As such these are reflected in the 2017 FTE reduction due to Savings shown above.

2. The total figures for 2017 - 2019 are presented as a maximum figures due the Department for Infrastructure presentation. For this reason Revised 2016 FTE figures and all the changes through the period of 2017- 2019 do not add up, except individual Departments line (excluding Department for Infrastructure).

[32] MTFP II Addition June 2016 Figure 53 – Forecast of budgeted FTE by Department for 2017 to 2019 Page 137

1.11 The FTE numbers within the MTFP II Addition relating to approved structures do not highlight the extent to which vacancies are being carried (and financed) across the States. The following table shows that some 897 FTE posts were vacant as at June 2016 representing some **12.9%** of the overall staffing establishment. The detail across departments and services is outlined below and as can be seen Department for Health and Social Services carried a vacancy level of 405.9 or 14.8% of funded posts at 30 June 2016:

States of Jersey FTE Analysis – June 2016

Ministerial Departments	**Budget**	**Actual**	**Vacancies**	
Chief Minister's Department –	242.1	203.0	39.1	16.1%
Non Min SFB-Overseas Aid	*1.5*	*1.0*	*0.5*	*35.1%*
Comm and Const Affairs (CCA)	700.1	643.6	56.5	8.1%
Department of the Environment	114.9	103.2	11.7	10.2%
Department for Infrastructure	551.9	437.2	114.6	20.8%
Economic Development	124.4	110.7	13.7	11.0%
Education, Sport & Culture	1,719.5	1,537.7	181.8	10.6%
Health & Social Services	2,748.0	2,342.1	405.9	14.8%
Social Security	253.0	230.4	22.6	8.9%
Treasury and Resources	205.9	186.3	19.6	9.5%
Non Ministerial States Funded	**235.7**	**213.3**	**22.4**	**9.5%**
Bailiff's Chambers	*10.0*	*10.0*	*0.0*	*0.0%*
Law Officers' Department	*72.0*	*66.1*	*5.9*	*8.2%*
Judicial Greffe	*46.9*	*40.6*	*6.3*	*13.5%*
Viscount's Department	*21.9*	*21.8*	*0.1*	*0.3%*
Official Analyst	*9.4*	*6.2*	*3.2*	*34.0%*
Estab. of H.E. Lt. Governor	*13.7*	*13.1*	*0.6*	*4.3%*
Data Protection	*1.0*	*1.0*	*0.0*	*0.0%*
Probation Service	*32.3*	*29.9*	*2.3*	*7.2%*
Comptroller & Auditor General	*1.0*	*0.6*	*0.4*	*40.5%*
States Assembly	*27.5*	*23.9*	*3.6*	*13.0%*
Sub Total (1)	**6,897.0**	**6,008.6**	**888.4**	**12.9%**

1.12 On a comparative basis the June 2016 Health and Social services position of 405.9 FTE or 14.8% is relatively consistent (in % terms) with previous positions measured within the last two years – 461.6 FTE or 16.0% as at September 2015 and 433.8 FTE or 15.3% as at 30 June 2014.

1.13 The corresponding position for Social Security against 8.9% in June 2016 is 18.7 FTE or 7.4% and 18.8 FTE or 7.8% is also relatively consistent and much higher than what we had expected for the service. It may well be the case that this level of staffing vacancies imposes no negative impact on service provision and that Social Security may be able to deliver the proposed efficiency savings on staffing without undue effort. In relation to the Social Security Department there is significant expectations on the size of efficiencies to be generated beyond staff costs:

Department	2015/2016 Saving £'000	2017 Saving £'000	2018 Saving £'000	2019 Saving £'000	Total FTE Impact
Social Security Department					
Efficiencies					
Efficiency Savings Programme 2017-2019 enabled by LEAN, including efficiencies in Grant Aided Bodies		255.0	514.0	772.0	5.0
Review of Back To Work Services		686.9	1,373.8	2,060.7	10.0
Total efficiencies		**941.9**	**1,887.8**	**2,832.7**	**15.0**
Sub Total: Social Security Department		**941.9**	**1,887.8**	**2,832.7**	**15.0**
2015 -2016 savings	**699.0**	**699.0**	**699.0**	**699.0**	
Total: Social Security Department	**699.0**	**1,640.9**	**2,586.8**	**3,531.7**	

1.14 Whilst there appears to be an inherent level of precision on the profiled savings, it is not clear within the narrative exactly how the two main lines are going to be achieved. The 2015/16 savings of £699,000 per annum appear to be a continuous 'salami sliced' budget reduction. Within the Health and Social Security Scrutiny Panel public hearing on 20 July 2016 it was indicated that the Review of Back to Work Services would be delivered through a mix of saving payroll and associated costs of £500,000 in respect of 10 staff and a reduction in the funding of training and incentives paid to employers in respect of the remaining £1.56m by 2019. In essence, such a reduction appears to be an application of service retrenchment within this specific area of supporting people back to work. Indeed, at the Scrutiny Panel hearing the departmental Chief Officer indicated that these savings could be achieved on the basis of positive economic assumptions and historical track record of achievement:

"We believe, given what the economic assumptions currently are, and given the success we have had so far to date we will be able to do both. We will be able to (a) reduce mainstream unemployment, and (b) help support more people who currently are not looking for work into employment over this period and still reduce by £2 million the amount of money being spent. So, for example, if economic circumstances are such the labour market continues to improve, which would go alongside…

All our forecasts are based upon the current economic assumptions and that is the core of the M.T.F.P. in terms of the income forecasts, benefit forecasts and so on. So I think it is a fair assumption to base the M.T.F.P. assumptions and for us to use those in terms of working out what our plans are. I think it is quite realistic to do that."[33]

[33] STATES OF JERSEY – Health and Social Security Scrutiny Panel Medium Term Financial Plan Addition WEDNESDAY, 20th JULY 2016 – Page 25

1.15 The latest Fiscal Policy Panel (FPP) report dated August 2016 includes for a downward revision on the central economic assumptions. Revised employment growth is considered to be 0% across 2017 to 2020. In view of this revised economic forecasting if the return to work efficiency saving is predicated on assisting fewer people back into work there may be real risk of non-achievement of this proposal if service outputs are delivered undiminished. The alternative position could be that this service is currently over provided with budgetary resources and can sustain this level of budget reduction.

1.16 Within the MTFP II Addition we learn that Pay Restraint equating to some £24.8M will be achieved by 2019:

	2016	2017	2018	2019
	£'000	£'000	£'000	£'000
Savings	525	1,087	1,487	1,817
Efficiencies	21,793	29,244	38,020	46,317
Efficiencies - Pay Restraint	10,894	16,725	20,701	24,826
User Pays	695	1,181	2,661	4,575
Total Proposed Department Savings	**33,907**	**48,237**	**62,869**	**77,535**

1.17 Given the specialist nature of healthcare and the inherent supply/demand relationship within the industry it is not clear how pay restraint is going to impact Health and Social Services staff and exactly how much is attributed to overall efficiencies. In itself we would argue that pay restraint is not an inherent efficiency. Given the consistently high level of funded vacancies highlighted above it is highly possible that the budget process does not fully equate resourcing with need. Such a high level of vacancies can produce an element of distortion if salary budgets are not reduced by a vacancy turnover provision that is appropriate – typically this across UK public bodies is between 3% – 5%. We have been provided with no evidence to suggest that payroll budgets have been trimmed for such a sustained vacancy levels achieved between 2014 and 2016 to date. The MTFP II Addition makes reference to the use of a 6% rate but it is unclear how, if at all, this vacancy level is applied to staffing base budgets within Health and Social Security as a reduction:

"Our emphasis is on voluntary programmes, using the 6% staff turnover rate to manage vacancies and reducing headcount naturally as staff leave."[34]

1.18 Given the inherent flexibility of virement and the capacity to main a double digit vacancy levels in Health and Social services and a remarkable consistent level of vacancies in Social Security (between 7.4% and 8.9%) over a sustained period of time there should be capacity to deliver efficiency savings without negatively impacting performance. We are, however, advised that there is robust business planning behind each of the efficiency savings proposals for Health and we have, based on previous scrutiny work on Health budgets, no

[34] MTFP II Addition Executive Summary – Page 18

reason to doubt this. There has been significant work undertaken to improve efficiencies examples of which include:

- Annual Leave – relinquishing salary
- Job force planning
- Management structural change – flattening hierarchies

1.19 Whilst it may be argued that for Health there should be sufficient resourcing capacity to make savings (particularly given the level of vacancies), the service has a challenging range of 'stretch targets', achievement of which will only ensure overall spend equates to budget – such is the emerging cost pressures arising from demands on healthcare. In context, the efficiency savings proposals as incorporated within the MTFP II Addition will be delivered in the same way as business as usual (bau) in-year position resource optimisation. Given Health's track record in this area we would be confident that the levels of efficiencies required will be delivered. However, the lack of detail associated with the two Social security proposals delivering approximately £2.8m by 2019 provides less confidence that there are plans for service re-engineering in a way that will deliver these two elements other than 'salami sliced' budget reduction with a consequential retrenchment in service provision.

Central Growth Proposals

1.20 The 2% investment in service standards and healthcare inflation is the largest single component of the central growth allocation for 2018 and 2019:

Dept	Proposals to be held in Central Growth Provision	2017 Proposed £'000	2018 Proposed £'000	2019 Proposed £'000
HSS	2% Investment in Service Standards and Healthcare Inflation		4,714	5,253
	P82/2012 - Health Transformation (White Paper)			
HSS	Acute Service Strategy		**2,705**	**703**
HSS	Healthy Lifestyles		**324**	**37**
HSS	Mental Health		**540**	**-60**
HSS	Out of Hospital		**768**	**1,561**
HSS	Services for Children (Early Interventions)		**615**	**378**
HSS	**Proposed Central Growth Allocation for Health**	-	**9,666**	**7,871**
Edu	Revenue consequences of capital schemes - New schools		360	40
Edu	**Proposed Central Growth Allocation for Education**	-	**360**	**40**
SA	States Members' Pensions (as amended)	-	58	42
SA	**Proposed Central Growth Allocation for States Assembly**	-	**58**	**42**
DFI	Tipping Fees Shortfall*	-	340	456
DFI	Revenue consequences of capital schemes - new Sewage Treatment Works	-	-	1,700
DFI	**Proposed Central Growth Allocation for Infrastructure**	-	**340**	**2,156**
Total	**Total Proposed Central Growth Allocation for 2018 and 2019**		**10,424**	**10,109**

1.21 It is noted that some of this growth is actually recurring expenditure requirements – particularly in relation to service requirements in keeping pace with new drugs and treatments. We understand that the service tracks and positions itself against other jurisdictions such as France, Isle of Man and the UK. From a departmental perspective the proposed level of investment is considered to be 'hugely important' and indeed essential to the provision of quality healthcare in the context of demographic trends on age associated conditions, specific areas such as Mental Health and the expected 'pay back' from early interventions.

1.22 Stripping out the 2% annual uplift the aggregate of the remaining HSS growth provisions in context with overall service Revenue Expenditure are not overly significant. These growth proposals equate to growth of 2.36% in 2018 and 1.26% in 2019 on adjusted Net Revenue Expenditure. In context it could be argued that this level of revenue growth is slightly inconsistent with the Ministerial narrative on this priority service.

1.23 On the detail behind the growth items (and perhaps in contrast with the appearance of some of the savings lines) there is no doubt that some robust work has been carried out to substantiate each item within Health and Social Security as illustrated in the detail highlighted with Page 66 onwards within the MTFP II Addition. Whilst this investment appears to be fully expected by the service the final commitment is predicated upon the realisation of efficiency savings or indeed approval by the States on the funding mechanism on health – presumably the 'Health Charge':

Proposals for a Central Growth Allocation for 2018-2019

Although growth for 2016 and 2017 is allocated to departments, the intention is to use a central growth allocation for 2018 and 2019 as part of the proposals for the MTFP Addition. This would be consistent with provisions in the "Finance Law" and the principles adopted in MTFP 2013-2015.

This will provide an important part of the Council of Ministers contingency planning and allow the level of additional funding and growth envisaged for 2018 and 2019 to be agreed in the annual Budgets for 2018 and 2019 on the basis that the savings targets and/or projected income levels are achieved. If either savings or income forecasts fail to reach the proposed targets the level of additional funding will need to be revisited. The total spending limits for the four years cannot be exceeded, other than in exceptional economic or environmental circumstances, and the financial position needs to be broadly balanced by 2019.

The levels of health growth in 2018 and 2019 could also be reviewed pending the approval by the States of a funding mechanism for Health to be proposed in the 2017 Budget.[35]

[35] MTFP II Addition Page 63

1.24 An interpretation on this position may include that there is a material uncertainty around growth items which Health and Social Services may have categorised as being fundamental and this may include growth items being jeopardised by the failure of the realisation of efficiency savings by other services.

Health Charge

1.25 The proposed Health Charge does not appear within Summary Table B which shows the Summary Net Expenditure positions for each department and non-ministerial funded bodies over the life of MTFP II although it purports to be a hypothecated levy. Given that much has been made of the need to invest in future Healthcare it would be helpful to see how this levy helps defray such investment.

1.26 The Addition paper highlights that the proposed charge has been reduced from an original £15m in 2018 and £35m in 2019 as a result of "*better than expected financial position in 2015 and improved income forecasts for 2016-2019, we are proposing to introduce an income-based charge which would raise £7.5 million by 2018, increasing to £15 million in 2019…*".

1.27 The MTFP II Addition clarifies that the method of collection will be based on income with the detail being produced within the 2017 Budget. However page 98 of the Addition outlines, under Proposals for Fiscal Measures and Funding Mechanisms the following structure of application and assessment:

The proposed structure of the health charge is outlined below:

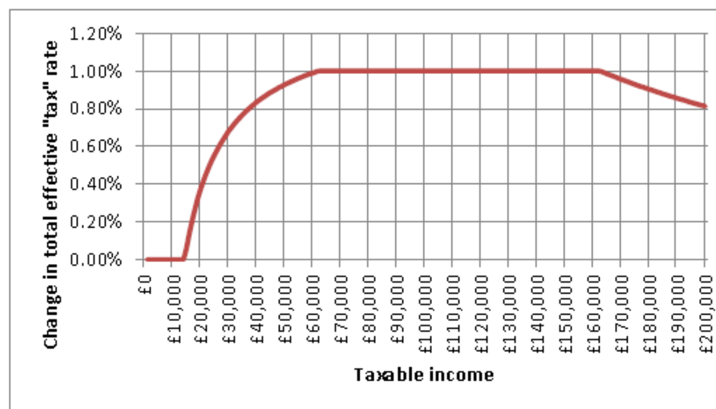
- *Levied by the Treasury and administered/collected by the Taxes Office.*
- *Based on personal income tax principles: income for the purposes of the health charge will be determined by the individual's income for personal income tax purposes – it will therefore include investment income together with employment income/benefits in kind; prima facie it will also apply to all individuals regardless of age.*
- *Individuals will be entitled to the same exemptions, allowances and reliefs as are available in the personal income tax system – so consistent with the LTC contribution, if an individual does not pay personal income tax, because their income is less than the exemptions, allowances and reliefs to which they are entitled, they will not pay anything under the health charge. It is estimated that approximately 30% of the population with the lowest incomes do not pay personal income tax and hence will not pay anything under the health charge.*
- *The income assessable under the health charge will be subject to an upper cap in the same way as income is capped for the LTC contribution. In the context of married couples/civil partnerships who are jointly assessed for income tax purposes, this cap will be applied to each spouse's/partner's income separately.*

- *Where an individual has their income tax collected by way of ITIS, the health charge will also be collected by way of ITIS on a current year basis. Individuals who do not pay their income tax by way of ITIS will have the health charge collected through the payment on account mechanism.*
- *In order to raise the additional revenue required, the rate of the health charge will be set at 0.5% in 2018 and 1% in 2019 for standard rate taxpayers. For marginal rate taxpayers the effective rate of tax will be less than 0.5% in 2018 and less than 1% in 2019. Approximately 85% of taxpayers are marginal rate taxpayers and hence will pay the health charge at effective rates lower than 0.5% and 1%, in many cases, much lower.*

The Health charge will be set at 0.5% in 2018, rising to 1% in 2019. It will work like the Long Term Care charge and will have an upper cap of £162,500.

Example graph provided below for working age individual

Figure 33 - Case study 1: individual – working age



1.28 Given that there is no discernible linkage between usage and liability, the term 'Charge' is inaccurate as it is in effect a Tax (perhaps no different from the Long Term Care Contribution). Essentially it appears to be a hypothecated tax yet the Health Account does not directly benefit from the resultant income e.g. appearing within the revenue account for Health. We are advised that the 'charge' is routed through the Consolidated Fund with the Health Account getting the additionality through growth.

1.29 Principle 1 of Jersey's Long Term Tax Policy is "Taxation must be necessary, justifiable and sustainable." Given the significance of the level of reduction from the £35m figure quoted within the original 2015 submission due to a better than an expected financial position, there is the obvious potential for this levy (tax) to be variable. The rationale behind the setting of the level of Health Charge and the application as a tax on income is difficult to fully understand other than to provide some phased additional income. If further efficiencies were generated throughout the States reform agenda, the requirement to 'plug' the Health Budget with a tax which may be

disproportionately problematic may be avoidable although it is recognised that the proposal may be designed to set the foundation for a sustained source of additional income that will be needed to assist with a future imbalance of income with expenditure.

1.30 On a simplistic basis, such is the level of flexibility within the budget setting process (especially in the context of the extremely high level of vacancies across the States – 12.9%) that it is difficult to avoid the conclusion that the sum that the Health Charge is designed to capture may be alternatively delivered through not funding staffing vacancies.

1.31 The Health Charge is a charge levied on income and by the clearest definition an element of income tax. Given that there is no discernible linkage between usage and liability, the term 'Charge' is not considered to be an accurate description of this proposal and it is in effect a Tax. It may be differentiated from the Long Term Care Contribution as there is arguably a link between the Long Term Care Scheme charge and the provision of investment in long term care whereas the Health Charge appears to be a contribution to increase investment within the service – although given that the income is routed to the Consolidated Fund the direct link with the departmental net revenue position for health is unclear.

Health Insurance Fund Movements

1.32 We note that approval is sought – Proposition (P.68/2016) for the transfer of £5 million from the Health Insurance Fund (HIF) to the Health and Social Services Department for each year of this MTFP II (2017 – 2019) totalling some £15m. In addition to the Health 'Charge' the Department will benefit from some £37.5m of additional resources over this three year period. We are assuming that this level of additional resourcing will fund growth investment – however it is unclear if the Health Insurance Fund will be repaid.

User Pays

1.33 An extract of Appendix 1 – User Pays is outlined below relative to 2017,2018 and 2019 respectively:

Health and Social Services Department			
More equitable application of subsidies and means testing, targetting those most in need.	225.0	425.0	625.0
Sub Total: Health and Social Services Department	**225.0**	**425.0**	**625.0**
2015/2016 User Pays	685.0	685.0	685.0
Total: Health and Social Services Department	**910.0**	**1,110.0**	**1,310.0**

1.34 We note that it is the intention to maximise recovery from insurers and those opting for private treatment using public resources. This will require accurate costing of procedures/treatments which can be justified to those insurance companies and private patients meeting this charge although we are advised

that robust costing processes are in place that can readily facilitate such billing. We do not, however, have any detail behind the above estimate calculations and are not currently sighted on current performance of recovery.

Funding the New Hospital

1.35 The MTFP II Addition 2016 has introduced some detail behind forecasted costs and timescales relating to the Future Hospital. In context with existing public investment within Jersey the overall cost exposure for the Hospital Project is projected to be the largest project undertaken by the States (in cost terms) although the project has still not progressed beyond a proof of concept stage. Indicative capital costs are contained within page 129 of the MTFP II Addition are at an early stage:

Cost element	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	Total £m
Main Works Cost	-	-	11.517	68.368	94.393	72.484	11.709		258.472
Fees	5.627	11.255	7.142	3.418	3.538	3.662	1.862		36.505
Non-works	0.205	8.755	1.263	0.058	0.913	1.102	4.265		16.560
Equipment	-	-	-	-	-	5.850	17.754		23.603
Contingency	-	-	4.016	23.838	32.912	25.273	4.083		90.121
Relocation works	0.789	21.810	12.495	-	-	-	0.685	4.592	40.371
Project total	**6.621**	**41.819**	**36.433**	**95.683**	**131.755**	**108.370**	**40.357**	**4.592**	**465.631**

1.36 We do not see any recurring revenue costs associated with the running of the new Hospital including how a revised Health Service would be adapted. The forecasted/projected relocation costs are significant and this may indicate contemplation of service redesign.

1.37 In terms of funding we are advised that:

"With the advice of an external advisor, the Treasury have developed provisional funding considerations and options. This options analysis will progress to consider and propose a preferred solution which is likely to be blended solution of using existing Reserves and internal or external financing options.

A Special Fund, specific to funding the new hospital, is likely to be proposed. The extent to which external funding, possibly in the form of a bond is used will determine the extent to which an income stream is required to service that debt, most likely in the form of additional taxation. Further work will be undertaken to prepare detailed proposals for potential funding of the future

hospital, which would be submitted in conjunction with the decision set out for States Assembly consideration in 2017."[36]

1.38 We also note that the Treasury and Resources Minister, in an interview with BBC News on 5th July, referred to a tax/charge to fund the new hospital as an "option". Given the magnitude of funding required for this it is clear that an accurate overall capital project cost together with annual recurring revenue costs will need to be detailed.

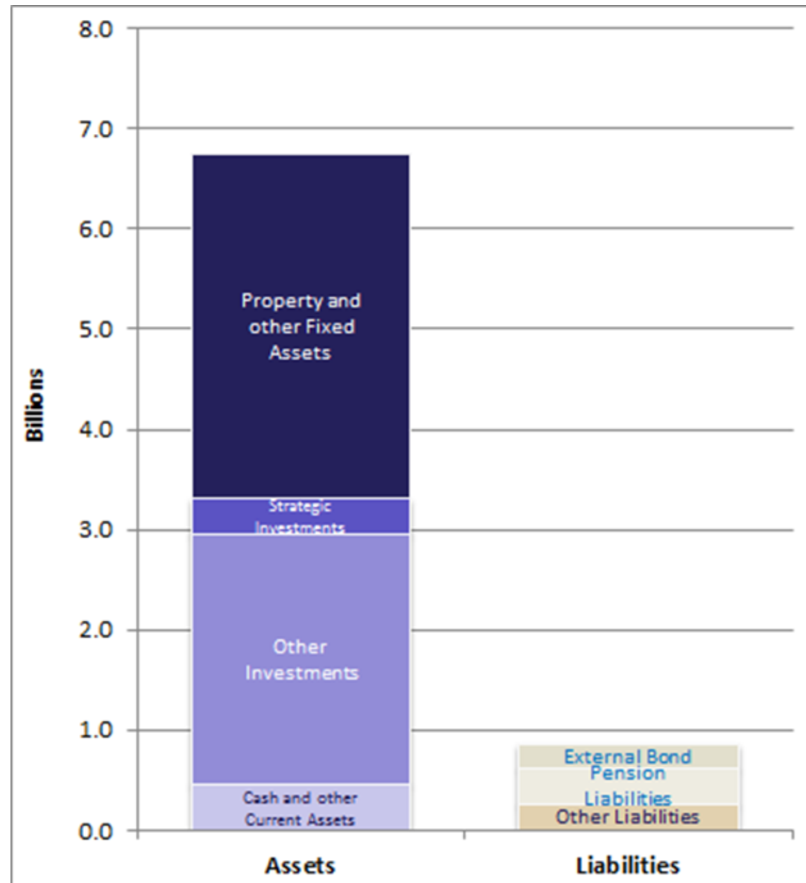
1.39 It has been said that Brexit may offer a sustained period of 'cheap' finance as interest rates appear to be maintained at low levels into the medium term. In terms of Bond Finance it is noted that Jersey's credit rating fell to AA- on Friday 8 July. Whilst there appears to be a level of confidence amongst Ministers surrounding Jersey's ability to raise Bond finance, the level of uncertainty and economic turbulence may well be an important factor in the relative return required by the market which may be more than expectations currently expect. In any event, given the variability on investment returns on investments, Bond finance may well require to be met from annual income.

1.40 Much has been said about the States having a strong balance sheet, in terms of asset base or net assets – *"Strong balance sheet - The balance sheet has grown further in 2015 with an increase in the net asset balance of £166 million to £5.9 billion, largely as a result of investment returns and the revaluation of property, infrastructure and strategic investments."37 "Jersey is well placed to respond, not only to opportunities that arise from BREXIT but also challenges, particularly during any period of uncertainty impacting States revenues, having plans to balance the books, a history of fiscal discipline, a strong balance sheet and low debt"*. 38

1.41 Whilst there are a number of high value assets, the bulk of the valuations of most of the infrastructure assets would not be readily realisable through a definable market. A more accurate position can be found within the detail and graph represented on page 133 of the Draft MTFP Addition:

"The Balance Sheet, as at 31st December 2015 includes £3,443 million of property, land and infrastructure assets and £361 million of Strategic Investments such as Jersey Post, Jersey Telecom etc." Figure 51 – States Balance Sheet as at 31.12.2015[39]

[36] MTFP II Addition 2016 – Update on Capital Programme P 129
[37] 2015 – States of Jersey Accounts – Page 11
[38] Draft MTFP – 2016-2019 – Page 120
[39] Draft MTFP Addition – 2016-2019 – Section 17 – Page 133



1.42 It is worth noting that the fund balances as at 31 December 2015 was as follows:

- Strategic Reserve – £771.4m
- Consolidated Fund Unallocated – £64.7m
- Stabilisation Fund – £0.006m
- Social Security (Reserve) Fund – £1.3bn

1.43 Within our overall assessment of MTFP II Addition we are of the view that there is a structural imbalance between overall income and expenditure. Our most significant concern is what we consider to be overestimated levels of income tax yields across the full scope of MTFP II. It is anticipated that funding the new hospital project will require to be met from a number of sources including reserves and borrowing. Borrowing will obviously require to be financed from income. Should lower than anticipate income streams be realised, especially in the context of material uncertainties around Brexit, external financing may become more difficult to accommodate within the current financial strategy where overall annual deficits on States Income and Expenditure are expected to 2019.In this context, overall affordability of the project will be tested, especially if the planned exposure of other funding sources (Reserves and/or Tax increases) are to be minimised. With a current trajectory of imbalance between overall States current income and expenditure it may be difficult to accommodate significant borrowing.

Concluding comments

1.44 Health investment outwith the recurring 2% health inflation provision account for only growth of 2.36% in 2018 and 1.26% in 2019 on adjusted Net Revenue Expenditure respectively. In context it could be construed that such levels of investment in the form of growth proposals are inconsistent with the Ministerial narrative on the need to invest in this critical service area. That said, there is no doubt that additional resources are being deployed. Incorporating the Health 'Charge' of £7.5m in 2018 and £15m in 2019 the Department will benefit from some £37.5m of additional resources over this three year period including £15m from the Health Insurance Fund between 2017 and 2019. In respect of the Health Insurance Fund allocation there appears to be no detail on or if this will be repaid.

1.45 Although some of these efficiency savings provide the appearance of being more aspirational rather than founded upon firm 'business case methodology', we are confident that Health and Social Security proposals represent a robust attempt to deliver service efficiencies. It is obvious that the Health and Social Services have a detailed understanding of service planning and are fully aware of what lies ahead in terms of service and cost pressures. However, we do have concerns at the high level of funded staffing savings as this can distort or inhibit transparency in illuminating real efficiency gains.

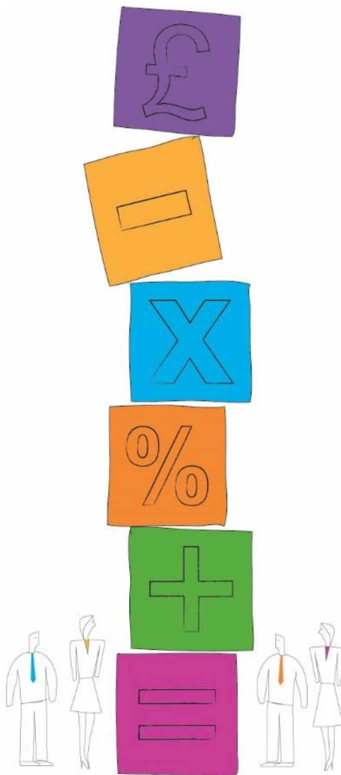
1.46 We do have concerns about the lack of granularity around both Social Security efficiency proposals. In relation to the reduction to the £2.066m Back to Work Programme by 2019, now that the Fiscal Policy Panel have revised the central economic forecasts downwards, the departmental position taken on employment growth inherent within this proposal may have to be adapted accordingly.

1.47 The rationale behind the setting of the level of Health Charge and the application as a tax on income is difficult to clearly understand other than to provide some phased additional income. It is difficult not to conclude that if further efficiencies were generated throughout the States re the reform agenda, the requirement to 'plug' the Health Budget with a tax which may be disproportionately problematic, could be avoidable. However, it may be the case that the strategy is set to create the foundation for a sustained additional income source.

1.48 The magnitude of the capital cost of the New Hospital Project at approximately £466m is such that it will undoubtedly require a mixed approach to funding sources. The level of recurring revenue costs is not highlighted or featured within the MTFP II Addition narrative. Against current and future provision such an assessment of both capital and revenue running costs will be absolutely essential in order to assess overall affordability. As there is a current structural imbalance between income and expenditure within the overall MTFP modelling, the financing of the project capital cost and expectations

around recurring revenue provision may be extremely challenging - especially where States revenues are falling behind revenue spend.

1.49 The MTFP II should provide stability in medium and longer term financial planning. In terms of funding for the new Hospital Project or the ability to protect Health and Social Service as well as Social Security expenditure in the face of growing service demands and expectations, there is still more to do before such stability and assurance can be achieved by the latest adjustment to the MTFP II 2016-2019.



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