STATES OF JERSEY

ANNUAL BUSINESS PLAN 2009 (P.113/2008): FIFTH AMENDMENT

Lodged au Greffe on 2nd September 2008
by the Public Accounts Committee

STATES GREFFE

ANNUAL BUSINESS PLAN 2009 (P.113/2008): FIFTH AMENDMENT

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1 PAGE 2, PARAGRAPH (a) –

In paragraph (a)(i) after the words "pages 10 to 12" insert the words –

"except that after success criterion (x) in Objective 2 on page 11 there shall be inserted the following additional success criteria –

(xi) In conjunction with the Treasury and all other States Departments, develop an action plan to deliver potential expenditure reductions and other related issues highlighted in the Comptroller and Auditor General's report entitled "Emerging Issues" presented to the States on 19th May 2008;

(xii) Remuneration mechanisms of the States reviewed to ensure that arrangements are fit for purpose and appropriate to support the achievement of the States' objectives in the current environment;

(xiii) Age limits and financial arrangements for redundancy, early retirement and retirement for all States employees reviewed so that these are more comparable with best practice in the private sector or United Kingdom standards for equivalent services; giving due recognition to the economic environment and local employment conditions in which the States operates;

(xiv) A consistent programme of performance reviews and appraisals implemented which encourages and supports staff development and retention and improves performance."

2 PAGE 2, PARAGRAPH (a) –

In paragraph (a)(x) after the words "pages 33 to 35" insert the words –

(a) "except that for success criterion (vi) in Objective 2 on page 33 there shall be substitute the following success criterion –

(vi) Establish and implement professionally accepted project appraisal, management and control procedures to enable the viability, funding, financial management and variance analysis of projects to be properly considered and evaluated"

(b) "except that after Objective 3 there shall be inserted the following new Objective and Success Criteria (with subsequent Objectives renumbered accordingly) –

Objective 4 – Improved efficiency and effectiveness of States expenditure and financial management.

Success Criteria:

(i) In conjunction with the Chief Minister's Department, develop an action plan to deliver potential expenditure reductions and other related issues highlighted in the Comptroller and Auditor General's report entitled "Emerging Issues" presented to the States 19th May 2008, and present the action plan to the States with an implementation timetable prior to lodging of the 2010 Business Plan;

(ii) Establish, with appropriate amendments to the Public Finance (Jersey) Law 2005 if necessary, an internal reporting mechanism which facilitates monitoring of expenditure and identification of variances in respect of the Service Analyses which support the Net Revenue Expenditure approved by the States in the Annual Business Plan;

(iii) Ledger structures and definitions of costs standardized so that reliable States wide data on costs is available;

(iv) Financial directions revised and monitored to ensure a rigorously and consistently applied unified system of financial control to ensure compliance with fundamental financial disciplines throughout all States departments;

(v) Central authority and responsibility of the Treasurer of the States as corporate head of finance strengthened, with all finance officers and accounting staff recognizing their direct responsibility and accountability to the Treasurer;

(vi) System established to provide financial information for facilitation of the setting of priorities for expenditure between departments to better inform the debate on resource allocation."

PUBLIC ACCOUNTS COMMITTEE

REPORT

Introduction

During the debate of the 2008 Business Plan the Chief Minister promised a root and branch review of States spending. On 11th December 2007, the Comptroller and Auditor General announced that he would undertake a review of the efficiency and effectiveness of States expenditure, comprising 3 principal components. These were –

1. A review of the claimed £35 million annual reductions of expenditure which was the subject of a press release by the Chief Minister on 6th November 2007.
2. A review of States-wide spending, and
3. A review of the effectiveness of the process [including the provisions of the Finance Law] for the control of expenditure.

The Public Accounts Committee has already issued its report on the efficiencies claimed by the Council of Ministers.

The Comptroller and Auditor General's Report was issued on 19th May 2008. The report, entitled "States Spending Review – Emerging Issues", covered the second component of the review; an examination of States-wide spending. The report consists of 3 separate parts, including a summary of the options for reducing departmental expenditure, a summary of cross-cutting issues and observations arising from the review on the effectiveness of States control of expenditure, and steps which should be considered to improve that effectiveness.

For the review to be worthwhile, further action needs to be taken to address all issues raised, and it is with this in mind that Public Accounts Committee are proposing the above amendments to the Business Plan.

The Public Accounts Committee acknowledges that effort has been invested in improving the efficiency of the States and seeks to help departments maintain those initiatives. These amendments are designed to provide additional guidance to the departments concerned, enabling further improvements to be made in the financial management of the States. Equally, if the departments are successful in achieving these new criteria, a direct result will be improved consistency in the financial management across the States. This means that services will be delivered in a more efficient and effective manner.

With the forthcoming change to GAAP accounting practices, it is even more important that States financial management practices are fit for purpose and effective.

Chief Minister's Department – Objective 2 (amendment (1)

The Comptroller and Auditor General's report discussed Human Resources issues at length. The additional objectives proposed to the Business Plan 2009 have been drawn from the Comptroller General's report and are intended to address this particular area.

If there is to be an efficient and effective public service, one area that must be considered is the remuneration of States employees. As the remuneration of States employees accounts for the largest item of States expenditure, it is only right that the areas highlighted in the amendment are properly addressed. The Public Accounts Committee recognises that a number of reviews have been carried out by the department, by Hay and, more recently, the Comptroller and Auditor General. These have all drawn attention to the fact that there are a number of failings in the present system. It is with this in mind that the Public Accounts Committee are advocating the need, not only to review the remuneration mechanisms, but equally to address other issues, such as financial arrangements for redundancy and early retirement, and to consider whether present age limits are applicable. This is particularly important as the Island considers how to deal with an aging society. Indeed, evidence gathered by the Comptroller and Auditor General whilst carrying out the review on States Spending included the recommendations that staff remuneration should be reviewed, and that performance management techniques should be improved to encourage greater effectiveness from the workforce. The report also identified that, although the States staff handbook provided for the regular review and appraisal of performance of each employee, these reviews had not been carried out as expected, neither was there a consistent attempt to encourage and support staff development. It is clear that the Human Resources policies and practices of the States were developed in a different era and, while there is much that is admirable about our practices and policies, it is also clear that there are aspects where reform is overdue. These amendments should help to address those issues.

Treasury and Resources Department – Objective 2 (amendment (2)(a))

This amendment deals with the development of a more sophisticated and up-to-date financial assessment of projects. This will require a dedicated unit in the Treasury. It is essential that this should be centralised so that the Treasury can keep control of project planning and can provide a support system for departments when planning significant projects. As the report states, "*there are opportunities for the States to improve its control of expenditure by insisting on compliance with fundamental financial disciplines monitored rigorously by the Treasury and Resources Department. These include proper project planning and management.*"

Treasury and Resources Department – new Objective 4 (amendment (2)(b))

The second amendment is developed from the comments in the report regarding budgets, line items in departmental budgets, the inconsistencies in ledger accounting and the current problems with Financial Directions and internal controls.

The budget for each department, as set out in the Business Plan, is "flexed" by the addition of various items such as previous years' under-spends, transfers from capital to revenue and transfers between departments. This means that, at the end of the year, the budget used for the evaluation of performance of a department is significantly different to that which was approved in the Business Plan. The Comptroller and Auditor General makes a comment in his report that the budget is "*treated as a game*". This is not an effective or efficient way to provide an accurate assessment of the performance of a Department.

During the Business Plan, the States votes on the total cash limit for each department, not the Service Analyses. Unless a particular Service Analysis is highlighted by an amendment, these can be changed by Ministerial Decision the following day. Budgets are flexed significantly after the Business Plan is approved. There is therefore no fixed benchmark by which to assess performance. Item (ii) addresses this matter.

The Comptroller and Auditor General also found that there were inconsistencies as to the items posted to ledger accounts. This makes direct cost comparisons between departments impossible without a considerable amount of analysis. Item (iii) requires the Treasury to standardize the definitions of costs and to ensure that the ledger structures are applied consistently across the States.

The Treasury has already commenced a review of the Financial Directions. Item (iv) requires there to be a universally applicable set of financial directions so that there is a consistent system of internal controls throughout the States. The Public Accounts Committee has received evidence, during its recent hearings on the States Accounts for 2007, that the current set of Financial Directions is such that the internal controls systems of Departments "collide with each other".

Part of the change transformation was to establish "Heads of Profession" so that there should be professional responsibility for those personnel within the States. This amendment, item (v), is to provide support for the Treasury when establishing financial standards across the States.

In his report, the Comptroller and Auditor General commented that "*Resource allocation in the States unduly reflects political strength rather than a rational setting of priorities for expenditure*". If there is to be effective financial control then there should be independent provision of sound financial information to enable an informed debate on prioritisation and allocation so that the smaller departments are not ignored. This section, item (vi), will ensure that this need is addressed.

The Public Accounts Committee believe that success criteria should, where possible, accurately describe the outcome anticipated. In this case, and again based on observations made by the Public Accounts Committee and the Comptroller and Auditor General, there are failings within the present financial assessment procedures and other financial controls which are presently in place to manage the finances of the States. If this area is to be addressed, a number of improvements need to be made, predominantly by insisting on compliance with fundamental financial disciplines, overseen and monitored by the Treasury and Resources Department.

The Public Accounts Committee acknowledges that the Department has a number of studies underway to transform the financial management of the States. However, without the Treasury insisting on compliance by all departments to their requirements there will be limited success. The introduction of these criteria will enable both the Public Accounts Committee and the States to monitor the progress of the Department as it fulfils its duties in managing and co-ordinating States finances.

As stated in the introduction to this report, over many years the Public Accounts Committee and its predecessor, the Audit Committee, have aimed at encouraging improvements in the financial management of the States. The slow rate of progress and the lack of consistency in the application of financial management disciplines have been disappointing. The aim of the new objective and associated success criteria is designed to help the Treasury and

Resources Department in their efforts to improve the overall financial management of all States expenditure. Many of the success criteria included in this amendment are as a direct result of findings and recommendations reported by the Comptroller and Auditor General in the States Spending Review.

It is worth noting that the Spending Review was based in large part on work that the Chief Officers of the States departments had already commenced or proposed.

The Public Accounts Committee recognises the importance of this report and believes that all issues raised in the report need to be properly and fully considered, not only by the Treasury and Resources Department supported by the Chief Minister, but also by the States as a whole. In the forward to the Business Plan the Chief Minister states that "*the Council of Ministers has considered the Comptroller and Auditor General's Report on States spending and has taken account of his conclusions*". This amendment and success criteria are designed to not only enable the process to happen in a timely and structured manner but help reinforce the commitment given by the Council and the Chief Minister.

Clearly, there are a number of the issues raised in the report which require to be dealt with over the longer term, hence the requirement for any implementation plan to be supported by a realistic timetable.

Equally some of the opportunities for savings may not prove straightforward to implement or acceptable to the Island's population. It is, however, essential that States members and the Public are able to be involved in the process and play their part in the wider debate.

Summary

The introduction of GST, together with the sharply increased prices of food and oil, not to mention the dangers of inflation, have focused everyone's mind on the necessity to ensure that States finances are managed efficiently and that funds available are used to greatest effect.

The amendment to the Business Plan 2008 by the Public Accounts Committee was withdrawn after the promise of the Chief Minister to support a root and branch review of States spending. This review has now been completed and a number of options to reduce departmental expenditure have been identified by both the Comptroller and Auditor General and the Chief Officers of all States departments.

Cross-cutting issues were also identified, as well as steps to be considered in improving the effectiveness of the States control on expenditure. Due to the complexity of some of the options identified, no reduction in expenditure has been included in the 2009 Business Plan.

The Public Accounts Committee acknowledges that some areas included in the reports produced by the Comptroller and Auditor General require greater consideration and wishes to ensure that this takes place. Equally, further reports are to be published by the Comptroller and Auditor General allowing for a more informed debate on the issues raised. With this in mind, the Public Accounts Committee, as part of its campaign to improve financial responsibility and accountability of the States, has sought to introduce the above amendments in order to give the States the option of being able to take part in the wider debate.

Due to the nature of some of the reductions in expenditure, the Public Accounts Committee recognises that the Treasury and Resources Department and the States as a whole, need time to properly consider all issues raised, and therefore proposes that a plan is developed which the States will be able to consider prior to debating next year's Business Plan.

Financial and manpower implications

There are no financial or manpower implications for 2009 as all work to be carried out can be done within existing resources.

If all spending reductions were ultimately pursued, the result would be potential annual savings of at least £28 million by 2025.

Additional resources over the same period may also be required. However, it is anticipated that those resources would be funded from approved spending reductions.