

STATES OF JERSEY



DRAFT STRATEGIC PLAN 2015 – 2018 (P.27/2015): ELEVENTH AMENDMENT

**Lodged au Greffe on 14th April 2015
by the Corporate Services Scrutiny Panel**

STATES GREFFE

PAGE 2 –

After the words “in the attached Appendix” insert the words –

“except that –

- (1) on page 5, in the fourth paragraph of the section headed “What are the key challenges we face”, after the words “does not jeopardise the Island’s recovery.” insert the words “Achieving fiscal balance must be our first priority”;
- (2) on page 6, in the first paragraph, for the words “Our starting point must be Health” substitute the words “Health must also be one of our top priorities”;
- (3) (a) after page 6 insert a new Priority “Sustainable Public Finances” as set in the Appendix to this amendment and on page 6 for the words “Each of the four priorities” substitute the words “Each of the five priorities”;
- (b) on page 15, in the first paragraph, after the words “costs than elsewhere” insert the words “; a pressing need to place Jersey on the path of fiscal balance”; after the words “coping financially.” insert the words “It is therefore critical that we have sound and sustainable public finances.”; and in the second paragraph, before the words “four priorities” insert the word “other”;
- (c) on page 16 for the words “The Council’s four priorities” substitute the words “The Council’s five priorities”;
- (d) delete pages 18 and 19 (“Service Delivery and Funding”);

and renumber pages and Priorities as required.

CORPORATE SERVICES SCRUTINY PANEL

REPORT

Summary

The purpose of this amendment is simply to place greater emphasis on ensuring that the public finances of Jersey are sustainable in the longer term. If funding is not available in the longer term, then there is little point in planning how to spend it.

This amendment proposes creating an additional Priority to give that emphasis, as laid out in the attached **Appendix**. It mainly consists of the following –

- (1) Text already in the Strategic Plan
- (2) Text sourced from the recent report by the Comptroller and Auditor General (“Review of Financial Management” – R.38/2015).

The text has then been re-ordered, and repositioned as a first Priority to the Strategic Plan.

For ease of reference (in the **Appendix**), text highlighted in green represents new text introduced. More detail is given below.

Background

Over the past 8 years the Corporate Services Scrutiny Panel (CSSP) has undertaken a number of investigations into expenditure and income forecasting; the Fiscal Stimulus; the Comprehensive Spending Review; numerous Budgets; and the first Medium Term Financial Plan.

In these reports, the Panel has repeatedly raised concerns about the quality and reliability of economic forecasts; the ability of the States to make efficiency savings and improve productivity; and, fundamentally, whether the States of Jersey can balance income and expenditure.

The Panel is of the opinion that the Island is now at a critical juncture.

The recent report from the Fiscal Policy Panel (FPP) highlights certain areas that are cause for concern and the possible implications for the finances of the Island should not be underestimated.

Looking slightly further ahead to 2018 and beyond, the FPP has suggested that –

“...there is a real risk that the trend rate of [economic] growth in Jersey could be broadly flat in future...”

The Panel is concerned that additional charging mechanisms may be required in order to fund spending. It is with this in mind, the Panel believe greater emphasis needs to be placed on the States’ finances and as such, bring forward this amendment to the Strategic Plan.

The Panel has concerns about the outcome and application of economic forecasts in Jersey. The Panel has noted that since the publication of Budget 2015, many of the economic assumptions have been revised down further, with implications for the levels of profitability of the finance industry and tax revenue arising therefrom.

The Panel is further concerned to learn that even with the predicted increases in economic growth in the years before 2018, the Stabilisation Fund is unlikely to be topped up. This means that our reserves are unlikely to be restored. The Panel had hoped that the balanced budgets over the economic cycle would be the minimum of what could be achieved and that the States could run a budget surplus.

The Panel therefore considers that the size of the possible structural deficit facing the Island could be much larger than previously envisaged.

In addition, the States Assembly has recently been presented with the report (“Review of Financial Management” – R.38/2015) from the Comptroller and Auditor General.

This identifies a whole series of weaknesses in the systems and approach towards financial management, which is particularly serious at a time of financial pressure –

“...The States faces substantial budgetary pressures. It needs better financial management to be able to respond to these in a considered way. Although procedural and structural change is needed, what is needed most is cultural change. There needs to be a shift from the departmental to the corporate, from the short-term to the long-term and from a presumption of growth to the reality of retrenchment...”¹

“The very essence of corporate financial planning is to reallocate resources at a corporate level in light of strategic priorities”¹

The report also states that the linkage of the current MTFP to the Strategic Plan is loose and in places artificial, and uses the example of growth bids being determined and assigned to strategic priorities rather than the bids being driven by the priorities. The example goes on to explain that only 3 out of 7 strategic priorities received any growth funding in the 2012 MTFP.

The Comptroller and Auditor General concludes that: “*the current system for the allocation of resources lacked transparency and led to behaviours which were not always in the best interests of good financial management*” and “*the current system of financial planning was not fit for purpose and acted as a barrier to reform.*”. She has also identified the need for cultural change within the organisation.

Conclusion

Because of the economic situation in which the Island now finds itself, as well as the findings of the Comptroller and Auditor General, the Panel is of the opinion that difficult and hard decisions will need to be made now in order to ensure our current and future prosperity.

The Panel sincerely does hope that economic growth does filter through into increased profitability and higher tax receipts; however, because of all the reasons outlined above, it considers that financial matters need to be seen to be given greater focus in the next few years, and accordingly should be more clearly emphasized as a first Priority in this Strategic Plan.

¹ Review of Financial Management – Comptroller and Auditor General Report 02.04.15

The Panel therefore asks that Members give this amendment due and proper consideration.

Financial and manpower implications

There are no manpower implications arising from this amendment.

There are no known financial implications arising from this amendment.

Analysis of detailed changes in boxes 1.1, 1.2 and 1.3

The additional text in 'key areas of focus' has been sourced from:

Box 1.1:

Comptroller and Auditor General (“CAG”) report – page 19, para. 6.9 “The very essence of corporate financial planning is to reallocate resources at a corporate level in light of strategic priorities.”

CAG report – page 18, para. 6.6 “...As a result the MTFP process does not adequately challenge existing expenditure in the context of strategic objectives ...”

CAG report – page 20, point 2 “...The MTFP was not underpinned by zero-based review, including consideration of whether there was an obligation to provide a service...”

CAG report – page 21, Recommendation 19 “...Over the cycle of the new MTFP undertake a comprehensive programme of zero-based budget reviews...”

Box 1.2

CAG report – page 29, Recommendation 13 “...Prioritise embedding a performance management culture across the States, including objective setting and performance appraisal, as a key component of the reform agenda...”

CAG report – page 28, Conclusion, para. 7.3 “...Performance management is not embedded in the States and to embed it requires a major cultural shift. There is too much focus on departmental responsibility at the expense of collective strategic leadership...”

Box 1.3

This minor change is a clarification to ensure that this item applies equally to governmental departments as well as to any external agencies.

NEW PRIORITY TO BE INSERTED AFTER PAGE 6

Sustainable Public Finances

Our Ambition

The Island's finances return to being in surplus, with prudent, sustainable and long-term financial measures and systems in place.

Why are we focusing on this Priority?

Simply put, if the finances of this Island do not continue to be sustainable, then it will not be possible to fund the other priorities of this Strategic Plan.

If the Council is to fulfil its responsibility to ensure effective, efficient and sustainable management and use of public funds, it must take account of the economic outlook, be prudent and flexible in its spending plans, ensure that savings and efficiencies are implemented and not increase public spending unless it is matched by savings or additional income.

The Fiscal Policy Panel has identified a significant risk of structural deficit by 2018/19 on the basis of current taxation and expenditure trends. Prior to the States debate on the Strategic Plan, an updated income forecast will be published which will enable the Council to fully assess the likely balance between projected income and future spending proposals.

In order to cover an anticipated shortfall, Ministers have already asked departments to identify a range of savings and efficiencies and the impact this would have on services. This spending review will ensure Ministers can make informed decisions on future savings and spending plans and the capacity for additional investment in the **other** four priorities.

Updated income forecasts and more details on the spending review and funding for the priorities will be available before the Strategic Plan debate in April, and final figures will be published as part of the next Medium Term Financial Plan at the end of June 2015.

As well as making savings and encouraging economic growth, the Council is also investigating other ways to fund health care in the longer term. This could mean an extra charge, but research on this option has yet to be completed.

During its term of office, the Council will also review the long term sustainability of the Social Security Fund to ensure it can fund the pension requirements of increasing numbers of pensioners.

The Medium Term Financial Plan will align resources to deliver the priorities, maintain core services and meet government's statutory responsibilities. It will be supported by a new Fiscal Framework which will set out clear guidance on how tax and spending decisions should be made.

Desired Outcome		Key Areas of Focus 2015 – 2018
1.1	Sound and sustainable public finances	<p>Allocate resources at a corporate level in light of strategic priorities and in line with the following principles:</p> <p>Spending</p> <p>Be prudent, taking account of the uncertain economic and financial outlook and build flexibility into future plans.</p> <p>Identify and implement all possible savings and efficiencies.</p> <p>Challenge existing expenditure in the context of strategic objectives.</p> <p>Optimise service delivery, to improve service delivery and value for money.</p> <p>No additional spend unless matched by savings or income.</p> <p>Support the economy in line with the advice of the Fiscal Policy Panel.</p> <p>Undertake a comprehensive programme of zero-based budget reviews including consideration of whether there is an obligation to provide a service.</p> <p>Maintain balanced budgets over the economic cycle.</p> <p>Actively manage our assets by maximising investment returns within agreed levels of risk.</p> <p>Plan expenditure on capital and infrastructure over the long term and consider carefully the appropriate sources of funding for major projects, including borrowing.</p>
		<p>Taxation</p> <p>Taxation must be necessary, justifiable and sustainable.</p> <p>Taxes should be low, broad and simple.</p> <p>Everyone should make an appropriate contribution to the cost of providing services, while those on the lowest incomes are protected.</p> <p>Taxes must be internationally competitive.</p> <p>Taxation should support economic development and, where possible, social policy.</p> <p>We shall develop a new Fiscal Policy Framework and look at ways to promote financial stability.</p>

1.2	Improved systems of financial management	<p>Evaluate and where applicable implement the recommendations of Comptroller and Auditor General as detailed in her report dated 2nd April 2015, “Review of Financial Management” (R.38/2015).</p> <p>Improve organizational culture including performance management.</p> <p>Improve balance between departmental responsibility and in favour of greater collective strategic responsibility.</p>
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A New Way of Working

A key function of the Council of Ministers is to ensure the provision of modern, efficient and highly valued services for the Public, and to do this with limited resources.

Many governments are recognising that the models by which public services have been delivered for the last 50 years are no longer affordable and are adapting. Jersey must embrace this opportunity to deliver shared services that are fundamentally better – in terms of results, value for money and efficiency. Progress is already being made, but the pace of reform must accelerate over the next few years.

E-Government will form the centrepiece of this programme of reform, ensuring that the services Islanders want are provided more efficiently and effectively.

Desired Outcome		Key Areas of Focus 2015 – 2018
1.3	Improved, more productive, and sustainable public services	<p>Deliver e-government, workforce modernisation, and re-designed Lean services.</p> <p>Restructure departments and rationalise office accommodation.</p> <p>Reduce demand on services by investing in early interventions, such as promoting healthier lifestyles and the 1001 Days initiative.</p> <p>Develop partnerships across the public, private, voluntary and community sectors to improve services for communities and families. Support the voluntary and community sector to build capacity to deliver vital services through the Charities Law and associated initiatives.</p> <p>Ensure that all agencies and government departments delivering public services have clear direction, and deliver value for money.</p>