States of Jersey
States Assembly

États de Jersey
Assemblée des États

Corporate Services Scrutiny Panel

Review of the Medium Term Financial Plan

Presented to the States on 22nd October 2012

S.R.18/2012

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1. EXECUTIVE SUMMARY

1.1 The draft Medium Term Financial Plan (MTFP) represents a significant step in the management of public finances in Jersey. It will set spending limits for States Departments for three years and it is intended to provide them with more certainty and increased flexibility in managing their budgets.

1.2 It is vital that expenditure proposals from the Council of Ministers are subjected to review. Scrutiny of the draft MTFP has involved the co-ordinated efforts of all five Scrutiny Panels, as well as the work of the Corporate Services (MTFP) Sub-Panel which has produced this report.

1.3 The draft MTFP represents a step in the right direction towards better long-term and strategic planning by the States. There is much to commend in its scope, its primary objectives and in the wealth of information which underpins it and which has been made available. There have been some welcome developments, including improvements to the modelling of income from Income Tax.

1.4 Nevertheless, we have identified some matters that need to be addressed. Some have implications for future MTFPs: we have recommended that the Minister for Treasury and Resources consider the implications of establishing future MTFPs that last for five years and that operate on a rolling basis.

1.5 We are also concerned about the economic and income forecasts on which the draft MTFP has been based. Following recent developments such as the Fiscal Policy Panel's report, there is reason to doubt whether forecast income levels will be realised. States income and expenditure levels are now finely balanced and this inevitably raises the question of whether there is sufficient flexibility and whether the MTFP can be delivered if anticipated income fails to materialise. The States Assembly needs to be given confidence that there is indeed sufficient flexibility. Such flexibility is important given that the draft MTFP assumes the implementation of a number of policies to generate savings or income which have yet to be agreed by the States Assembly. By approving the draft MTFP, the Assembly could effectively find its hands tied for future decisions.

1.6 The draft MTFP does not resemble what the States Assembly expected. There is no growth allocation as envisaged in the Public Finances Law and the role of the Assembly in setting spending limits and in influencing policy development has thereby been diminished. There is also less contingency available than expected, partly because contingency has been used to fund 'growth' items and other known funding pressures – rather than being used for truly unforeseen pressures. We are concerned that there will be insufficient contingency, particularly in 2014 and 2015.

1.7 We have found that improvements need to be made in respect of the carry forward process and in relation to the monitoring and reporting of the MTFP. Furthermore, it is apparent that the CSR has yet to deliver the £65 million of savings which were anticipated, all of which suggest that the States has yet to develop a true value-for-money culture.

2. CHAIRMAN'S FOREWORD

2.1 The volumes of the draft MTFP are a testament to the amount of the work that has been done on the three-year plan. In fact our advisors gave credit to the Treasury for a stout effort in their start to improve forward planning. Our only query has been that a three-year time frame is short and that a five-year plan would give a better time frame. At the same time we were pleased to learn that there are plans to treat this as a three-year rolling plan rather than a three-year fixed plan.

2.2 The findings and recommendations which are to be found in this report highlight some of bouquets but also identify some potential brickbats. The expenditure proposals rely heavily on income and economic forecasts and it is not certain that these will be achieved. For example the economic situation has deteriorated significantly since the inception of the forecasts. The forecasts are now in the lower end of the range and, as the Fiscal Policy Panel stated, the major risks are downward. In fact there are doubts that the economic and income forecasts for 2014 and 2015 will be achieved.

2.3 The income and expenditure levels are finely balanced, suggesting that there is little room for flexibility in the event that income levels are not achieved. The Fiscal Policy Panel has considered the sources of funding for capital expenditures and suggested that there must be research to establish whether there is a structural imbalance between income and expenditure and the Scrutiny Panels support this recommendation. It does appear that a number of funds are being raided to provide the funding for capital projects.

2.4 The Sub-Panel regrets the fact that the CSR target will not be met and is concerned that the draft MTFP relies upon the delivery of future savings proposals which have yet to be determined and agreed by the States Assembly.

2.5 There are a number of new practices and procedures which need to be made more transparent. For example, the contingency funding. This is being used for addressing funding pressures rather than for the "unknown unknowns" which one would expect. It is also essential that an appropriate monitoring and reporting mechanism is developed in relation to the MTFP to ensure not only the sound management of States finances but also that decisions made by the States Assembly are complied with and delivered.

2.6 All in all this has been a good effort but it is not the whole story. This is a Financial Plan - this is not a Business Plan. There is much work to be done in such areas as modernisation of the States organisation, a topic which does not figure significantly in this MTFP. The cross cutting issues – Information Services, Property, Human Resources and Procurement – are central to reducing expenditure and limiting the size of the public sector.

2.7 This has been a complex document to review and it does raise questions as to the overall operations of the States. Is the Treasury the operational centre of the States or should it be a service centre supporting the operations of the organisation? Is the Treasury assuming operational control or is it undertaking the policies of the executive?

2.8 In the private sector, the finance department is generally a service department enabling the operations of the organisation to take place. Whilst the finance department is undeniably important, it is there to serve and not to dictate the activities of the firm. In the private sector, allocation of resources and priorities of use are dictated by the executive not the Finance Director. As a result of the complexity of the MTFP, the States is starting to place the Treasury at the centre of activities rather than the Treasury enabling the various activities of the States. It is essential that the correct balance is retained.

2.9 This has been a combined effort of all the Scrutiny Panels and I must give credit and thanks to all the States Members who have participated through their membership of the Scrutiny Panels and the Chairmen's Committee. Our thanks are also due to our advisors and the staff in the Scrutiny Office who have laboured long and mightily.

Senator Sarah Ferguson

Chairman – Corporate Services (MTFP) Sub-Panel

3. KEY FINDINGS AND RECOMMENDATIONS

Key Findings

1. Broadly speaking, the draft MTFP is to be commended for its primary objectives, its scope and the detailed workings which underpin it.

2. The MTFP should ideally last five years.

3. There is a consensus of opinion that future MTFPs should be established on a 'rolling' basis.

4. Some welcome improvements have been made to the modelling of income from Income Tax.

5. Expenditure proposals within the draft MTFP rely too heavily upon income and economic forecasts. There are doubts as to whether these forecasts will be realised, particularly in respect of 2014 and 2015. These doubts have been apparent for some time and yet the Minister for Treasury and Resources has decided not to amend the draft MTFP, despite downgraded forecasts for 2013.

6. Further work is required to demonstrate that the fiscal stimulus elements contained within the draft MTFP are timely, targeted and temporary.

7. Proposed States income and expenditure levels are finely balanced in the draft MTFP, suggesting that there is little room for flexibility in the event that intended income is not realised.

8. Carry forwards have previously been used to fund new and potentially ongoing revenue expenditure.

9. There is inconsistency in the application of policy on carry forwards and the reliance on carry forward funding suggests a lack of rigour in base budgeting for departmental expenditure.

10. There is insufficiently detailed information in respect of the capital programme meaning that the revenue consequences of individual projects may not be clearly understood.

11. Capital allocations proposed in the draft MTFP assume that the Housing Transformation Programme will be implemented, notwithstanding that the States Assembly has yet to approve the Programme. Approval of the draft MTFP could therefore provide the Assembly with little option but to pursue the Programme.

12. There is no growth allocation within the draft MTFP as envisaged in Article 8 of the Public Finances Law, contrary to what the States Assembly expected when it moved to longer-term financial planning.

13. The role of the States Assembly in setting overall spending limits has been diminished, contrary to the provisions and spirit of the Public Finances (Jersey) Law 2005.

14. 'Growth' funding has been provided for services that were already being delivered.

15. There will be less contingency available during the lifetime of the draft MTFP than was initially envisaged.

16. Contingency funding has been used for ‘growth’ bids and as a means to balance the budget.

17. The draft MTFP proposes the use of contingency funding for matters which are known funding pressures, rather than being left to address unforeseen items. This is contrary to what the States Assembly was advised when it agreed to move to longer-term financial planning.

18. There is a concern that insufficient contingencies will remain, particularly for the latter part of the MTFP in 2014 and 2015.

19. No transfers between the Consolidated Fund and the Strategic Reserve are proposed in the draft MTFP although consideration is due to be given to the policy underlying use of the Reserve.

20. No transfers between the Consolidated Fund and the Stabilisation Fund are proposed in the draft MTFP.

21. The draft MTFP relies upon the delivery of considerable funding from policy options that remain to be discussed and agreed by the States Assembly, for example use of the Health Insurance Fund and income through the management of Guernsey’s waste. Until such time as those decisions are taken, the policy proposals contained in the draft MTFP can only be viewed as provisional and resulting income as uncertain. Furthermore, the hands of the Assembly could be tied through adoption of the draft MTFP.

22. The original target of delivering savings of £65 million through the CSR will not be met. Shortfalls may arise in relation to Terms and Conditions and Procurement. Furthermore, it is currently uncertain whether further savings proposals included in the draft MTFP will be realised. A concern therefore arises as to whether the States has truly developed a value-for-money culture.

23. It is vital that an appropriate reporting and monitoring mechanism is developed in relation to the MTFP to ensure not only the sound management of States finances but also the delivery of decisions made by the States Assembly. Further work in these areas is required.

Recommendations

1. The Minister for Treasury and Resources should examine and report to the States Assembly by July 2013 on the implications of extending the period of future MTFPs to five years in duration.

2. The Minister for Treasury and Resources should report to the States by July 2013 on the implications of establishing future MTFPs on a ‘rolling’ basis.

3. The Minister for Treasury and Resources should report to the States Assembly at a minimum of six-monthly intervals on the implications for the MTFP of updated economic and income forecasts.

4. The Minister for Treasury and Resources should report back to the States Assembly within three months with confirmation that elements of fiscal stimulus proposed in the draft MTFP are timely, targeted and temporary.

5. The Minister for Treasury and Resources should review the use of carry forwards to ensure that, in future, they are used consistently and to reduce their use on new and potentially ongoing expenditure.

6. The Annual Budgets for 2013, 2014 and 2015 should provide sufficient detail on individual capital projects, including the revenue consequences of those projects.

7. The States Assembly should in future be provided the opportunity to discuss growth allocations at the time of the Annual Budget, as envisaged in the Public Finances Law.

8. The Minister for Treasury and Resources should review the policy for the application of contingency and should report back to the States Assembly on the matter.

9. The Minister for Treasury and Resources should ensure that amendments to the policy underlying use of the Strategic Reserve are brought to the States Assembly for approval.

10. The Minister for Treasury and Resources should review the policy underlying transfers to and from the Stabilisation Fund.

11. The Minister for Treasury and Resources should review and report back to the States Assembly on the monitoring and reporting mechanism that will be used in respect of the MTFP.

4. INTRODUCTION

4.1 In November 2012, the States Assembly will debate a draft Medium Term Financial Plan (MTFP) for the first time. This will represent a significant development in the management of public finances. Previously debates about spending took place on an annual basis; the MTFP, once approved, will set spending limits for three years and it is designed to provide Departments with greater certainty and increased flexibility in the management of their budgets.

4.2 One of the primary purposes of the States Assembly is to consider and agree expenditure limits. It is therefore vital that expenditure proposals brought forward by the Council of Ministers are subjected to review and challenge. To that end, the Scrutiny Review of the draft MTFP has involved an unprecedented level of co-ordination amongst the five Scrutiny Panels.

4.3 Each Panel has undertaken work on the review and considered the draft MTFP as it relates to Ministers individually. This has led to the production of a report in respect of each Executive Department. Those reports have been published alongside this one.

4.4 The Corporate Services (MTFP) Sub-Panel was established to consider overarching matters that it was recognised would cut across the remit of individual Panels and to examine matters of corporate importance. The Sub-Panel contained a representative from each Panel so that it could draw upon the experience and knowledge of the Panels as they undertook their own work. This report represents the culmination of the Sub-Panel's work.

4.5 We appointed two advisors to assist us. Mr Stuart Fair of the Chartered Institute of Public Finance and Accounting (CIPFA) was engaged to advise us on the mechanics of the draft MTFP and how it had been constructed. Professor Michael Oliver of MJO Consulting, on the other hand, has advised us on the economic circumstances and forecasts which underpin the draft MTFP. Both produced reports which have been appended to ours.

4.6 This report begins with a consideration of the background to the draft MTFP: why it was introduced, what conceptually speaking it should look like and whether the current draft MTFP broadly matches that concept. It will then move on to an examination of the economic and income forecasts which underpin the draft MTFP and the spending proposals of the Council of Ministers. Subsequently, it will explore the spending proposals themselves, including departmental spending limits, capital allocations, growth expenditure, contingencies and savings initiatives. Finally, brief consideration shall be given to the monitoring and reporting mechanisms which will be put in place once the MTFP has been approved by the States.

5. THE MTFP AS A CONCEPT

5.1 In this chapter we shall explore whether the draft MTFP broadly matches expectations of what it should include. To that end, we shall look at how it compares to what the States Assembly might have expected and, secondly, at how the draft MTFP compares to what one might find elsewhere.

The MTFP in Jersey

5.2 Prior to the development of the MTFP, overall spending limits were agreed on an annual basis through the adoption by the States Assembly of the Annual Business Plan (ABP) on a proposition of the Council of Ministers. Later in the same year, the Annual Budget was debated in which the States would agree the means by which income would be raised (to pay for the expenditure agreed in the ABP).

5.3 For some time prior to 2011, it had been acknowledged that this approach was problematic: it discouraged long-term thinking and planning and it did not provide Departments with the most appropriate framework in which to manage their finances. In the 2010 ABP, the Council of Ministers therefore undertook to develop a three-year business planning process.[1]

5.4 This led to the lodging in June 2011 of *Draft Public Finances (Amendment No.3) (Jersey) Law 201-* (P.97/2012). The *Public Finances (Jersey) Law 2005* set out the business planning and budgeting process and it needed to be changed in order for a medium term financial plan to be introduced.

5.5 During consultation undertaken by the Council of Ministers in the run-up to the debate on P.97/2011, the following rationale was provided for wanting to change from an annual business planning process to a longer term one:

- "*The new arrangements encourage medium term planning and prepare the ground for longer term planning;*
- *We are going to set challenging spending limits and will trust Departments to work effectively within them;*
- *There will be greater flexibility for departments to plan ahead and deliver changes;*
- *These new arrangements will deliver improved value for money from States spending; and*
- *We can also give the public more certainty over tax and spending.*"[2]

1 2010 Annual Business Plan, page 6
2 Presentation to States Members, 13th June 2011

5.6 P.97/2011 extrapolated on the rationale for change, stating that one of the objectives of moving to a new business planning process was "*to provide greater control of States spending, certainty for departments over a period of time, but to retain sufficient flexibility to manage emerging pressures and changes in priorities within overall spending limits.*"[3]

5.7 The proposition was adopted by the Assembly in July 2011 (albeit not unanimously) and, as a consequence, the *Public Finances (Jersey) Law 2005* was amended. All references to the ABP were replaced by new provisions for the MTFP. The MTFP lasts from the second complete financial year of a States Assembly (in this case 2013) to the first financial year of the subsequent Assembly (in this case 2015). It therefore follows the duration of the electoral cycle. When that cycle moves to four years, in accordance with previous decisions of the States, the MTFP will have a four-year term.

5.8 Following the adoption of P.97/2011, the Public Finances Law sets out what the MTFP should contain and how it should operate. Article 8(2) of the Law is particularly pertinent in that regard and states that a draft MTFP must seek States approval for the following matters:

1. An intended total of States income for each year of the MTFP;
2. A total of net States expenditure for each year of the MTFP;
3. A net revenue head of expenditure for each States-funded body (i.e. Department) for each year of the MTFP;
4. An amount to be allocated to contingency expenditure for each year of the MTFP;
5. A total amount that may be allocated to capital heads of expenditure for each year of the MTFP (the amount being net of proposed capital receipts);
6. A maximum amount that may be appropriated to growth expenditure for each year of the MTFP;
7. Total estimated income, total estimated expenditure and the total cost of capital projects for each States trading operation for each year of the MTFP; and
8. Any intended transfers between the Consolidated Fund and the Strategic Reserve; Stabilisation Fund; Currency Fund; or other special fund.[4]

5.9 We have reproduced the proposition in an appendix to this report. That is what the States is essentially asked to debate and approve; much of the draft MTFP (the report and Annex) is therefore intended to provide context and explanation to the raw figures which the States will debate as part of the proposition.

[3] *Draft Public Finances (Amendment No.3) (Jersey) Law 201-* (P.97/2011), page 4
[4] *Public Finances (Jersey) Law 2005*, Article 8(2)

5.10 Comparing that proposition with the Law, the draft MTFP can be seen to propose the majority of the elements described in Article 8(2). There are, however, no paragraphs in the proposition relating to growth expenditure or to transfers between the Consolidated Fund and other funds such as the Strategic Reserve or Stabilisation Fund. We shall return to those matters in due course.

5.11 The Public Finances Law provides far more detail regarding the operation of the MTFP and the management of public finances in general than we can cover here. For instance, the Law explains how the MTFP can be amended once it has been approved by the States and it provides more detail on the application of growth and contingency funding. Another important provision is that a draft MTFP cannot be lodged for debate by the Council of Ministers if "*it shows a deficit in the Consolidated Fund at the end of any financial year to which the plan relates.*"[5]

5.12 The replacement of the ABP with the MTFP did not see the suppression of the Annual Budget. Notwithstanding that spending limits will be set on a three-year (eventually four-year) term, the Assembly will continue to make decisions regarding taxation and income on an annual basis. However, under the new system, whilst the States approves totals of growth expenditure and capital allocations in the MTFP, it is in the Annual Budget that the Assembly is asked to approve how those allocations are applied to individual projects.[6]

5.13 The last ABP approved by the States was for 2012. The 2012 ABP and its immediate predecessor foreshadowed the MTFP in their provisions. For example, the 2012 ABP included provisions for both growth and contingency expenditure. Some of the concepts which underpin the draft MTFP are therefore not entirely new developments.

The MTFP as a Concept

5.14 The MTFP is new to Jersey but it is not a new concept: as our advisors show, 'medium term financial strategies' have existed in other jurisdictions for at least thirty years and they are developed and used by local authorities in the United Kingdom.

5.15 The report from CIPFA provides an assessment of the draft MTFP against CIPFA's model for such plans. At a broad level, it is for the most part encouraging to read CIPFA's assessment of the draft MTFP. Their report raises some specific matters to which we will return in due course. However, broadly speaking, in answer to the question of 'Does Jersey's draft MTFP look like an MTFP?', CIPFA's assessment suggests that it does and that the draft contains positive elements. In that regard, our advisor has stated that the draft MTFP has some high-level strengths:

- "*Comprehensive coverage – key components of a MTFP are all present*

5 *Public Finances (Jersey) Law 2005*, Article 8(6)
6 Ibid, Article 10(3)

- *Defined linkage of States of Jersey Annual Business Plans to the MTFP*
- *MTFP analysis provides for horizon scanning – operational service demand / demographic changes etc*
- *Well presented*
- *Detailed workings in most areas within scope*
- *Well explained – transparent approach*
- *Comparative Positioning – stronger than most we [CIPFA] have seen within the UK*."[7]

5.18 CIPFA subsequently states that "*in terms of the primary objective, scope and detailed workings of the MTFP, the States of Jersey would certainly be regarded as a good example to follow*."[8]

5.19 Notwithstanding these strengths, CIPFA raises the question of whether the draft MTFP is sufficiently long-term in its scope. In that regard, our advisor has stated:

"*The States of Jersey's Medium Term Financial Plan 2013-2015 covers a fixed three year period. It would be our view that a three year period is considered to be at the lowest level of what could be considered to be Medium Term. Indeed, it would be our view that a five year planning horizon would provide a stronger foundation for medium term planning.*"[9]

Our other advisor, MJO Consulting, has also recommended that the MTFP should be five years in scope.[10]

5.20 This was a matter we put to the Minister for Treasury and Resources and we were advised that:

"*The Treasury would love to have a five-year plan but we certainly have a three-year political cycle and some people would suggest that it would be inappropriate if we were to be casting a plan now out to 2017. When we have an election in 2014 the new Assembly is going to say: 'Those guys before have already set our plan so we have got no ability to change.'.*"[11]

5.21 As we have already described, in accordance with the Public Finances Law the term of the MTFP automatically follows the electoral cycle and future MTFPs will therefore set spending limits for four years. However, the Law also provides for the term of the MTFP to be decoupled from the electoral cycle. Article 7(5) of the Law allows the States to amend the duration of the MTFP and this could in theory allow for the introduction of a five-year MTFP, even if the electoral cycle remained at four years.

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7 Report from CIPFA, page 5
8 Ibid, page 7
9 Ibid, page 13
10 Report from MJO Consulting, page 3
11 Minister for Treasury and Resources, Transcript of Public Hearing, 17th September 2012, page 21

5.22 The States could therefore choose to break the automatic link between the MTFP and the electoral cycle. The reason given for not doing this is the argument that one States Assembly should not unduly tie the hands of its successor. The question is ultimately a political one of whether the MTFP should be left as a three-year, or four-year, plan; or whether the focus should be on effective long-term planning (rather than political considerations) and attempts therefore made to increase the term of the MTFP.

KEY FINDING

5.23 Broadly speaking, the draft MTFP is to be commended for its primary objectives, its scope and the detailed workings which underpin it.

5.24 The MTFP should ideally last five years.

RECOMMENDATION

5.25 The Minister for Treasury and Resources should examine and report to the States Assembly by July 2013 on the implications of extending the period of future MTFPs to five years in duration.

5.26 CIPFA also advised us that they would advocate a "*rolling approach*" to the MTFP, as some initiatives and programmes would go beyond the three-year timeframe it covered.[12] CIPFA has therefore recommended to us that the MTFP should be fully 'rolling' and subject to continuous revision and change.[13] MJO Consulting has made a similar recommendation.[14]

5.27 We understand the implications of CIPFA's advice to be that having a fixed-term envelope for the MTFP (rather than a rolling format) could in fact discourage medium- and long-term planning. In other words, there is a risk that by adopting the MTFP system, the States could simply replace the 'short-term-ism' for which it has been criticised in the past with 'medium-term-ism' that will in due course lead to a repetition of the challenges and problems which a short-term approach has caused.

5.28 For example, one of the priorities of the current Strategic Plan is the reform of Health and Social Services and this is reflected in proposed allocations to the Department in the draft MTFP. However, that reform is due to last longer than the scope of the current draft MTFP: *Health and Social Services: A New Way Forward* (P.82/2012) requests the States to "*approve the redesign of health and social care services in Jersey by 2021*."[15] This will require sustainable funding beyond

[12] Report from CIPFA, page 15
[13] Ibid, page 27
[14] Report from MJO Consulting, page 3
[15] *Health and Social Services: A New Way Forward* (P.82/2012), page 2

2015, which has not yet been identified. For instance, funding will be required for essential infrastructure and Information Technology but it is not clear how this will be provided.[16]

5.29 With a draft MTFP in which an inflexible envelope is established, there is a risk that such future funding requirements are not addressed during the period of the plan to the extent that insufficient attention is paid to them and the need to consider them when drafting and debating a subsequent MTFP comes as a shock. With a rolling MTFP, however, that risk is mitigated and would mean that future requirements are highlighted and remain apparent. There would consequently be less chance of those requirements being forgotten and the required funding being diverted elsewhere.

5.30 The Minister for Treasury and Resources was keen on the idea of a 'rolling' MTFP and advised us that:

"*[...] The Treasurer has already initiated a process whereby we will be drafting a rolling plan but it will not be approved until the new Assembly sits. The Treasurer has done some really quite fantastic work about a 25-year long-term plan. We have got a three-phased approach for health. We have now looked forward, we are now shining the light in what our public finances, our service pressures need to be right through the rest of this decade*."[17]

The Treasurer of the States subsequently confirmed that work was already underway on developing a ten-year revenue plan.[18] Attempts are therefore being made to implement a 'rolling' MTFP system. It is not clear, however, what amendments that work may require to the Law.

KEY FINDING

5.31 There is a consensus of opinion that future MTFPs should be established on a 'rolling' basis.

RECOMMENDATION

5.32 The Minister for Treasury and Resources should report to the States by July 2013 on the implications of establishing future MTFPs on a 'rolling' basis.

16 Report from the Health, Social Security and Housing Scrutiny Panel on the Department of Health and Social Services, page 1

17 Minister for Treasury and Resources, Transcript, page 21

18 Treasurer of the States, Transcript of Public Hearing, 17th September 2012 page 22

6. THE FINANCIAL FORECASTS

6.1 Since the draft MTFP was lodged in July 2012, significant concern has been raised over the financial forecasts on which the draft MTFP has been based. Following the draft MTFP's publication, the Council of Ministers was criticised by bodies such as the Chamber of Commerce for being overly 'optimistic' in its forecasts and assumptions whilst individual States Members have also questioned the Minister for Treasury and Resources on this subject. The concern is that the Council's spending plans rely too heavily upon the realisation of income which, if the economic and income forecasts were downgraded, would not be achieved.

6.2 In terms of the economic and income forecasts, much reliance seems to have been placed on the report of the Fiscal Policy Panel (FPP) which was published on 1st October 2012. Prior to the publication of the FPP's report, we sought advice from MJO Consulting on the forecasts and assumptions on which the draft MTFP had been based.

6.3 Essentially, we sought to understand whether the Executive's forecasts were reliable and, if they were changed before the debate took place in the States, what impact that would have on the MTFP itself.

6.4 Article 8(2) of the Public Finances Law requires the Council of Ministers to seek States approval of an intended total of States income for each year of the draft MTFP. The Council is therefore required to forecast the level of income it anticipates will be generated.

6.5 In the draft MTFP, anticipated States income is described by the various sources from which it is received: Income Tax; the Goods and Services Tax (GST); Impôts Duty; Stamp Duty; the Island Rate; and 'Other Income'. Intended totals are provided for each source. As a whole, the draft MTFP forecasts that income in 2012 will amount to £625 million and that the income will rise to £647 million in 2013; £674 million in 2014; and £711 million in 2015.[19]

6.6 The Executive uses models to determine the forecasts and it relies upon the work of the Economics Unit. We were advised that much work had been undertaken on the models in order to establish more accurate and reliable forecasts, particularly in relation to Income Tax returns. The appendices to the draft MTFP explain the manner in which the models operate and show the level of detailed work which has gone into improving the models. Both our expert advisors were complimentary of the improvements that had been made. MJO Consulting writes of the "*excellent work done by the Economics Unit in improving its income forecasting process in conjunction with the Forecasting Group*."[20] CIPFA, meanwhile, has advised us of its conclusion that "*elements of income modelling*

[19] Draft Medium Term Financial Plan, page 144
[20] Report from MJO Consulting, page 35

were extremely comprehensive particularly the calculation of impacts of allowances and expect drag from previous political decisions on Tax."[21]

KEY FINDING

6.7 Some welcome improvements have been made to the modelling of income from Income Tax.

6.8 Forecasts are described as a range (to allow for sensitivities) from a low point to a high point. It is the midpoint, however, which is used in the draft MTFP to indicate intended income (and against which proposed expenditure is offset to determine the balance of the Consolidated Fund at the end of each year of the MTFP). For example, for 2013 the Income Tax forecast shows a range from £425 million to £470 million. However, it is the mid-point of £450 million which is used in the relevant tables.[22]

6.9 The models used to forecast income rely upon a number of economic assumptions. Those assumptions are made for Real GVA; RPI; Employment; Average Earnings; and Interest Rates. For the draft MTFP, those assumptions were as follows:

	2013	2014	2015
Real GVA	2.0	2.5	2.5
RPI	3.0	3.1	3.5
Employment	1.0	1.0	0.5
Average Earnings	3.8	4.1	4.8
Interest Rates (%)	0.6	0.9	1.4

[23]

6.10 These assumptions were made in March 2012, however, ahead of the draft MTFP's publication in July 2012. Following its publication, there were a number of developments which suggested that some of the assumptions would need to be downgraded (and, as a result, that income forecasts would also need to be downgraded). These were highlighted by MJO Consulting in its report to us.

6.11 In August 2012, the Statistics Unit published the *Index of Average Earnings* for June 2012 which suggested that the assumption for average earnings in the draft MTFP was slightly optimistic as there had been sluggish growth in earnings to June 2012. Furthermore, material published by the Economics Unit suggested that the local economy was continuing to weaken. In its report, MJO Consulting has highlighted the downgrading in assumptions relating to Real GVA and Average

21 Report from CIPFA, page 17
22 Draft Medium Term Financial Plan, page 44
23 Draft Medium Term Financial Plan, page 164

Earnings suggested by these publications. The anticipated downgrading in Real GVA was acknowledged by the Minister for Treasury and Resources when he appeared before us.[24]

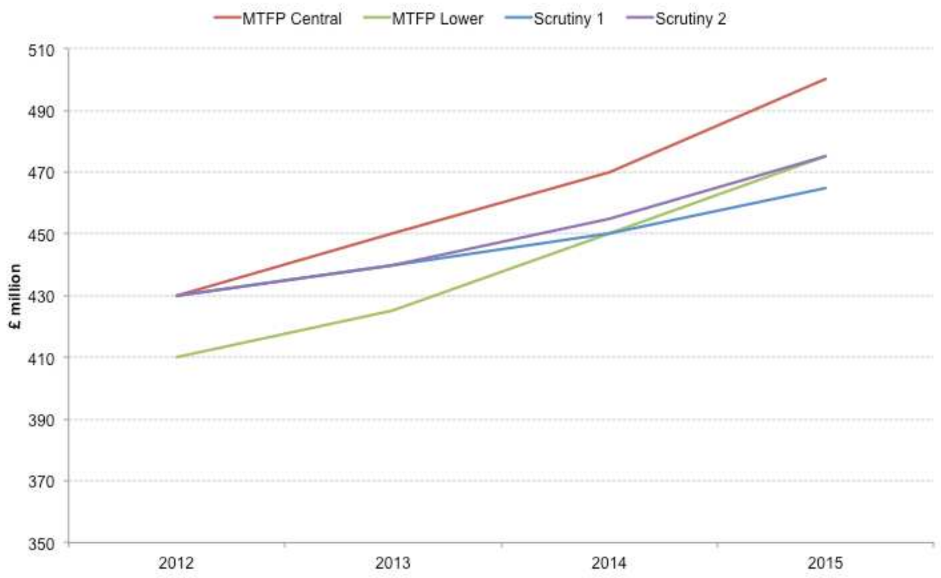
6.12 MJO Consulting's report explains the work that it has undertaken in calculating the impact of revised assumptions for Real GVA and Average Earnings for the income forecasts (in particular for Income Tax returns). This was done with the assistance of the Economics Unit. However, the assumptions and resulting forecasts are MJO Consulting's own. Those revised assumptions were as follows:

	2012	**2013**	**2014**	**2015**
Real GVA	0.0	0.5	1.5	1.5
RPI	3.8	3.0	3.1	3.5
Employment	0.5	0.5	1.0	0.5
Average Earnings	1.5	1.5	1.75	2.5
Interest Rates (%)	0.5	0.6	0.9	1.4

That work has led to the identification of two scenarios by MJO Consulting: 'Scrutiny 1' in which the above assumptions were fed into the forecast models; and 'Scrutiny 2' in which the same occurred but where it was assumed that exemption thresholds for Income Tax would rise in line with earnings rather than inflation. The implications of those two scenarios for Income Tax forecasts are shown in the table and graph below:

	2013	**2014**	**2015**
MTFP Upper	£470m	£495m	£525m
MTFP Central	£450m	£470m	£500m
MTFP Lower	£425m	£450m	£475m
Scrutiny 1	£440m	£450m	£465m
Scrutiny 2	£440m	£455m	£475m

24 Minister for Treasury and Resources, Transcript, page 3



[25]

It is the figures arising from the MTFP Central scenario which are used to indicate intended States income in the draft MTFP.

6.13 As a result of this work, MJO Consulting has advised us of the following conclusion:

"*A reworking of the economic forecasts with new assumptions suggests the income will be less than the central forecast but within the range of the income forecasts in the MTFP*."[26]

6.14 That work therefore suggests that the forecasts, as they currently appear in the draft MTFP, should be downgraded. As we have stated, this was acknowledged by the Minister for Treasury and Resources although he also stated that he still saw the Council's figures as being prudent in that they reflected a central scenario and that:

"*If the Jersey economy cannot be at least half a per cent better than that of the U.K. (United Kingdom) with their backblock of debt and other structural problems then I would be surprised*."[27]

6.15 On 1st October 2012, the FPP's report was published. The FPP considered current economic circumstances and examined the forecasts contained in the draft MTFP. We have noted particularly the following finding from its report:

"*The short-term economic outlook has deteriorated which means that future income tax revenues may not grow as quickly as assumed in the MTFP. It is more likely now that income tax revenues will be in the lower part of the forecast range by 2015*."[28]

The FPP has revised its own central forecast for GVA down to a range of -3% to 1% for 2012, with a similar performance in 2013 – and with risks to the downside.[29]

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[25] Report from MJO Consulting, pages 27 to 28
[26] Ibid, page 2
[27] Ibid, page 3
[28] *Jersey's Fiscal Policy Panel Annual Report – October 2012*, page 4

6.16 We were advised by MJO Consulting that it would be beneficial for the draft MTFP to include both more up-to-date forecasts and other information that would assist the States' consideration, for instance a more detailed macroeconomic overview (domestic and international).[30]

KEY FINDING

6.17 Expenditure proposals within the draft MTFP rely too heavily upon income and economic forecasts. There are doubts as to whether these forecasts will be realised, particularly in respect of 2014 and 2015. These doubts have been apparent for some time and yet the Minister for Treasury and Resources has decided not to amend the draft MTFP, despite downgraded forecasts for 2013.

RECOMMENDATION

6.18 The Minister for Treasury and Resources should report to the States Assembly at a minimum of six-monthly intervals on the implications for the MTFP of updated economic and income forecasts.

6.19 As the Minister alluded to, and as our advisor highlighted, much was anticipated in respect of economic assumptions and income forecasts from the publication of the FPP's report. Indeed, it was apparent that the Minister was awaiting the FPP's report before taking a decision on whether amendments to the draft MTFP would be required. When asked (before the FPP's report was published) what impact the downgrading of forecasts would have on the draft MTFP, he replied:

"*Nothing in the short term. The M.T.F.P. is a medium to long term plan and I certainly do not think that we should be changing what are well constructed plans based upon reasonable assumptions just because of quarter by quarter changes in views. I think we have seen markets and expectations and forecasts moving all over the place in the last couple of years. I think it is important, and we are in the strong position that we can set out a plan. We can certainly fund our proposals.*"[31]

The Minister also advised us of the improvement in the financial position for 2012 that had been revealed in the half-yearly report published in June 2012. The report showed an improvement in States revenues of £7 million in comparison to what had been forecast.[32]

6.20 The Chief Minister provided a similar message when we put the supposition to him that the forecasts would be downgraded and that the draft MTFP would need to be re-visited before the debate as a result. His response was as follows:

29 *Jersey's Fiscal Policy Panel Annual Report – October 2012*, page 22
30 Report from MJO Consulting, page 4
31 Minister for Treasury and Resources, Transcript, page 2
32 Ibid, page 4

"*I am not sure we are quite at that point yet. As the Economic Advisor said, the sensitivity of that particular figure that you spoke about is not a large amount. What we should not be doing is making, I do not think, unnecessary knee-jerk reactions today for what we think might happen in 2014 and 2015 bearing in mind the other bits of flexibility that we have already spoken about this morning, the other contingencies, the looking for savings that we are going to be making elsewhere. So we are trying to move our mind-set from just one year to 3 years and that in itself is quite difficult and we are trying to deal with uncertainty and that, again, layers another difficulty on top of that*."[33]

6.21 The Minister for Treasury and Resources acknowledged, however, that the FPP might propose the need for fiscal stimulus funding and stated that "*unless there was a particular political reason not to do so*" it was likely that he would accept the FPP's advice that such a measure was necessary.[34]

6.22 The FPP's report was published on 1st October 2012 and it did indeed raise the subject of fiscal stimulus. Indeed, the FPP's first recommendation is that "*discretionary fiscal support [should be provided] to the economy in 2012 and 2013 and if practical to a greater extent than that set out in the MTFP*."[35]

6.23 Our advisor from MJO Consulting has indicated that there is a need for work to be undertaken to justify the size, nature and scope of any additional fiscal stimulus (and its economic impact) and that there needs to be a "*thorough debate […] about the policy implications of funding an additional fiscal stimulus*."[36]

6.24 The need for that work to be undertaken appears to be justified given some of the matters raised by the FPP. The FPP repeats advice it has given previously that fiscal stimulus funding should meet the '3 Ts' test in that any fiscal stimulus should be provided in a timely, temporary and targeted manner. However, in that regard we have noted the following finding from the FPP:

"*The reliance on one-off receipts to fund capital expenditure in 2012 and 2013 is justified by the need to deliver additional fiscal stimulus in the light of the weakening economy although there is little indication in the MTFP that this has been achieved by a discretionary stimulus which meets the 3Ts (timely, targeted and temporary).*"[37]

KEY FINDING

6.25 Further work is required to demonstrate that the fiscal stimulus elements contained within the draft MTFP are timely, targeted and temporary.

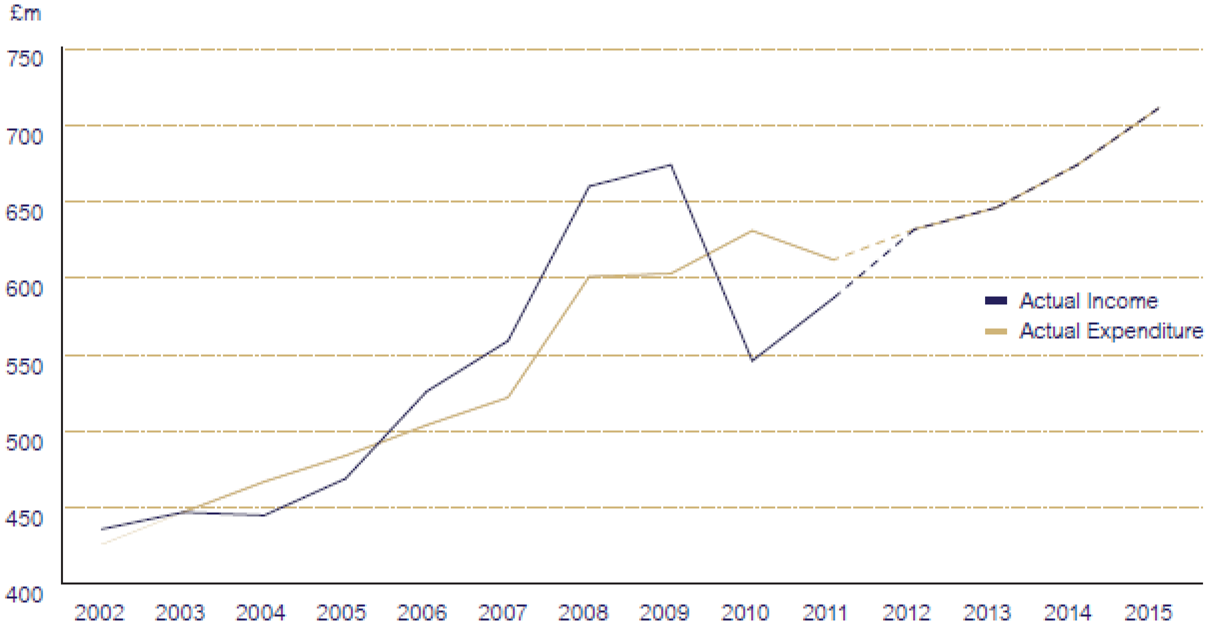
RECOMMENDATION

[33] Chief Minister, Transcript, Public Hearing, 3rd September 2012, page 15
[34] Minister for Treasury and Resources, Transcript, page 4
[35] *Jersey's Fiscal Policy Panel Annual Report – October 2012*, page 5
[36] Report from MJO Consulting, page 2
[37] *Jersey's Fiscal Policy Panel Annual Report – October 2012*, page 3

6.26 The Minister for Treasury and Resources should report back to the States Assembly within three months with confirmation that elements of fiscal stimulus proposed in the draft MTFP are timely, targeted and temporary.

7. SPENDING PROPOSALS

7.1 Concerns have been raised as to whether the draft MTFP is overly optimistic in its proposals and whether it is in fact affordable and sustainable over the long term. Certainly, income and expenditure are quite tightly balanced in the draft MTFP and the levels of (forecast) income and expenditure have closed (as the following graph from the draft MTFP indicates):



[38]

7.2 It is evidently vital to consider whether sufficient income will be generated to fund spending plans. However, there is a risk that considering expenditure levels solely from that angle can lead to the thought that 'we will be all right if the money comes in'. As a consequence, income levels can become a 'target' for expenditure. For those concerned by the forecasts on which the draft MTFP has been based, this could be particularly risky as, in accordance with those concerns, the income is by no means guaranteed.

7.3 In this chapter, we shall consider the spending proposals contained in the draft MTFP. In that regard, we shall consider Departmental net revenue expenditure. We shall then look at capital expenditure and, subsequently, two elements of central allocations: contingency funding and growth funding. Finally, we will consider two other areas of relevance to the question of spending: additional funding sources and savings.

7.4 Part (b) of the proposition asks the States to approve total net expenditure for the States for the years 2013 to 2015. Part (c)(ii) asks for States approval of capital expenditure, part of which is to be taken from the Consolidated Fund. These figures are shown in the table below:

38 Draft Medium Term Financial Plan, page 30

	2013	2014	2015
States Income	£647,044,000	£674,217,000	£711,398,000
Net Revenue Allocation	£633,771,000	£669,599,000	£691,157,000
Net Capital Allocation	£12,566,000	£4,559,000	£20,043,000
Surplus / (Deficit) after Revenue and Capital	£707,000	£59,000	£198,000

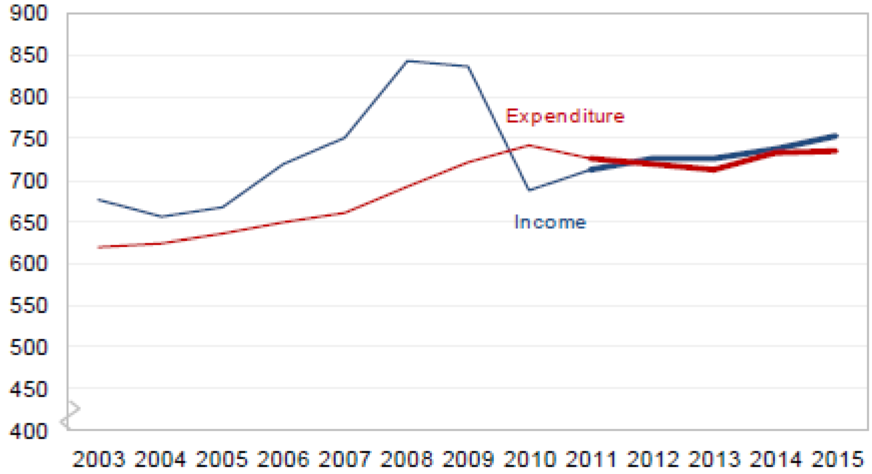
7.5 Small surpluses of income over expenditure are therefore anticipated during the lifetime of the MTFP. The Public Finances Law states that the Council of Ministers must lodge a draft MTFP which shows that the Consolidated Fund will be in credit at the end of each year to which the plan relates. For the current draft MTFP, the level of the Consolidated Fund is expected to be £19.7 million at the end of 2013; £11.5 million at the end of 2014; and £9.5 million at the end of 2015.[39] We have noted the comments of the FPP on these balances in that they look 'tight' and that "*there appears to be little flexibility if income turns out to be lower or expenditure higher than expected*."[40]

7.6 To provide some recent historical context, our advisor, MJO Consulting, has undertaken work on States expenditure levels. The following table shows the results of his calculations in relation to net revenue expenditure and the manner in which it has developed in recent years:

	£m	% growth
1996	**237**	4.4
1997	**255**	7.6
1998	**278**	9.0
1999	**294**	5.8
2000	**324**	10.2
2001	**356**	9.9
2002	**377**	5.9
2003	**397**	5.3
2004	**417**	5.0
2005	**441**	5.8
2006	**465**	5.4
2007	**480**	3.2
2008	**522**	8.7
2009	**565**	8.2
2010	**599**	6.0
2011	**599**	0.0

39 Draft Medium Term Financial Plan, page 153
40 *Jersey's Fiscal Policy Panel Annual Report – October 2012*, page 3

The calculations show that average growth in net revenue expenditure between 2000 and 2011 was 6.1% per annum. Average growth during the lifetime of the MTFP (assuming the figures are adopted as proposed by the Council of Ministers) will amount to 3.6% per annum. The FPP, meanwhile, has included an indication in its annual report of the changes in gross department revenue expenditure and gross department revenue income, taking into account inflation and using 2011 prices (i.e. growth in real terms):



[41]

KEY FINDING

7.7 Proposed States income and expenditure levels are finely balanced in the draft MTFP, suggesting that there is little room for flexibility in the event that intended income is not realised.

Departmental Spending Limits

7.8 The largest proportion of net revenue expenditure proposed in the draft MTFP is described as departmental net revenue expenditure. The draft MTFP proposes that this will amount to £626.2 million in 2013; £643.5 million in 2014; and £654.7 million in 2015.[42]

7.9 This expenditure essentially amounts to that which will be spent by the ten Executive Departments, the States Assembly and its services, the ten non-Ministerial States-funded bodies and the Jersey Overseas Aid Commission. Part (c)(i) of the proposition asks the States to approve individual limits for each of these bodies for each of the three years of the MTFP.

7.10 It was not our remit to consider the spending levels of each Department. The Scrutiny Panels have undertaken that work and their reports highlight how Departmental base budgets (i.e. spending limits) were put together. The starting point was the immediate precursor to the draft MTFP: the

41 *Jersey's Fiscal Policy Panel Annual Report – October 2012*, page 39
42 Draft Medium Term Financial Plan, page 145

2012 ABP. Differences between the figures agreed in the 2012 ABP for departmental spending and what have ended up as proposals in the draft MTFP are explained in the Annex to the draft MTFP. If one wishes to track how spending levels for each Department have been developed, one should take the figure agreed in the 2012 ABP and factor in the following:

- Price Inflation – Departmental Income
- Price Inflation – Departmental Expenditure
- Commitments from Existing Policies
- Departmental Savings
- Departmental User Pays charges
- Departmental Transfers
- Capital to Revenue Transfers
- Growth proposed in the draft MTFP
- Allocation of proposed Procurement savings
- Other Budget Measures proposed in the draft MTFP

7.11 The above may explain how spending limits were identified and proposed in the draft MTFP but the explanation does not in itself show whether the Departmental spending limits are well-founded and justifiable. In that latter regard, we noted that the Financial Report and Accounts for 2011 showed that there had been an under-spend of some £41 million in net revenue expenditure in 2011, £28 million of which related to departmental net revenue expenditure (the remaining underspend related to unused contingencies).[43] The departmental underspends arose in respect of both Ministerial and non-Ministerial Departments.

7.12 At first glance, the level of underspending suggested that there might be scope to limit growth in spending in subsequent years (as it could seemingly be accommodated within current spending limits). In other words, it raised the question of whether departmental budgets are too generous. We questioned the Minister for Treasury and Resources on what impact, if any, the level of underspending in 2011 had had on setting base budgets for the draft MTFP. We were advised that it had had no impact.[44] In February 2012, the Minister for Treasury and Resources agreed that almost the entirety of the under-spent funds from 2011 could be carried forward to 2012.[45]

7.13 Some carry forwards have in the past been used for new and potentially ongoing revenue expenditure. For example, in its work on the draft MTFP, the HSSH Scrutiny Panel was advised that

43 *Financial Report and Accounts 2011*, page 17
44 Treasurer of the States, Transcript, page 18
45 Ministerial Decision MD-TR-2011-0019

the Department of Social Security had previously used carry forwards to provide funding for the provision of 66.5 employees that were required to address the priority of getting people back to work and for growth in Income Support staff.[46] Similarly, the Corporate Services Scrutiny Panel was advised that carry forward funding had been used to develop and enhance the capacity and services of the External Relation function of the Chief Minister's Department. The Economic Affairs Scrutiny Panel, meanwhile, has identified concern in relation to the definition and use of carry forwards. The Panel was advised that "*carry forwards are naturally occurring underspends because something has either cost [the Department] less or something that [the Department] planned to do is no longer required or indeed, in the case of income we receive from Ofcom, which is related to a rebate to us related to T.V. (television) licensing, greater levels of income that we have over and above what we had forecast."* Following further questioning, it was confirmed that "s*ome of it is carried forward for the purpose that it was originally intended but a lot of it is carried forward as a numerical sum and then we justify to the Treasury and this has to be fully justified to the Treasury.*"[47]

7.14 Our expert advisor from CIPFA considered base-budgeting and the setting of Departmental spending limits and the results of his consideration may be found in his report (appended to this one). We would highlight the following piece of advice in particular:

"*The existing Budget Setting processes are highly incremental and do not, in our view, fully challenge core budgets. Whilst we would not advocate […] a full Zero Based approach we would be of the view that a lack of rigour produces an element of "padding" within departmental budgets with the prospectivity of unregulated activity/spend being created – this is particularly prevalent in sub optimal year end spending. The relevant question to consider would be are Carry Forwards the product of re-profiled activity that was truly scheduled to occur? If not it would be good practice for Departments to "surrender" unrequired budget at the earliest opportunity in order that the States can best utilise such resources on unforeseen cost pressures/building up reserves etc*."[48]

7.15 As a consequence, CIPFA has made a number of recommendations in relation to carry forwards, suggesting that it would be preferable for Departments to identify and surrender "*unrequired budget at the earliest opportunity in-year to enable a corporate strategic approach to be taken within the MTFP framework*" and that "*a more rigorous process [could] be initiated that would prevent departmental / service underspends being carried forward between financial years to fund unrelated / different activities or fund future departmental / operational budget savings*."[49]

7.16 In terms of the process followed by the Executive in respect of carry forwards, we were advised that "*the processes in place seek to ensure that underspends and carry forwards are planned, can be*

46 Report of the Health, Social Security and Housing Scrutiny Panel on the Department of Social Security, page 6
47 Report from the Economic Affairs Scrutiny Panel on the Department of Economic Development, page 5
48 Report from CIPFA, page 19
49 Ibid, page 8

evidenced by business cases or are carried forward to provide contingency against known or forecast pressures. The carry forward process is not intended to provide automatic carry forward for one-off or windfall savings for which a given or related purpose is not identified." In such latter cases, the Council would consider where the savings or additional income might best be applied or whether a return to the Consolidated Fund would be preferable.[50]

KEY FINDING

7.17 Carry forwards have previously been used to fund new and potentially ongoing revenue expenditure.

7.18 There is inconsistency in the application of policy on carry forwards and the reliance on carry forward funding suggests a lack of rigour in base budgeting for departmental expenditure.

RECOMMENDATION

7.19 The Minister for Treasury and Resources should review the use of carry forwards to ensure that, in future, they are used consistently and to reduce their use on new and potentially ongoing expenditure.

Capital Expenditure

7.20 There are two areas relating to capital expenditure covered by the draft MTFP: the capital programme for 2013 to 2015 and the Long-Term Capital Plan for 2012 to 2032.

7.21 The Public Finances Law requires the Council of Ministers to seek States approval for overall limits for capital expenditure during the years covered by the MTFP. This is apparent in Part (c)(iii) of the proposition and is detailed in Summary Table D in the draft MTFP itself. This shows that total capital expenditure is expected to be £56 million in 2013; £89 million in 2014; and £77 million in 2015. However, not all of this expenditure is due to be funded from the Consolidated Fund. Some expenditure will be funded through asset disposals (i.e. the sale of States-owned property); some through the repayment of JT Preference Shares; some through the use of a dividend from Jersey Post; whilst all social housing projects undertaken by the Department of Housing are intended to be self-funding.[51] In its own report, the FPP covers the subject of capital allocations in depth, including the various sources that will be used to fund the capital programme. In that regard, we have noted the FPP's finding that the use of various sources such as one-off receipts "*may conceal a structural imbalance between expenditure and income*."[52] The FPP indicates that this may be justified by the

[50] Advice from the Department of Treasury and Resources, 18th September 2012
[51] Draft Medium Term Financial Plan, page 148
[52] *Jersey's Fiscal Policy Panel Annual Report – October 2012*, page 3

need to deliver additional fiscal stimulus although, as we have previously noted, it raises questions of whether that fiscal stimulus will meet the ‘3Ts’ test. From our perspective, it is difficult to clarify in the draft MTFP what items of proposed capital expenditure could be considered as fiscal stimulus and which would not.

7.22 It is only the overall allocation that the States is asked to approve in the draft MTFP. Whilst individual projects are described in the plan, they must be taken as indicative as individual allocations (from the overall envelope agreed in the MTFP) are approved by the States at the time of the Annual Budget. The 2013 Budget will therefore ask the States to approve capital expenditure for individual projects to be undertaken in that year. In that regard, however, we would highlight the following advice we have received from CIPFA:

“*An area of concern that negatively impacted scoring was the lack of detail behind Capital Programme Project estimates including defined timescales along with the Revenue consequences of Capital. For example within 2014 – a Replacement School totalling some £15m is programmed – whilst assuming this could be achieved in a single year it is difficult to discern the consequential revenue costs relative to running costs and the overall impact on the Estates financials relative to the existing building*.”[53]

This has led to CIPFA’s recommendation to us that “*improved visibility [is] required on Investment Appraisal and Business Case methodology used on projects incorporated with the Capital Programme demonstrating full incorporation of life cycle costing with complete visibility on how the full current and future Revenue consequences of Capital Projects is being provided*.”[54]

KEY FINDING

7.23 There is insufficiently detailed information in respect of the capital programme meaning that the revenue consequences of individual projects may not be clearly understood.

RECOMMENDATION

7.24 The Annual Budgets for 2013, 2014 and 2015 should provide sufficient detail on individual capital projects, including the revenue consequences of those projects.

7.25 Capital expenditure was also considered by individual Scrutiny Panels in their work. In that regard, we would highlight the report of the HSSH Scrutiny Panel in respect of the Department of Housing. All social housing works are expected to be ‘self-funded’. The Panel was advised that the £96 million of funding required by the Department during the lifetime of the plan would only be feasible if the Housing Transformation Programme were approved. Otherwise, the Department’s capital programme would not be deliverable. Furthermore, beyond that £96 million of capital funding, the

[53] Report from CIPFA, page 16
[54] Ibid, page 27

draft MTFP envisages that the newly-incorporated Housing Association (which will be created as part of the Housing Transformation Programme) will repay some £38 million of funding which has been provided to the Department as an 'advance' for the delivery of capital projects such as Le Squez and Pomme d'Or Farm. The part of the draft MTFP relating to capital expenditure assumes that the money will be re-paid and implicitly assumes therefore that the Housing Transformation Programme will go ahead (notwithstanding that it has yet to be debated). If it does not go ahead, that repayment is not guaranteed and, indeed, alternative funding streams will need to be identified in order to deliver the Department of Housing's capital needs.

KEY FINDING

7.26 Capital allocations proposed in the draft MTFP assume that the Housing Transformation Programme will be implemented, notwithstanding that the States Assembly has yet to approve the Programme. Approval of the draft MTFP could therefore provide the Assembly with little option but to pursue the Programme.

7.27 The second element of capital expenditure covered in the draft MTFP is the Long-Term Capital Plan for 2012 to 2032. States approval of the long-term plan is not required or sought in the draft MTFP and it can therefore be taken as indicative. It provides an example of long-term thinking and, in some respects, mitigates the risks we discussed earlier in the report about funding requirements beyond the lifetime of the MTFP not necessarily being made apparent. In this instance, they are.

Growth Expenditure

7.28 The Public Finances Law makes provision for the draft MTFP to seek States approval of a maximum amount that may be appropriated to growth expenditure.[55] The Law sets out the process by which growth allocations may be agreed by the States and during the development of the draft MTFP there was much discussion about growth expenditure. In relation to the draft MTFP for 2013 to 2015, the Public Finances Law suggests that the following would occur:

1. In the draft MTFP, the States would approve overall limits for growth expenditure that could be allocated in each of the three years of the plan (i.e. 2013, 2014 and 2015).
2. In the Annual Budgets for 2013, 2014 and 2015, the States would allocate that funding for the following year to individual items.

The Public Finances Law does allow the States to allocate growth expenditure more than one year in advance; in other words, the States could decide in the 2013 Annual Budget to allocate growth funding in both 2013 and 2014.

55 *Public Finances (Jersey) Law 2005*, Article 8(2)(c)(iv)

7.29 This is what the Law describes and is what was anticipated when the Law was amended to provide for the MTFP. P.97/2011 stated that "*the States will debate the Minister's proposals for growth and capital allocations annually in the Budget*." The measure had reportedly been introduced as a result of the consultation which was undertaken during development of the proposals.[56] The report accompanying the proposition stated that "*the growth allocation also provides an annual opportunity for a States member to influence the allocation of funding to emerging pressures or priorities within the overall States spending limits.*"[57] This was confirmed by the Minister for Treasury and Resources during the debate on P.97/2011 in response to concerns from States Members that the introduction of a three-year business planning cycle would reduce the influence of the Assembly.[58]

7.30 This is not what has happened. Earlier drafts of the MTFP (and, indeed, the 2012 ABP) envisaged that growth funding of £6 million would be available for 2013, £16 million in 2014 and £26 million in 2014. These were the base assumptions. However, it is apparent that the Council of Ministers agreed to incorporate that funding within Departmental spending limits and there is therefore no 'growth expenditure' within the draft MTFP as the Public Finances Law envisages. Hence, the proposition itself makes no reference to growth allocations. The corollary is that the States Assembly will not have opportunities during the debates on the 2013, 2014 and 2015 Annual Budgets to decide growth allocations.

7.31 We put this matter to the Minister for Treasury and Resources, whose response was as follows:

"*I think that is a very fair point and it is certainly something that we have struggled with. We, of course, have got pencilled in amounts of money for the short-term priorities of getting people back to work, and in fact we have put some of the back to work initiatives on a longer-term footing, which I do not think we imagined was going to be necessary at an earlier juncture. We have still got the contingencies that are in place which can be allocated for short-term projects under the criteria that we have done but over the next 2 years I think we have done so well. I am not saying everything is perfect but we have done such a lot of work in planning*."[59]

7.32 The Chief Minister made a similar statement:

"*I know you are probably not satisfied quite with the level remaining, but there are still contingencies in the plan for changes, for circumstances which are unseen*."[60]

The response from both appeared to suggest that the Assembly would still have an opportunity to influence new developments in policy through the use of contingency funding.

KEY FINDING

56 *Draft Public Finances (Amendment No.3) (Jersey) Law 201-* (P.97/2011), page 4
57 Ibid, page 6
58 Minister for Treasury and Resources, The Official Record, 19th July 2011, page 59
59 Minister for Treasury and Resources, Transcript, page 20
60 Chief Minister, Transcript, page 5

7.33 There is no growth allocation within the draft MTFP as envisaged in Article 8 of the Public Finances Law, contrary to what the States Assembly expected when it moved to longer-term financial planning.

7.34 The role of the States Assembly in setting overall spending limits has been diminished, contrary to the provisions and spirit of the Public Finances (Jersey) Law 2005.

7.35 Notwithstanding the above, there is a section in the draft MTFP on 'new bids for growth'. It can be seen therefore that Ministers have indeed applied for growth funding. Rather than the States Assembly deciding in Annual Budgets where growth funding should be placed, however, the draft MTFP essentially allocates that funding to departmental spending limits and the draft MTFP proposes the inclusion of that funding in those limits.

7.36 Details of the bids are provided in the draft MTFP, including those which were 'unsuccessful' (i.e. not taken forward by the Council of Ministers and therefore essentially unfunded). During the development of the draft MTFP, Scrutiny was kept informed of the iterative process followed by the Council of Ministers in addressing the growth bids received and deciding how funding should be allocated. Individual Scrutiny Panels have examined the growth bids made by individual Ministers and the Panels' reports show some of the different circumstances facing Ministers. The Environment Scrutiny Panel, for instance, highlights that all but one of the growth bids made by the Minister for Planning and Environment were unsuccessful to the extent that "*none of the longer term pressures on departmental services put forward by the Ministry have been addressed by the MTFP*."[61]

7.37 Other Panels have found that bids for 'growth' funding were made for services that were already being delivered. The Corporate Services Scrutiny Panel has highlighted that this is the case for many of the bids made by the Chief Minister's Department in relation to the External Relations function.[62] The HSSH Scrutiny Panel found similar circumstances in respect of the Department of Social Security where the Department asked for growth funding for the provision of 66.5 Full Time Equivalent (FTE) posts (the work of which was already being undertaken by people engaged on temporary contracts and that work being funded through carry forwards).[63] We understand that, from the Department's perspective, funding for these posts could not be provided from the Department's expenditure limit. As a consequence, the temporary contracts would be terminated (and the work would cease) if funding were not provided in the MTFP. However, at first glance, the question arises of why 'growth' funding was required to provide for services which were already being delivered (and for which the Departments must have been able to find funding previously).

61 Report of the Environment Scrutiny Panel on the Department of the Environment, page 3
62 Report of the Corporate Services Scrutiny Panel on the Chief Minister's Department, page 1
63 Report of the Health, Social Security and Housing Scrutiny Panel on the Department of Social Security, page 2

KEY FINDING

7.38 'Growth' funding has been provided for services that were already being delivered.

RECOMMENDATION

7.39 The States Assembly should in future be provided the opportunity to discuss growth allocations at the time of the Annual Budget, as envisaged in the Public Finances Law.

Contingency and Reserves

7.40 Consideration of growth funding inevitably leads to consideration of how contingency funding has been used. In the section on 'new bids for growth', the draft MTFP indicates that (in allocating funds to growth bids) the Council of Ministers has stuck to the limits for growth funding that it had been envisaged would be included in the draft MTFP. 'Growth funding', as described in the draft MTFP, does not therefore exceed £6 million in 2013, £16 million in 2014 and £26 million in 2015.

7.41 The draft MTFP shows that other growth bids have therefore been funded from other sources: some from the Restructuring Provision, one from the Summer Lottery, and some from central contingencies. This raises the question of how central contingencies should be allocated and is a matter we will now explore.

7.42 When the Public Finances Law was amended to allow for the establishment of an MTFP, the creation of central contingencies was highlighted (alongside the provision of growth funding) as another means by which the States could better manage its finances. Under the previous system in which ABPs were agreed each year, the Minister for Treasury and Resources was required to bring a '11(8)' request to the States Assembly in order to find funding to address issues which had arisen unexpectedly and which had not been covered by the ABP. For example, in 2010, the States agreed to provide funding for Court and Case Costs; a Voluntary Redundancy Scheme; and the delivery of an improved procurement function outside of the ABP process through a '11(8)' request.[64] It was proposed that central contingencies would replace that provision and be incorporated in the new system so that '11(8)' requests would no longer be possible.

7.43 It is not an new concept. Both the 2011 and 2012 ABPs included allocations to 'Central Reserves'. When they were introduced in the 2011 ABP, it was stated that Central Reserves would be "*provided as a final resort to spending pressures only after individual departments own reserves and opportunity for reprioritisation have been thoroughly explored*."[65] The terminology has changed from 'Central Reserves' to central contingencies, but the rationale remains the same.

[64] *Public Finances (Jersey) Law 2005: Funding Requests, Under Article 11(8)* (P.64/2010)
[65] 2011 Annual Business Plan, page 29

7.44 The 2011 ABP indicated that Central Reserves would be used for 'unforeseen items', a message reiterated in P.97/2011 when the States came to debate the establishment of an MTFP. In that proposition, it was stated that contingency would be used for "*in-year and one-off pressures that could not generally be forecast as part of the initial department spending limits in the Medium Term Financial Plan or as part of the growth allocations in the annual Budgets*."[66] Under the provisions of the Public Finances Law as they now stand, the Minister for Treasury and Resources is obliged to develop a policy for the allocation and application of contingency funding. The Minister's policy was presented to the States in January 2012 as *Contingency Allocation: Policy* (R.10/2012) and it is expected that appropriations of contingency during the lifetime of the MTFP will be managed in accordance with that policy.

7.45 The draft MTFP shows that the amount of available contingency is lower than what was initially envisaged. It was initially planned that the States would be asked to approve allocations to contingency of £13 million in 2013, £12.5 million in 2014 and £12.5 million again in 2015. The draft MTFP as lodged asks the States to approve an allocation of £6 million in 2014 and one of £7 million in 2015. None of the £13 million initially envisaged for 2013 remains and contingency for that year will therefore come entirely from funds carried forward from 2012.[67]

7.46 The discrepancy in the intended and actual figures arises in part because contingency funding has been used by the Council of Ministers to fund growth bids. In that regard, £6.3 million in 2013; £8.1 million in 2014; and £2.6 million in 2015 will be used to fund growth items.[68] Furthermore, the draft MTFP proposes to use contingency funding as a means to balance the budget.[69]

7.47 What contingency will therefore be available in 2013, given that the draft MTFP proposes to use the funding that was initially envisaged for contingency? It will reportedly come through the carry forward of unspent contingency from 2012. In the Half Year Corporate Report published recently by the Minister for Treasury and Resources, it was shown that much of the 2012 Central Reserves remained unspent and, when he appeared before us, the Minister confirmed that contingency in 2013 would be made available through that under-spend.[70]

7.48 We also questioned the Minister on the fact that the level of contingency provided by the draft MTFP was lower than what had initially been expected:

66 *Draft Public Finances (Amendment No.3) (Jersey) Law 201-* (P.97/2011), page 7
67 Draft Medium Term Financial Plan, page 122
68 Draft Medium Term Financial Plan, page 67
69 Ibid, page 108
70 Minister for Treasury and Resources, Transcript, page 32

"*Clearly because of the success that we have had in managing expenditure early on we have not had to make some allocations to contingencies that we thought, partly because we believe that there is going to be the brought forward allocations of contingencies.*"[71]

7.49 In respect of the Chief Minister, when asked to comment on the fact that the contingency funding initially envisaged for 2013 had been used for other purposes, he replied:

"[…] *it comes back to the point that I made earlier about what we have tried to do is use the 3-years to address some of the issues that you so rightly are concerned about. That has meant that in order to deal with those timing issues we have had to ... I think we have used the term "planned use of contingencies", certainly in 2013, and there is only then flexibility available in 2014 and 2015, but we have consciously done that to try and address some of the issues that you have rightly highlighted and as you have rightly highlighted in the past*."[72]

7.50 During the development of the draft MTFP, the Council of Ministers appears to have concluded that less funding needs to be provided for contingencies than it first believed would be necessary. Notwithstanding that fact, it is apparent that the draft MTFP also envisages the uses to which the contingency that does remain could be put. In relation to 'emerging items', for example, the draft MTFP lists three examples of the uses to which contingency funding could be put: implementation of Freedom of Information legislation; a Committee of Inquiry in respect of the Historic Child Abuse Enquiry; and Legal Aid. If the draft MTFP is able to identify matters now on which contingency can be spent, this raises the question of whether they are truly 'unforeseen' in the sense understood when plans for the MTFP were first debated by the States. The comments of our advisor from CIPFA are pertinent in that regard:

"*In respect of Contingencies we believe that Contingencies have been utilised in a way that is inconsistent with good practice in that they resemble provisions for known cost pressures rather than real Reserves adapted for totally unforeseen requirements. […] A potential question to be fully answered here would be – is there not too much reliance on contingencies to smooth out potential fluctuations rather than trying to get the Budget Setting "right first time"?*"[73]

7.51 The findings of the FPP are also pertinent. In its report, the FPP has reported that amounts available for provisions and contingency will be lower in 2013 and 2014 than was initially anticipated. The FPP consequently states that "*there will be less flexibility each year to deal with changing priorities and emerging pressures*."[74]

7.52 We are aware of one example where the Council of Ministers has proposed the use of contingency funds for a matter that would appear to be 'unforeseen'. In recent weeks the Chief Minister has

71 Ibid, page 28
72 Chief Minister, Transcript, page 11
73 Report from CIPFA, page 19
74 *Jersey's Fiscal Policy Panel Annual Report – October 2012*, page 3

indicated that 'central reserves' could be used for the purchase of the Plémont headland, a matter which was essentially 'unforeseen' when central reserves were agreed for 2012 in the 2012 ABP.[75] This would suggest an example of how contingency has been used appropriately although, as we have seen, in other instances the use of contingency has been proposed for use on matters which are not truly 'unforeseen.

KEY FINDING

7.53 There will be less contingency available during the lifetime of the draft MTFP than was initially envisaged.

7.54 Contingency funding has been used for 'growth' bids and as a means to balance the budget.

7.55 The draft MTFP proposes the use of contingency funding for matters which are known funding pressures, rather than being left to address unforeseen items. This is contrary to what the States Assembly was advised when it agreed to move to longer-term financial planning.

7.56 There is a concern that insufficient contingencies will remain, particularly for the latter part of the MTFP in 2014 and 2015.

RECOMMENDATION

7.57 The Minister for Treasury and Resources should review the policy for the application of contingency and should report back to the States Assembly on the matter.

7.58 Beyond the provision of contingency, there are other reserves potentially available for use. For instance, there is Restructuring Provision which was also introduced for the first time in the 2011 ABP.

7.59 Secondly, there are the reserve funds upon which the Council of Ministers could theoretically call. Indeed, the Public Finances Law allows for the Council of Ministers to propose transfers between the Consolidated Fund and the Strategic Reserve (i.e. the 'Rainy Day Fund'); the Stabilisation Fund; and other special funds constituted under the Law.[76] The proposition of the draft MTFP contains no such provision, however, and no transfers either to or from the Strategic Reserve and Stabilisation Fund are anticipated. It is apparent from the work of the Corporate Services Scrutiny Panel, however, that there are plans to review the policy underlying the Strategic Reserve. This was the advice that Panel received and it was suggested that the Reserve could potentially be used to assist

[75] *Plémont Holiday Village – Acquisition by the Public and Sale to the National Trust for* Jersey (P.90/2012), Page 12
[76] *Public Finances (Jersey) Law 2005*, Article 8(2)(e)

the repayment of the Pre-1987 PECRS Debt.[77] The FPP has recommended that there be no transfer between Consolidated Fund and Strategic Reserve at this stage.[78]

7.60 The FPP has also recommended that there be no transfers to the Stabilisation Fund in 2012 or 2013 but that consideration be given to "*how the Stabilisation Fund will be rebuilt through countercyclical fiscal policy, once the economy begins to* recover."[79] The draft MTFP shows that the balance of the Stabilisation Fund is £1 million.[80]

7.61 The Public Finances Law allows for the States to approve transfers between the Consolidated Fund and the Strategic Reserve or Stabilisation Fund at the time of the Annual Budget and there will therefore be opportunities during the lifetime of the MTFP for such transfers to be proposed.

KEY FINDING

7.62 No transfers between the Consolidated Fund and the Strategic Reserve are proposed in the draft MTFP although consideration is due to be given to the policy underlying use of the Reserve.

RECOMMENDATION

7.63 The Minister for Treasury and Resources should ensure that amendments to the policy underlying use of the Strategic Reserve are brought to the States Assembly for approval.

KEY FINDING

7.64 No transfers between the Consolidated Fund and the Stabilisation Fund are proposed in the draft MTFP.

RECOMMENDATION

7.65 The Minister for Treasury and Resources should review the policy underlying transfers to and from the Stabilisation Fund.

Other Funding Streams

7.66 Pertinent to our consideration of the spending proposals in the draft MTFP are two other matters: funding streams used by the Council of Ministers in respect of its proposals; and the delivery of previously agreed savings targets.

7.67 In terms of funding sources, we have already considered the overall targets for States income. However, it is apparent, that it is not merely these sources which will be used to fund the proposed

77 Report of the Corporate Services Scrutiny Panel on the Department of Treasury and Resources, page 1
78 *Jersey's Fiscal Policy Panel Annual Report – October 2012*, page 42
79 Ibid
80 Draft Medium Term Financial Plan, page 117

expenditure in the draft MTFP. Indeed, the spending proposals we have been considering relate to net spending and assume the realisation of 'departmental income' which is separate to States income.

7.68 Some of these additional sources of funding are described in the proposition itself. Part (c)(i), for example, seeks States approval for the withdrawal of funding from the Health Insurance Fund in all three years of the MTFP for use by the Department of Health and Social Services. Part (f) of the proposition, on the other hand, seeks States approval of "*the disposal by way of redemption of the States 9% Preference Shares in the JT Group Ltd with the redemption value of £20 million being applied*."[81] That funding would be split between capital allocations and a £5 million input into the Innovation Fund that the Department of Economic Development is due to administer.

7.69 Other measures are described in that section of the draft MTFP which explains how the budget will be balanced throughout the lifetime of the plan. The maintenance of balanced budgets is one of the resource principles which underpin the management of the States' finances. The draft MTFP explains that some of the proposals contained within would, if pursued, lead to a potential deficit. A series of further measures are therefore described to address that potential deficit.

7.70 The use of the Health Insurance Fund is one of these measures and is expected to deliver £2 million of funding in 2013, £6 million in 2014 and £6 million again in 2015. Other measures include the following:

1. Managing Guernsey's waste disposal: Receipts of £1.5 million anticipated in 2015
2. Potential new fees arising from the *Control of Housing and Work (Jersey) Law*: Receipts of £600,000 anticipated in 2014 and again in 2015
3. Fixing Social Security Supplementation at 2013 levels for the lifetime of the MTFP: Reduced expenditure of £1.8 million in 2014 and a reduction in expenditure of £3 million in 2015

7.71 The draft MTFP also anticipates increased income through "*budget measures tightening compliance on tax collection and reducing avoidance*." £7.6 million is anticipated each year of the MTFP through such measures.

7.72 Several points for consideration arise from the above. Firstly, the measures outlined above represent significant policy developments in themselves and some require decisions by the States Assembly. The question which arises is whether there can be any certainty <u>at this stage</u> as to whether the funding will be delivered, given that the Assembly has yet to take those decisions. It could consequently be argued that either the Assembly will have its hands tied to make other significant decisions in order that the draft MTFP can be delivered; or that it would have been more prudent to factor in the funding merely as a possibility rather than as the certainty which the draft

[81] Draft Medium Term Financial Plan

MTFP seems to imply. The final question is ultimately what would happen if the States did not adopt one of the measures proposed or, for another reason, the measure did not come to be implemented.

7.73 The Scrutiny Panels have considered some of the matters above during their work and their reports indicate that there may indeed be doubts about whether some of the measures will deliver what is anticipated. In terms of the Health Insurance Fund and the fixing of the Social Security Supplementation formula, the Minister for Social Security has lodged propositions seeking States approval for the measures (in P.88/2012 and P.89/2012 respectively). They will be debated on the same day as the draft MTFP itself (6th November 2012). Funding from the HIF has previously been made available for services provided by the Department of Health and Social Services, but only for 2011 and 2012. When the States debated that initial transfer, concerns were raised. At the time, the balance of the HIF was £77 million but it was noted that "*the effect of these proposals will be to place the Fund into 'in-year' deficits for 2011 and 2012. If funding for the proposed initiatives was to continue on this basis in the medium term, then the accumulated surplus would very quickly be exhausted*."[82] The draft MTFP proposes continuing the initiative and the proposal raises the question of whether the Council of Ministers is seeking to find funding from sources which, in the longer-term, may cause further problems.

7.74 The Environment Scrutiny Panel considered the proposal to manage Guernsey's waste disposal and the Panel's report states the following:

"*This is entirely speculative and is dependent on future States decisions. Notwithstanding the prevailing market rates for waste disposal upon which this income figure is presumably based, a decision to import Guernsey's waste would be likely to generate additional expenditure in disposal, particularly in handling additional APC residues, both in capital and revenue expenditure and a low level of recharge would put doubt on the viability of such a proposal. The Panel has been advised that re-exporting quantities of ash to Guernsey after incineration of their waste is not considered a realistic option under relevant international conventions, therefore the full cost of disposal or recovery in Jersey or elsewhere would have to be factored in*."[83]

A decision by the Assembly will be required for this matter to progress in accordance with adoption of *Importation of Waste: Approval by the States Assembly* (P.17/2010).

7.75 The Corporate Services Scrutiny Panel meanwhile considered the proposal that income will be generated through fees arising from the *Control of Housing and Work (Jersey) Law*. The Law has not yet been implemented.

[82] *Draft Health Insurance Fund (Miscellaneous Provisions) (Jersey) Law 201-* (P.125/2010), page 8
[83] Report from the Environment Panel on the Department of Transport and Technical Services, page 6

7.76 We ourselves questioned the Minister for Treasury and Resources regarding the proposal that an additional £7.6 million of States income would be generated each year of the plan through budget measures. The advice we received was as follows:

"*Of course the M.T.F.P. is about spending and we will be coming forward with our budget proposals and I am not today going to steal the thunder of what is going to be in the budget in terms of that but I am making my budget announcements ahead of the debate on the M.T.F.P. What we can say is two things at the moment. The first thing is the budget this year is going to have an overarching policy of protecting revenues and dealing with avoidance. We lost our major anti-avoidance measure in relation to deemed distribution. Treasury officials have been working throughout the last few months on dealing with some replacements for that and those are going to be announced when Deputy Noel and I announce the budget. I think the date is 16th October. The second important thing to say, which is relevant to the 6-monthly review that we published last week, is that we are already on track to having that additional revenue. Effectively, if we were not in the position that our forecasts were slightly exceeding then we would be clearly making some potential budget measures which were specifically designed outside the area of compliance and avoidance of raising money.*"[84]

It is indeed standard policy that budget measures are not announced in advance.

KEY FINDING

7.77 The draft MTFP relies upon the delivery of considerable funding from policy options that remain to be discussed and agreed by the States Assembly, for example use of the Health Insurance Fund and income through the management of Guernsey's waste. Until such time as those decisions are taken, the policy proposals contained in the draft MTFP can only be viewed as provisional and resulting income as uncertain. Furthermore, the hands of the Assembly could be tied through adoption of the draft MTFP.

Savings

7.78 Allied to the issues of additional funding streams or budget balancing measures is the question of savings. The MTFP will cover the years 2013 to 2015, the first of which coincides with the last year of the Comprehensive Spending Review (CSR). The CSR was effectively a three-year plan to deliver reductions in spending of £65 million by 2013. The draft MTFP reiterates the desire of the Council of Ministers to achieve that aim.[85]

7.79 The draft MTFP recognises that there has been a shortfall in CSR savings in relation to the Department of Education, Sport and Culture. The target for that Department has therefore been

[84] Minister for Treasury and Resources, Transcript, page 12
[85] Draft Medium Term Financial Plan, page 27

reduced from £11.1 million to £7.6 million and the Council of Ministers has agreed that the Department should aim to achieve those savings by 2016 (and not by the original CSR deadline of 2013).

7.80 To counter that shortfall and extension of deadline, the draft MTFP includes provision for additional savings proposals from the Minister for Social Security. These are described in the following terms:

1. Potential for over-achievement of Social Security CSR savings including: adult component of Income Support – second adult
2. Potential for political decisions to progress a number of changes to reduce Social Security benefits over the MTFP period and deliver further savings in addition to the current CSR targets.

The first measure is expected to deliver a reduction in spending of £300,000 in each year of the MTFP. The second measure is anticipated to deliver £3 million in reduced expenditure in 2014 and again in 2015.

7.81 Two questions arise. Firstly, will the original CSR savings for 2013 be delivered? Secondly, will the additional CSR savings identified in the draft MTFP be delivered? Both questions impact upon the consideration of overall departmental spending limits proposed in the draft MTFP and therefore the deliverability of the plan.

7.82 In respect of the first question, in August 2012 the Minister for Treasury and Resources published a summary of CSR proposals with an update on the anticipated position. This report showed that £61.4 million of reductions in expenditure were expected by 2016. That figure took into account the anticipated shortfall expected for the Department of Education, Sport and Culture and the additional savings of £3 million built into the draft MTFP for the Department of Social Security in 2014 and 2015. It is apparent, however, that the original target of £65 million is not currently expected to be met.

7.83 The update also included a shortfall in respect of Terms and Conditions savings. The initial CSR target included provision for £14 million of savings in Terms and Conditions. The ministerial report from August 2012 showed that £10.7 million would in fact be achieved. The report of the Corporate Services Scrutiny Panel on the Chief Minister's Department highlights the reason for the shortfall: it is the current pay-offer (which is included within the draft MTFP). Notwithstanding that negotiations are underway with employee groups, the draft MTFP reflects the most recent offer made in July 2012: a 1% non-consolidated award for 2012; a 1% non-consolidated award and 1% consolidated award for 2013; and a 4% consolidated pay award for 2014 (in return for signing up to the Modernisation programme). Negotiations have not extended beyond 2014 and the base assumption of 2.5% for 2015 is therefore maintained. As a result of the pay offer, £10.7 million of the £14 million in Terms and Conditions savings would be delivered by 2013. This is because the non-consolidated elements of the offer are non-recurring and not carried forward in the cash limits from one year to the next. In that regard, we have noted the conclusions of the Corporate Service Scrutiny Panel that "*the non-consolidated elements will still represent expenditure beyond what was initially envisaged by the Council of Ministers and will still be paid for from tax-payers money*."[86]

7.84 The six-monthly report also states that £6.5 million is to be delivered through Procurement savings. This was a matter also considered by the Corporate Services Scrutiny Panel. Its own review of the draft MTFP revealed that some £3 million of Procurement savings would be achieved in 2012 but that a further £3.5 million had yet to be identified for 2013 and allocated to Departments. Given the Panel's conclusion that it remained unclear how those savings would be delivered, we also questioned the Minister for Treasury and Resources on the matter and were advised that there remained doubt about £1 million of those savings (i.e. there was uncertainty about their deliverability).[87] The provision of Procurement savings has been offset against Restructuring provision in that the amount of Restructuring provision available will be reduced by whatever amount of Procurement savings is not achieved. Nevertheless, there remains doubt as to whether some of those savings will be achieved. Our advisor from CIPFA was also unable to determine whether the savings would be achieved.[88] Nevertheless, the ministerial update from August 2012 continues to assume delivery of Procurement savings of £6.5 million.

7.85 Some other CSR savings also appear to be in doubt. In its report on the Department of Home Affairs, the Education and Home Affairs Scrutiny Panel has reported the following:

"*At the time of its Scrutiny hearing the department estimated that approximately £1.4 million of the originally proposed CSR savings were to some extent at risk and that the likely requirement for compensatory finance would be £600,000 for each of the three years of the MTFP. In order to manage this, the Department had contingency plans consisting of £1.2 million in carry forwards from 2012 (to be reviewed in the September quarterly financial report) and alternative savings proposals of £200,000 for each of the three years would need to be found. (These figures are subject to ongoing review and are expected to be reduced before the MTFP is debated).*"[89]

7.86 There are therefore doubts as to the deliverability of the current CSR programme and the original intention of achieving £65 million in spending reductions. Furthermore, the nature of the additional savings identified in the draft MTFP for the Department for Social Security has not yet been explained. When questioned on this matter by the HSSH Scrutiny Panel, the Minister for Social

86 Report of the Corporate Services Scrutiny Panel on the Chief Minister's Department, page 2
87 Treasurer of the States, Transcript, page 43
88 Report from CIPFA, page 22
89 Report of the Education and Home Affairs Scrutiny Panel on the Department of Home Affairs, page 1

Security was unable to specify how those savings would be achieved.[90] It is apparent, however, that any savings may be reliant upon States decisions.

7.87 We sought advice from CIPFA on the question of savings:

"*Certainly Jersey Ministers have made a conscious decision (this is clearly outlined within the MTFP) to achieve targeted savings rather than a top sliced approach. Given the lack of visibility on the service critical nature or otherwise of operational budgets and a track record of underspending this would appear to be a perfectly reasonable approach and one we would commend*."[91]

"*Overall there is no doubt that there is due rigour in the tasking of Departments to identify savings. The Resource Principle of Balancing Taxation with Spending has required Efficiency Savings to be an effective and deliverable strategy. As highlighted earlier a targeted approach is taken rather than "Top Slicing "approach. The achievement of savings is reported on a monthly basis within a RAG Rated Risk profile. What is less clear is the degree to which Efficiency Savings are derived from unrequired Budget or the judicious utilisation of Carry forwards. More worrying is the apparent cultural acceptance of "slippage" and non-delivery of critical savings. Looking at the nature and reprofiling of expected savings including the saving expected from the notoriously difficult area of Staff Terms and Conditions, it would be our considered opinion that Jersey is required to do more to systematically deliver cost reductions and demonstrate value for money*."[92]

KEY FINDING

7.88 The original target of delivering savings of £65 million through the CSR will not be met. Shortfalls may arise in relation to Terms and Conditions and Procurement. Furthermore, it is currently uncertain whether further savings proposals included in the draft MTFP will be realised. A concern therefore arises as to whether the States has truly developed a value-for-money culture.

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[90] Minister for Social Security, Transcript of Public Hearing, 14th September 2012, page 18
[91] Report from CIPFA, page 17
[92] Report from CIPFA, page 21

8. THE FUTURE OF THE MTFP

8.1 In the previous chapters, we have considered the draft MTFP as exactly that – a draft MTFP. We have considered whether the economic and income forecasts are reliable. We have looked at the spending proposals to see whether they are well-founded and meet the expectations that the States Assembly may have had when it agreed to amend the Public Finances Law and institute the MTFP. We have also considered on whether they deliver on policy developments to date, for instance the CSR.

8.2 The draft MTFP is due to debated on 6th November 2012. It may be amended during that debate but, barring extraordinary circumstances, after that debate the Island will have its first MTFP. The question is then 'What next?'. Firstly, it must be noted that there are several significant developments which are proposed to occur and which, if pursued, are likely to have a major impact on States finances. These include the reform of Health and Social Services; the Housing Transformation Programme; the Modernisation of the Public Sector; and work on identifying a means by which the PECRS Pre-1987 Debt may be repaid more quickly.

8.3 Secondly, there is the question of how the MTFP, once adopted, will be monitored and reported. It is particularly pertinent given the concerns that have been expressed regarding the uncertain economic outlook for the years encompassed by the draft MTFP and regarding the possibility that there may be insufficient flexibility in the draft as it stands. The FPP has highlighted a possible lack of flexibility, in part due to reduced levels of contingency (compared to what was initially envisaged) and in part due to the tightness in projected Consolidated Fund levels in 2014 and 2015.[93]

8.4 When questioned on the subject of monitoring and reporting, the Minister for Treasury and Resources acknowledged that it was a "*really important*" issue. He highlighted that, in future, the States would receive six-monthly reports each year.[94] The first example of this report was published only recently for the mid-year position of 2012.

8.5 Otherwise, we were advised of the current monitoring and reporting process followed by the Executive and informed that this would continue. In that regard, we were advised to the following effect:

"*How it will work: we already have the arrangements that the Minister describes so we already have quarterly monitoring reports on revenue and capital that go to Corporate Management Board and to the Council of Ministers on a regular basis. We plan to carry on using that same process. As you know, we have just published for the first time the 6-monthly report, just a summary report, to all States Members and we have done it at a summary level in the hope that people might read it.*

93 *Jersey's Fiscal Policy Panel Annual Report – October 2012*, page 3
94 Minister for Treasury and Resources, Transcript, page 44

There is a lot more detail that sits behind that that we have routinely, within Treasury and within departments, so we plan to use that same process."[95]

The Chief Minister also confirmed that the current reporting mechanism would continue.[96]

8.6 It is our view that monitoring not only relates to following expenditure levels and how much they are above, or below, budgeted levels; it is also about monitoring whether decisions taken by the Assembly are being enacted. Ultimately, within the ABPs of the past, as in the draft MTFP, the States has been asked to approve expenditure levels for Departments at a high level. Once that approval has been provided, it is for Ministers and Departments to manage their services within those expenditure limits. In terms of policy delivery, however, there is no firm requirement that a policy described in the draft MTFP will be undertaken (albeit there is a political expectation that it will occur). There have been times in the past that the States Assembly has been frustrated to discover that funding has not been used for the purposes for which the Assembly had understood it would be used when approval was given in the ABP (or, in this case, in the draft MTFP). For example, the 2007 ABP provided £500,000 to the Department of Home Affairs for the introduction of discrimination legislation.[97] However, the legislation remains to be introduced and the draft MTFP proposes the allocation of 'growth' funding to the Department of Social Security in 2014 and 2015.[98] In that regard, we were advised that delivery of the services for which there had been growth bids in the draft MTFP would be monitored through the usual reporting process.[99]

8.7 Monitoring and reporting is a matter on which we sought advice and the report from CIPFA suggests that more could be done in this area. We have been advised to the following effect:

"*Whilst we understand that there has been significant improvement in Financial Planning and Reporting we would be of the considered opinion that more needs to be done to embed within Performance Management the link between resources and actual outcomes*."[100]

Many of CIPFA's recommendations to us relate to the establishment of an appropriate monitoring mechanism. CIPFA has, for instance, recommended the "*provision of a defined MTFP Performance Monitoring and Reporting framework which produces high level transparency on the tracking of actual performance against the MTFP.*" According to CIPFA, such a mechanism would allow for appropriate decisions to be taken to ensure "*continual rebalancing of the MTFP that would optimise financial outcomes*." The reporting would need to "*clearly and formally differentiate cashable*

95 Treasurer of the States, Transcript, page 45
96 Chief Minister, Transcript, page 24
97 Annex to the 2007 Annual Business Plan, page 66
98 Draft Medium Term Financial Plan, page 69. The legislation was not implemented pursuant to the 2007 ABP as a full review of the prison budget was undertaken in 2007 which resulted in additional funds of £1 million being pledged by the Council of Ministers to HMP La Moye, including £500,000 originally allocated for Discrimination legislation.
99 Chief Executive, Transcript of Public Hearing, 3rd September 2012, page 32
100 Report from CIPFA, page 19

savings arising from direct Management intervention from the re-phasing (stopping / slowing) of activity – clearly identifying 'slippage' and non-achievement."[101]

KEY FINDING

8.8 It is vital that an appropriate reporting and monitoring mechanism is developed in relation to the MTFP to ensure not only the sound management of States finances but also the delivery of decisions made by the States Assembly. Further work in these areas is required.

RECOMMENDATION

8.9 The Minister for Treasury and Resources should review and report back to the States Assembly on the monitoring and reporting mechanism that will be used in respect of the MTFP.

8.10 Ultimately, there is the question of what if circumstances turn worse, indeed far worse, than we currently expect. What options are available to the Council of Ministers and, indeed, the States Assembly to address the situation - what flexibility is there? This was a question we put to the Minister for Treasury and Resources and to which we received the following response:

"*Well, there are a number of abilities that the Council of Ministers themselves have to reallocate budgets themselves. I mean, we were talking about a disaster earlier and the first call is obviously to reallocate existing budgets, identification of underspend. So, there is always going to be some flexibility. Ministers themselves have flexibility; they are given a budget, they have to obviously spend it in the way that they have said but they can move money around heads of expenditure in different ways, just as any way that happened before. So, there is some inbuilt flexibility. As the Treasurer said earlier, we have to do the annual decision itself on capital and that is an important annual decision that we have to make. We make allocations in relation to contingencies, restructuring. So, it is not just fixed in stone absolutely; the limits are but then obviously there is always a margin of changes that will happen over a 3-year plan. As far as big plans are concerned it is Article 9*."[102]

We explain the provisions of Article 9 below.

8.11 The options would therefore be firstly to address matters within departmental spending limits. In that regard, the MTFP (with three-year spending limits) was intended to allow Departments the flexibility to address matters. This raises the question of carry forwards from one year to the next, a matter we have already addressed in a previous chapter. In terms of how carry forwards would operate under the MTFP, we were advised that "*carry forward funds from year to year [to Departments] will be available to fund known pressures or fluctuation in demand across years. The processes in place*

[101] Report from CIPFA, page 27
[102] Minister for Treasury and Resources, Transcript, page 42

seek to ensure that underspends and carry forwards are planned, can be evidenced by business cases or are carried forward to provide contingency against known or forecast pressures. The carry forward process is not intended to provide automatic carry forward for one-off or windfall savings for which a given or related purpose is not identified. In these cases the Council of Ministers should have discretion to consider across the States where these savings/additional income might best be applied or that the economic circumstances are such that they should be returned to the consolidated fund to improve the overall financial position." The process will involve consideration by the Corporate Management Board and the Council of Ministers before being signed off by the Minister for Treasury and Resources.[103]

8.12 Beyond the flexibility in departmental spending limits, there may be access to the Restructuring Provision or contingency, a matter we have already addressed. There could potentially also be access to the States reserves, the Stabilisation Fund and the Strategic Reserve. As we have stated, there is no provision within the draft MTFP for transfers between those funds and the Consolidated Fund and the FPP have made recommendations in that regard. The Corporate Services Scrutiny Panel was advised, however, that consideration is to be given to the policy for use of the Strategic Reserve and, indeed, it was suggested that the Reserve could be used to assist with repayment of the PECRS Pre-1987 Debt.[104]

8.13 The Corporate Services Scrutiny Panel was also advised of other sources of funding which, dependent upon circumstances, could potentially be used, for instance the Insurance Fund.[105]

8.14 As the Minister mentioned, there is also flexibility through the Annual Budget. He mentioned it in relation to the approval of capital allocations but it could also feasibly play a role in terms of income. Decisions about income will be taken by the Assembly in each Annual Budget, in relation to which for this MTFP there will be three (for 2013, 2014 and 2015). In that regard, concerns were raised following the publication of the draft MTFP that it would inevitably lead to tax increases in order that the MTFP could be developed. We understand that the Council of Ministers does not propose to increase tax rates or change the tax structure. However, flexibility could still be achieved through amendments to the exemptions, allowance et al without amending underlying tax rates.

8.15 Finally, there is Article 9 of the Public Finances Law which describes the circumstances in which an amendment can be made to the MTFP, once it has been approved by the States Assembly. According to that Article, the MTFP may only be amended if:

1. A state of emergency has been declared under the *Emergency Powers and Planning (Jersey) Law 1990*;

[103] Advice from the Department of Treasury and Resources, 18th September 2012
[104] Report from the Corporate Services Scrutiny Panel on the Department of Treasury and Resources, page 1
[105] Ibid, page 7

2. The Council of Ministers is satisfied that there exists an immediate threat to the health or safety of all or any of the inhabitants of Jersey;
3. The Council is satisfied that there is a serious threat to the economic, environmental or social wellbeing of Jersey which requires an immediate response;
4. A new Council of Ministers is appointed in between elections (e.g. if a Vote of No Confidence in the Council is approved by the Assembly); or
5. "*If, at any time, it appears to the Council of Ministers that, by reason of any variance between the intended total amount to be paid into the consolidated fund and amounts actually received in a financial year, or by any other reason, the receipts and expenditure approved in the medium term financial plan would result in a deficit in the consolidated fund at the end of any financial year*"

In those last circumstances, the Council of Ministers would be obliged to lodge a proposition that would "*remedy the deficit*."[106]

[106] *Public Finances (Jersey) Law 2005*, Article 9

9. CONCLUSION

9.1 The draft MTFP is a step in the right direction. It moves the focus of both the Council of Ministers and the States Assembly towards longer-term planning and the publication of the draft MTFP has seen a wealth of information made available to States Members and the public. There is much to commend, as our advisors have shown, for instance in improved modelling of income forecasts.

9.2 Nevertheless, there remain matters to be addressed and our review has shown that there is uncertainty about whether the draft MTFP could be delivered as it stands. This stems from our own review of the evidence we have received, the advice we have tendered and, indeed, consideration of the FPP's report. The uncertainty that the draft MTFP can be delivered stems from a number of sources:

1. As the FPP has reported, the economic climate remains uncertain;
2. Income forecasts are now expected to be lower than the midpoint range used as a basis for the draft MTFP;
3. Future States decisions are required to deliver some of the funding sources or savings on which departmental spending limits are predicated; and
4. The CSR target of £65 million of reduced spending will not be met.

9.3 Our review has also shown that there may not be sufficient flexibility within the draft MTFP to address the uncertainty we have described. Contingency levels are lower than the States expected and the growth allocation which the Assembly would have expected to debate annually has disappeared. It would be preferable for greater flexibility to be introduced in the draft MTFP in order to mitigate the uncertainty, particularly in relation to the latter stages of the MTFP in 2014 and 2015. This will require the adoption of an appropriate monitoring and reporting mechanism and should also include consideration of making the MTFP a 'rolling' plan.

10. APPENDIX 1: THE PROPOSITION

THE STATES are asked to decide whether they are of opinion -

to receive the draft Medium Term Financial Plan 2013 – 2015 and, in accordance with the provisions of Article 8 of the Public Finances (Jersey) Law 2005 –

(a) to approve the intended total amount of States' income for each of the financial years 2013 to 2015 as set out in Summary Table A;

(b) to approve the total amount of States' net expenditure for each of the financial years 2013 to 2015 as set out in Summary Table A;

(c) to approve the following amounts (not exceeding in the aggregate the total amount set out in paragraph (b) above) –

   (i) the appropriation of an amount to a revenue head of expenditure for each States-funded body (other than the States trading operations) being the body's total revenue expenditure less its estimated income for each of the financial years 2013 to 2015 as set out in Summary Table B with, in relation to the head of expenditure of the Health and Social Services Department, the approval of £2,000,000 in 2013, £6,000,000 in 2014 and £6,000,000 in 2015, dependent, in accordance with the provisions of Article 16(4) of the Public Finances (Jersey) Law 2005, on the approval by the States of the transfer of these sums from the Health Insurance Fund to the Health and Social Services Department;

   (ii) the amount to be allocated for Contingency expenditure for each of the years 2013 to 2015 as set out in Summary Table C;

   (iii) the total amount, as set out in Summary Table D, that, in the Budget for the financial years 2013 to 2015, may be appropriated to capital heads of expenditure, being an amount that is net of any proposed capital receipts and other funding to be used for capital projects to which the amount may be appropriated, with £8,500,000 of the 2013 allocation, £4,743,000 of the 2014 allocation and £1,757,000 of the 2015 allocation, dependent upon the approval by the States of the redemption of the States' 9% Preference Shares in the JT Group Ltd. as set out in paragraph (f);

(d) to approve the following, as set out in Summary Table F, in respect of each States trading operation, for the financial years 2013 to 2015 –

   (i) its estimated income;

   (ii) its estimated expenditure;

   (iii) its estimated minimum contribution to be made to the Consolidated Fund;

(e) to approve, in respect of each States trading operation, the total cost of the capital projects that each is scheduled to start during the financial years 2013 to 2015 as set out in Summary Table G;

(f) to approve, in accordance with Article 32(5)(a) of the Telecommunications (Jersey) Law 2002, the disposal by way of redemption of the States' 9% Preference Shares in the JT Group Ltd. with the redemption value of £20 million being applied, £15 million to the Capital Programme for 2013 to 2015 and the balance of £5 million for the Economic Development Department to provide funding for the proposed Innovation Fund.

11. APPENDIX 2: PANEL MEMBERSHIP AND EVIDENCE GATHERED

Panel Membership and Terms of Reference

11.1 The Scrutiny Review of the draft MTFP involved all five Scrutiny Panels. The Panels' reports have been published separately to this report.

11.2 In order to co-ordinate matters and to consider issues of overarching significance, the Chairmen's Committee agreed that a Sub-Panel should be established under the aegis of the Corporate Services Scrutiny Panel that would include a representative of each Scrutiny Panel. The MTFP Sub-Panel comprised the following Members:

Senator S C Ferguson, Chairman

Deputy J M Maçon, Vice-Chairman

Deputy J G Reed

Deputy J H Young

Deputy S G Luce

11.3 The Corporate Services Scrutiny Panel, which has presented this report on the Sub-Panel's behalf, comprised Senator Ferguson as Chairman, Deputy Reed as Vice-Chairman and three other Members: Connétable D J Murphy, Deputy S Power and Deputy R J Rondel.

11.4 Terms of Reference were agreed for use by both the Scrutiny Panels and the MTFP Sub-Panel. The Sub-Panel worked to the following Terms of Reference:

1. To receive reports from the five Scrutiny Panels on entries in the MTFP for each Department.
2. To consider matters of overall process in the development and production of the MTFP, such matters to include:
    a) Policy applying to the management and use of central contingency funds;
    b) Policy applying to growth expenditure;
    c) Proposals to achieve a balanced budget and the likely impact on overall States expenditure limits;
    d) The effectiveness of the previous three-part plan of the Council of Ministers in delivering a balanced budget and the current fiscal position against forecast;
    e) The Long Term Capital Plan;
    f) Matters that cut across individual Departments; and

g) Prioritisation.

3. To consider how the long term tax policy and new fiscal strategy influence the MTFP.

4. To consider plans for monitoring and reporting upon the implementation of the MTFP.

5. To report to the States Assembly on the work undertaken.

11.5 Meanwhile, all Scrutiny Panels worked to the following Terms of Reference:

1. To consider the entries in the Medium Term Financial Plan (MTFP) for the relevant Departments, with particular regard to the following:

   a) Indicative overall cash limits and other commitments included in the 2012 Annual Business Plan for 2013 and 2014, and how they compare with those proposed for 2013, 2014 and 2015 in the MTFP (the comparison to include consideration of previously agreed growth allocations, changes in staffing levels and savings requirements);

   b) Individual budget areas, any proposed changes and the use of carry forwards;

   c) Spending pressures and resultant growth bids and whether they have been provided for or refused;

   d) Whether proposals contained in the Long Term Capital Plan meet the Departments' requirements;

   e) The appropriateness of savings to be delivered by the Departments during the period 2013-2015 and any material risks to service delivery;

   f) Policy changes or other proposals that might impact on other Departments or the public; and

   g) Additional Funding and other resources necessary to deliver actions identified in the Strategic Plan.

2. To report to the Corporate Services (MTFP) Sub-Panel on the work undertaken including any other matters of significance identified during the review.

11.6 To assist its work, the Sub-Panel appointed two advisors: Professor Michael Oliver of MJO Consulting and Mr Stuart Fair of the Chartered Institute of Public Finance and Accounting (CIPFA).

Evidence Gathered

11.7 The following documents were considered by the Sub-Panel during its review:

i) *Public Finances (Jersey) Law 2005*

ii) *Carry Forward of Revenue Balances*, Financial Direction No.6.1, Revised August 2006

iii) *Ministerial Financial Reporting*, Financial Direction No.6.5, Revised October 2007

iv) *£35 million cost reductions*, Report by the Comptroller and Auditor General, January 2008

v) 2010 Annual Business Plan, Adopted by the States on 5th October 2009

vi) *Public Finances (Jersey) Law 2005: Funding Requests, Under Article 11(8)* (P.64/2010), Adopted by the States on 7th July 2012

vii) 2011 Annual Business Plan, Adopted by the States on 17th September 2010

viii) *Draft Health Insurance Fund (Miscellaneous Provisions) (Jersey) Law 201-* (P.125/2010), Adopted by the States on 18th November 2011

ix) Slides of Presentation on *Public Finances (Amendment No.3) (Jersey) Law 201-*, 13th June 2011

x) *Draft Public Finances (Amendment No.3) (Jersey) Law 201-* (P.97/2011), Adopted by the States on 19th July 2011

xi) *August Financial Report*, Report of the Department of Treasury and Resources for the Corporate Management Board

xii) *Quarterly Corporate Report*, September 2011

xiii) 2012 Annual Business Plan, Adopted by the States on 15th September 2011

xiv) Part B Minutes of the Council of Ministers, 2012

xv) *Contingency Allocation: Policy* (R.10/2012), Presented to the States on 30th January 2012

xvi) *Pre-1987 Debt Questions* – Public Employees Contributory Retirement Scheme, 2nd February 2012

xvii) Ministerial Decision MD-TR-2012-0019, 9th February 2012

xviii) *2011 Year End Carry Forwards*, Report of the Department of Treasury and Resources, 28th February 2012

xix) *States of Jersey Law 2005: Delegation of Functions – Treasury and Resources – Further Revised Delegations March 2012*, (R.40/2012), Presented to the States on 22nd March 2012

xx) Draft Medium Term Financial Plan (drafts as of 2nd May 2012, 30th May 2012 and 21st June 2012)

xxi) *2013 Budget – Proposed Tax Measures*, Report for the Council of Ministers, 7th June 2012

xxii) *Non-financial services companies: proposed workplan*, Report for the Council of Ministers, 7th June 2012

xxiii) *Financial Report and Accounts 2011* (R.74/2012), Presented to the States on 12th June 2012

xxiv) *Half Year Corporate Report*, Report of the Department of Treasury and Resources, June 2012

xxv) *Budget Management Report for the Period ended 31st December 2011* (R.88/2011), Presented to the States on 3rd July 2012

xxvi) *Impôts Duty Proposals*, Report for the Council of Ministers, 5th July 2012

xxvii) *Draft Medium Term Financial Plan* (P.69/2012), Lodged au Greffe on 23rd July 2012

xxviii) *Summary of CSR Proposals*, Report of the Department of Treasury and Resources, 1st August 2012

xxix) *Health and Social Services: A New Way Forward* (P.82/2012), Lodged au Greffe on 11th September 2012

xxx) *Restructuring Provision – Requests for Funding*, Report for the Council of Ministers, 20th September 2012

xxxi) *Jersey's Fiscal Policy Panel Annual Report*, October 2012

11.8 The Sub-Panel held the following public hearings, transcripts of which are available on the Scrutiny website (www.scrutiny.gov.je):

3rd September 2012	Chief Minister, accompanied by the Chief Executive, the Economic Advisor and the Director of Human Resources
17th September 2012	Minister for Treasury and Resources, accompanied by the Assistant Minister for Treasury and Resources, the Treasurer of the States, the Economic Advisor and the Finance Director – Taxes Office

11.9 In addition all Scrutiny Panels held public hearings with respective Ministers or Assistant Ministers (accompanied by officers) on the following dates:

Corporate Services Scrutiny Panel

1st August 2012	Chief Minister
	Minister for Treasury and Resources

Economic Affairs Scrutiny Panel

5th September 2012	Assistant Minister for Economic Development

Education and Home Affairs Scrutiny Panel

23rd July 2012	Minister for Home Affairs
26th July 2012	Minister for Education, Sport and Culture

Environment Scrutiny Panel

23rd July 2012	Minister for Planning and Environment
24th July 2012	Minister for Transport and Technical Services

Health, Social Security and Housing Scrutiny Panel

4th September 2012	Minister for Housing
	Assistant Minister for Health and Social Services
14th September 2012	Minister for Social Security

11.10 In terms of written submissions, a set of general questions was identified by Scrutiny for use during the review. Four Scrutiny Panels decided to put those questions in writing to the relevant Departments and the responses received (eight in total) have been uploaded to the Scrutiny website. In addition, the Sub-Panel received written correspondence from the Chamber of Commerce on 6th August 2012. Furthermore, material and advice was received through communication with the Department of Treasury and Resources.