States of Jersey
States Assembly

États de Jersey
Assemblée des États

Corporate Services Scrutiny Panel

Scrutiny of the Comprehensive Spending Review

Presented to the States on 31st August 2010

S.R. 9/2010

Contents

1. Chairman's Foreword

The question of increases in States expenditure has long been a concern and has become more so since the arrival of Ministerial Government. It has been clear for several years that the States has been building up a structural deficit. Despite the siren voices, my Panel has long been of the opinion that "doing nothing is not an option."

There has been reluctance by Ministers to treat the public as adults. It took the Panel some time to elicit a definitive answer on the estimated size of the deficit. If the Panel has been confused, how much more is the public with no straightforward communication from the Council of Ministers?

In his paper, '*Emerging Issues*, *States Spending Review 2008'* the Comptroller and Auditor General gave some highly pertinent definitions of the various categories of reducing expenditure. It is clear from even a superficial review of the proposed reductions in expenditure that not all proposals can truly be called savings.

There has been some discussion within the Comprehensive Spending Review (CSR) workgroup as to whether proposals are genuine savings. This is an area where the specialised Scrutiny Panels could have added value to the process by conducting an evaluation of the proposals in the context of the Comptroller and Auditor General's definitions.

The CSR process has been graduated with 2% savings in 2011, 3% in 2012 and 5% in 2013. The premise is that 2% should be an easy 'business as usual' approach as would be normal in the private sector.

Some Ministers have welcomed the CSR and have viewed it as an opportunity to effect changes in their operations; there has been a great deal less public outcry over the proposals. Unfortunately, balanced with this have been the Departments where Ministers have effectively abrogated their responsibilities to the States Assembly or where Ministers have participated in a “salami slicing” approach, in the application of the same percentage cuts throughout the organisation. The latter approach is particularly pernicious as it opens the doors to action by pressure groups to protest any cuts.

At this stage in the CSR process there has been little emphasis on the cross cutting issues. These were identified in the Comptroller and Auditor General's report, *Emerging Issues*, as the areas where the biggest savings might be made. The Panel will be reviewing the next stages of the process and recommends that these are given a high priority.

In particular, a requirement to review the costs of employment was included in the Business Plan debated in September 2008. Such a review was not started until late in the CSR process. This is unfortunate as this is a crucial part of a cost saving process with employment costs represent nearly 50% of government expenditure. Until such a review has been completed, it is extremely difficult to conduct a reliable analysis of States operations.

The Integrated Business Improvement Programme (IBIP), of which the CSR is just one part, could be used to usher in widespread reform to the public sector. For the CSR to succeed the Council of Ministers and the Assembly must demonstrate strategic thinking and more imagination. So far, there is little evidence of such lateral thinking. It is essential that we identify the activities where government must be involved, the activities best done by the private sector and those best left to the individual.

As part of the review, we asked how this exercise compared with the Fundamental Spending Review in 2004/5. It appears that little genuine progress was made: Departments played games with transferring budgets and lapsed back to ‘business as usual’ with a re-emergence of the silo mentality. This led us on to the consideration of what sanctions were available if Ministers did not achieve their targets. There are no sanctions but it is quite clear that the drive to achieve the targets must come from the Ministers, with the support of the Assembly.

One of the next stages in the IBIP is the FSR. Whilst there is discussion about the details, there has been no real dialogue as to the balance between savings and tax increases. International experience is that the ratio, for the process to be effective, should be 80% savings and 20% tax increases.

During this review we have asked what is the vision for the Island and what is the shape of government after all the changes have been effected. We have heard about a leaner, more efficient government and sustainable finances but no coherent and clearly articulated vision for the Island. This lack of vision obscures the choices which must be made in the immediate future. The Strategic Plan, which has been quoted vociferously by some Ministers, is a wish list, not a vision.

For some years we have been in a low tax, high spend environment. The world has moved on. The choice before us is stark. Should we aim for a low tax, low spend government or a high tax, high spend government? Do we believe in a market economy or a statist economy? Should government rule the people or the people rule the government? One school of thought says that government is the solution. In Jersey in recent years, we have plenty of evidence to show that the government is the problem. A new approach is needed which combines lower taxes and less government. The old way – low taxes and high spend – is no longer an option. We have evidence that the public will support lower expenditure – it is time for the politicians to listen to the public voice.

Senator S. C. Ferguson,

Chairman of the Corporate Services Scrutiny Panel.

2. Executive Summary with Key Findings and Recommendations

2.1 The review of the CSR has taken the Corporate Services Panel on a journey through the finances of almost every department in the States. The Council of Ministers created the policy to deal with a problem of a £50 million deficit. The Panel established that there was a problem and agrees that doing nothing is not an option. (KF1)

2.2 Figures issued by the Minister for Treasury and Resources suggested that the problem was an anticipated £50 million structural deficit. However, it was soon apparent that the problem was nearer to £100 million. This caused unnecessary confusion and the Panel considers the Public still do not fully understand the real figures. (KF2)

2.3 It was no surprise to the Panel that the basic problem for the CSR appeared to be nothing to do with the Policy but once again, with the machinery of government. Nobody is in charge and nobody is responsible for the outcome of the CSR. There is no mechanism to ensure that £50 million savings are achieved. (KF5)

2.4 Based on the hearings held by the Panel, only a few Ministers are rising to the opportunities for significant changes. (KF7) The Council of Ministers initiated the savings requirement and the Panel recognised that it is the Ministers who are responsible for the outcome of the CSR. (KF8)

2.5 The CSR is one part of the Integrated Business Improvement Programme. Making cuts and savings is one part of the overall strategy. Whilst the Panel has yet to examine the policy of the Fiscal Strategy Review (FSR), there is a raft of information on the successful formulas used in other countries. The balance between the CSR and FSR is key to the impact of the CSR. (KF9)

2.6 One area that was noted to be uncharted throughout the work the Panel has done on the saving of the first 2% of the savings, involved crosscutting areas such as Information Technology and Property. Human Resources were discussed and it is recognised that a review into terms and conditions of staff was being undertaken. It was also accepted that Procurement appears to be in the process of being addressed.(KF20)

2.7 So often, it is said that ‘this or that’ may apply in other places, but “This is Jersey.” The Panel accepts that this may well be the case, however Jersey needs to decide if economic principles from outside apply to Jersey. (KF21) If the economy is so different here, then that needs to be clearly evidenced.

2.8 The Panel was keen to understand how the cuts would impact on the people of the Island. As the review to date only deals with the first 2%, it is the impact of those savings that were reviewed. Dr Harkness states clearly in her report that 2% cuts create minimal social impact. (KF23)

2.9 In consideration of the impact of the CSR as a whole, the Panel questioned Ministers on where the Council of Ministers was taking the Island. Repeatedly, the Panel was referred to the Strategic Plan. There was no guidance in that document as to whether the Island should be ‘Small Government, Small Spend’ or ‘Large Government, Large Spend.’ As noted by the Panel advisor, Professor Oliver, it is apparent to the Panel that the Island is being nudged towards a high tax, high spend government. (KF25)

2.10 Wherever the Council of Ministers is intending to take the Island finances, it is very clear from the hearings that Council of Ministers may not have the resolve to deliver the full CSR package (KF26). Further, that it will not be achieved until the Council of Ministers undergo a change of culture (KF27).

2.11 This leaves the obvious question hanging: ‘What happens to Ministers who fail?’

2.12 The poor direction of economic aspirations is hardly surprising; there is no up to date economic growth policy in Jersey. This needs to be addressed as a matter of urgency by the Chief Minister (Recommendation 9).

2.13 This may appear to be of little consequence, however the pressure to deviate from any pre arranged direction will increase on the approach to the election period. With no economic growth policy, there could be a free for all spending spree as has been seen in the past. This would represent a significant threat to the success of the CSR. (KF32).

2.14 The Panel supports the premise that £50 million must be saved. However, it recognises that there are significant pressures that will come to bear on Ministers, the Council of Ministers and the States Assembly. The pressures are so significant, with no mechanism to “maintain the line,” that **the Panel anticipates the CSR will fail to produce £50 million of savings.** (KF33)

Below is a full list of the recommendations and key findings, which are discussed in full in the text of the report.

RECOMMENDATION 1
The Minister for Treasury and Resources must publish details of the total forecast deficit in clear terms.

RECOMMENDATION 2
If DEL contingencies are required, they should be funded by a further 2% saving from departmental budgets.

RECOMMENDATION 3
The CSR team must devote a high priority to the crosscutting areas of the organisation**.**

RECOMMENDATION 4
The Chief Minister must justify and provide analysis of why Jersey is always different in each case.

RECOMMENDATION 5
The Chief Minister must make documentation publicly available listing and explaining both the 'Invest to Save' and 'Growth' principles**.**

RECOMMENDATION 6
A clear statement is needed from the Council of Ministers on the direction they intend to take the Island**.**

RECOMMENDATION 7
The Chief Minister must not allow Ministers to fail to deliver the CSR savings.

RECOMMENDATION 8
Ministers must be prepared to take responsibility for failure to achieve the required CSR savings.

RECOMMENDATION 9
The Chief Minister should ensure the publication of an Economic Growth Policy before the end of 2010.

RECOMMENDATION 10
It is essential that the Council of Ministers achieve at least £50 million of savings.

RECOMMENDATION 11
More work is required on the economies of public service pricing. (User pays).

RECOMMENDATION 12
All Scrutiny Panels should review CSR proposals within the areas of their remit, applying the specialist knowledge they have acquired for those subject areas.

KEY FINDING 1
Doing nothing is not an option.

KEY FINDING 2
Figures issued by the Minister for Treasury and Resources and CSR Team have been inconsistent and confusing.

KEY FINDING 3
Department Expenditure Limits should not have contingency funds available.

KEY FINDING 4
Department contingency funds should only be funded from within their own budgets.

KEY FINDING 5
There is no mechanism to ensure that £50 million savings are achieved.

KEY FINDING 6
Although the Panel agreed with the principle of the CSR, it considered the delivery is likely to fail.

KEY FINDING 7
Only a few Ministers are rising to the opportunities for significant changes.

KEY FINDING 8
Ministers are responsible for the outcome of the CSR.

KEY FINDING 9
The balance between the CSR and FSR is key to the impact of the CSR.

KEY FINDING 10
Departments are not all responding to the CSR timescales.

KEY FINDING 11
HSSH do not have a routine cost identification system.

KEY FINDING 12
Without a routine cost identification system, robust monitoring and measurement of the success of proposals will be impossible.

KEY FINDING 13
Successful inroads into benefit fraud may reduce, or even avoid altogether, future proposals for necessary cuts in benefit.

KEY FINDING 14
The States Assembly must not sidestep unpopular and difficult decisions relating to benefits.

KEY FINDING 15
The Minister for Home Affairs must stand by his decisions and not expect the responsibility to be picked up by the States as a whole.

KEY FINDING 16
There is no saving recognised in the area of the Treasury training budget.

KEY FINDING 17
States Members remuneration and membership numbers is not part of the CSR.

KEY FINDING 18
The PPC must advise the States Members Remuneration Review Body to consider an invitation to join the CSR process.

KEY FINDING 19
The Health, Social Security and Housing Scrutiny Panel should review the changes proposed in the Housing Department.

KEY FINDING 20
Large savings will be found in the cross cutting areas of the States.

KEY FINDING 21
Jersey needs to decide if economic principles from outside apply to Jersey.

KEY FINDING 22
Some invest to save is necessary to ensure the success of the CSR.

KEY FINDING 23
2% cuts create minimal social impact.

KEY FINDING 24
Significant work needs to be done on public perception of the roles undertaken by States staff.

KEY FINDING 25
The Island is being nudged towards a high tax, high spend government.

KEY FINDING 26
The Council of Ministers may not have the resolve to deliver the full CSR package.

KEY FINDING 27
The Council of Ministers must undergo a change of culture to succeed with the full CSR.

KEY FINDING 28
What happens to Ministers who fail?

KEY FINDING 29
2% savings are only the start of the process.

KEY FINDING 30
The CSR timescales, as agreed by the Council of Ministers, were exclusive.

KEY FINDING 31
Jersey needs an economic growth policy.

KEY FINDING 32
The election period due in 2011 is a threat to the success of the CSR.

KEY FINDING 33
The Panel anticipates the CSR will fail to produce £50 million of savings.

KEY FINDING 34
Very little has emerged relating to user pays.

3. Panel Membership

3.1 The Corporate Services Scrutiny Panel is constituted as follows;-

Senator S. C. Ferguson, Chairman.
Deputy C. H. Egré, Vice Chairman.
Connétable D.J. Murphy,
Deputy T. A. Vallois.

Officer support Mr M. Robbins

4. Independent Expert Advice

4.1 The Panel engaged the following advisor to assist with the economic aspects of the review:

Professor Michael J. Oliver, BA, PhD, Professor of Economics, ESC Rennes School of Business, Lecturer, Highlands College Jersey, Director of Lombard Street Associates.

Professor Oliver submitted a report with background information to assist the Panel. **See appendix A**

4.2 The Panel also engaged the following advisor to assist with analysing the social implications of the proposed savings:

Dr S Harkness, DPhil (London), MA (Sussex), MA (Cantab)
Dr Harkness submitted a report to assist the Panel. **See Appendix B**

5. Terms of Reference

5.1 The Corporate Services Scrutiny Panel approved the following Terms of Reference:-

1. To examine the CSR policy of the Treasury and Resources Minister requiring 10% savings across the board, staggered over three years.

2. To determine the nature and sustainability of the 2% savings identified by each department to be delivered in 2011.

3. Establish the structural continuity between 2% savings this year and final 10% saving after three years.

4. To consider the social impact of proposed cuts.

5. To examine any further issues relating to the topic that may arise in the course of the Scrutiny review that the Panel considers relevant.

6. Methodology

6.1. This report must not be seen as a Scrutiny approval of the savings proposed within the Comprehensive Savings Review (CSR).

6.2. The report is an examination of the process under which the various Ministers have undertaken the application of the first section of the policy agreed by the COM to propose savings of 10% over three years. Examination of the details of the savings themselves remains the remit of the individual Panels. The level of work and expertise required for such a task is beyond the resources of any one Panel. This Panel strongly recommends that every Scrutiny Panel takes responsibility for detailed scrutiny of the proposed savings from Ministers and Departments within their remit.

6.3. In this unusual case, the Panel was looking at a policy created by the Council of Ministers that involved every Minister, States Department and non-Ministerial Department. This was a huge issue. The aim of raising £50 million through cuts in expenditure involved a cut over all departments of 10%. This was divided over three years, 2% in 2011, a further 3% in 2012 and 5% in 2013.

6.4. It was apparent to the Panel that the savings proposed by the individual Ministers and departments would need the individual attention of every Panel. The Corporate Services Panel has limited knowledge of the intricate workings of many departments and recognised that the expertise in the individual Panels was required to examine the savings in detail. However, the principle of the policy and the application of the policy by the departments was an area that was of concern. Further, it was considered that the 2% required at the start of the process should be considered in conjunction with the full 10% of savings to ensure that saving in the initial year would not hamstring departments for the greater savings. For example, a department may choose to reduce its training budget to meet the 2% but then find that the changes in policy and procedure required to meet the remaining 8% of savings would need retraining of staff, which would be impossible with the restricted training budget.

6.5. The Panel looked towards the timescale published by the CSR Team and Council of Ministers. (Appendix C). It was noted that the initial proposals were due to be delivered to Scrutiny on 23rd April 2010. There were two problems with this. The first was that the Council of Ministers timeline showed continuation of work on their part, which would have left Scrutiny with a 12 working day window in which to do any review considered necessary. The second problem was that the Council of Ministers failed to meet that deadline. The Panel therefore decided to work to a deadline that would enable its report to be published in time to allow States Members to consider it against the Draft Annual Business Plan, which would contain the proposed savings. That would enable States Members to have time to formulate amendments or considerations prior to the debate on the Annual Business Plan. Professor Michael Oliver was engaged to advise the Panel on the financial impacts of the savings and the Terms of Reference were drafted. The review was scoped and budgeted and the details forwarded to the Chairmen's Committee.

6.6. The Panel also recognised that in order to understand the proposals from each Department, it would need a private briefing from every Chief Officer, followed by a Public Hearing with every Minister. This was to ensure that the Panel determined the facts behind the proposals, rather than question the Ministers on what may be a mistaken premise. In order to achieve this, the Panel attended a meeting of the Council of Ministers and placed before the Ministers its timeline and Terms of Reference. During that meeting, the Council of Ministers recognised that the timeline for the scrutiny process was tight and undertook to attend Public Hearings at times and dates that were convenient to the Panel.

6.7. Subsequently, the Panel held private briefings with all Chief Officers followed by Public Hearings with the Ministers.

6.8. The Panel also recognised that there might be significant social issues connected with the total savings and in some cases with the initial 2% savings. It therefore engaged Dr Susan Harkness to examine the savings and advise on how they might impact on Jersey. (Report Appendix B)

6.9. The Panel also placed a call for public consultation, which generated numerous responses dealt with in chapter 12.

7. The Proposal

7.1. The Panel accepts that there is a structural deficit looming. There is a raft of questions to be asked about how we got to where we are, but that did not come within the remit of this report and may be work for another day.[1]The fact that the questions relating to this are not being asked in this review is not to be regarded as Scrutiny accepting the current position. What was intriguing for the Panel was to establish where it is that we are and where we will be in three years time. The proposal to employ a Comprehensive Spending Review (CSR) was unusual in that it was a policy brought forward by the Council of Ministers and involved every department within the States organisation.

7.2. Once the Council of Ministers agreed the broad principles of the CSR, the detailed rules and framework were developed in preparation for the 2011 Business Plan in July 2010. Part of the development of the detailed rules and framework was stated to include consultation with the Public Accounts Committee and the Corporate Services Scrutiny Panel.

7.3. The CSR was understood by the Panel to be one element of a strategy forming the Integrated Business Improvement Programme (IBIP). The components of the IBIP were designed to deal with the forecast structural deficit. Other elements of the plan to rectify the problem included the FSR, Financial Management Improvements and Organisational Development.

7.4. The plan consists of a number of key changes intended to extend the States planning horizon, build incentives in to the budgeting system to encourage improved decision-making, bring greater transparency to financial planning, and provide more complete cost information for decision-making. The intended changes would improve the control and

[1] See section 2 of Report by Professor Oliver. Appendix A

management of all States spending and providing better information for States Members and managers.

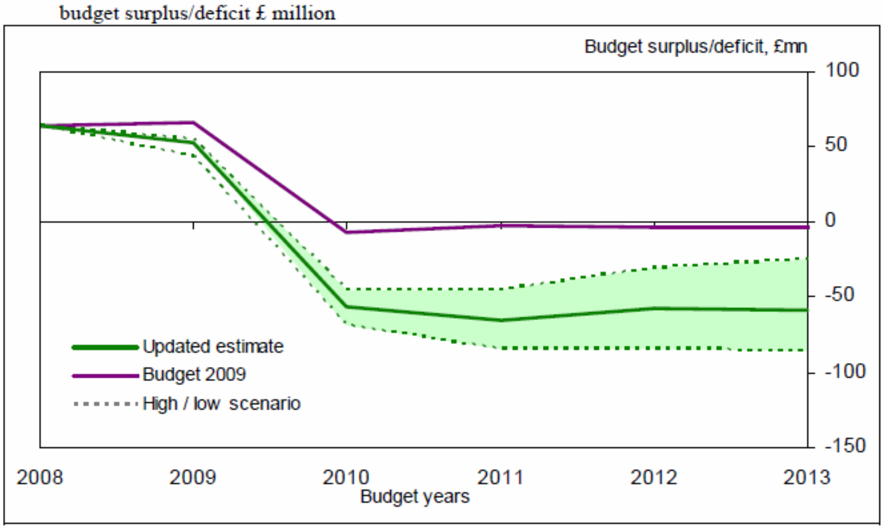
7.5. The CSR was the element of the plan intended to provide those changes along with a parallel process of improvements in underlying systems, procedures and control frameworks. The Panel recognised the argument that the choice was to make cuts now or even bigger cuts in the future.

7.6. Given the traditional fiscal conservatism of the Island and apparent public appetite for reducing expenditure, the Panel considers that doing nothing to address the future structural deficit is not an option.

KEY FINDING 1
Doing nothing is not an option

7.7. The Panel had accepted the early estimates of the problem the CSR was aiming to tackle when, in April 2009, the Treasury and Resources Department published the graph below: [2]

Chart 2: Latest financial forecasts
budget surplus/deficit £ million



Source: Treasury and Resources/Economics Unit

[2] P55/2009 Economic Stimulus Plan page 13.

7.8. A very similar diagram was used by the Minister for Treasury and Resources in P179/2009, the draft budget statement 2010[3] and again in February 2010 in presentations to Scrutiny[4]. All of those documents suggested a structural deficit of between £40 and £60 million.

7.9. In a Public Hearing held with the Minister for Treasury and Resources on 15th June 2010, he stated:

> *"…I am signalling that there is a structural gap in income to expenditure of around about £80-100 million a year within 2 or 3 years."*[5]

Documentation from the CSR team published on the CSR web site[6] stated:

> *"If past trends were allowed to continue, the effect on the forecast structural deficit could exceed £100 million….."*

7.10. The Green Paper for the Fiscal Strategy Review (FSR), dated June 2010 states:

> *"Without tighter control on spending, the central deficit forecast for 2012 could be more than £100 million and rise further in subsequent years."*[7]

7.11. In the States Chamber, on 7th July 2010, the Minister for Treasury and Resources made reference to a £50 million structural deficit and it was only when questions of clarification were put to him that he explained the figures as follows:

> *"The deficit at the current spending level projecting income is £50 million. We are, however, adding to the deficit the almost hidden costs which have not been accepted as part of States spending in the past. That includes £5 million court and case costs. We spend £5 million court and case costs so that means*

[3] P179/2009 page 13.
[4] Private briefing 10th February 2010.
[5] Para 1, page 4. 15th June 2010.
[6] http://intranet1/CSR/Tax%20and%20Spending%20Review.html
[7] Para 2 Page 2 Green Paper for Fiscal Strategy Review.

that truly publishing a deficit means it is £55 million. In addition, we are saying that £10 million is required for a contingency to be held to avoid the need of coming to this Assembly when there is a crisis such as a pandemic flu or volcanic ash. There is a residual amount of money which is accepted that is going to be required for maintenance in terms of patching up, in terms of a lack of funding of infrastructure which is something the Deputy of St. John has argued for many years. There is a real issue for this Assembly to deal with capital spending in terms of underfunding and there is also a reality that while we are asking departments, particularly Health and Social Services, to save on their existing expenditure, there is going to be requirement to put more money in future, potentially, subject to this Assembly's approval for new services. So I am almost predicating a worst-case scenario of a £100 million deficit which needs to be spent, £50 million in terms of a savings reduction and an acceptance that there is going to have to be some new money for items that have not been properly budgeted for in the past. I hope that explains it."

7.12. The Panel noted with concern that although the message that there would be a structural deficit was constant and very public, the figures attached to the problem appeared to be growing exponentially and were in excess of100% greater in June 2010 than they were in 2009. It suggests to the Panel that the lack of clarity in this respect may engender distrust from the Public and a perception that the process has not been transparent. Where the CSR deals with cuts, there is likely to be some resistance from the Public. It is considered unfortunate that the numerous figures which have now been issued will inflame that discontent.

7.13. To alleviate this confusion, the department supplied the following table to explain the multitude of figures. The table below shows that the deficit is expected to be £62 million in 2013. A contingency element placed into the computation brings the deficit up to £94 million in 2013.

Tax and Spending Envelope
Original Workings (Jan/Feb 2010)

	2010 £m	2011 £m	2012 £m	2013 £m
Deficit from 2010 Budget (as amended)	**(64)**	**(72)**	**(53)**	**(48)**
Add Back: Indicative savings		(3)	(8)	(9)
Court & Case Costs & COCF		(5)	(5)	(5)
	(64)	**(80)**	**(66)**	**(62)**
Central Contingency				
- Provision for Unforeseen "One Off's"		(5)	(5)	(5)
- Provision for DEL Margin		(2)	(4)	(6)
- Provision for AME Margin		(2)	(4)	(6)
		(9)	(13)	(17)
Invest to Save		(8)	(10)	(15)
Revised Forecast Deficit	**(64)**	**(97)**	**(89)**	**(94)**
CSR Savings Targets				
- 2% saving from 2011 (1% = £5m)		10	10	10
- 5% saving from 2012 (1% = £5m)			15	15
-10% saving from 2013 (1% = £5m)				24
		10	25	49
Provision for Essential Growth		(3)	(8)	(16)
Revised Forecast Deficit	**(64)**	**(90)**	**(72)**	**(61)**[8]

[8] Source CSR Team.

KEY FINDING 2
Figures issued by the Minister for Treasury and Resources and CSR Team have been inconsistent and confusing.

RECOMMENDATION 1
The Minister for Treasury and Resources must publish details of the total forecast deficit in clear terms.

7.14. The CSR proposes a contingency fund for Department Expenditure Limits (DELs) set for three years, covering the finances that departments can control. Another contingency fund was proposed for annually managed expenditure (AME). This is for volatile expenditure outside of a department's control and areas of expenditure that are so large that departments cannot absorb the effects of that volatility[9].

7.15. The Panel recognized that AME relates to items that cannot be changed without changes in entitlements - pay, pensions, income support, and so on. Therefore, a contingency fund was sensible. However, it questioned why a contingency need be available for DELs, where the spend was completely within the control of the Department, particularly as there was a separate contingency fund for 'Unforeseen One-Off's.' The provision of a Contingency fund for DELs was recognized to be an invitation to intentional overspending.

KEY FINDING 3
Department Expenditure Limits should not have contingency funds available.

7.16. Where such funds are created, they should be funded from within by appropriate management and not from a central source.

[9] Para 4.3 of Report by Professor Oliver Appendix A.

KEY FINDING 4
Department contingency funds should only be funded from within their own budgets.

RECOMMENDATION 2
If DEL contingencies are required, they should be funded by a further 2% saving from departmental budgets.

7.17. The Panel considered the scope of the CSR. What did the Ministers visualize? What is the perception of the Public and how would changes be implemented?

7.18. The Panel asked the Minister for Treasury and Resources:

> "What sort of society is the Council of Ministers aiming to establish?

He replied:

> *"I think the first thing to say on this is that we have had the debates about the kind of society and Island that we are creating or we want to put in place within the context of the strategic plan and business plan. One important aspect of the strategic plan that was set out is that the States should be matching its income with its expenditure."*[10]

7.19. Whilst the Minister's reply was extensive, he offered no inspiration to the Panel about a vision of the future that the Council of Ministers was aspiring towards, with the main drive being that the books should balance. There was a lack of direction as to the route to be taken to achieve the goals within the Strategic Plan. A similar question was

[10] Public Hearing with Minister for Treasury and Resources 15th June 2010.

asked of many other Ministers during the hearings and there was a notable lack of vision. The Minister for Health and Social Services, for example was asked:

> "How would an ideal Health and Social Services Department differ from the current department?"

Her reply was :

> *"You know how far it ranges from, but I think my priority would be ... overarching for all Health and Social Services would be some sort of prevention, preventing people getting ill or preventing people getting into hospital.*
> *… Keeping them out of hospital will, hopefully, but then saying that hand in hand, too, there has been a lot of investment in hospitals in the U.K. (United Kingdom) needing more space around beds, bit more infection control, as people are ... obesity is a problem. We need the beds to become bigger."*[11]

7.20. There was little evidence found by the Panel that created inspiration or inspired confidence that Ministers were working towards an coherent future. Moreover, the lack of 'vision' was noted both at the Council of Ministers, corporate level and at the Ministers' individual level. The hearings held by the Panel revealed very little excitement or drive from Ministers. Most seem to view the CSR as a negative process.

7.21. Without strong vision, the Panel is unable to evidence how the Ministers intend to take the public with them. The 16 priorities laid out within the Strategic Plan 2009 - 2014 (Appendix D) provide huge scope for excitement and vision. It was apparent that vision and drive were requisite to meeting the challenges set for the future. The Panel wonders whether this may be a result of the 'warm and fluffy' nature of

[11] Public Hearing with Minister for Health and Social Services 17th June 2010, pages 3 and 4.

the Strategic Plan. The Strategic Plan has been used to underpin the steps that are being taken but its format could be said to be a ‘nice to have’ list rather than a blueprint for the future. This is not part of the remit for this report and the Panel intends to consider this in a future report.

7.22. It seemed to the Panel that the overriding vision was that of a reduction of spending by improving efficiency. There seemed to be little strategic thinking about the model of government that would be the result of the changes. The changes will be significant. There is no direction or overall strategy being suggested and the decision making process in the States guided by up to 53 separate mandates could take the process anywhere. The Panel was surprised that the underlying philosophy had not been considered.

7.23. The Panel considered that, at an early stage, the process of the CSR needed to be reviewed to establish if it were the correct tool for the job. In examining the proposal to undertake the CSR, the Panel set the first Term of Reference for the review:

1. **To examine the CSR policy of the Treasury and Resources Minister requiring 10% savings across the board, staggered over three years.**

7.24. The Panel accepts that the CSR was designed to meet the third and forth priorities of the Strategic Plan:

“3. Reform the public service to improve efficiency.
4. Ensure sustainable public finances.”

The CSR also appeared to work towards the promises made in the “What we will do” section of the plan.

7.25. However, there is another side to this. The CSR requires savings of £50 million to be found over three years. The task for the Ministers is to reduce their spending to achieve the required savings, although there seems to be little compunction to achieve the aims other than persuasion from the Minister for Treasury and Resources and lip service from the Council of Ministers. When asked how the CSR would be enforced, the Minister for Treasury and Resources said:

> *"By charm and persuasion, Chairman."*

7.26. So there is no mechanism to force this saving of £50 million to happen. Ministers are being led through the process with the hope that they conform. Had the budget available to the Ministers been reduced by £50 million, with no hope of a top up, the Ministers would have been forced to shoehorn their departmental budgets into the lower figures. This has to do, not with the CSR process but with the shape of the Government in Jersey. There is no single authority, no-one to crack the whip and no sanction for failure. The Ministers will blame the States Assembly and the States Assembly will blame the Ministers, making accountability diffuse. Collective responsibility is ideal for the furtherance of democracy but not so good at achieving when the going gets tough.

KEY FINDING 5
There is no mechanism to ensure that £50 million savings are achieved.

KEY FINDING 6
Although the Panel agreed with the principle of the CSR, it considered the delivery is likely to fail.

7.27. Based on the evidence obtained at the numerous public hearings, the Panel questions the commitment of the Ministers to achieve the aims. Bearing in mind that the CSR is only asking for the first 2% at this time, the Panel is concerned that, at this early stage, an element of lip service to the process exists. The invasion of such attitude will dilute achievement and adversely influence public perception.

7.28. There was however, an element of balance from the Ministers for Planning and Environment, for Housing and for Transport and Technical Services who were quite upbeat about the changes that the CSR was going to allow them to explore. The Minister for Planning and Environment stated:

> *"In fact the C.S.R. is an opportunity I have been waiting for*."[12]

The Minister for Housing, who was newly in post, reflected a raft of changes through which he wished to take the Housing Department. The Chief Officer for Housing reflected the Ministers' enthusiasm for the changes.

7.29. Overall, the Panel has observed that the Ministers are frequently sheltering behind reviews commissioned to examine savings or provision of service. The option to take bold moves towards a vision of how things could or should be is being missed. There is concern that many of the reviews will result in an inertia for things to stay the same.

7.30. Perversely, these reviews could open the door to justify increased expenditure.

7.31. The individual departments are dealt with in more detail later in this report.

KEY FINDING 7
Only a few Ministers are rising to the opportunities for significant changes.

[12] Public hearing with Minister for Planning and Environment 21st June 2010, page 17.

7.32. As evidenced later in this report, the public of Jersey are demanding a leaner Government structure. The CSR appears to be the correct tool to inspire movement in that direction. It now needs bold decisions by Ministers to achieve the changes demanded. The Panel questions the resolve of many Ministers to be sufficiently bold.

7.33. The submissions, dealt with in Chapter 12, show an interesting spread of views. Many being based on the premise that Public Employees are doing very little for a large salary, and that includes the Politicians. Clearly there is a serious problem with public perception that needs to be addressed.

7.34. The Chief Officers from all departments have been very generous with their time to brief the Panel on the Departments response to the CSR process. The Panel appreciated the open and professional manner that all the Officers displayed. It forwards its gratitude for their involvement in the Scrutiny process. The responsibility for achieving the best from the CSR process is recognised by the Panel to rest firmly on the Ministers. Whilst it is required that the Chief Officers respond to the political requirements of the CSR process in its practical implementation, it must be the Ministers who create the drive, inspire the direction taken, decide on the services supplied and make the difficult decisions of what must, or could be cut.

KEY FINDING 8
Ministers are responsible for the outcome of the CSR.

7.35. The significant movement in the expected structural deficit from the original £40 to £100 million estimates, following the inclusion of a Contingency Fund, has focussed attention upon the forthcoming Fiscal Strategy Review (FSR). That is not within the Terms of Reference of this review and will be examined later by the Panel. The Panel has questioned how the ratio will be achieved between the spending cuts created by the CSR and the increased revenue from the FSR. This is discussed in more detail in Professor Oliver's Report in Appendix A.

7.36. The lack of vision displayed by the Ministers at a corporate level has left the Panel wondering what section or sections of society the Ministers believe should be paying for the structural deficit ahead. The proposals for the first 2% were within the Draft Annual Business Plan 2011. Information on the overall plan, the IBIP, will be essential to enable States Members to evaluate the savings proposed.

7.37. Sweden and Canada have very different economies, however both countries have found that 80% cuts and 20% increase in taxes was a formula that offered the correct balance for success.

KEY FINDING 9
The balance between the CSR and FSR is key to the impact of the CSR.

8. Departmental Analysis

8.1. In order to establish the details of the application of the policy, the Panel agreed that it would establish if the two percent savings proposed by Ministers were designed to dovetail into the full 10% savings required by the overall process. There was concern whether or not the proposals were sustainable, in other words, were savings to be made in a training budget, for example, that money could be required further down the line to train staff in changes to policy or process made to accommodate the further three or five percent savings. The second Term of Reference examined that concern:

> **2. To determine the nature and sustainability of the 2% savings identified by each department to be delivered in 2011.**

8.2 It is worth considering what savings are. The Comptroller and Auditor General stated in his report '£35 Million Cost Reductions 2008'[13]:

> (1) Saving: a reduction in Net Revenue Expenditure requiring action to be taken to achieve the reduction. In other words, a reduction in expenditure that did not result from action taken by the States would not be regarded as a 'saving.' The effect of this is that a reduction in school spending which occurs simply because of a fall in the number of available pupils would not be regarded as a saving.
>
> (2) Growth: an increase in Net Revenue Expenditure which is required to fund an increase in the level or quality of service provision and which does not result from mere cost inflation.
>
> (3) Saving through service reduction: a reduction in Net Revenue Expenditure requiring action to be taken to achieve the reduction and resulting in a change or re-definition of the level or quality of service provided.

[13] Published January 2008.

(4) Efficiency saving: a reduction in Net Revenue Expenditure requiring action to be taken to achieve the reduction and which has no effect on the level and quality of service provided.

(5) Exogenous reduction in budget: a reduction in a budget or Net Revenue Expenditure which occurs other than as a result of action taken. Reductions in budgets may occur for many different reasons, for example as a result of the completion of a time bound programme of work or a change in wider economic conditions. The key distinction between 'savings' and 'reductions in budget' is that the latter occur independently of any cost cutting exercises undertaken to generate savings.

8.3 To examine the overarching issues, each of the Ministers and the Chairman of the Privileges and Procedure Committee was invited to Public Hearings. The Panel noted significant differences in the approaches taken. The Panel's remit, as laid out in 135 and 136 of Standing Orders, was not with every Minister and it would point out that the review related to the application of the CSR policy. The specialised knowledge required to examine each proposal from every Minister in detail, is clearly beyond the resources of any one Panel. Such detailed examination must rest with the Scrutiny Panels within whose remit the Ministers fall. The Panel therefore made an examination of the CSR policy, presented on behalf of the Council of Ministers. That process involved hearings with every Minister.

8.4 However, it had been a requirement to look at the Departments in turn to establish how the Policy had been engaged with. The Panel noted that many of the reviews being undertaken by departments were confidential at the time they were explained to the Panel. The Panel recognises the trust Ministers have placed in sharing some of that information and respects the line of confidentiality. To that end, the Panel will not discuss any review being undertaken within the CSR period in order to avoid breaching confidentiality by inclusion or exclusion of information.

8.5 The Minister for Treasury and Resources was addressed from two view points. The first was as the driver of the CSR policy. The Panel had specific interests in the thought processes behind the requirement for the savings. This area is dealt with at the end of the chapter. The second area was the Treasury and Resources Department which is dealt with at the same level as all other departments for the purposes of this review. A more detailed piece of work relating to the department specifically will be considered by the Panel.

8.6 Chief Ministers Department including Resources

The two percent savings proposed for 2011 represent efficiency savings. There was recognition that a change in how the service was delivered was required to reach the full 10% of savings required. International Affairs was being treated as exempt from savings within the department as it was considered to be so vital to the Island's well being. All the savings would come from other areas.

8.6.1 Invest to save:

An investment in the Resources Department of just under £3 million will be required in the procurement team to establish restructuring of procurement across the States with a return of £5 million per annum. It was expected that this would take some time to establish but if funded, would make the expected savings.

8.6.2 The Chief Minister made no connection between the saving of 2% from his budget and the full savings of 10% required by the conclusion of the CSR. The Chief Minister was asked about his growth and savings at the end of the Public Hearing and the Minister explained that:

> *"Part of the difficulty over the years has been that the central departments, Chief Minister's Department and Treasury, have taken an undue share of the cuts to the extent where we are now not able to provide the basic level of service. We have*

seen that certainly with Treasury and I have seen that to some extent with the Chief Minister's Department as well…."

The Chief Minister was unable to explain further as he was interrupted by a telephone call and he left. The Panel notes that the growth for the Chief Minister's Department is greater than the savings achieved.

8.6.3 The Panel is a little concerned by this comment as the Chief Minister was in charge of the Treasury during the period that some of the cuts to which he refers were effected

8.7 Economic Development Department (EDD)

Having mostly a discretionary budget, EDD had probably more flexibility than any other department. Despite facing some funding pressures, the 2% had not posed significant difficulties. The Minister for Economic Development stated:

"*Having delivered our 2%, we have taken the cumulative amount of our 2% cut plus unfunded pressures and we have reworked our budget to accommodate it."*[14]

8.7.1 The Panel has stated that it will not be reviewing the individual savings proposed by the Ministers, however, under P66/2008, 'School Milk: Continued Funding', the provision of the milk was due to cease at the commencement of trading at the new dairy. The Panel does not accept that a proposed saving of £183,000 for the cessation of School milk can be considered a saving under the CSR because this function was due to cease anyway. That suggests that the 2% savings will not be met by the proposal from EDD.

8.7.2 The Minister for EDD recognised that the 3% and 5% would take significantly more thought:

[14] Public hearing 18th June 2010 page 4

"I think you have to look at every activity in its own right, assess its merit and decide whether or not it is appropriate to either reduce it in terms of the cost of the delivery or cease doing it."[15]

8.7.3 The Panel understands that in most cases, the Minister had been able to create 2% savings without having to refer to the fuller savings required later, although he clearly had the final outcome in mind.

8.8 Education, Sport and Culture (ESC)

In 2009, ESC commenced twelve reviews to maintain parity with the Strategic Plan. The Minister explained:

"First of all, I think we need to go back to the time when the States agreed and approved the Strategic Plan and in the Strategic Plan there are a number of priorities; 2 in particular I would like to draw your attention to. Priority 3 is to reform the public service to improve efficiency and priority 4 is to ensure sustainable public finances. Once this was agreed and I had started to get a better understanding of the department since being elected as Minister, I, working very closely with the department, decided that we needed to review and carry out major reviews on many areas that the department provides."

8.8.1 The Minister established the reviews following advice contained within the report from the Comptroller and Auditor General entitled "Emerging Issues, States Spending Review 2008". Evidence from these reviews is expected to establish sustainable long term savings. The Director of Education, Sport and Culture explained:

"These reviews were initiated before the C.S.R. process and they were initiated with a view to having a long-term strategy for education on the basis that any major reform of education was going to take a significant length of time to deliver…"

[15] Public hearing 18th June 2010 page 6

8.8.2 The 2011 savings proposals put forward by ESC, which include some plans for restructuring and efficiency gains will amount to approximately 1%. When pressed on the resolve to meet the percentage savings required within the CSR, the Minister stated:

> *"I cannot tell you because I am not prepared, and I cannot second-guess the outcome of the reviews. It would be absolutely wrong. I have every intention, and I have signed up with the Council of Ministers to deliver the savings identified."*

8.8.3 It is apparent that the timescale for the reviews being undertaken in ESC were established prior to the conception of the CSR. The results of the reviews will be integrated within the school year when possible. This cannot be achieved within the one, two or in some cases three years of the CSR. The CSR is insufficiently flexible to accommodate timescales other than its own.

KEY FINDING 10
Departments are not all responding to the CSR timescales.

8.9 Health and Social Services. (HSSH)

The over-arching vision for H&SS was outlined by the Minister as a method of preventing people having to go to hospital in the first place. Although the Minister went on to talk about the amount of space around hospital beds, there appeared to be no real vision that was being aspired towards.

8.9.1 The Panel noted that the staff within the Department had been widely consulted about the required savings. The staff undertaking the tasks required to produce the services of the department are well placed to recognise better and or cheaper ways of doing things. The Panel questions how the department can measure the savings when there is no standard cost identification process within the department. It is understood that bespoke costing can be worked up for individual requirements and that the department is working towards resolution of the problem of cost identification with information technology improvements in the future. When the Minister was asked how the savings would be measured, the question was answered by The Assistant Minister who said:

> *"They are going to be measured from a Treasury point of view in cash limits and less cash limits."*

It appears, therefore, that the savings would not be confirmed until the end of the financial year in which they are introduced, by which time it would be too late to effect any changes needed to meet the savings required within the timescales, reinforcing the previous key finding.

8.9.2 When, during the Public Hearing, the Minister was asked if there were any reviews being undertaken, the Deputy Chief Executive explained:

> *"We are now about to enter a stage over the summer of developing a project to get into a lot of that work that we have been talking about, sort of a diagnostic phase of identifying the financial and non-financial information so that we can look at those broader schemes. I think one of the issues about some of the schemes that do come forward to the Ministerial team but have not been taken up in 2011 is identifying those schemes that need much more feasibility work around them, around how they might work. This summer it is about developing better information so that we can cost out activities and really have a look at some of these more complex service redesigns."*

8.9.3 The Panel asked how the 2% savings were connected with the 3% and 5% to follow. The Deputy Chief Executive stated:

> "…*one area we were looking at was with our S.L.A.s (service level agreements) with third sector providers because there is a real danger of being penny wise and pound foolish because a lot of our third sector providers provide activities which stop people*

coming into the much more expensive secondary care. So we have worked very closely with those third sector providers to make sure that if they have engaged with us in the C.S.R. process that they can do it, and some of them can, they can drive some efficiencies into their business without having a perverse impact upon the secondary care sector. So we have had to be very ... you are quite right, we have had to consider that very carefully at this first stage."

8.9.4 Notwithstanding that, further savings in 2012 and 2013 required substantial structural changes that were un-identified in July 2010. These needed project management skills, perceived to be unavailable in the departments management portfolio and therefore further managers were to be engaged to undertake that work. This was expected to involve both training from within and managers brought in from outside.

8.9.5 Although the Accounting Officer is the Chief Executive, the Director of Finance and Information considered the responsibility for delivering the savings at the end of the day belonged to him.

"It is my job to make sure that the schemes that we have identified effectively deliver those recurrent budget reductions that enable the cost base of H. and S.S. to fall to the same level as the new recurrent cash limit that H. and S.S. will have."

8.9.6 The Panel recognised that the responsibility for the delivery of the savings resulting from the proposals once accepted by the States, was with the Chief Executive of each department.

KEY FINDING 11
HSSH do not have a routine cost identification system.

KEY FINDING 12
Without a routine cost identification system, robust monitoring and measurement of the success of proposals will be impossible.

8.10 Social Security

Social Security is a complex department that is not within the normal remit of the Panel. Some time was spent recognising the various income streams and the elements of the budget, which related to money from tax payers. Although the total budget for the department is £171 million, the removal of areas relating to contribution-funded areas of income leaves a budget of £99.7 million, 2% of which is £1.99 million.

8.10.1. Unlike some departments, Social Security deal with a mainly non-discretionary budget. Income Support, for example is expected to cost £93.8 million in 2010. The Panel resisted the temptation to ask if the Income Support Scheme meets its original policy directives, as it recognised this was outside the terms of reference for this review and very much within the remit of the Health, Social Security and Housing Scrutiny Panel.

8.10.2. Any changes in benefits must be approved by the States. The net cost (£4,572,199) of distributing the States funded benefits, amounting to £154,978,891, is approximately 2.95%. This leaves very little room for savings to be made. Even structural changes in the distribution methods would clearly not raise the full 2% cuts needed to meet the demands of the CSR

8.10.3. The Minister explained that he had examined the services provided by the department and recognised that:

> *"…it is important to come forward with savings that can be delivered."*

8.10.4. There was no escaping the fact that benefits would need to be reviewed. The Minister explained his thinking in the choice of savings as follows:

> *"…what I have tried to endeavour to do, is to look to minimise the effects upon the most vulnerable, so I have looked at those benefits or those services that were providing ... which first of all are not means-tested, or are just above, in effect, eligibility for income support, and I believe that means that I have protected the most vulnerable, but there is an element that anything, or any cut that I am expected to take in my department, is by its very nature going to perhaps affect the more vulnerable members of society rather than the most vulnerable."*

8.10.5. The Panel accepts that the Minister is attempting, under difficult circumstances to protect the most vulnerable in society. The success of this approach is outside the remit of this Panel and is for the Health, Social Services and Housing Scrutiny Panel to determine.

8.10.6. The Minister went on to explain:

> *"…I see it very much as my job to come forward with proposals, which have been appropriately thought through, try to eliminate as much as possible hardship to the most vulnerable members of our community, and I am absolutely committed to bringing forward those proposals."*

8.10.7. Evidence was obtained from the Minister during previous hearings that fraud was not considered to be organised crime in Jersey as suffered by other jurisdictions. There were areas of fraud taking place, people receiving benefits for which they were not entitled and the Department was looking to increase the officers dealing with this from two to five. There are six further officers dealing with 'Compliance' and that relates to the receipt of contributions.

8.10.8. The Minister is working on fraud, but there appears to be no robust information on the size of the problem. Anecdotally, the problem appeared to the Panel to be larger than the Department would acknowledge. This was a matter for the HSSH Panel to examine, as it was outside the remit of this Panel. The Panel recognised that there might be significant savings from the investment in officers dealing with fraud and wonders if savings may be sufficient to reduce, or even avoid altogether, future proposals for necessary cuts in benefit.

KEY FINDING 13
Successful inroads into benefit fraud may reduce, or even avoid altogether, future proposals for necessary cuts in benefit.

8.10.9. The Panel considered the connection between the 2% and future 3% and 5% savings. The Minister for Social Security was very clear; the 2% savings were uncomfortable. He stated:

> *"Well I think I need to be absolutely clear with you that if I am going to come forward with proposals for 3% and 5% it is going to take some very difficult political decision-making by the States."*

8.10.10. The Panel is satisfied that the Minister for Social Security has the resolve to propose the full range of cuts needed to meet the requirement of the CSR over the forthcoming years. Due to the difficult and unpopular political decision-making required to implement the savings, the Panel is dubious that the States Assembly will have the same determination.

KEY FINDING 14
The States Assembly must not sidestep unpopular and difficult decisions relating to benefits.

8.11 <u>Home Affairs</u>

The Minister for Home Affairs stated that staff costs represent a large proportion of the budget and substantial spending pressures revolved around the increment increases due in salaries over the next few years. This has manifested itself in the growth section as filling essential staff vacancies. The Panel recognises that these costs are inevitable results of employing staff under the current terms and conditions and is concerned that these extra costs have not been catered for.

8.11.1. The department was undertaking six reviews, all of which were intended to provide efficiencies where possible. The results of those reviews would become available during the CSR time period.

8.11.2. The Chief Officer informed the Panel that there was no excess spending available to cut away and therefore the cuts would not represent equal misery over all departments. The Minister confirmed this explaining that cuts would mean fewer Police officers, Prison Officers, Firemen or Customs Officers. In most cases, the natural turnover of staff would mean less recruiting and therefore would create the necessary changes in numbers. However, the Minister reminded the Panel that he had declared that he wished to make the department more efficient when he stood for the Ministerial post and he confirmed his intention to make that happen. This would involve a combination of doing things more efficiently and ceasing some services altogether, for example, the closure of the Police canteen. Further savings will be found in a civilianisation programme.

8.11.3. There are some difficult decisions within the proposals. During the debate on the Annual Business Plan 2010 (P117/2009), amendment 16 required the introduction of Discrimination Legislation. The Assembly agreed that this legislation should be brought forward and £100,000 was set aside for the purpose. The Panel notes that the Minister has proposed the withdrawal of the money for this item as a saving within the CSR. He is clearly hoping that the States will agree to withdraw a previous decision in allowing this proposal. In his explanation to the Panel he stated:

> *"The difficulty is 2012 and 2013, because it does not make any sense whatsoever to, in act of this legislation, set up the tribunal that goes with it and then the year after say: "Oh, sorry, we have not got the money now." It just makes no sense whatsoever. So, my view was that it would not survive the entire process."*

8.11.4. However the Panel noted the options according to the Minister:

> *"But there is one other thing I need to say, I think, which is this: that my view the time has come for my colleagues in the States to bite the bullet. Because in the past it has been too easy for backbenchers, as part of the business plan, to add things in and, you know, everybody wants to add things in, it is nice, we are providing extra service to the public, et cetera, et cetera. Well, now the fact is I have to bite the bullet. I have had to bite the bullet this year. I have had to make the tough decisions, they are interim decisions, obviously you are free to disagree with them if you so wish and the States are free too. But the fact is, when I have been doing the process I have been saying: "Now why are you going to cut £100,000 on this?" Or: "Am I going to lose yet 2 more policemen…"*

8.11.5. This will lead to a 2% saving for the first round, should the States Assembly agree with the proposals. It was explained to the Panel that the Minister and officers had started by trying to find 5% savings. The various services within Home Affairs were set the task of identifying at least 5% savings; the object being that would give the Minister some options. This would allow some cohesion between the initial 2% and the full 10% at the conclusion of the CSR process.

8.11.6. It was made very clear that the further 3% and 5% would be much more difficult to find. The Panel questions the thought processes behind the Minister's thinking. So far, there is no suggestion of significant changes in the way things are being done. For example, there were comments made during the hearing on closing a wing of the prison and the problems this would entail. What would happen and what would the costs be, were the prison to be closed with prisoners being sent to the United Kingdom to serve their sentence? There would have to be changes in legislation and there would be costs, but the staffing levels would drop very significantly. Therefore, there may be other methods of making savings and different ways of considering non-discretionary spending.

8.11.7. Difficult decisions, in the view of the Minister for Home Affairs, were for the States to make. The Panel notes that it is the Minister who has the information to make the decisions. Other States Members do not. It is therefore the Minister who should stand by his decisions and be prepared to justify them to the States and the public of the Island.

KEY FINDING 15
The Minister for Home Affairs must stand by his decisions and not expect the responsibility to be picked up by the States as a whole.

8.12. Treasury

The Minister for Treasury and Resources reminded the Panel that there were significant changes and restructuring being undertaken to the Treasury Department. The 2% proposals related to the reduction of lower priority services with some reduction but no loss of service. The further 8% was being examined with a view to investment in technology to provide efficiency. The Minister stated:

> *"There is a massive agenda, but we will deliver our 8 per cent."*

8.12.1. The Panel noted that the department is undertaking a large amount of growth in order to transform the function it undertakes. When asked to explain how such growth can be justified at a time of cuts, the Minister stated:

> *"Well, financial management has been criticised by the C. & A.G. (Comptroller and Auditor General), P.A.C., Corporate Affairs in various reports and in audit reports over the last 2 years. The situation has been formally reviewed and an action plan, which you referred to, has been set to address the deficiencies. The aim is to create a more effective structure reviewing all financial processes and building capacity to build proper financial control. The net impact to all of these changes is to increase manpower resources in the Treasury by 6 posts. So this is doing exactly what people have asked us to do."*

8.12.2. The actions were accepted by the Panel as the Comptroller and Auditor Generals' report, 'Emerging Issues 2008, paragraph 23(3), recommends improvement to the financial management of States affairs and suggests methods of achieving that. The Panel were disappointed with the time it had taken to implement the changes. The IBIP works towards making the suggested changes, along with the FSR and the CSR projects. The Panel will be undertaking further work in those areas.

8.12.3. The department submitted a proposal to make a saving by reducing the training budget by £8,000. On the growth side, £25,000 has been requested for training. The Panel questioned if this was a saving. The Minister explained:

> *"Part of that growth, that £25,000 growth, is going to be used for specific training for departmental staff so that they can do their new roles. So that is one side. On the other side overall training budgets can be reduced because they are simplifying processes and the way they are going to be doing the work so they will not need as much ongoing training to do their roles."*

8.12.4. Pressing the Minister further on that point, he said:

> *"It sounds to me the argument has been put to me quite candidly that this is training for old things that we should not be doing, but there is going to be requirement for training for things that we should be doing and that is why there is a growth bid, but the old spending is no longer required and can be cut."*

8.12.5. The Panel does not accept the Minister's explanation that there is any saving within this proposal and believes that not only is the training changing direction to cover new needs of the department, but that it will cost the taxpayer £17,000 to do it.

KEY FINDING 16
There is no saving recognised in the area of the Treasury training budget.

8.13. <u>Privileges and Procedures Committee (PPC)</u>

The Panel considered that if savings were to be transparent within the departments, the committee governing the operation of the States Chambers should be part of the review.

8.13.1. The States Assembly budget is fixed in a slightly different way from every other budget in the States. Article 10 of the Public Finances Law states that the budget for the States Assembly was put under the political control of P.P.C. There is no direct Ministerial control over the budget although some safeguards exist to prevent misuse. To date, the P.P.C. has effectively always followed the precise budgetary policy of the other States-funded bodies. In the case of the CSR, the P.P.C. decided to participate on a voluntary basis to the requirements of the CSR.

8.13.2. Approximately half of the States Assembly budget is remuneration paid to States Members, leaving a remainder of somewhere in the region of

£2,700,000. There are two variables relating to remuneration, which the committee has no direct control over. One is the number of Members, which is a matter for Members to debate. The second is the level which is fixed and recommended by the independent States Members Remuneration Review Body.

8.13.3. The P.P.C. was of the opinion that the remuneration was strictly political and was ultimately for Members to debate. As the States approved an independent body, the States Members Remuneration Review Body (SMRRB), to examine and make recommendations relating to remuneration of Members, the P.P.C consider the advice of the SMRRB to be independent. The Committee therefore exerts no authority on the decisions made by the Board. For that reason, States Members remuneration was taken out of the CSR discussions. The Panel notes that this may prove to be an unpopular decision as all other States employees are having pay and terms and conditions examined. The results of an examination are perhaps less important than the fact that an examination takes place. Transparency dictates that the examination should take place.

8.13.4. Whilst the PPC may have chosen to leave the decision making to the Review Body, the Panel believes that the PPC should advise the Board to consider accepting an invitation to become part of the CSR.

8.13.5. Whilst it might be appropriate for the Panel to hold an opinion as to whether remuneration of States Members, or numbers of States Members, should be open to discussion in line with all other publicly paid employees, it was considered inappropriate to attempt to influence the independence of the States Members Remuneration Review Body. Therefore, the Panel will not comment on these aspects of the PPC decision.

8.13.6. Likewise, the numbers of States Members is an area of public concern and needs to be examined within the CSR.[16]

KEY FINDING 17
States Members remuneration and membership numbers is not part of the CSR.

KEY FINDING 18
The PPC must advise the States Members Remuneration Review Body to consider an invitation to join the CSR process.

8.14. Housing

As with every other department, the Panel held a private briefing with the Chief Officer of Housing, followed by a public hearing with the Minister. Between the interviews, a new Minister for Housing was elected. The new Minister came to the Panel full of energy and vision. The CSR appeared to be of minor consequence in view of the visionary changes he wished to bring about. The 2% saving had been found and the 10% was a challenge to be met. He said:

> *"I put myself in clearly having achieved the 2 per cent and regarding the rest as a challenge but not impossible."*

8.14.1. The Minister stated that the vision he harboured was based on observations through the last three years:

> *"When I was on Scrutiny in 2007 and we scrutinised P.6, the sell-off of the property plan, we said then that the elephant in the room was funding. Well, even though the department has sold 120-odd units of stock to its tenants the elephant remains in the room which is funding. It is in my opinion unsustainable to keep*

[16] See section 12, Public Consultation

selling stock to maintain assets, so we have to find funding another way. We have got to find another funding model and I think one of the ways to do that is through incorporation and the ability to be able to trade."

8.14.2 A point that had been raised by other Ministers came up again when the Minister said:

"The timescale that the Minister for Treasury has given for this in my view is difficult…"

8.14.3 The Panel was interested to note that this Minister held a clear vision of where he wanted to take the department. The rights and wrongs of making the department into a commercial trading company were for another review and another Scrutiny Panel to investigate. This could be because the Minister was so new to post, but it was refreshing to find direct political drive at the helm and this inspired the Panel to the opinion that the full 10% savings are likely to be met by this department.

KEY FINDING 19.
The Health, Social Security and Housing Scrutiny Panel should review the changes proposed in the Housing Department.

8.15. <u>Transport and Technical Services (T&TS)</u>

The Minister for Transport and Technical Services was optimistic that the CSR would offer benefits to his department.

"…the savings are packaged with other flexibilities to improve financial management, including year end flexibility and the 3-year cash limits which would give us the ability to commit funds for longer periods and therefore achieve benefits from that point of view."

8.15.1. This was a refreshing view point and for the first time, highlighted some of the benefits contained within the CSR. He went on to say:

> *"We see the C.S.R. as an opportunity to continue to become more businesslike and provide an effective service which is fit for purpose."*

8.15.2. In order to achieve that, the department was undertaking numerous reviews to establish areas suitable for moving to the private sector and other savings such possible savings. Notwithstanding the political enthusiasm to follow the CSR rules, there were recognised obstacles:

> *"I think one is, as I alluded to earlier on, the black book; secondly, is the lack of commercial realisation of expertise; and probably, thirdly, maintaining the political strength to deliver difficult decisions coming up to election time."*

8.15.3. The Minister for T&TS and his management team are very aware that matters influencing the workforce need full consultation. They are also aware that failure to achieve savings in other States departments could place any T&TS initiatives at risk.

8.15.4. The lack of commercial realisation of expertise related to the amount of people qualified to do particular jobs that are specific to T&TS. There are not many people qualified in the running of Energy from Waste Plants in the Island outside of the department.

8.15.5. At a point half way through the tenure of most current States Members, it was interesting to note that the T&TS Minister is considering such aspects as forthcoming elections as an obstacle to finding the savings. This report has already mentioned the political strength required to deliver difficult decisions, that the savings may be influenced adversely by the 2011 election is indeed a worrying concept.

8.15.6. In relation to the 2% savings, T&TS achieved the proposals for that without significant problem. The further savings were described by the Minister as:

> *"It is in line with the future savings and therefore makes the remainder 8 per cent, so that is my next tranche, if you like, which we are working on at present."*

8.15.7. The Minister also brought up a further point that had been raised in the public consultation undertaken by the Panel:

> *"…I think there is a public perception that the organisation has grown like Topsy."*

8.15.8. Overall, the Panel found this department to be enthusiastic about the opportunities offered within the CSR on the proviso that the rest of the Sates achieve the same level of cuts.

8.16. Planning and Environment

The 2% had been relatively easy for Planning and Environment and had a strong connection with the overall 10% requirement of the CSR. In the hearing with the Minister, the Chief Officer described the process as:

> *"…certainly for the 2 per cent, we have not had major involvement with our frontline (staff) on the 2 per cent. We certainly had some feedback around the filing issue for instance because that is one of the areas where there is a lot of gripes and groans as to how we currently do filing. So that is a good example of where we have had some feedback. Some of the others, certainly, they are quite small savings and we think they do not have an impact on the frontline."*

8.16.1. Where the further 3% and 5% were discussed, the Chief Officer made it clear that there would need to be significantly more involvement throughout the staff:

> *"We need to have major staff engagement though with the 2012 and 2013 and I think it is management's job certainly to put forward some ideas."*

8.16.2. As with many other departments, a review was being undertaken to assist with the difficult decisions to be taken in the future. The fundamental issues that could save money were considered to be relocation of the Planning Department, reorganisation of the management structure and improvements to I.T. making on line applications for planning the norm. This was going to need substantial investment to make the savings.

8.16.3. Despite these concerns, the Minister was very upbeat about the CSR *process, saying:*

> *"In fact the C.S.R. is an opportunity I have been waiting for."*

8.16.4. A concern noted by the Panel that is beyond its remit, although recognised as being of possible interest to the Public Accounts Committee, was that the Minister for Planning and Environment went on to state:

> *"When I got the job I started trying to go through the budget to find areas myself where I thought there were savings, and it was made pretty clear to me at the time that that was not the job of the Minister and it came to a halt."*

8.16.5.,The Panel recognised that the policy has and will continue to encourage Ministers to examine and perhaps achieve savings, as indeed it has so notably with the Minister for Planning and Environment.

8.17. Areas conspicuously missing from the considerations presented to the Panel were the areas that crosscut the departments. In particular, Information Technology and Property. Human Resources were touched on when a review into terms and conditions of staff was explained and it was accepted that Procurement appears to be in the process of being addressed.

8.18. As discussed in the report by the Comptroller and Auditor General, ‘Emerging Issues 2008’, there are large savings to be made in these areas.

KEY FINDING 20
Large savings will be found in the cross cutting areas of the States.

RECOMMENDATION 3
The CSR team must devote a high priority to the crosscutting areas of the organisation.

9. The Process

9.1 The Panel's third Term of reference was:

> Establish the structural continuity between 2% savings this year and final 10% saving after three years.

The Public Hearings with Ministers, as described above revealed a remarkable difference in approach. Some Ministers had worked from the 10% down. One had started at 5% and worked back to the 2% with the intention of fulfilling the remaining 5% in future work. Many had taken the 2% as 'business as usual,' included that saving in their budget for 2010 and started work towards the more serious and structural savings needed in the full 10%.

9.2 The proposals put forward within the CSR were understood by the Panel to be just that, proposals. The differentiation on the values of each proposition and its suitability, were understood to be an area for overall consideration, eventually by the States Assembly. The propositions have been included within the Draft Annual Business Plan 2011(Appendix E). The mechanism for differentiation on a bid by bid basis is by the submission of amendments to the proposition.

9.3 In the report Professor Oliver, he made it clear (4.13) that a 'salami slicing' approach, i.e. an across the board cut of equal depth to all departments, was unadvisable:

> *"…successful spending cuts are highly differentiated and focused. Across-the-board cuts and freezes that affect programmes and services in an undifferentiated way can have perverse effects and may not help promote fiscal sustainability. A 'salami slicing' approach to reducing the deficit across programmes is therefore particularly unwise, even if there are spurious arguments made that this should be done on grounds of fairness. Undifferentiated cuts erode the quality of public services and affect morale across the public service. It is hoped that the planned in-depth reviews of*

H&SS, ESC, Home Affairs, Social Security, Court and Case Costs and HR Terms and Conditions find detailed savings and might even go beyond 10% cuts in real terms."

9.4 A further consideration related to the 'salami slicing' approach is that it invites multiple pressure groups to combine against the savings.

9.5 Such advice can be found from areas outside Jersey that have achieved such savings from their budget. i.e. Canada. Professor Oliver's report also makes the following reference to the notice taken of activities elsewhere:

"4.1. Ministers frequently point out that 'Jersey is different' and yet at the same time it is often not made clear why general economic principles and lessons from other jurisdictions should not apply in Jersey. With the CSR, outside experts from the IMF and Deloittes were brought to Jersey to provide advice presumably on the basis of experience gleaned from elsewhere."

9.6 If the application of normal, and internationally accepted economic principles do not apply to Jersey, the differences need significantly more quantification and explanation.

KEY FINDING 21
Jersey needs to decide if economic principles from outside apply to Jersey

RECOMMENDATION 4
The Chief Minister must justify and provide analysis of why Jersey is always different in each case.

9.7 The Panel had noted that attempts to make savings in the past have failed. P58/2004, 'Public Sector Re-Organisation: Five Year Vision For The Public Sector', was an attempt to save £20 million. Far less than that was saved and that was immediately spent, so nothing was gained from the exercise[17]. The Panel discussed this at its hearings and whilst many politicians and officers were not in post at that time, a theme in response appeared to be the spending of insufficient money on preparing for the savings.[18] In other words, there was no 'invest to save'. The CSR has a strong 'invest to save' section.

9.8 There are conflicting issues on this area. Spending money to save needs careful balances to ensure the spending is a one off expenditure and that the savings offer a sustainable return that makes the investment worthwhile. The CSR does have such safeguards. The Panel recognised that there are costs involved in change. Better I.T. for example, can create efficiencies and reduce staffing costs, but needs investment.

9.9 Any such investment may be compared to the overall aims of the CSR. There is a temptation to subtract the 'invest to save' costs from the £50 million savings and claim that the CSR has failed. This is a likely clamour from some. The Panel has a rather more pragmatic view on this and understands that reasonable investment is necessary to ensure the success of the whole project. Work needs to be done by the Ministers to explain this more thoroughly to the public. A keen watch will be kept on the spending as the project progresses to ensure that the balance is correct.

KEY FINDING 22
Some invest to save is necessary to ensure the success of the CSR.

RECOMMENDATION 5
The Chief Minister must make documentation publicly available listing and explaining both the 'Invest to Save' and 'Growth' principles.

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[17] C&AG reports: '£35 M Cost Reductions 2008' and 'Emerging Issues'
[18] Para. 2.4.1 of report by Professor Oliver (Appendix A)

10. Social Impacts

10.1 As mentioned previously, the Panel also recognised that there might be significant social issues connected with the total savings and in some cases with the initial 2% savings. It therefore engaged Dr Susan Harkness to examine the savings and advise on how they might impact on Jersey. Her full report is attached in Appendix B.

10.2 The Panel has heard in hearings that the Political direction the Island is moving is contained within the Strategic Plan. In paragraph 7.18, the Panel has reflected that the Strategic Plan was 'warm and fluffy' by nature. Dr Harkness recognised that the document lacked a definition of desired beneficiaries or the extent of support that should be provided. Dr Harkness also noticed the lack of connection between the 2% proposals from many departments and the final 10% savings. The report recognises that the dangers of savings created by a 'salami slice' approach may prove to be unsustainable. A particular concern is that the savings are piecemeal and not part of a systematic structured plan to meet the full 10% saving required.

10.3 Job loss among public sector workers may also have an important impact on social outcomes. The Panel was advised that current proposals have a minimal influence on the number of States employees. It is unlikely that the 2011 savings proposals would have any substantial impact on employment.

10.4 The current 2% savings proposals would not appear to have a substantial impact on households; in terms of the wider social impact of the cuts on households only those proposed by the Departments of Economic Development; Education, Sports and Culture; and Social Security would be expected to have a significant impact. Cuts in the Departments of Education; Health and Social Services; Home Affairs; and Social Security may also have some impact on the most marginal groups.

10.5 The public sector in Jersey is regarded in comparison to other jurisdictions to be small, therefore cuts in expenditure were likely to have a smaller impact on households than similar cuts in the UK. The report estimated that Jersey households benefit from their consumption of public services by an amount equal to on average around 12% of income. A spending reduction of 10% over the period of the CSR may reduce this gain by around 1% although the losses in consumption are likely to be unevenly spread across the income distribution. Cash benefits and benefits in kind are disproportionate to the poorest households.

10.6 In relation to the size of the public sector, the relative comparison of the state sector's size compares total recorded public spending with national income. The comparisons were not exactly like for like as is often the case with international data. The share reported for Jersey only includes that which was recorded as public expenditure in the Treasury accounts.

10.7 The following table has been prepared by Dr Harkness and shows the list the expected impact of the 2% cuts.

Table 6: Departmental Analysis of the Impact of the Cuts

Department	Savings Proposals (£'000)	Efficiency Gains *	Social Impact on Households	Marginal groups	Service reduction for users	Reduction in Jobs FTE (2010 staffing in brackets)
Chief Minister	118	Y	N	N	(y)	1 (54.1)
Economic Development	346	N	Y	N	Y	1 (75.6)
Education, Sport and Culture	2,288	Y	Y	Y	Y	7.3 (1519)
Health and Social Services	3,699	Y	(y)	Y	(y)	31.9 (2,607.5)
Home Affairs	953	(y)	(y)	Y	Y	9.3 (704.3)
Housing	288	Y	(y)	N	N	0 (43.4)
Planning and Environment	208	Y	N	N	(y)	(0.5) 128.7
Social Security	1,944	Y	Y	Y	(y)	0 (58.8)
Transport and Technical Services	855	Y	N	N	(y)	6.5 (546.9)
Treasury and Resources	923	Y	N	N	(y)	3 (188.1)
Non-Ministerial	392	Y	N	(y)	(y)	2 (186.1)
States Assembly	106	Y	N	N	N	0 (30.7)

Notes:

- Code: Y – likely effect; (y) small effect; N – No effect likely.
- Efficiency savings are defined to include removal of under-spends and previous funds for ad hoc expenditures including consultancies and other fees.
- Analysis based on CSR 2011 savings proposals.

10.8 The analysis behind the table is discussed in detail within Dr Harkness' report and has been dealt with in chapter 8 of this report. Overall, the social impact of the 2% savings is considered to be minimal. The three and five percent savings will be a different issue. With over half of all public expenditure allocated to salaries, changes in employment levels, earnings and / or pensions must be central to any discussion of reducing public spending.

KEY FINDING 23

2% cuts create minimal social impact

11. Public Consultation

11.1 One of the areas that became very apparent to the Panel was that there is a large proportion of the Jersey public who think the States workers are over paid and under utilised. This concept holds no boundaries from the lowest paid to the top executive officer, from the lowest ranking worker through all ranks and professions (with the possible exception of nurses), through politicians to the heads of the Islands judicial systems.

11.2 With the personal knowledge available to the Panel from many years experience of involvement with States workers in almost every aspect of Island life, the Panel recognised that this is a perception problem. Every Minister was asked about this area and most were relatively dismissive of the depth of the problem.

11.3 Every department needs to consider how it portrays itself to the public of Jersey. This applies not just to T&TS, who may typically suffer jibes of six men leaning on shovels looking into a hole in the ground, but equally to all departments. The public of Jersey do not have any comprehension of the amount of work undertaken by staff and therefore it is easy for them to take shots about such areas as reducing the numbers of States Members or concerns over the remuneration of senior Civil Servants

11.4 This clearly leads to significantly less confidence in States workers and by association, with the politicians. How many members of the public believe States Members work only two or three days every fortnight when the States are sitting? As long as these perceptions hold, there will be calls to cut the number of States Members, to cut the number of States employees and to pay everyone significantly less.

11.5 Professor Oliver raised this point in his report. (Appendix A paragraph5.5)

> *"Public perception of the CSR process is poor and needs to be reinforced by Ministers."*

KEY FINDING 24
Significant work needs to be done on public perception of the roles undertaken by States staff.

11.6 Never the less, points have been raised by the public which are listed in full in Appendix F

12. Conclusions

12.1 There are concerns about the overall direction the Council of Ministers wish to take the Island. When asked about what sort of society the Council of Ministers is aiming to establish, the Minister for Treasury and Resources spoke for some time maintaining that it was intended to create a society in line with the Strategic Plan. He spoke of the dangers of deviating from established principles of matching income and expenditure, low taxes and high spending. He spoke of the need for debates on the nature of benefits that the island wished to afford and who or how that should be paid for. However, he did not offer his own opinion on any of these subjects.

12.2 So the Panel was left to consider that the guide being used at present is the Strategic Plan. There was no guidance in that document as to whether the Island should be 'Small Government, Small Spend' or 'Large Government, Large Spend.' The Panel's adviser, Professor Oliver, advised the Panel that:

> "…the Island is being nudged into paying higher taxes to pay for higher spending by the Council of Ministers."

KEY FINDING 25
The Island is being nudged towards a high tax, high spend government.

RECOMMENDATION 6
A clear statement is needed from the Council of Ministers on the direction they intend to take the Island.

12.3 The Panel questioned the resolve within the Council of Ministers to achieve the goals set out in their CSR. The rules are clear, the premise behind the CSR was correct and the Council of Ministers 'talk the talk.' However, the hearings suggested to the Panel that several Ministers would not, or could not 'walk the walk.'[19] The vision and drive necessary to instigate cultural change from a political level appeared to be minimal and in some cases, missing altogether. Too many Ministers have hidden behind reviews, reviews that the Panel believes will, in many cases be an excuse not to make changes. The public has voiced opinions, the media has been littered with resistance to the concept of reducing services in any form. Savings are never popular and will not be in this case. Ministers have voiced concerns over the equability of misery throughout departments. Chief Officers have voiced concerns over the pain to be endured by one or another group of staff. The CSR requires difficult decisions, so far the 2% should have been 'business as usual' and it has not been. The Panel questions the resolve amongst the Council of Ministers to deliver the full CSR package.

KEY FINDING 26
The Council of Ministers may not have the resolve to deliver the full CSR package.

RECOMMENDATION 7
The Chief Minister must not allow Ministers to fail to deliver the CSR savings.

12.4 The vision spoken about above may be simply the need for a change in culture. For example, the Island spent money on the engagement of the Comptroller and Auditor General, however, it was only during the CSR process that many Ministers referred to issues raised in his report "Emerging Issues, States Spending Review 2008" published in 2008. The Panel recognised a need for a change in culture. Doing things differently must be the normal thought process, not the exception.

KEY FINDING 27
The Council of Ministers must undergo a change of culture to succeed with the full CSR.

[19] Para 3.3.6 of report Professor Oliver.

12.5 The Panel also wonders what price failure? Should the CSR fail, the cost will be borne by the usual suspects: middle Jersey, the tax payer. Failure aside, the taxpayer is being asked to contribute more already with the Fiscal Strategy Review (FSR). This Panel has raised the question before: 'Who should be paying for the forthcoming structural deficit?' A difficult question bearing in mind the problem is not cyclical, caused by the worldwide recession. This is structural, caused, some might suggest, by decisions made within the States Chamber or by senior Civil Servants with the knowledge of Politicians.

12.6 The cost to the Island is clear; failure to match income and expenditure has consequences recognised by everyone, from the child with 20 pence in his pocket to the wealthiest Islander. However, the consequences of failure of Ministers, individually, to provide the necessary savings is unclear.

KEY FINDING 28
What happens to Ministers who fail?

RECOMMENDATION 8
Ministers must be prepared to take responsibility for failure to achieve the required CSR savings.

12.7 It is disconcerting for the Panel to consider that several Ministers will fail to make the 2% savings. The numbers on the documentation supplied to the Panel may add up, but several proposals are not savings at all and more will be rejected by the States Assembly. If this amount of pain is suffered for the 2%, what hope is there for the full 10% being successful? 2% really is only the very beginning of the process.

KEY FINDING 29
2% savings are only the start of the process.

12.8 The Minister for Treasury and Resources spoke about the CSR during his election speech in December of 2008. It was not until the spring of 2010 that the policy was initiated. The period of notice was very short, requiring Ministers to come up with the initial 2% savings in very short shift. This has been fine for some departments with significant areas of discretionary budget or for others who have been able to consider the savings as 'business as usual.' However, other departments, as discussed in chapter eight, had no chance of meeting the timelines. Education, Sport and Culture for example work to a different financial calendar and have long lead in times for some projects. The timescales were clearly unreasonable.

12.9 The Council of Ministers has often paid tribute to the scrutiny process, offering conformation that the checks and balances offered by the process are an essential part of open government. The timetable for the CSR allowed twelve days for the scrutiny process to take place and the Council of Ministers was then late in providing the information, effectively excluding the scrutiny process from their timeline. The Corporate Services Scrutiny Panel has conformed to its own time lines to meet the needs of this review, with the intention of providing a report in time to assist Members with consideration of the Annual Business Plan. The timelines for the CSR have been unreasonable.

Paragraph 8.8 of this report evidences other areas effectively excluded from compliance by the Council of Minister time line.

KEY FINDING 30
The CSR timescales, as agreed by the Council of Ministers, were exclusive.

12.10 The Panel commenced the review with the belief that the 2% savings should be both sustainable and an integral part of the 10% savings intended by the Ministers. Examination of each department has shown that due to the unreasonable timeline of the CSR policy, a strategic approach to the full 10% savings has not been possible in many cases. In others, there has been the opportunity to make the 2% savings without endangering future considerations. The sustainability of the savings has been questioned in most cases and rejected by this Panel in some (see 8.11.4). The complexities of the individual subject areas leave the Panel with the recommendation that all Scrutiny Panels review the areas within their remit using the specialist knowledge they have acquired for those subject areas.

12.11 The Island currently has no economic growth plan. This appeared to the Panel to be of paramount importance as growth, pitched at the correct, sustainable level, could reduce the pain of the various aspects of the IBIP significantly, including the need for the full £100 million of both tax raises (FSR) and cuts (CSR) proposed.[20]

KEY FINDING 31
Jersey needs an economic growth policy.

RECOMMENDATION 9
The Chief Minister should ensure the publication of an Economic Growth Policy before the end of 2010.

12.12 Although election time provides the foundations for good political initiatives, Jersey, historically, has fostered populist decisions. Items requiring difficult decisions disappear without trace only to re-emerge when the ground is more secure. The CSR runs through just such a 'Bermuda Triangle.' This was pointed out by the Minister for Treasury and Resources in response to a question relating to obstacles in the path of the CSR. He listed obstacles, including:

> *"…maintaining the political strength to deliver difficult decisions coming up to election time."*

[20] Section 3.1 of report by Professor Oliver, Appendix A

12.13 Other Ministers also commented to the Panel that they recognise the dangers of the election period running through the CSR timeline.[21] This demonstrates that the elections are in the back of the minds of some Ministers and may influence the success of the CSR. After all, no politician is immune from the negativities of making difficult decisions.[22]

KEY FINDING 32
The election period due in 2011 is a threat to the success of the CSR.

12.14 The vision of the future is referred to on 12 separate occasions in this report. Without the Council of Ministers having a vision, formulating the shape of the envelope, or laying out a route to follow, the success of the CSR is unlikely. Too many people will get lost. There are too many reasons not to succeed and nothing to enforce discipline in the event of failure. Despite the belief that savings must be made and the importance of success in the venture, the Panel considers the CSR to be upside down and as a result, insipid, toothless and likely not to succeed.

KEY FINDING 33
The Panel anticipates the CSR will fail to produce £50 million of savings.

RECOMMENDATION 10
It is essential that the Council of Ministers achieve at least £50 million of savings.

12.15 Very little work has been done on ‘user pays.’ There may be significant savings to be achieved in many areas where user pays might be appropriate. It is expected that more will be seen in the second and third years of the CSR.

[21] Some of the comments were in private session and will not be specifically referenced.
[22] Para 3.3.12 of report by Professor Oliver. Appendix A.

KEY FINDING 34
Very little has emerged relating to user pays.

RECOMMENDATION 11
More work is required on the economies of public service pricing. (User pays)

12.16 The Panel has mentioned the need for examination by scrutiny Panels of specific areas as it discussed them through the report. The CSR is bigger than that. It is particularly relevant to every Panel and the specialist knowledge within the Panels is paramount to the process of good scrutiny. The Ministers must expect to be fully scrutinised on all proposals made within the CSR.

RECOMMENDATION 12
All Scrutiny Panels should review CSR proposals within the areas of their remit, applying the specialist knowledge they have acquired for those subject areas.

13. Appendix A - Report by Professor Oliver

Jersey's 2010 Comprehensive Spending Review: perspectives from international experience

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Professor Michael J. Oliver

EXECUTIVE SUMMARY

ES1. Since 2002, there have been a number of concerns expressed about long-term fiscal sustainability in Jersey. Despite various fiscal initiatives by the States of Jersey, the threat of a structural deficit has grown over time.

ES2. Previous spending reviews have been unable to address the growth of States' expenditure. The 2010 Comprehensive Spending Review (CSR) promises to go where no spending review has gone before and is being delivered as part of an Integrated Business Improved Programme (IBIP). IBIP will also deliver financial management improvements, organisational development and a new fiscal strategy. It is expected that this holistic approach – if implemented in full – will deliver a financial management framework with proper contingencies and rules whilst simultaneously improving the quality and effectiveness of the public sector.

ES3. There are lessons from other jurisdictions about the entire CSR process which resonate with international experience. It is unclear, however how much of these have been taken on board by policymakers in Jersey. This report suggests that *inter alia*:

- The CSR requires cultural change, but in the past this has proved very difficult to deliver in Jersey.
- Ministers need to do more to reinforce the importance of the CSR.
- Multi-year adjustment can promote growth and recovery and is more effective if driven from the centre.
- The balance of tax rises and expenditure cuts suggested for Jersey is wrong.
- Spending cuts should be highly differentiated and focused.
- Undifferentiated 'salami slicing' cuts need to be avoided.
- Addressing entitlements is vital for the next stage in the CSR process.
- Jersey is being nudged into adopting higher taxes and spending.
- There needs to be a thorough debate about the assumptions and approaches to achieving long-term fiscal sustainability.

1. INTRODUCTION

1.1 Jersey has long enjoyed higher rates of economic growth than the majority of the OECD (and most small island states). Despite a recession in the early 2000s, a threat of a deteriorating fiscal situation and much talk about the collapse of the finance industry, the past six years have witnessed rates of economic growth far higher than initially envisaged in the Economic Growth Plan (2005).

1.2 Arguably, the economic philosophy in the island has contributed to this success, but trying to label it is extremely difficult. The hallmarks of this philosophy have been small government, low taxes, a strong emphasis on individualism and balanced budgets. Some might dissent that this is a 'Thatcherite' economic philosophy, but it certainly has not been Keynesian. Indeed, on the importance of balanced budgets as part of Jersey's economic strategy, the Finance and Economics Committee noted when it lodged the 2005 Fiscal Strategy in 2004 that:

> The Island's primary industry is dependent on both political and fiscal stability. Any indication that the Island's government could not meet its financial obligations would seriously damage Jersey's reputation as a location for international financial services. Although the Island has a Strategic Reserve of some £400 million and a significant capacity to take on debt to pay for public services in the short term, neither spending the Strategic Reserve, nor borrowing, represent *sustainable* solutions to meeting the revenue shortfall caused by moving to 0/10% corporate profits tax. The Strategic Reserve would quickly run out and any borrowing would have to be repaid with interest, at which point the fiscal problem would be very likely to be much worse. Using the Strategic Reserve (or borrowing) is not a solution for fiscal deficits caused by a permanent change in the taxation structure. It would merely put off having to address the problem for a few years, by which point the problem would be far worse.

1.3 Although a sovereign debt default would be unlikely to happen in Jersey, the argument that the Island should run a balanced budget has never seriously been challenged either intellectually or politically. Perhaps this is because the threat to the Island's finances has always dissipated because of increases in income, which in turn has come from faster rates of economic growth than forecast. Yet there has been a tendency for increases in income to feed through into increases in expenditure and for fiscal policy to be destabilising and pro-cyclical. The old adage that public spending is divided into three parts, where some can be controlled some could be controlled and some cannot be controlled has been almost irrelevant in an Island because extra income has always been forthcoming.

1.4 It now appears that these halcyon days are gone and Jersey is facing a structural deficit which will persist even after the cyclical deficits created by the current recession have gone.[23] Due to this, the Council of Ministers have ordered a Comprehensive Spending Review (CSR), designed to find real terms savings of £50 million per year by 2013 and to construct a more efficient public sector to control Departments' budgets.

1.5 The fiscal retrenchment does not end there, however. The wider picture which is given in the Fiscal Strategy Review (FSR) Green Paper (States of Jersey 2010, p. 2) suggests that even if these savings are found, there is a need to raise an additional £50 to 60 million per year because of items which have been identified in the States of Jersey Strategic Plan as needing extra funding. These are health, education, infrastructure, social housing, transport, recycling and energy efficiency and criminal justice system costs (States of Jersey 2009). Of this additional £50-60 million, the FSR suggests four tax options, each of which would raise a total of £30 million per annum. This implies that two of the four options will be adopted.

[23] The additional borrowing required at the low point of the cycle is the cyclical deficit. By definition, the cyclical deficit will be entirely repaid by a cyclical surplus at the peak of the cycle. If the cyclical deficit is the deficit that occurs because of a recession, the structural deficit is the deficit that remains across the business cycle, because the general level of government spending is too high for prevailing tax levels. The observed total budget deficit is equal to the sum of the structural deficit with the cyclical deficit or surplus.

1.6 It is difficult to comment on the accuracy of the calculations which lie behind the funding of the seven items in the Strategic Plan and it is also impossible to say at this stage whether the modernisation of the public sector and its refocusing on future delivery – one of the prime objectives associated with the CSR – will render some of the extra taxes required as redundant. However, it is clear that some of the key hallmarks of post-1945 Jersey's economic policy are in danger of disappearing and the Island is being nudged into paying higher taxes to pay for higher spending by the Council of Ministers.[24]

1.7 Whilst the public bemoans what they see as rampant waste by the States, in truth it is very difficult to meaningfully identify waste other than through anecdotal accounts. As the Comptroller and Auditor General (2008a, p. 8) has acknowledged, 'the truth is likely to be more prosaic and less extreme'. Getting to the truth requires analysis of the numbers, and this is problematical. Jersey simply does not have good data on public sector productivity, for example. There are no figures which have tried to measure the real cost of inputs, numbers, wages and so on, and the real value of outputs. Jersey relies on old measures which assumes inputs equalled output with productivity unchanged. In other words, the more you spend the more you get. This approach is simplistic at best and as experience has shown, wrong at worst.

1.8 In order to deliver sustainable levels of public expenditure and to return to balanced budgets it is recognised that the way in which the States executes financial planning and forecasting must significantly change for the better. This will be done through a proposed Integrated Business Improvement Programme (IBIP) comprised of the CSR, financial management improvements, organisational development and the FSR.

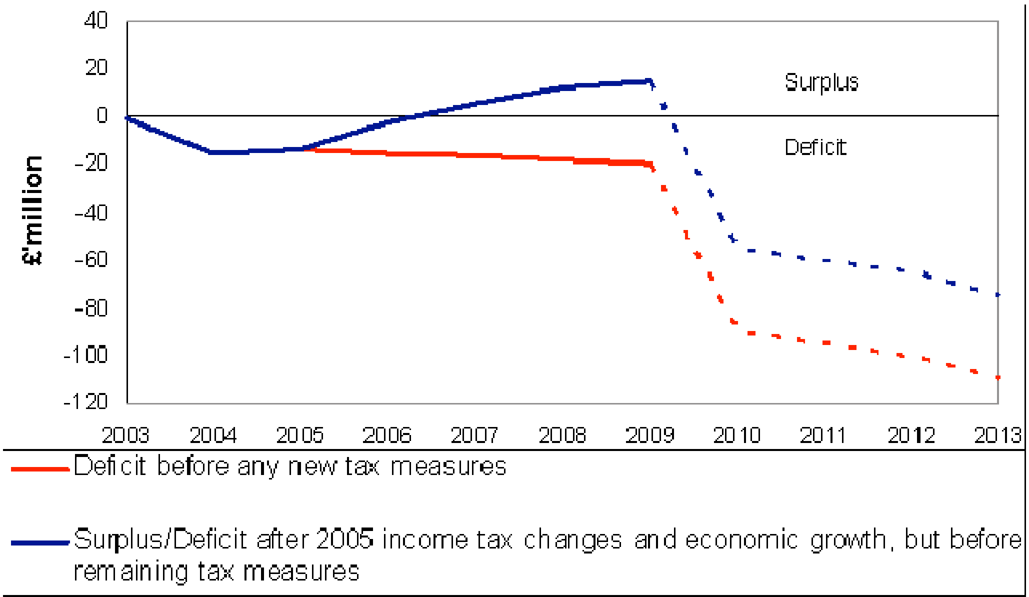
[24] The report by Sue Harkness notes that in the last 5-years public spending has increased by more than 30 per cent and in 2009 it rose by 6.6 percent.

1.9 I have offered advice to the Corporate Services Panel during their first review of the CSR. This report does not provide a blow-by-blow account of the efficacy or otherwise of the 2% savings, which has largely been the focus of the Corporate Services Panel. Instead, this report is divided into three. First, it examines the state of the public finances (section two). Second, it briefly outlines the international experiences of fiscal consolidation (section three). Third, it examines emerging economic issues for Jersey in light of the international experience (section four). Conclusions are offered in section five.

2. THE STATE OF THE PUBLIC FINANCES

2.1 On 20 July 2004, the Policy and Resources Committee lodged a resource plan for the States of Jersey for 2005 to 2009. Figure 1 illustrates the extent of the financial problem which the States faced at that time. In the first instance, it was believed that income and expenditure would move back into balance ahead of the move to a new corporate tax structure (‘zero-ten’) and would allow a small temporary surplus. However, this would then be followed by a growing deficit from 2009/2010 because of the loss of corporate tax revenues.

Figure 1. Forecast of Surplus/Deficit to 2013



Source: Policy and Resources Committee (2004)

2.2 It was estimated that the move to zero-ten would reduce annual tax revenue by between £80 to £100 million a year. Even before zero-ten was being discussed, however, a whole series of overspends, a perception that the public service was overstaffed or at least inefficient in how it operated and growing expectations of public service provision was putting considerable pressure on the exchequer. Zero-ten thus afforded the States a valuable opportunity to pursue broader reform on five fronts.

2.2.1 First, the States agreed to balance government income and expenditure and improve the delivery of public services (States of Jersey 2005).

2.2.2 Second, it would increase the rate of economic growth to increase tax revenue. In June 2004, the States of Jersey agreed a target of 2% annual economic growth for the next 5 years and in March 2005, it published an economic growth plan (Economic Development Committee 2005). This was followed by a series of measures which aimed to diversify the economy, increase productivity and uplift the skills of the workforce (e.g. Economic Development 2007).

2.2.3 Third, it would introduce an Income Tax Instalment System (ITIS). This would replace the existing arrangement where employees would pay income tax in one lump sum at the end of the financial year to a system similar to the UK's Pay As You Go (PAYE) arrangements. Under ITIS, employees would now pay tax in monthly instalments on a previous year basis and it was estimated that the payment method would raise £5 million per annum.

2.2.4 Fourth, it would phase out a number of income tax allowances for higher income groups over a five year period, in a piece of legislation known as '20% means 20%' (the implication being that Jersey's income tax rate of 20 per cent would be non-negotiable for higher earners who had previously been offered a number of allowances and had reduced their top rate of tax below 20 percent).

2.2.5 Finally, it would introduce a goods and services tax (GST) at 3 per cent in 2008, fix the rate for three years and would apply it to all goods and services except for medical supplies, prescriptions, charities, residential rents, postage and businesses with a taxable turnover of less than £300,000.

2.3 In 2002, the States had also begun what they claimed was a ‘fundamental spending review’. The objective was to identify spending and service reductions which could fund areas of necessary growth in public services and public spending within a period of fiscal restraint. Concomitantly, plans were made to enact corporate savings resulting from a ‘visionary process’ and States Departments were charged with enacting efficiency savings. On 24 May 2004, the States Assembly agreed to adopt P.58/2004 (‘Public Sector Re-organisation: Five Year Vision for the Public Sector’), which was a voluntary initiative by the States, and promised transformative changes to the public sector. The aggregate annually recurring savings forecast to have been achieved by the end of 2008 as a result of these three items was calculated at £35.832 million.

2.4 As part of a series of reports into a review of the effectiveness and efficiency of States’ expenditure, the Comptroller and Auditor General (2008b) identified the following:

2.4.1 Of the total annual recurring savings said to have arisen from the FSR process (£20.132 million):

- £4.064 million were either transferred to other funds (and so did not represent cuts in expenditure in any way); or resulted from factors that were not within the control of the States and thus would have occurred whatever action the States may or may not have taken; or could not be achieved in practice;

- £2.512 million of reductions in Net Revenue Expenditure were achieved by increasing departmental income rather than by reducing expenditure;
- £13.556 million represented an actual reduction in States' expenditure.

2.4.2 Corporate efficiency savings totalling £7.307 million were achieved.

2.4.3 The programme to achieve Departmental efficiencies (a reduction of £8.393 million) resulted in a reduction in spending and departments have lived within their budgets

2.5 As the Comptroller and Auditor General (2008a, p. 8) noted about the FSR:

> whilst siren voices have urged me to express a clear conclusion in terms such as: 'the States are hopelessly inefficient' or 'the States are as efficient as they could be' … I have avoided such simplistic statements. The truth is likely to be more prosaic and less extreme.

2.6 Despite this, concerns continued to be expressed about several issues surrounding Jersey's public finances. In 2007, the Corporate Services Scrutiny Panel became uneasy about the funding pressures facing the Council of Ministers, particularly in light of the Council's overriding principle of ensuring that there would be no structural deficit over the five-year period of the States Strategic Plan. In the early part of 2007, the Panel was presented with forecasts which showed a significant deficit in 2011 between £23m and as much as £58m, if inflation was worse than expected (Corporate Services Scrutiny Panel 2008).

2.7 In its September 2008 report, the newly created Fiscal Policy Panel (FPP) summarised the current state of the public finances and future expectations of income tax revenues and expenditure trends. Basing their assumption on expenditure growing at 3% per annum, they warned of a deteriorating fiscal position. They pointed to the combination of spending pressures – including public sector pay – and the threat of slower growth in tax receipts which could create structural problems within the States' finances. Their calculations showed 'significant deficits…in 2010-2013 that are likely to be at least partly structural and require policies to address them' (Fiscal Policy Panel 2008a, p. 36). The FPP recommended that the 2009 Business Plan and Budget should avoid permanently increasing expenditure 'above that currently forecast'.

2.7 In November 2008, the FPP issued an update to its September 2008 report. The FPP was concerned that the amendments to the 2009 Annual Business Plan had resulted in permanent increases in expenditure and tax concessions. It drew attention to the fact that these changes were 'largely structural in nature' and despite the improvement in the fiscal outlook on the income side, these were cyclical changes which suggested that there was now an increased risk of a medium-term deterioration in the States' finances (Fiscal Policy Panel 2008b, p. 9). Table 1 illustrates that the FPP calculated the structural decline in the fiscal position to be approximately £8m in 2009 and £10m in subsequent years because of the additional amendments.

Table 1. A summary of the 2009 Business Plan amendments that are structural in nature

	2009	2010	2011	2012	2013
	£m	£m	£m	£m	£m
States Income					
Environmental Tax	-	3.8	5.0	5.2	5.2
Allowances change re food/fuel	-	(2.4)	(2.4)	(2.4)	(2.4)
	-	1.4	2.6	2.8	2.8
States Expenditure					
Changes under amendment no. 4	4.8	7.8	9.3	9.5	9.6
Benefits change re food/fuel	3.4	3.5	3.6	3.8	3.9
	8.2	11.3	12.9	13.3	13.5
Net decline in fiscal position	(8.2)	(9.9)	(10.3)	(10.6)	(10.8)

Note: Numbers have been rounded independently and so they may not add up to the total

Source: Fiscal Policy Panel (2008b, p. 7)

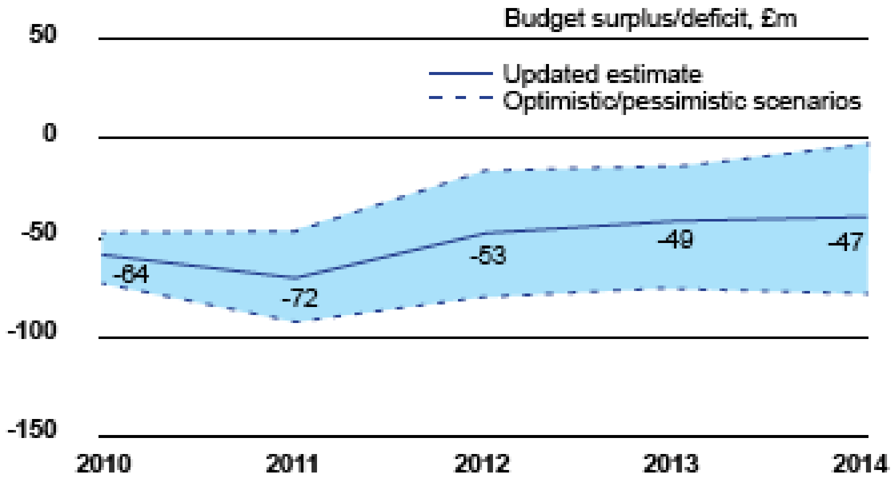
2.8 The 2009 Budget contained forecasts that revenue and expenditure would broadly balance from 2010 onwards. The FPP drew attention to the income forecasts made by the Treasury, commenting that ‘there is a risk that rather more [expected income] proves to be cyclical as a result of recent strong economic growth, and rather less proves to be structural and thus sustainable, than the Treasury department has assumed’ (Fiscal Policy Panel 2008b, p. 8). The FPP (2008b, p.1) recommended that:

> given the uncertainties facing the economy and the public finances in the medium-term, the Treasury and Resources Minister and Council of Ministers should draw up contingency plans for each of the following eventualities:
>
> - a structural deficit in the medium-term; and
> - an economic slowdown that merits discretionary fiscal policy changes.

2.9 The 2010 Budget suggested that from 2010 onwards there would be a budget deficit. As Figure 2 shows, the budget deficit was forecast to be around £64m in 2010 and around £72m in 2011. In the short-term, these deficits are caused by cyclical factors (the economic downturn) although financing the deficit over this two-year period is not problematical because drawings can be made from the Stabilisation Fund.

However, beyond 2011 the deficits persist and the Stabilisation Fund is exhausted.

Figure 2. Budget 2010 forecast budget position



Source: Treasury and Resources Department

2.10 Determining how much of the ongoing deficit is cyclical and how much is structural is problematical, although the FPP has suggested that much of it is structural.[25] Forecasts made at the time of the 2010 Budget suggested a deficit of around £53m in 2012 and around £49m in 2013 but as discussed in the Panel's report, these figures have been revised upwards and are likely to be revised further. It will not be until early 2011 that Treasury officials will know the impact the recession had on tax revenue during 2010 and whether these figures will be higher or lower than forecast currently.

[25] A former Treasurer to the States suggested in a letter to the *Jersey Evening Post* on 16 July 2010 that the deficit is caused because of zero-ten. In truth it is probably due to a combination of a fall in income because of zero-ten and of sustained increases in expenditure beyond those forecast at the time of each Business Plan.

3. RESTORING FISCAL STABILITY: THOUGHTS AND LESSONS DRAWN FROM TIME AND SPACE

3.1 Over the past thirty years there have been more than 300 episodes of fiscal adjustments of above 5% of GDP in both developed and developing countries. There have been many plans which have involved far smaller adjustments and in all cases, the duration and composition of plans has varied considerably. In terms of Jersey's fiscal consolidation, £50 million is just over 1% of GDP.

3.2 A multitude of studies have been published by academics, 'think-tanks' and international organisations which have examined some of these fiscal adjustments (e.g. OECD 2007; Perotti 1996; Smith 2006; Heylen and Gerdie 2000; Wenzelburger 2009). One of the more recent and accessible papers by Lilico, Holmes and Sameen (2009) was published by Policy Exchange. The authors take twelve case studies (six from the UK's past experience and six recent international cases) to provide an interesting discussion on controlling government spending and reducing deficits in an international historical context. A summary of tax and spending changes for these episodes is shown in Table 2. Some of the overall lessons which they examine are outlined below, and in section 4, these are considered in a Jersey context.

Table 2. Changes in tax, spending and the deficit (various episodes)

Country	Period*	Change in tax revenues as a % of GDP	Change in public expenditure as a % of GDP	Change in fiscal balance as a % of GDP	Ratio of spending cuts to tax rises
1920s UK	1921-24	-1.9%	-5.6%	3.7%	150:-50
1930s UK	1931-34	-0.1%	-3.7%	3.6%	105:-5
1960s UK	1967-69	3.7%	-2.0%	5.7%	35:65
1970s UK	1975-79	-2.2%	-5.1%	2.9%	175:-75
1980s UK	1982-88	-4.9%	-9.2%	4.3%	215:-115
1990s UK	1993-2000	3.2%	-6.3%	9.5%	65:35
Sweden	1993-2000	7.0%	-7.8%	14.8%	55:45
Finland	1994-2000	5.3%	-6.7%	12.0%	55:45
Canada	1992-1999	3.7%	-5.8%	9.5%	60:40
Ireland	1985-1996	-3.7%	-14.3%	10.6%	135:-35
Germany	1996-2000	0.7%	-3.9%	4.6%	85:15
Netherlands	1993-1997	-2.5%	-3.9%	1.4%	280:-180

* Determined by the maximum reduction in public expenditure as a % of GDP.

The OECD national accounts show large hikes in spending in 1995 for the Netherlands and Germany, for purely statistical reasons. We have therefore substituted spending from the EC AMECO dataset for this year.

Note that in certain of the cases, the headline ratio shows spending cuts comprising more than 100% of the consolidation and tax rises being negative. This is to be understood as meaning that, at the headline level, taxes were cut as a percentage of GDP, so spending was cut by more than the entirety of the reduction in the deficit, so as to fund not only the deficit fall but also the tax falls.

Source: Lilico, Holmes and Sameen (2009, p. 7)

3.3 At the outset of their report, Lilico, Holmes and Sameen (2009) identified twelve key questions. Each question had a ‘standard thought’, which formed the premise of their case studies and was accepted or amended in the light of the evidence. Their questions were as follows:

3.3.1 To what extent might a public spending burden be reduced by ‘growing it away’ through GDP rises and tight controls on rises in spending, as opposed to active cuts in real or nominal terms?

Standard thought: Normally better to grow away. Severe enough recession might mean cuts become necessary.

3.3.2 How politically significant was the crisis in driving action? How was the crisis used by the government?

Standard thought: Government will justify action because of a crisis, thus will not take drastic measures before one occurs.

3.3.3 What should be the ratio between spending cuts and tax rises?

Standard thought: In a crisis, balance is likely to be more even between spending cuts and tax rises than would be the case if there were no crisis (i.e. without a crisis, parties of the right would cut spending and parties of the left would raise taxes).

3.3.4 When should a fiscal tightening take place? Should it impact after recession or other crisis, or, if done during, does it aid or hinder recovery?

Standard thought: The timing of the fiscal consolidation has to be closely related to the business cycle, and it usually makes a recession more severe.

3.3.5 What relevance, if any, is there to fiscal and spending rules or institutional arrangements in reducing spending, as opposed to a political determination to 'just do it'? Are such rules or institutional arrangements any more relevant for keeping spending down once initial reductions have been achieved?

Standard thought: Rules provide an important means of committing to deliver cuts, and enhanced transparency over whether cuts have actually been achieved.

3.3.6 Is it better to 'talk tougher than you act', 'act tougher than you talk' or just do what you say you will do ('what you see is what you get')?

Standard thought: Probably better to under-promise and over-deliver, though it may depend somewhat on the details of the situation.

3.3.7 Which specific spending areas tend to bear the brunt of cuts made? Do these tend to be long-established programmes or more recent spending? Is this inevitable, desirable or damaging?

Standard thought (Or perhaps better, Standard guess): Benefits and defence get cut; health and education are protected. This is not efficient.

3.3.8 What is the right balance between undifferentiated, across-the-board cuts and differentiated cuts targeted at specific programmes?

Standard thought: Better to target when not in a crisis; undifferentiated, 'all shall have pain' in a crisis. Cut across the board in a crisis; differentiated cuts when not in crisis.

3.3.9 Where should the proposals for the cuts come from? Should it be centrally imposed or devolved to other bodies?

Standard thought: If cuts must be made, there needs to be a clear coordinating demand for them from the centre, otherwise the incentives for individual departments to produce cuts are limited. There may need to be sufficient cuts imposed from the centre to get the message across and establish credibility. When spending has previously been rising too fast or *long been too high, there is likely to have been a culture that rewarded high spending. So specific incentives may be necessary in order to emphasize the change in approach.*

3.3.10 To what extent is it necessary or wise to trust bureaucrats to deliver cuts when instructed? Is it useful to incentivise departments or bureaucrats to deliver cuts?

Standard thought: Bureaucrats are likely to seek to protect their own empires, and so will be resistant to cuts. If invited to produce their own ideas, they may even suggest cuts in politically damaging and absurd areas, in order to discredit the concept of cuts in their area.

3.3.11 What are the stylised economic and social costs of a consolidation? What long-term consequences should be considered?

Standard thought: consolidation are likely to cause 'pain' at various levels of society by reducing spending or raising taxes on certain social and economic groups. There is therefore likely to be greater social friction (more working days lost to strikes, higher unemployment, greater income inequalities, etc.)

3.3.12 What were the political consequences for the government who implemented the consolidation? Did they flourish or suffer and was this because of the cuts or in spite of them?

Standard thought: Governments will be disliked for raising taxes and/or cutting spending, and suffer politically. However, in terms of their legacy *they may gain respect in the long term for putting state finances on a sounder footing.*

3.4 The key lessons from the case studies enable the authors to draw seven key lessons:

3.4.1 Fiscal consolidations can promote growth and recovery – particularly by enabling a looser monetary policy than would otherwise have been the case.

3.4.2 Fiscal correction should be biased towards spending cuts.

3.4.3 In Britain, spending cuts programmes have typically been centralised and highly differentiated.

3.4.4 Most of the cases examined involved no financial incentive for civil servants to reduce spending.

3.4.5 The common types of expenditure likely to experience cuts include defence, social security benefits, and civil service employment.

3.4.6 Don’t give up.

3.4.7 Fiscal rules and mechanisms can have a role but a ‘just do it’ culture is more important during period of significant cutting.

4. EMERGING ECONOMIC ISSUES FROM JERSEY'S CSR PROCESS

4.1 Ministers frequently point out that 'Jersey is different' and yet at the same time it is often not made clear why general economic principles and lessons from other jurisdictions should not apply in Jersey. With the CSR, outside experts from the IMF and Deloittes were brought to Jersey to provide advice presumably on the basis of experience gleaned from elsewhere. Following the hearings with Ministers and senior civil servants, there are a number of economic issues which have emerged which resonate with the international experience outlined in Section 3. These are discussed in this section of the report, but there are several general points to make.

4.2 At the outset, it is important to note that the ability to do a thorough analysis of Jersey's expenditure is hampered by the budgetary framework currently in place. This suggests that it will only be possible to make meaningful expenditure cuts when Jersey has a meaningful financial framework. Because of the current focus on trying to address cost issues department by department, there is a danger that sector wide issues, which require an examination of expenditure category by category, will be ignored (see 4.6).

4.3 One of the key changes to budgetary framework will be a separation of controllable and more volatile annually managed expenditure. Department expenditure limits (DELs) will be set for three years, and this will cover what departments can control. The second type of budget will be annually managed expenditure (AME) for volatile expenditure outside of a department's control and areas of expenditure that are so large that departments cannot absorb the effects of volatility. In the UK AMEs can be attributed to individual ministerial votes and are demand-driven spending where the amount is determined by the rules governing eligibility – beneficiaries' entitlement.

Departmental AME cuts cannot be made without changes in entitlements – pay, pensions, income support, and so on.

4.4 It is important to stress that eliminating a deficit should not be seen purely as a normal budget exercise. This was acknowledged by Jersey's CSR team in their evidence to the Panel although the extent to which it requires greater emphasis on programme evaluations, value-for-money assessments, and cost/benefit analyses than occurs in a normal budget process was not thoroughly explored in the questioning. As such, the CSR is as much a 'social project' as an economic project and one which requires significant cultural change.

4.5 As noted in 3.4.1, one of the key lessons from international case studies is that fiscal consolidations can promote growth and recovery. As the OECD (2010) has recognized, the most successful plans involve large, multi-year adjustments. Central to the success of a fiscal adjustment is its size, the duration and the composition.

4.6 The evidence suggests that the most sizeable deficit reductions should be implemented from the centre of government and in an all-inclusive, whole-of-government package. This explains why Jersey's Treasury Minister has emphasized fiscal and financial reform but also the central importance of IBIP to deliver a clear structure for reform. Evidence also shows that larger adjustments have had a more positive impact longer-term. In Jersey's case, it is unclear why policymakers plan to make only a 10% reduction in expenditure. To be sure, the island does not start from a fiscal position analogous to the countries outlined in Table 2, but perhaps 10% is too modest a reduction in expenditure and policymakers might consider greater retrenchment, particularly when the public sector wage bill is almost £300 million annually.

4.7 In terms of the duration, the most successful adjustments have been multiyear. International evidence suggests that where there is a large fiscal adjustment required, gradual implementation leads to better macroeconomic outcomes. The fiscal adjustment in Jersey cannot be considered large, but is going to be phased in incrementally over a three-year period. The Panel was given evidence that Departments are being encouraged to look for a further 2 per cent of efficiency savings in 2012 and 2013 which would total six percent and allow them to find 4 per cent in strategic initiatives. The problem with too gradual a phase in is that it can encourage organized resistance to change to build up. A case could be made for a 'cold turkey' adjustment, but it is doubtful whether the island's institutions could cope with this. Coupled to this, there are also uncertainties about how quickly fiscal policy should be tightened if the economy has not recovered from the downturn.

4.8 Of the success factors outlined above, the composition of Jersey's fiscal adjustment is of particular concern. Successful consolidations have typically placed about 80% of the burden on spending and 20% on tax increases. Moreover, as Alesina and Perotti (1997, p. 210) have noted:

> fiscal adjustments which rely primarily on spending cuts on transfers and the government wage bill have a better chance of being successful and are expansionary. On the contrary fiscal adjustments which rely primarily on tax increases and cuts in public investment tend not to last and are contractionary.

The evidence presented to the Corporate Services Panel was that Jersey's consolidation is predicated on a 50/50 split between tax rises and expenditure cuts. The justification for this – particularly in light of the international evidence – was not made clear. Raising taxes is never popular with the electorate, but given the problems in the past with making significant cuts in expenditure in the island, policymakers might see this as the least worst option to address the deficit. There are some political and economic arguments on the choice of this composition which require a more detailed discussion.

4.9 As international experience has shown, a crisis can make it easier to adopt a deficit reduction plan as the public can see the benefits of a responsible fiscal policy. The problem is that despite the view that has been expressed to the Corporate Services Panel in the past that ‘unless something awful happens, they will do nothing. If they do nothing, something awful will happen’, there is still the perception that the States will find extra money and can therefore avert a decision to cut expenditure.

4.10 One lesson which senior Ministers like to stress they have learnt is that it is important to create public understanding and support for restoring fiscal sustainability. However, whilst there is a lot of publicity about the consultation process for the options outlined in the FSR, there needs to be more done in addressing public concerns about the CSR. In short, the public need to understand that the CSR process is ‘worth it’. Ministers need to be aware, however, that the public may either have limited confidence in the consultation process (e.g. the failure of the 19,209 strong signatures to prevent the introduction of GST) or they have consultation fatigue.

4.11 The OECD (2010) has emphasised that countries should establish a credible deficit reduction plan that is integrated into a comprehensive economic policy. In July 2004, the States of Jersey agreed that there should be an annual economic growth rate of 2% for the next five years. It was noted that ‘Jersey will need carefully analysed strategies to enable [the 2% annual target] to happen’, and that there were three reasons for this:

> First, carefully-managed and sustainable economic growth will benefit the community by creating more job opportunities for local people. The second benefit is that controlled economic growth will minimise the tax burden Islanders face. The third benefit for Jersey lies in providing the opportunity to strengthen our existing industries and in laying down a framework for diversification.
>
> (States of Jersey 2005, p. 3)

On several grounds, the economic growth plan has been unsuccessful. Economic diversification outside of finance has not been achieved; there have been few measurable improvements in productivity and there has not been controlled economic growth. Clearly, it is essential that a new economic growth plan for Jersey is forthcoming to bolster the proposed fiscal changes.

4.12 The 2% efficiency savings which have been outlined for the 2011 Business Plan are only a first step in reducing the deficit. The real focus moving forward should be on managerial savings, increasing public sector productivity and value for money through ICT investments, business process re-engineering, market-type mechanisms and shared services.

4.13 The evidence, particularly from the UK, has been that successful spending cuts are highly differentiated and focused. Across-the-board cuts and freezes that affect programmes and services in an undifferentiated way can have perverse effects and may not help promote fiscal sustainability. A 'salami slicing' approach to reducing the deficit across programmes is therefore particularly unwise, even if there are spurious arguments made that this should be done on grounds of fairness. Undifferentiated cuts erode the quality of public services and affect morale across the public service. It is hoped that the planned in-depth reviews of H&SS, ESC, Home Affairs, Social Security, Court and Case Costs and HR Terms and Conditions find detailed savings and might even go beyond 10% cuts in real terms.

4.14 As international experience shows, the only way in which significant, long-term changes can be brought about to address a structural deficit is by addressing changes in benefits and entitlements (e.g. pay, welfare benefits, pensions). The difficulty of doing this in Jersey should not be underestimated, particularly because significant amounts of money have gone into improving welfare in Jersey over the last five years. Whilst there is a great deal of talk about ‘no stones being left unturned’, a States review of terms and conditions has not yet begun and there appears to be a limited appetite for reform to state benefits. The C&AG (2008a, p. 20) recommended that the States’ staff remuneration mechanisms should be thoroughly reviewed and it is essential that addressing entitlements needs to play an important part in fiscal adjustment going forward.

4.15 Whilst some Ministers have acknowledged the scale of the transformation required in Jersey, there is an opportunity for the private sector to be involved in the process, particularly as several Departments have struggled in the past with reform. For example, in June it was announced in the UK that an Efficiency and Reform Group (ERG) would bring together in one place all cross-government operational functions, including procurement, project management, IT and Civil Service workforce and reform functions. The idea behind the ERG is to drive down the costs of government and slim down bureaucracy. Three business experts were selected by the Minister for the Cabinet Office to develop creative and innovative process. Perhaps this is something which could be considered to help Departments deliver the remaining 8% of cuts.

4.16 Outsourcing has produced long-term savings only when it is based on sound economic analysis and reflects non-political judgments about the most efficient way to provide public services. The evidence given to the Panel illustrated that some Departments have considered using private (if not necessarily non-profit entities) to provide goods and services but greater consideration is needed. It should be noted, however, that outsourcing might not always been the panacea for perceived non performance by the public sector and in some cases, might require additional resources to manage the risk of non-delivery.

4.17 In evidence to the Panel, it is clear that ‘user pays’ initiatives have not been driven from the centre but have been the responsibility of Departments. This is potentially problematical because as 4.15 suggested, Departments might not always be best placed to think commercially. More work is required on the economics of public service pricing.

4.18 Finally, paragraphs 3.4.6 and 3.4.7 suggest that international experience suggests that policymakers should not give up and should adopt a ‘just do it’ culture. As has been noted, there have been occasions when fiscal consolidations have been attempted in Jersey but with limited results. The energy and determination of the Treasury Minister to save £50 million was apparent in his evidence to the Panel and as the Panel’s report discusses, some Departments also shared the Minister’s enthusiasm for embracing cultural change. However, it is very unclear whether all politicians will share the enthusiasm for the scale of change which the full CSR process will deliver and this could lead to ‘cherry picking’ the least controversial elements of the programme (which in turn would encourage undifferentiated savings, see 4.13). Moreover, as this report has stressed in several place, the CSR is concerned ultimately with members of the public. Do the public want to reassess the role of government in a small island state, or are they content with being nudged towards higher taxes and higher spending?

5. CONCLUSIONS

5.1 The Treasury needs to make clear which of the international lessons on fiscal consolidation apply to Jersey.

5.2 The CSR is to be welcomed as part of a broader approach that intends to address long-standing issues of financial management in the States.

5.3 The CSR requires cultural change.

5.4 Consideration should be given as to whether the private sector can help the public sector with issues which relate to cross-government operational functions, procurement, project management and general reform.

5.5 Public perception of the CSR process is poor and needs to be reinforced by Ministers.

5.6 Consolidation through a multi-year adjustment can promote growth and recovery and is more effective if driven from the centre.

5.7 The suggested balance between tax rises and expenditure cuts is wrong.

5.8 A new economic growth plan is needed.

5.9 Spending cuts should be highly differentiated and focused whilst undifferentiated ‘salami slicing’ needs to be avoided.

5.10 Addressing entitlements is vital for the next stage in the CSR process.

5.11 Jersey is being nudged into adopting higher taxes and spending.

5.12 There needs to be a thorough debate about the assumptions and approaches to achieving long-term fiscal sustainability.

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14. Appendix B - Report by Dr S Harkness

Advice to the Scrutiny Committee on the Social Impact of the Comprehensive Spending Review's 2-percent Saving Proposals

July 2010

Dr Susan Harkness
University of Bath

Executive Summary

- Public spending has an important impact on social welfare. Data from the UK data shows that around half of all public expenditure provided direct benefits to households in 2008/09, with the value of benefits-in-kind to households from the consumption of services such as health, education, housing and transport (which are all subsidised by the State) exceeding the value of cash benefits. Both cash benefits and benefits-in-kind are of disproportionate value to the poorest households.

- As the public sector in Jersey is small, cuts in expenditure are likely to have a smaller impact on households than similar cuts in the UK. It is estimated that in Jersey households benefit from their consumption of public services by an amount equal to on average around 12 percent of income. A spending reduction of 10 percent over the period of the CSR may reduce this gain by around 1-percent although the losses in consumption are likely to be unevenly spread across the income distribution.

- The current 2-percent savings proposals do not appear to have a substantial impact on household; in terms of the wider social impact of the cuts on households only those proposed by the Departments of Economic Development; Education, Sports and Culture; and Social Security are expected to have a significant impact. Cuts in the Departments of Education; Health and Social Services; Home Affairs; and Social Security may also have some impact on the most marginal groups.

- Job loss among public sector workers may also have an important impact on social outcomes. Current proposals however have a minimal influence on the number of state employees. In addition the very low levels of unemployment in Jersey mean it is unlikely that the 2011 savings proposals would have any substantial impact on employment.

- A particular concern is that the cuts proposed for 2011 are piecemeal and are not part of systematic plan to reduce spending by the 10-percent required by 2013. The evidence presented suggests that this concern is well founded. Analysis of the savings proposals for 2011 suggest that most Departments are aiming to make savings by maintaining services at a reduced cost rather than more fundamentally re-evaluating what or how services should be provided.

- How benefits from state expenditure are distributed across the population are poorly understood. If concerns about how public expenditure cuts are to impact on social outcomes are to be adequately addressed then as a first step a better understanding of who gains from public expenditure is needed.

- The State should clarify the distributive objectives of public service delivery. In particular it should be clear as to whom the desired beneficiaries are and the extent of support that is believed reasonable.

  Identifying who the neediest are should be a priority if the most vulnerable are to be protected. Among the poorest people in Jersey are single non-pensioners. Understanding poverty among this group should be a priority if they are to be appropriately supported.

Background

This report examines what social impact the proposed 2-percent spending savings might have on the public of Jersey and highlights significant problem areas. The Comprehensive Spending Review (CSR) aims to make 10-percent savings, of £50 million, from the 2011-2013 business plans by reducing spending by 2-percent in 2011, 3-percent in 2012 and 5-percent in 2013. As a first stage in this process all Departments, with the exception of Social Security, have been asked to identify savings to meet the 2-percent savings target for 2011. The savings proposals are savings in gross revenue expenditure and hence to be achieved by spending reductions rather than increased income.[26] Any savings made by Social Security are in addition to the £50 million target.

This review looks at the potential social impact of the first round of cuts. As the poor are the heaviest users of public services any adverse impact from cuts in public expenditure are likely to disproportionately affect the least well off. In the UK and internationally concerns have been expressed that public expenditure reductions will be regressive (ONS 2009; Financial Times 2010). As Robert Chote, IFS director, said in relation to the recent UK emergency budget: "Perhaps the most important omission in any distributional analysis [of the budget] is the impact of the looming cuts to public services, which are likely to hit poorer households significantly harder than richer households".

The CSR has two major elements; (i) the introduction of stronger financial controls and (ii) reviewing major spending areas to reduce costs, identify lower priority services and consider their provision. This report will focus on the second area in order to identify the likely social implications of the current Departmental proposals for a 2-percent reduction in spending. An additional concern of the Scrutiny Committee is that, while proposals are in place for the first 2-percent reduction in spending, the identified savings have been made on a piecemeal basis and are not as part of a systematic, structural plan towards the overall 10-perecent saving required by 2013. This report will also briefly consider this issue.

Public Expenditure in Jersey

The public sector in Jersey is relatively small, with a total gross revenue expenditure of £688 million in 2010 (including £171 million on social security spending) accounting for approximately 17-percent of Jersey's Gross National Income (GNI).27 Twelve percent of employment is in the public sector. This contrasts with the situation in the UK where public spending comprised 43-percent of national income and 21-percent of employment in 2008/09.28 While income is higher on average in Jersey than for the UK, per capita spending is also lower in Jersey, at £7,43829, than in the UK where the average spend is over £10,000 per capita. Table 1 shows average public spending across 28 OECD countries, all of which have considerably higher spending levels than Jersey.

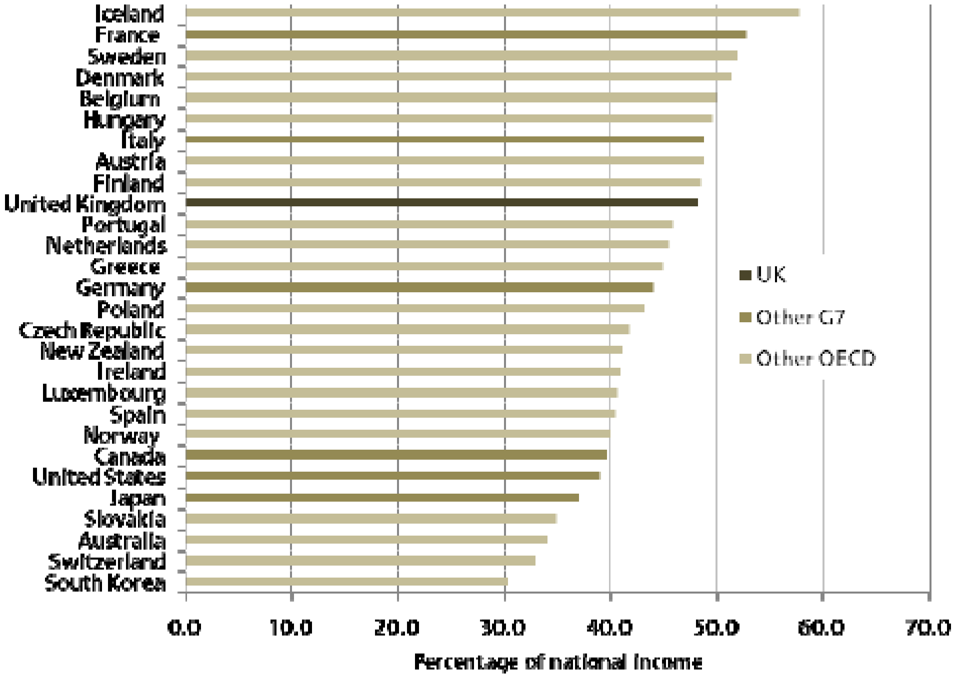
[26] Social Security is excluded because the vast majority of its budget spending is on benefits which are determined by (i) the number of claimants and (ii) benefit levels. Decisions over eligibility criteria and benefit levels require political decision making.

[27] Note: Source: Jersey Economic Trends 2009. Spending is calculated as a proportion of Gross National Income recorded in 2008. As 2010 income is likely to be higher the spending share reported here is likely to be slight overestimate.

[28] IFS Briefing Note BN43.

[29] Calculation based on 2009 population estimates.

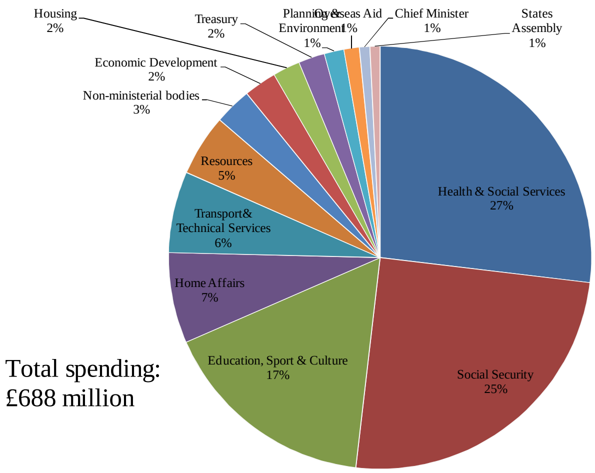
Figure 1: Public Spending as a Proportion of National Income in OECD Countries



Source: OECD Economic Outlook 85, June 2009, reported in IFS BN43.

While spending in Jersey is relatively low, in the last 5-years public spending has gone up by more than 30% and in 2009 it rose by 6.6 percent. [30] As no single data source publishes Departmental spending over time tracing the sources of spending growth is not straightforward. However in 2010 three Departments accounted for 69-percent of total expenditure: 27-percent of spending was in Health and Social Services, 25-percent was on Social Security and Education accounted for 17-percent. Home Affairs, Transport and Technical Services and Resources each account for between 5 and 7 percent of total spending, while Resources, Economic Development, Planning and Environment, Housing, Treasury and the Chief Ministers Department all account for between 1 and 3-percent of spending. The distribution of expenditure in 2010 across Departments is shown in Figure 2.

Figure 2: Gross Revenue Expenditure by Department, 2010



Source: 2011 CSR Proposals

The focus of the CSR is to ask Departments to reduce gross expenditure rather than raise income. However it is worth noting that some Departments do generate significant income from user charges and Departmental shares of net income therefore differ slightly. Housing in particular generates significant income (with income exceeding spending), as to a less extent do the Departments of Transport and Technical Services; Education, Sport and Culture; and Health and Social Services. The Appendix Table A1 reports net revenue expenditure shares across Departments.

The social impact of public expenditure differs across Departments. The responsibilities of Departments are reported in Table 1. Services provided by Health and Social Services, Social Security, Education, Sports and Culture and Housing are clearly most important in terms of their immediate social impact while those provided by Home Affairs also have a substantial impact on some of the most marginal groups (ex prisoners). The social role of the other Departments is much less clear; while for example sound administration of the States' finances is clearly important to the long-term prosperity of residents of Jersey the immediate social impact of provision is much less clear. This broader impact is not touched on here.

Table 1: Department Functions

Chief Minister Department	Provides support and advice to the Chief Minister and Council of Ministers, and co-ordinates policies and strategies across the States. Also responsible for a range of services including international relations, constitutional issues, States staffing and IT, statistics, and the Law Draftsman's Office.
Economic Development	Responsible for all areas of economic policy and development in Jersey, including support for the agriculture, fisheries, tourism, and finance industries. It also maintains an overview of policies that may affect the harbours, airport, postal and telecommunications services. It also oversees consumer and regulatory services.
Education, Sport and Culture	Provides educational, sporting and cultural opportunities for the people of Jersey supporting Jersey's commitment to encourage lifelong learning and enabling everyone to realise their potential.
Health and Social Services	Promotes health and social wellbeing for the whole community, providing prompt services to all and protecting the interests of the frail and the vulnerable.
Home Affairs	Responsible for the States of Jersey Police, the Fire and Rescue Service, the Prison Service, Customs and Immigration, criminal justice policy, the registration of births, deaths and marriages, and the Building a Safer Society Strategy.
Housing	Responsible for the provision of social housing and estates management.
Planning and Environment	Responsible for all planning and building control matters. It is also responsible for Jersey's environment in its widest sense, including environmental policy and regulation, and water resources and waste management regulation.
Social Security	Responsible for the administration of contributions and benefits, the Health and Safety Inspectorate, and a number of employment services.
Transport and Technical Services	Manages the highway, public transport and traffic management network, and has the responsibility for all transport policy in Jersey. Also ensures drivers and vehicles are roadworthy, manages the disposal of the Island's waste and provides cleaning and parks and gardening services.
Treasury and Resources	Manages the Island's finances and assets, ensuring the protection and good use of public funds. It is responsible for all taxation, States budgets and financial policies. It also manages States buildings and represents the States interests in publicly-owned companies.

Source: Financial Report and Accounts (2009) States of Jersey Treasury and Resources Department

The CSR has excluded spending on Social Security and Overseas Aid from the review. In order to reach £50 million savings all other Departments have been asked to identify 10-percent budget cuts. Clearly the omission of Social Security from these proposals excludes a substantial potential for revenue savings as it is the second largest Department in terms of expenditure (spending totalling £172 million in 2010). Moreover given that the majority of social security spending is on benefits provides substantial protection for a large number of the States' poorest residents.

For 2011, 2-percent savings equate to a total saving of £10 million. Current savings proposals are over target, at £12,065,000 next year mainly because Social Security has identified potential savings amount to £1,944,000. Only two Departments' proposals are under target, those of the Treasury and the States Assembly, but both Departments are small in expenditure terms and the impact on total savings is therefore also small. The CSR recognised that achieving spending cuts may be easier for some Departments than others and while this is less of an issue for 2011 when cuts are relatively small it is likely to become of greater significance in subsequent years. The Treasury has suggested that achieving the 2-percent savings in 2011 should be possible by "efficiency savings" alone.

While the CSR aims to save 2-percent over the coming year, the savings proposals put forward by Departments are separate from the annual round of growth proposals, and the reduction in overall expenditure will therefore be lower than identified in the savings proposals. The current proposals show £12,065 savings and £3,065 growth. Similarly Departmental proposals for changes in user pay charges are considered separately from the 2-percent savings proposals.

The Social Impact of Public Spending

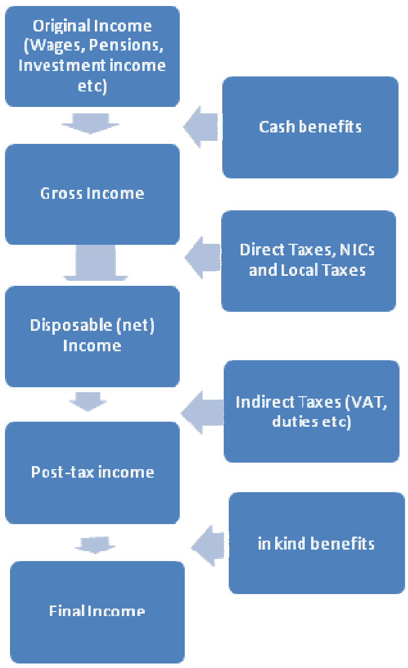
This section assesses the impact of public spending cuts on social welfare. It looks at two areas (i) the direct impact of changes in service provision on social outcomes and (ii) the impact of spending cuts on employment in the States.

The provision of public services requires the state to consider (i) what should be provided; (ii) whether services are efficiently provided and (iii) who should pay. While efficiency of provision is clearly essential if costs to taxpayer are to be minimised, decisions around what to provide and whether users should pay for services provided has a direct social impact. It is the spending proposals impact on services provided that are of most concern to users, rather than the efficiency of their provision and this is the focus of the report. We focus on those services that provide gains which can be directly attributed to households. In the subsequent section, which looks at the proposed Departmental savings, we also touch on the impact that the proposed cuts may have on marginal groups (ex. offenders) and at whether the proposed spending changes may have an effect on service provision which households may gain from but which are difficult to attributed directly to them. The issue of user charges is also important but as it is not a target of the CSR is not considered here.
A second concern is the direct impact that the spending cuts may have on employment and the wider economy. The public sector is a major employer, and also provides an important source of demand for services. The second part of this section examines the potential impact of the proposed cuts on employment in Jersey.

3.1 Gains to Households from Public Spending

Households benefit, to differing extents, from public expenditure. In the UK and elsewhere there have been considerable attempts to evaluate the impact of state spending on households' welfare. This has been done in the UK by estimating income after both taxation (direct and indirect) and consumption of the services government provides (see the publication "The Effects of Taxes and Benefits on Household Incomes 2008/9", ONS). Figure 2 shows the influence of state taxation and spending in redistributing income, including income in kind. Our interest is in state spending and therefore on the influence of both cash and in-kind benefits on the distribution of income. While cash benefits may be measured, and estimating their value to households is relatively simple, estimating the impact of non-state benefits on income is more complex. The ONS approach to measuring non-cash benefits is to allocate notional benefits to households where they may reasonably be allocated (and implies that benefits from "public goods" such as policing and defence, from which all residents benefit, are excluded). The benefits in kind allocated to households by the ONS in the UK are: state education; school meals and welfare milk; health services (provided by the National Health Service); housing subsidies (excluding housing benefit); and travel subsidies (including concessionary fares schemes).

Figure 3: Defining Final Income



The ONS estimates benefits to households on the basis of the cost of provision and estimated use. Education benefits are estimated using the number of children of school age in a household who are in state education and the cost per pupil. Health benefits are proxied by the actual cost of provision and average usage data, which is estimated from the age and gender of household members. Housing subsidies are estimated based on tenure, while other benefits such as the receipt of school meals are straightforward to attribute to households.

The resulting share of general government expenditure allocated to households is 52-percent, of which 25-percent is in the form of cash benefits and 27-percent is in the form of benefits-in-kind. That government spending on benefits-in-kind is more important to “final income” than cash benefits is an important finding of this report. Table 2 provides a further breakdown of these benefits. This shows that for the UK the largest benefits in kind received by household are from health and education expenditure.

Table 2: Benefits Allocated to Households as a Share of General Government Expenditure in the UK, 2008/09

Cash Benefits	24.5%
Benefits in Kind	27.4%
of which:	
Health Services	15.4%
Education	11.2%
Travel subsidies	0.5%
Housing	0.1%
School meals and free milk	0.2%
Total Household Benefits as a Share of GGE	*51.9%*

Source: Table 13, "Effects of Tax and Benefits on HH Income", ONS, UK

A concern for policy makers is that expenditure cuts will have a disproportionate effect on the poor. The ONS report looked at working-age and retired households separately to examine how state spending influences households' well-being at different parts of the income distribution. Table 3 reports some of the key results for working age households in the UK. This shows that not only are the poorest households much more dependent on cash benefits than wealthier households, the poorest quintile receiving five times the level of benefits as the richest, but that poorer families also gain twice as much from benefits-in-kind. Indeed for the poorest families the value of benefits-in-kind received is equivalent to almost 80 percent of disposable income (compared to around 5-percent for the richest fifth of the population).

Table 3: The Value of Government Spending to Households by Income Quintile; UK non-retired households 2008/09

	Quintile					
	Bottom	2nd	3rd	4th	Top	All
Cash benefits	6,184	5,446	3,319	1,874	1,256	3,616
Benefits-in-kind	7,836	6,912	6,082	4,795	3,744	5,874
Disposable income	12,223	21,751	29,638	38,048	62,596	32,815

Note: Source: "Effects of Tax and Benefits on HH Income", ONS, UK. Households are ranked by households' disposable income before housing costs equivalised using McClement's scale

In Table 4 the value of benefits-in-kind to households is broken down further by type of benefit. It shows that it is expenditure on education that not only comprises the largest benefit-in-kind to households of working age but also that this benefit disproportionately helps those further down the income distribution (partly because these families have more children but also because wealthier families are more likely to educate their children privately). Gains from spending on health, the second major benefit-in-kind, is much more evenly spread across the distribution with the poorest fifth of the population consuming close to the average level of health care. Other benefits are considerably smaller Benefits from housing subsidies and school meals/welfare milk are concentrated among the relatively poor while subsidies for travel go disproportionately to the most well off.

Table 4: Benefits in Kind by Income quintile, UK Non-Retired Households 2008/09

	Quintile					
	Bottom	2nd	3rd	4th	Top	All
Education	5,145	4,073	3,344	2,322	1,497	3,276
NHS	2,438	2,649	2,595	2,320	2,037	2,408
Housing subsidy	47	31	14	7	3	21
Travel subsidies	96	95	113	139	207	130
School meals and welfare milk	110	64	16	6	1	40
All benefits in kind	7,836	6,912	6,083	4,795	3,744	5,874

Note: Source: "Effects of Tax and Benefits on HH Income", ONS, UK. Households are ranked by households' disposable income before housing costs equivalised using McClement's scale.

Retired households have a distinct pattern of consumption, and while older households tend to be more concentrated among the lower part of the income distribution their consumption of services, and in particular health services, shows much less variation over the income distribution.

Analysis of UK data therefore suggests that benefits-in-kind are more important to households, on average, than cash benefits. This is the case at all points of the income distribution. The implication for expenditure cuts is that the impact on poor households is likely to be greatest. The results have also shown that some benefits perform a greater redistributive function than other, for example education and housing expenditures disproportionately benefit those that are relatively poor, health services provide benefits which are more equally distributed across the income distribution, while public subsidies to transport tend to benefit the rich. If policy is concerned with the distribution of "final income" it need therefore pay most attention to protecting the delivery of services which are most progressive.

How can this analysis be applied to Jersey? As a first step it is useful to know what share of government spending could be attributed to households. While the calculations used by the ONS are relatively sophisticated, the expenditure shares reported in Table 2 are fairly close to total departmental expenditure shares for Social Security, the NHS and Education. If total spending in these three areas is used as a proxy for total benefits-in-kind received by households, the share of government spending which directly benefits households is estimated as 69-percent (total share of spending on Social Security, Health and Social Services and Education, Sports and Culture). Compared to the UK therefore a larger proportion of government spending appears to provide direct benefits to households.
The second issue for Jersey is whether benefits from government spending perform a similarly redistributive function. One way to assess this, in the absence of in-depth analysis of household survey data, is to examine the demographic characteristics of population of Jersey and examine their position in the income distribution. The redistributive role of public sector provision in the UK is mainly a result of children and elderly people, the largest users of public sector resources, being concentrated in the lower end of the income distribution. To what extent is this also true for Jersey?

Table 5: Composition of Income Quintile by Household Type, Jersey 2002

Quintile	Couple not pensioners	Couple with children	Single parent	Single, not-pensioner	Single, pensioner	Two + pensioners	Other
Lowest	6	4	10	27	33	14	6
2nd	18	16	8	27	10	14	8
3rd	21	20	5	3	5	9	16
4th	32	31	1	11	1	6	18
Highest	27	40	0	2	0	7	23

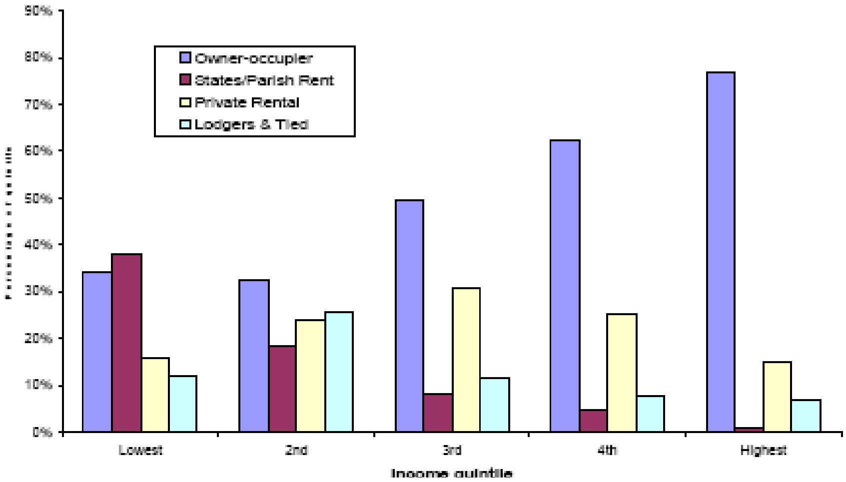
Source: Jersey Household Expenditure Survey 2004/05, Table 2.2

Table 5 shows the composition of different income quintiles by household type. What is clear from this is that the profile of low income households in the UK differs somewhat to those in Jersey. In Jersey, the lowest income quintile is dominated by single childless pensioners and non-pensioners and lone parents while couples with children are much less likely to fall within the bottom quintile. The top quintile of the distribution is, on the other hand dominated by non-pensioner couples, and in particular couples with children.[31]

What are the implications for public spending in Jersey? First, the fact that children are not concentrated in the bottom of the income distribution might suggest that spending on education spending performs a much weaker redistributive role (although to some extent this is offset by the considerably higher rates of fee-paying education in Jersey). The high proportion of pensioners in the lower income quintiles also suggests that health expenditure is likely to have a redistributive impact. However there are also a large number of single non-pensioners at the bottom of the income distribution who, with the exception of students, tend to benefit less from public spending. Figure 4 shows housing tenure by income quintile in Jersey. Those that are in the lowest quintile are substantially more likely to be in States or Parish rental accommodation than those that are better off. Of those residents in States / Parish housing 47-percent are lone parents, 34-percent are single pensioners and 11-percent pensioner couples. . Housing services do therefore appear to play a redistributive role. Taken together however the demographic profile of the lowest income quintile in Jersey suggests that public spending may play a weaker role in redistributing 'final income' in Jersey than the UK.

[31] But note these proportions do not reflect poverty risk. For example those most at risk of being in the bottom quintile are single pensioners (68%) followed by single parents (41%) and then single non-pensioners (31%). Couples with children are the most likely to be in the top quintile (33%).

Figure 4: Housing Tenure by Income Quintile, Jersey 2002



Source: Jersey Household Expenditure Survey 2004/05, Chart 2.3

Given the above, what is the likely effect of spending reductions on the welfare of households? Public spending currently comprises 17-percent of Gross National Income. If 69-percent of this spending translates into "benefits-in-kind" for households then, at current spending levels, households receive an average gain from their consumption of public services equal to 12-percent of income. Reducing spending by 10-percent over the period of the CSR will reduce spending by just over 1-percent, although this proportion may be greater for lower income households.

3.2 The Social Impact of the 2-percent Cuts on Employment

Over half of all public expenditure is allocated to salaries and changes in employment levels, earnings and / or pensions are therefore central to any discussion of reducing public spending. Public sector employment accounts for 12 percent of all jobs in Jersey. A total of 6,750 people are employed by the States with public sector workers earning on average £810 per week (compared to average weekly earnings of £620 for Jersey as a whole).[32] The current savings proposals see a reduction in FTE jobs of 67.6, or around 1 percent of the workforce. There may also be second order effects on employment if changes to procurement procedures lead to a reduction in employment among suppliers. As the number of job losses are small relative to total employment it would seem likely that reductions in employment could be achieved without the need for compulsory redundancies in 2011. Unemployment in Jersey is very low by international standards (at around 3%) and the proposed cuts in 2011 are unlikely to have a substantial impact on unemployment.

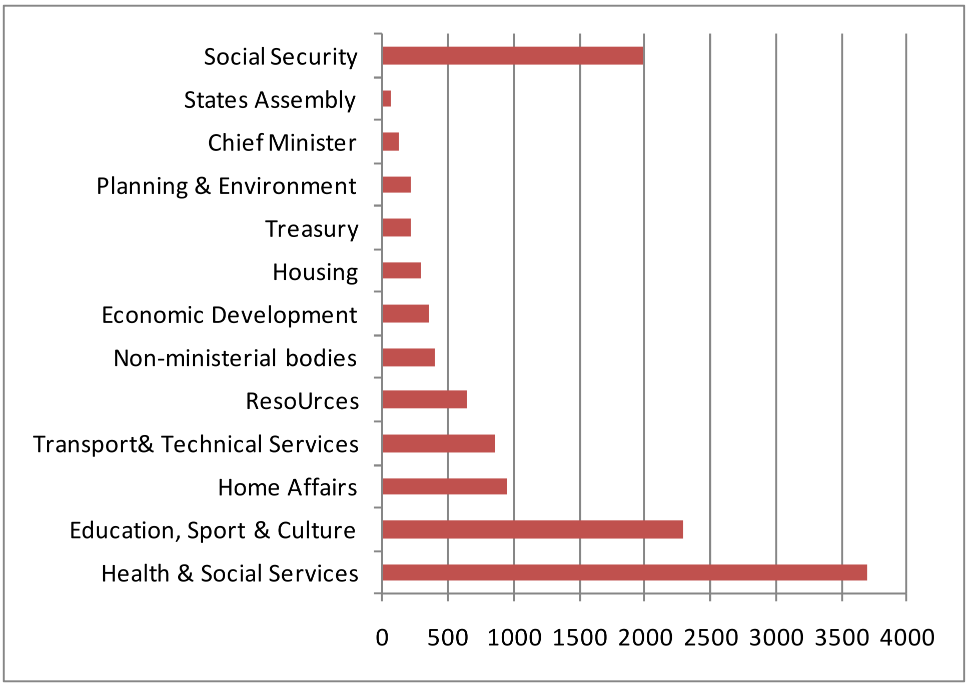
The 2011 proposals for spending cuts primarily achieve reductions in staff costs by reducing spending on temporary staff and on overtime. Achieving a further 3-percent reduction in spending in 2012 and 5-percent in 2013 is however likely to require substantially stronger measures to reduce the number of staff alongside pay restraint. However, given the relatively small size of Jersey's public sector, even if employment were to fall by 10-percent, the overall effect on (un)employment would be small.

[32] Jersey Economic Trends 2009

Departmental Analysis

This section looks at the likely impact of the specific Departmental 2-percent savings proposals for 2011 on social outcomes. It does this by drawing on evidence presented to the Hearings held with Chief Executives and Ministers for each of the Departments alongside an analysis of the CSR proposals. Figure 5 shows how the Departments savings proposals for 2011 are allocated across the Departments. Health and Social Services; Education, Sport and Culture; and Social Security account together account for a large portion of the proposed savings. As argued earlier, these are also the departments which provide the most substantial benefits-in-kind to households and provide the most significant distributive function.

Figure 5: Total Savings Proposals by Department (£'000s)



Source: CSR Proposals 2011

How will the cuts proposed for 2011 influence social outcomes? Table 6 provides a summary of the expected impact of each Departments cuts on a range of outcomes. A more detailed description of the cuts and their likely effects is then provided under a separate heading for each Department. For each Department Table 6 reports whether the 2011 savings proposals are likely to result in: (i) Efficiency Gains; (ii) a negative social impact on households; (iii) a negative impact on "marginal" groups; and (iv) a service reduction for users. It also reports total savings and reductions in employment.

Almost all Departments (with the exception of Economic Development) have proposed efficiency savings as a means of achieving the 2-percent target. Efficiency savings have typically involved rationalisation of staff-use, in particular a reduction in the use of overtime and temporary staff; improved logistical arrangements (ex storage of files); reductions or removal of budgets that are expected to have under spends; reduction or deferments of maintenance work and reduced budgets

Table 6: Departmental Analysis of the Impact of the Cuts

Department	Savings Proposals (£'000)	Efficiency Gains *	Social Impact on Households	Marginal groups	Service reduction for users	Reduction in Jobs FTE (2010 staffing in brackets)
Chief Minister	118	Y	N	N	(y)	1 (54.1)
Economic Development	346	N	Y	N	Y	1 (75.6)
Education, Sport and Culture	2,288	Y	Y	Y	Y	7.3 (1519)
Health and Social Services	3,699	Y	(y)	Y	(y)	31.9 (2,607.5)
Home Affairs	953	(y)	(y)	Y	Y	9.3 (704.3)
Housing	288	Y	(y)	N	N	0 (43.4)
Planning and Environment	208	Y	N	N	(y)	(0.5) 128.7
Social Security	1,944	Y	Y	Y	(y)	0 (58.8)
Transport and Technical Services	855	Y	N	N	(y)	6.5 (546.9)
Treasury and Resources	923	Y	N	N	(y)	3 (188.1)
Non-Ministerial	392	Y	N	(y)	(y)	2 (186.1)
States Assembly	106	Y	N	N	N	0 (30.7)

Notes:

1. Code: Y – likely effect; (y) small effect; N – No effect likely.
2. Efficiency savings are defined to include removal of under-spends and previous funds for ad hoc expenditures including consultancies and other fees.
3. Analysis based on CSR 2011 savings proposals.

for consultancies and other fees. For most Departments there will also be a reduction in the service provided for users, although in the majority of cases these reductions account for a very small share of the total savings and are likely to be small. Of particular interest here however is whether the spending cuts will have a social impact on households, and whether the most marginal groups might be affected. In terms of the wider social impact of the cuts on households only those proposed by the Departments of Economic Development; Education, Sports and Culture; and Social Security are expected to have a significant social impact. Cuts in the Departments of Education; Health and Social Services; Home Affairs; and Social Security may also have some impact on the most marginal groups.

Table 6 reviewed the likely impact of the 2-percent proposals on a range of outcomes. A more detailed discussion of the specific Departmental proposals and their likely social impact is now discussed below. These sections also discuss the relationship between the current proposals for 2-percent savings in 2011 and how these relate (if at all) to the longer-term need to make 10-percent savings.

4.1 Chief Minister's Department

The 2011 2-percent saving are mainly to be delivered by efficiency savings. The savings proposals presented do not suggest any significant social impact from the 2-percent expenditure reduction in 2011 although there may be a small impact on service delivery, in particular the Legal Advisory Panel's capacity may be reduced.

4.2 Economic Development

A high proportion of the Departments budget is effectively discretionary, with expenditure being seen as an investment and requiring a return. While the 2-percent cuts in 2011 are to be achieved by "squeezing" rather than any fundamental change to the service delivered, achieving the full 10-percent reduction will require the Department to redefine the service it offers and improve the effectiveness of delivery. The evidence presented suggested that there is a belief that the Department has the potential to operate with a significantly lower cost base.

The 2-percent proposals are mainly to be achieved from reductions in grants, in particular support for tourism. This may have an impact on local businesses and employment if numbers are affected. There is also a reduction in the grant to the Jersey Competition Regulatory Authority (JCRA) which has the potential to negatively impact on consumers. The savings identified are not "efficiency savings" in the sense that the proposals all remove funding from service providers and therefore have a direct impact on service provision. The most significant social impact of the 2011 savings proposals however is the removal of the subsidy to school milk which will cut the free school milk service to primary school pupils.

4.3 Education, Sports and Culture

ESC currently has a large number of reviews underway and expects to identify savings once these are completed. The 2011 savings proposals put forward some plans for restructuring which will lead to efficiency gains. There will also be some reduction in services (for example the use of language assistants in schools and provision of lifeguards). There are two proposals which may have a significant social impact. First, the Department proposes charging fee paying schools for their use of property. Forty-percent of States pupils in secondary education and 30% in primary attend fee paying schools with the States making a contribution to half the cost of the formers education and 25 percent of the cost of the latter. This subsidy is however regressive with those in the upper part of the income distribution being much more likely to attend these schools (data from the Income and Expenditure Survey showed that spending on school fees was £0.30 on average a week for the poorest fifth of households, rising to £2.30 for the 2nd; £2.40 for the third; £10.90 for the fourth and £36.00 for the richest fifth which suggests the greater use of fee paying schools among the better off). Second, cuts in spending for those with SEN and Emotional and Behavioural problems are proposed. Restructuring of the service may improve efficiency and minimise the impact of these cuts. However those affected are more likely than other pupils to be concentrated among less well off households and may increase their risk of social exclusion if the quality of provision suffers.

4.4 Health and Social Services

For the Department of Health and Social Services most of the 2-percent savings proposals involve improving efficiency in service delivery in particular by reducing staff costs (by reducing overtime and the use of bank staff) and costs of procurement cost. Some cuts in service provision are also proposed. That which is most likely to have an impact on social outcomes is the proposed reduction in mental health services as those with poor mental health are particularly likely to be socially excluded. Other proposed reductions in service provision are unlikely to have a substantial social impact (proposed cuts include providing patients with slippers, a reduction in physiotherapy provision and cutting minor non-surgical procedures). It is also proposed to cut costs of providing Accident and Emergency services with some sports injury cases to go private.

Further savings in 2012 and 2013 will require more substantial structural changes which are yet to be identified.

4.5 Home Affairs

The Department of Home Affairs has had difficulty identifying cuts which are pure efficiency savings. The Minister has suggested that there is currently "no fat" in Home Affairs and there is a belief that it will be very difficult to achieve the 10-percent cuts by 2013 without significant restructuring. High staff costs in particular are an issue for the Department. A significant share of the 2-percent savings proposed by Home Affairs are to be achieved through a reduction in staffing (through a reduction in the number of posts and in use of overtime) and this is likely to lead to some service reduction in customs and immigration, prisons and policing. There are also some proposals for reductions in non-staff costs which appear to be "efficiency gains" and these do not appear to have a significant impact on delivery. There are two proposals which may have a significant social impact. First the proposals reduce funding for "Building a Safer Society", a multi agency project to reduce harm from criminal and anti-social behaviour, and this is likely to have a greater impact on poorer sections of the community. Second, the States had resolved to implement Discrimination Legislation. The Home Affairs proposal for 2011 removes the budget for implementation and reduces individuals' protection against discrimination, in particular on the grounds of race, sex or disability. It also puts Jersey behind many other OECD countries, including the UK, on enforcing discrimination legislation.

4.6 Housing

The Department is responsible for the provision of social housing and estates management. It currently provides 4,600 homes for 13,000 people, or 1 in 8 of Jersey's population. Of the tenants housed by the Department 88-percent earn less that £12,000 p.a., around two-thirds are in receipt of income support (although many also contribute a share of their own rent) and many are economically inactive. As such any cuts in the Departments spending will have the greatest impact on the poor. In 2010 the Department had a budget of £14 million to managed the Department and maintain stock (and a turnover of £37 million). Over three-quarters of spending is on maintenance and premises and staffing is the other significant cost. While 85 percent of homes managed by the Department now meet the decent home standards there remains a substantial backlog and cuts in maintenance would have a disproportionate effect on the low income. The Department does not employ manual workers but contracts out its maintenance work. Staffing is the other significant cost and the Whitehead report suggested that the current staffing levels of 43 FTE was about 50-percent below what would be expected in the UK for similar stock.

Proposed cuts for 2011 appear to be primarily efficiency savings through reductions in temporary staff and other overhead costs and reduced maintenance costs as a result of recent investments (ex. by replacing oil based heating systems with electric heating). These reductions in spending in 2011 are unlikely to have any negative social impact. There is also a proposal for a £10,000 reduction in Tenant Participation and this may have a negative impact on service delivery.

In the longer term achieving the 10-percent savings is likely to require further cuts in maintenance which may be counterproductive in the long term. The Minister has also argued that the financial model under which the Department operates is not sustainable with stock being sold to finance investment. More substantial structural changes is likely to be required if the Department is to operate more efficiently and meet the needs of the populations of Jersey.

4.7 Planning and Environment

The Department does not appear to have difficulty in delivering the cuts. The vast majority of the proposed changes are efficiency savings through rationalisation of service provision. The proposal to reduce the energy grant, which has been targeted at lower income households, has a reduction in funding but this is mainly a result of the fact that the majority of low income households have already been covered with the programme due to tail off in coming years (and those low income families not yet covered will continue to receive the grant). The social impact of the spending reductions therefore appears to be minimal for 2011. In order to meet the 10-percent target the Department suggest the same services will be delivered but delivered differently at a lower cost, requiring some restructuring particularly of management.

4.8 Social Security

The Department of Social Security has two main sources of funding: tax funded income and income collected from working individuals as contributions towards the Social Security and Health Insurance Funds. Tax funded expenditure in 2010 amounted to £170 million and it is savings from these funds (rather than those from contributory funds) that have been presented for 2011. The Social Security fund is used to pay pensions and short and long-term incapacity benefits while the Health Insurance Fund contributes towards medical costs for those with a contributions record. These Funds are not under consideration for savings under the CSR.

The majority of Departmental spending is on benefits and the operational budget comprises a small share of overall spending. The capacity of the Department to deliver 10-percent savings without cutting benefits is therefore limited. Cuts in spending may therefore have a substantial impact on the welfare of the poorest households. For 2011 the 2-percent proposals for spending cuts proposed are a mixture of efficiency gains, reducing the budget allocation where there has been significant under-spend in recent years, and some reductions in service delivery and benefit levels. The savings proposed for 2011 which are likely to have most impact are reductions in funding for employment services, benefit cuts and changes to income support rules.

The proposals include a £17,000 reduction in spending on Jersey Employment Trust (Employment Services). While this is a small share of the overall budget for employment services, investment in employment services may be prudent in order to address some of the long-term consequences of unemployment for those losing their job during the recession. The UK under the previous government saw substantial investments in this area (although it is not clear whether this support will be continued). However it should be recognised that the experience of Jersey is very different, as unemployment is comparatively very low and the returns from employment services may be smaller.

In identifying further savings the minister has said that he has tried to ensure the most vulnerable are protected by looking at cuts in non means-tested-benefits. Those that have been put forward for cuts are the Christmas Bonus and GST bonus. While withdrawal of the GST bonus is not envisaged as having an impact, withdrawal of the Christmas bonus from 4,500 individuals may have some adverse consequence for some of the relatively poor. However the disabled, those in receipt of Income Support (IS) and resident pensioners receiving OAP will continue to receive the bonus so it appears the poorest are protected.

There are three savings proposed to IS. First, enhancing detection of fraud and non-compliance is expected to lead to savings of £250,000. Second, there is a proposal to freeze the rents and accommodation component of IS. While this will not have an impact on States' tenants recipients those in the private sector may be worse off. Third, the residential care uplift will be restricted to 2.8-percent, which may adversely impact care home providers. The overall impact of these changes on social outcomes is limited, with those in receipt of IS living in the private sector most likely to suffer any negative effects (although this in turn depends on what happens to rent levels in the private sector). These changes amount to total saving of £645,000 or a saving of 0.7 percent of the total IS spending of £94 million.

Making savings in the longer term to reach 10-percent will require much more substantial structural changes to the system, and in particular to IS. In addition political decisions about what is an appropriate level to set benefits at will be required alongside a discussion of how best to incentivise and support employment through the benefit system.

4.9 Transport and Technical Services

The changes proposed in the current 2-percent savings proposals are largely efficiency gains and the Department suggests that these can be delivered with very little impact on services. The currently proposed changes are unlikely to have any significant social impact. However achieving the 10-percent may present greater challenges and the current proposals could be seen as a holding amount rather than part of a structure plan to achieve savings. These may have a broader social impact, particularly any changes in spending on transport policy which provides a greater redistributive role than other areas of Departmental spending.

A key concern for TTS is likely to be in how to reduce staff costs, in particular by changing working practises and reducing overtime. However TTS employs a relatively large share of manual worker and is more unionised than other Departments and bringing staff on board will be important for achieving the 10-percent savings. An additional challenge will be the impact of reduced expenditure in

TTS for other Departments. Cuts in spending for example in Housing may impact on the revenues received by TTS for cleaning and maintenance.

4.10 Treasury and Resources

The majority of changes proposed by the Treasury and Resources are efficiency savings. There may be some reduction in support for other Departments but the overall impact on service delivery appears small. There is unlikely to be any social impact of the proposed cuts. Further savings of 8 percent in 2012 and 2013 have not been identified and the 2-percent cuts in 2011 do not appear to be part of a structured plan for spending reductions.

4.11 Non-Ministerial

Non-ministerial savings are a mixture of efficiency savings and sin reductions in service delivery. Few of these are likely to have a social impact. The one exception is the removal of a part-time community service post in the probation service which will reduce the resources available to manage the service.

4.12 States Assembly

The savings identified in 2011 are efficiency savings and no impact on services is expected.

Conclusion

Public spending has an important impact on social welfare. Data from the UK data shows that around half of all public expenditure in the UK provided direct benefits to households in 2008/09, with the value of benefits-in-kind to households from the consumption of services such as health, education, housing and transport (which are all subsidised by the State) exceeding the value of cash benefits. Moreover both cash benefits and benefits-in-kind are of disproportionate value to the poorest households (with the value of benefits-in-kind received by the poorest families' equivalent to almost 80-percent of disposable income compared to around 5-percent for the richest fifth of the population). The redistributive role of the public sector in Jersey may however differ first because, by international standards and compared to the UK, the public sector is small accounting for just 17-percent of Gross National Income. Second, the redistributive role of public sector provision in the UK is large because children and the elderly, the largest users of public sector resources, are concentrated in the lower end of the income distribution. For Jersey this is much less true with the lowest income quintiles dominated by single childless pensioners and non-pensioners, and by lone parents. Couples with children on the other hand tend to be relatively well-off. The demographic composition of Jersey seems to suggest that health expenditure may have an important redistributive function while education spending is likely to be of less importance than in the UK. Housing expenditure too is likely to be important for lowest income groups. There are also a large number of single non-pensioners at the bottom of the income distribution who, with the exception of students, tend to benefit less from public spending. Knowing more about this group, for example their age profile and whether they have recently arrived in Jersey, may give a better indication of social need.

As the public sector in Jersey is small, cuts in expenditure are likely to have a smaller impact on households than similar cuts in the UK. It is estimated here that Jersey households benefit from their consumption of public services by an amount equal to on average around 12 percent of income. A spending reduction of 10-percent over the period of the CSR may reduce this gain by around 1-percent (although the losses in consumption are likely to be unevenly spread across the income distribution). The current 2-percent savings proposals do not appear to have a substantial impact on household; in terms of the wider social impact of the cuts on households only those proposed by the Departments of Economic Development; Education, Sports and Culture; and Social Security are expected to have a significant impact. Cuts in the Departments of Education; Health and Social Services; Home Affairs; and Social Security may also have some impact on the most marginal groups.

Job loss among public sector workers may also have an important impact on social outcomes. Current proposals however have minimal affects on the number of state employees. In addition the very low levels of unemployment in Jersey mean it is unlikely that the 2011 savings proposals would have any substantial impact on employment.

An important objective of the CSR is to review major spending areas with the view to reducing costs, identifying lower priority services and consider their provision. A particular concern is that the cuts proposed for 2011 are piecemeal and are not part of systematic plan to reduce spending by the 10-percent required by 2013. The evidence presented suggests that this concern is well founded. While several Departments claim they have worked backwards, looking for 10-percent cuts and then identifying those that can be delivered more quickly for 2-percet saving in 2011, an analysis of the savings proposals for 2011 suggest that most Departments are aiming to make savings by maintaining services at a reduced cost rather than more fundamentally re-evaluating what or how services should be provided. While such cuts may deliver short-term results there is a concern that they may not deliver longer term savings. Bartlett (2010) argues that such a “salami slicing” approach may be a false economy because “effective programmes that can deliver long-term savings are likely to be abandoned, staff and the public will become disenchanted, and ultimately quite minimal savings will be achieved.” Instead he argues that evidence from the Canadian experience suggests that a much broader review of public spending is required for an effective and substantial reduction in spending. This finding is echoed by the evidence presented to the Scrutiny Committee, with witnesses noting that “spending cuts in 2004 took out resources that ended up costing more problems than they solved”.

The savings identified in the current proposals are largely efficiency savings and, to a much smaller extent, reductions in service delivery. The efficiency savings that have been identified for 2011 have tended to focus on three areas: reduced staff costs; reduced maintenance and savings; and reductions in under-spends and removal of temporary or one spends from budgets. The share of wages and salaries in total public expenditure amounts to around half of all spending. Reducing the staff bill is likely to be an important source of savings. To date however savings have been made mainly through the reduction in the use of overtime and temporary staff, the reduction in employment among public sector workers is however small (a 1-percent reduction in staffing). Future savings proposals are likely to require substantially stronger measures to reduce staff costs, either through reduced employment or earnings. Reduced maintenance and investment too may lead to greater future costs and be counterproductive to making longer term savings. Removal of under-spends however may lead to some real cuts in spending as it reduces the pot of money available for discretionary expenditure allocated by the Treasury at year end.

The public sector in Jersey is relatively small. At the moment however the question of how the benefits from State expenditure are distributed across the population are poorly understood. If concerns about how public expenditure cuts are to impact on social outcomes are to be adequately addressed then as a first step a better understanding of who gains from public expenditure is needed. An analysis, along the lines of the ONS annual survey “The Effects of Tax and Benefits of Income” conducted in the UK would greatly improve understanding of how public spending influences households’ welfare.

As a second priority it would be beneficial if the objectives of public service delivery, and the desired beneficiaries, were clearly defined. The strategic plan has as priorities increasing social inclusion and protecting the vulnerable. However to what extent this support should be provided is unclear. A clearer strategic vision should include a discussion of what is a reasonable level of provision of social security payments and other services and under what conditions (if any) benefits should be provided.

Finally, identifying the neediest should be a priority if the most vulnerable are to be protected. Among the poorest people in Jersey are single non-pensioners. Understanding poverty among this group should be a priority so that they may be appropriately supported by public policy.

Appendix

Table A1: Net Revenue Expenditure by Department, 2010

Health & Social Services	29%
Social Security	29%
Education, Sport & Culture	17%
Home Affairs	8%
Transport& Technical Services	5%
Resources	4%
Non-ministerial bodies	3%
Economic Development	3%
Treasury	2%
Planning & Environment	1%
Overseas Aid	1%
Chief Minister	1%
States Assembly	1%
Housing	-4%
Total (£'000)	£586,368

Source: CSR Proposals 2011

15. Appendix C - Timetable for CSR

29 April 2010	CoM consider Key Objectives, Capital Programme and Legislation for 2011 Business Plan
5 May 2010 (Weds)	CMB Workshop on Part 1 Business Plan – preparation for CoM
6 May 2010 (Thurs)	First Council of Ministers Workshop on Part 1 Business Plan – supported by CMB
11 May 2010	States Debate – PAC Proposals for 10% reductions in Expenditure
19 May 2010 (Weds)	Second Council of Ministers Workshop on Part 1 Business Plan – supported by CMB
26 May 2010	CMB consider Draft Property Plan for 2011 Business Plan
27 May 2010	Council of Ministers consider 3-year spending envelope and firm 2011 cash limits.
10 June 2010	Council of Ministers consider draft Property Plan for 2011 Business Plan
25 June 2010	ALL Departments to submit annexes for 2011 Business Plan
1 July 2010	Council of Ministers consider Draft Business Plan Part 1 for Lodging
12 July 2010	States Members Presentation of 2011 Business Plan Part 1
13 July 2010 (Proposed)	Lodge Part 1 Business Plan. 3-year spending envelope firm 2011 cash limits.
16 July 2010	Departments without Major Reviews return Part 2 Business Plan proposals for at least 10% savings by 2013
July/August	Consult with Scrutiny re initial proposals from Departments without Major Reviews for 2012/13 Business Plan
End July 2010	Departments without Major Reviews return draft Key objectives and Success Criteria for 2012 and 2013
End August 2010	Departments with Major Reviews return Part 2 Business Plan proposals for at least 10% savings by 2013
End August 2010	Departments with Major Reviews return draft Key objectives and Success Criteria for 2012 and 2013
1 Sept – 17 Sept or 30 Sept	Consult with Scrutiny re initial proposals from Departments with Major Reviews for 2012/13 Business Plan
27 Aug	Deadline for Amendments to Part 1 Business Plan 2011
14 to 17 Sept 2010	States debate Part 1 Business Plan 2011, 3-year spending envelope and firm 2011 cash limits, capital, legislation and property programmes.
w/c 20 Sept (20,21,22,23)	Council of Ministers Workshops to review Outcomes and Impacts from Departments for Part 2 Business Plan and 10% savings by 2013
22 October 2010 (Friday) *– before half-term*	States Members Presentation of 2011 Budget proposals and 2011 Business Plan Part 2 proposals for firm 2012 and 2013 cash limits within 3 year spending envelope
26 October 2010 *(Half-Term)*	Lodge Part 2 Business Plan alongside Budget with firm 2012 and 2013 cash limits within 3 year spending envelope
22 November 2010	Deadline for Amendments to Part 2 Business Plan 2012 with firm 2012 and 2013 cash limits within 3 year spending envelope
7-10 December 2010	States Debate Part 2 Business Plan alongside Budget 2011

16. Appendix D - Strategic Plan Priorities

1. Support the Island community through the economic downturn.

2. Maintain a strong, environmentally sustainable and diverse economy.

3. Reform the public service to improve efficiency.

4. Ensure sustainable public finances.

5. Limit population growth.

6. Provide for the ageing population.

7. Protect the public and keep our community safe.

8. Increase social inclusion by encouraging and supporting people to help themselves.

9. Enhance support services to vulnerable children, families and others at risk.

10. Maintain and develop the Island's infrastructure.

11. Enhance and improve health care provision and promote a healthy lifestyle.

12. Maintain high quality education and skills.

13. Protect and enhance our natural and built environment.

14. Adequately house the population.

15. Protect and enhance our unique culture and identity.

16. Support the development of arts and heritage in Jersey.

17. Appendix E - P99/2010

P99/2010, The Draft Annual Business Plan 2011, invites the States to decide whether they are of opinion -

to receive and –

(a) to approve the summary set out in Summary Table A, page 53, being the gross revenue expenditure of each States funded body, including depreciation and the additional provisions of net revenue expenditure for central reserves of £9,000,000 and restructuring costs of £6,000,000 as part of the total net revenue expenditure of the Treasury and Resources Department and, having taken into account any income due to each of the States funded bodies, the total net revenue expenditure of £652,881,000,to be withdrawn from the consolidated fund in 2011; with any increase above this figure compensated by appropriate measures within the draft Budget 2011 to enable the Minister for Treasury and Resources to present a draft Budget within the proposed deficit of £50 million as set out in Figure 3.4;

(b) to approve the summary set out in Summary Table B, page 54, being the estimated income and expenditure and estimated minimum contribution, if any, that each States trading operation is to make to the States consolidated fund in 2011;

(c) to approve each of the capital projects in the recommended programme of capital projects for each States funded body for 2011, as set out in Summary Table C, page 55, that requires £38,149,000 to be withdrawn from the consolidated fund;

(d) to approve each of the capital projects in the recommended programme of capital for each States trading operation, as set out in Summary Table D, page 56, that require funds to be drawn from the trading funds in 2011;

(e) to approve total net expenditure (revenue and capital) for the States funded bodies, as set out in Summary Table E, page 57, for 2012 and 2013 and to request the Chief Minister to present Annual Business Plans to the States, following the Comprehensive Spending Review, within these amounts;

(f) to approve the Legislation Programme for 2011, as set out in Summary F,.

18. Appendix F - Public Submissions

Submission	Number of Submissions
Reduce number of States Members	6
Remove Constables from the States	2
Increase States Members salaries to attract a better calibre of candidate	1
States Members salaries should be on a graduated scale	1
Scrap free parking for States Members	2
Reform of Government including compulsory voting, voting by proportional representation	1
Employing someone to make tea for States Members is wrong	1
Fines for States members who do not attend sittings without a valid reason	1
States members expenses to be scrutinised and they should be more accountable	3
Civil servants salaries should be reviewed	12
States Pension Fund should be changed from final salary	3
The current terms of voluntary redundancy are too generous	1
Freeze all new recruitment drives for anything other than front line services	1
Historic Practices – eradicate legacy staffing arrangements	1
Make the states procurement policy mandatory	1
Fewer outside consultants to be engaged	6
Reduce the public sector workforce	5
In House training for top posts	2
Review all capital expenditure projects	4
Recalculate the allocation of budgets	1
Too many Managers and administrative staff	2
Focus on what should be core public sector services and identify what can be managed better and more efficiently in the private sector	2
All stationery should be the same across all Departments	1
Stop free milk tea and coffee for all civil servants	1

Stop civil servants using their work cars for personal use	1
Shift workers should not be paid enhanced rates for Bank holidays	1
Consolidate services and relocate departments	2
Review States computer systems	1
Cut costs in Trading Departments rather than essential services	1
Parking Control Officers should pay for own parking	1
Work permits should be introduced	1
Immigrant workers are taking jobs that should go to Jersey residents	2
Immigrant workers should be medically screened prior to coming to Jersey	2
Scrap ITIS for immigrant workers and charge a fixed weekly levy	1
Repatriate foreign prisoners	1
Return to a tax system where there is one rate of 20%	1
Remove tax allowances for pension schemes and private healthcare	2
Implement online tax returns and a PAYE system	1
1(1K) residents should pay more tax	1
Scrap Zero Ten Tax	1
Retain GST at its present level but put cost on at the till	1
Stop businesses charging VAT and travel costs	1
Property ownership by non-residents or companies should be stopped or taxed at 100%	1
Social Security should scrutinise recipients of Income Support more closely	1
Rent rebates and social housing should only be given to those who genuinely need it	2
Raise Social Security income ceiling to £150,000 per person	1
Cut airport landing costs and improve Hotel standards	1
Value of mobile library	1
Reduce Overseas Aid budget	2
Rubbish should be taken direct to Bellozanne	1

Litigation practices of the Planning Department to be rationalised	2
“User pays” should be implemented	2
Connex should pay the States a high rental to provide a bus service	1
Delay retirement age to 70	1
Stop funding degrees that do not lead to a career and teach students a skill or trade	1
Introduce better, swifter and more effective methods of dealing with repeat offenders	1
Analyse eligibility of persons for whom disabled permits are provided, fine and remove permit of anyone found abusing the permit. Remove free parking for disabled badge holders - provide realistic time allowances	1
Get the WI or other groups to work with and alongside States Departments	1
Introduce charges for overnight and weekend parking on States car parks. Any vehicles not displaying a Permit – clamp, tow and charge fees	1
Review Planning Countryside Renewal Scheme	1
Review Waterfront Pool subsidy	1
Review Jersey Conference Bureau	1
Review Grants between departments	1
Review Jersey Childcare Trust	1
Review Grants made to ‘Private Schools’	1
Review Quality Milk Payments to Individuals and Companies	1
Stop running the steam clock	1
Look at the ways in which education and quality of life impact on health	1
Share resources with Guernsey	1
Total	**114**