

Ministerial Response: S.R. 5/2010
Review title: Forecasting of Expenditure

Ministerial response required by 4th June 2010

Scrutiny Panel: Corporate Services

Introduction

The Corporate Services Panel of 2005 to 2008, Chaired by the then Deputy P. Ryan left a legacy report, suggesting that the new Panel deal with forecasting of States' expenditure. The key findings and recommendations from the report are listed below.

Findings

	Findings	Comments
1	The Sub-Panel notes and approves of the Treasury Department restructure. (pg 17)	<ul style="list-style-type: none"> The Chief Minister welcomes the support of the Panel and can report that the restructuring is on target to be introduced from early June.
2	There are no powers for the Treasurer to enforce compliance with Financial Directions issued by the Treasurer under the Law. (pg18)	<ul style="list-style-type: none"> This finding appears to be drawn from the C&AG Report on the Finance Law which is down to an interpretation of the provisions in the Finance Law for the Treasurer and Accounting Officers. At Article 28 the responsibilities of the Treasurer are: <i>28 (3) It is the responsibility of the Treasurer to ensure the proper stewardship and administration of the public finances of Jersey and, in particular –</i> <i>(a) to set financial management standards for their administration and for monitoring compliance with those standards;</i> The law then provides at Article 34 for Financial Directions: <i>34 Financial directions</i> <i>(1) The Treasurer may, with the approval of the Minister, issue financial directions.</i> <i>(2) Financial directions –</i> <i>(a) shall specify any matter required by this Law to be so specified by financial directions; and</i> <i>(b) may comprise such additional directions and information as appear</i>

		<p><i>to the Treasurer to be necessary or expedient for the proper administration of this Law and of the public finances of Jersey.</i></p> <ul style="list-style-type: none"> • Having established that Financial Directions are a function of delivering aspects of the Law and can be issued by the Treasurer • The Law then specifies the “Functions of accounting officers” at Article 38. • At Article 38 (4) these functions include: <ul style="list-style-type: none"> (4) Financial directions may otherwise specify the functions of an accounting officer and how they are to be carried out. • The C&AG contends that the Finance Law could be more specific and suggests that Accounting Officers be obliged to comply with financial directions or require that Accounting Officers should be obliged to follow the guidance issued by the Treasurer. • It could be argued that the Finance Law should be clearer in its intent
3	Forecasting of expenditure at department level is reasonably accurate. (pg 18)	<ul style="list-style-type: none"> • Forecasting of expenditure at departmental level is now also a monthly reporting requirement as part of the new framework and controls in Treasury.
4	January is very early to complete an accurate forecast and does not allow for changes within the year preceding the forecast year. (pg 19)	<ul style="list-style-type: none"> • The timing of expenditure forecasts is driven by the debate and lodging timescales for the annual Business Plan. Departments are required to provide initial forecasts in January but final draft cash limits are not agreed by the Council of Ministers for proposal to the States until early July. Departments are therefore able to update their initial forecasts during the period up to the lodging of the Business Plan.
5	There is no position of overall responsibility for expenditure in the Island.(pg 20)	<ul style="list-style-type: none"> • The Chief Minister, on behalf of the Council of Ministers, is responsible for proposing overall expenditure limits to the States in the annual Business Plan, but the current structure provides that the States determines the final level of expenditure, following debate of any lodged amendments which may vary the limits proposed by the Council of Ministers. It might be argued that the Annual Business Plan is primarily a financial document and should be presented by the Treasury Minister, with subsequent responsibility being with Treasury. This would require a review of the purpose of the ABP, and a change to one or more Laws.

6	The Sub-Panel approved of the commissioning of the Fiscal Strategy Review and the Comprehensive Spending Review. (pg 22)	<ul style="list-style-type: none"> The Chief Minister welcomes the support of the Panel for both these reviews and will ensure that the Panel is regularly briefed on their progress.
7	There is no individual political responsibility for States expenditure. (pg 23)	<ul style="list-style-type: none"> See the comments to Key Finding 5
8	Discipline is required within States debates on expenditure. (pg 24)	<ul style="list-style-type: none"> The Chief Minister agrees with this finding and ask that the Panel work with him and the Council to better inform and persuade all States members of the need for financial discipline generally, and particularly at this time to address the structural deficit.

Recommendations

	Recommendations (pg 25)	To	Accept/ Reject	Comments	Target date of action/ completion
1	The Minister for Treasury and Resources should enable departments to produce forecasts for expenditure later than January of the year prior to the year forecast.	T&R	Accept	<ul style="list-style-type: none"> The timing of expenditure forecasts is currently driven by the debate and lodging timescales for the annual Business Plan. The Comprehensive Spending Review (CSR) is proposing a detailed review of expenditure limits every three years rather than the annual business plan review. The intention is to use the time created by moving away from the annual business plan process to enable a focus on longer-term planning. The CSR also has an objective of identifying cost drivers within States and all departments' expenditure. As the new process develops every opportunity to provide more time for departments to prepare their forecasts will be 	Ongoing

				taken. Also, within the 3 year process departments will be able to update the detail of their forecasts up to the lodging of the business plan later in the year.	
2	The Minister for Treasury and Resources should ensure that forecasts of the second and third years be tightened.	T&R	Accept	<ul style="list-style-type: none"> As commented above one of the key objectives of the CSR is to improve longer-term financial planning. The CSR is also proposing that three-year spending limits are set, starting with 2011, but typically following the election of each new Council of Ministers. 	Ongoing but first three-year Business Plan due to be presented to the States in October 2010
3	The Sub-Panel agrees with the reviews being undertaken and recommends that the Chief Minister ensures that the difficult choices likely to be exposed within the reviews be openly dealt with by the relevant Ministers.	Chief Minister	Accept	<ul style="list-style-type: none"> The Chief Minister and the Council are committed to a transparent CSR process. This has already begun with briefings for States members, staff, Union representatives and the media. The Communication Plan provides for similar briefings at appropriate junctures throughout the process as proposals are agreed or decisions made. The Chief Minister is also committed to the full involvement of Scrutiny, through the Corporate Services Panel but also with individual Panels and their departments and Ministers. The draft Business Plan 2011 will detail all the savings, user pays and growth proposals for individual departments. The proposals for 2012 and 2013 will be included in a Part Two Business Plan to be lodged and debated alongside the 2011 Budget later this year. 	Ongoing

4	The Chief Minister must find a method of ensuring strict political discipline in dealing with expenditure, with an auditable line of responsibility.	Chief Minister		<ul style="list-style-type: none"> The proposal to move to 3-year cash limits and 3-year business planning should help to instil financial discipline in that States members will be clear what the agreed expenditure limits are over the 3-year period. However, this will not prevent individual States members from lodging Propositions which have financial implications. Whilst the recommendation could be accepted, there is currently no means of enforcement. 	
5	The Minister for Treasury and Resources must find a method of ensuring that expenditure in Jersey is income driven.	T&R	Accept	<ul style="list-style-type: none"> The Minister for Treasury and Resources committed in his Budget speech last December to prepare a contingency plan, within twelve months, to address the structural deficit. The Minister worked with the Chief Minister and Council of Ministers in January to determine a Tax and Spending Envelope within which spending is matched with forecasts of States revenues to achieve a return to balanced budgets by 2013. Within this framework the Minister has launched a Comprehensive Spending Review to identify a significant expenditure savings complemented by a Fiscal Strategy Review to consider options for business tax changes and personal taxation. These outcomes of these two significant reviews, including a public consultation process for FSR, will come together in proposals in the 2011 Budget in October. 	October 2010

Summary

The Chief Minister recognises that this is a legacy report and has been delayed for a number of reasons. Many of the issues raised for discussion are now being addressed within the terms of reference of the CSR and FSR processes. The response of the Minister is as detailed as possible at this stage but the Panel may wish to consider readdressing any issues it feels are not fully answered as part of its planned reviews of the CSR and FSR.