Treasury and Exchequer

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Deputy Sam Mezec
Chair
Corporate Services Scrutiny Panel
By email

29th of November 2022

Dear Deputy Mezec,

Corporate Services Scrutiny Panel
Government Plan 2023-26 Review - Residual Questions

Thank you for your letter dated the 16th of November regarding the panel's written questions as part of the review of the Government Plan 2023-26. Please see my responses as follows:

1. How has the zero-based budgeting approach been fully undertaken without having the delivery plans in place at the same stage of the budgeting process?

a) How can the Assembly be assured that funding will be allocated to achieve each priority in the Plan without the delivery plans in place?

The zero-based budgeting project, in relation to the Government plan 2023, has focussed on developing the tools to facilitate the provision of granular, transparent and justified budget values. This was followed by an assessment of baseline values which was as detailed as the shortened timeframe permitted, prior to any financial decisions being taken.

The base budget so defined reflects previous Government Plans and planning cycles, with budget values allocated to deliver on the provision of public services.

Proposed increases to budgets for new revenue expenditure growth, have followed a business case process which seeks to clearly assign additional allocation to the priorities outlined in the business case.

As financial decisions were agreed by COM funding allocated to departments is linked to priorities in the delivery plans. The Assembly can therefore be assured that, as a consequence of this process funding has been appropriately allocated. The performance framework and future reporting will enable further scrutiny of spend against delivery.

2. Without funding identified within the Government Plan under Ministerial Portfolios, how is it possible to correlate Ministerial Plans against the funding allocated to the Ministerial remits to determine whether the budget allocation is sufficient to meet the stated aims of the Plan?

a. **How can Ministers give guarantees about their plans for delivery without transparent allocations of funding within their remit?**

Ministers have set out their key priorities in their Ministerial Plans, which were developed alongside the Government Plan. Some items in these plans directly link to growth expenditure, whilst others will be funded from existing resources.

In line with the requirements of the Public Finances law, financial allocations are assigned to departments, and hence Accountable Officers. Ministerial responsibilities have now been more closely aligned to departments, and so the political accountability for growth is in almost all cases obvious. The Annex to the Government Plan includes a more detailed service analysis that allows the split of financial allocations between areas of Ministerial Responsibility to be seen. A mapping of departmental budgets to Ministers has now been shared with the panel.

3**. What consideration has been given to a scenario where inflation does not fall back into the inflation targets of central banks over the period of the Government Plan and how would the Government anticipate managing further unexpected adverse inflation?**

a. What is the impact of rising inflation on income and expenditure in respect of the budget?

b. What capability do departments have to a absorb a higher sustained rate of inflation than that predicted by the Fiscal Policy Panel without it resulting in a reduction in service?

As set out in the Government Plan, provisions for inflation were made in the plan based on July FPP assumptions. There are also additional provisions in the reserve for specific areas seeing higher levels of inflation. The plan also set out the potential response if inflation were to be higher than those assumptions:

It is proposed that if inflation is higher than forecast and income forecasts consequently increase, any unspent amounts at the end of 2022 are prioritised to provide additional provision in the reserve against the corresponding impact on expenditure in 2023.

4. What evaluation, if any, has been undertaken to match outputs against inputs in expenditure programmes and ascertain how productivity is measured and how it has changed over time?

The business case approach used by government seeks to ensure that the appraisal of all expenditure programmes includes the inputs to the outputs and benefits. This is aligned with best practice with may jurisdictions across the globe. Productivity itself is not measured, quite often the small level of many of these programmes would make a productivity measure harder to use and also less meaningful. However, Value for Money principles of Economy, Efficiency and Effectiveness are used, all of which are closely linked to the wider topic of productivity.

5. Why has no reference been made within the Government Plan 2023-26 to the changes within service budgets within the broad heads of expenditure between 2022 and those proposed in 2023?

a) This results in no clear way to identify services which may have had an increase or reduction in funding within the 2023 Plan, and without an overview of the projects that fall under each head of expenditure, how can the Assembly be assured that the estimated level of funding is sufficient to meet the aims of the projects that are included within them?

Article 9 of the Public Finances (Jersey) Law 2019 outlines the requirements for what the Government Plan must set out. This includes the proposed amounts to be appropriated from the Consolidated Fund at a head of expenditure level, as such the plan is developed at this level, by head of expenditure. Further detail is provided as supplementary information within the annex to the Government Plan detailing the breakdown of budgets by service area within the head of expenditure. Changes to budgets by head of expenditure are reflected in the Government Plan within appendix 3, pages 102 – 105, this reconciles movements in budgets between 2022 and those proposed in 2023.

This is considered to be an appropriate level of detail, as including in the Government Plan at a lower level of detail would add a further layer of complexity, leading to a more complicated, lengthy, and less accessible Government Plan.

In this year's Government Plan project heads of expenditure have been considered in terms of both deliverability and affordability, the proposed capital programme also establishes project gateways, to include a three-stage project approval and business case process, which seeks to improve forecasting and ensure the level of funding is sufficient to meet the aims of the project. The improvements to the capital programme, have been noted in the Fiscal Policy Panel's Annual Report, published in November 2022, which provides further independent reassurance to the Assembly.

6. What is the profile of the Government's future debt and how much does it expect this debt to fall over this Government term?

In the broadest terms the Government's current debt is of a long-term, fixed rate nature and the profile is unlikely to change over this term of Government. As already advised, it is the intention that all COVID-19 related borrowing is repaid by the end of this financial year (2022). At this stage, it is too early to determine if the most appropriate solution for funding the new hospital project includes debt funding. The Minister currently anticipates that any funding solution for the project will more closely match the cash flow requirements, and this could reduce the reliance on external borrowing.

7. How does the government expect Jersey's public debt service charges to evolve in terms of cash and as a ratio of total general expenditure and as a ratio of GVA over the next four years?

As referenced in the response above, the majority of Jersey's debt servicing costs are fixed and will not therefore increase between now and when the debt matures (in fact reducing in real terms). Other debt costs are set out in the Government plan and form a very small proportion of overall expenditure and GVA. If expenditure or GVA increase over the next four years, these debt costs will represent a lower ration of the overall total.

8. Within Jersey's various programmes of Treasury and debt management, investment of reserve balances and strategic reserve funds, do any financial transactions involve the use of leverage, margin trading, derivatives, or trading the yield curve?

From time to time the management of the debt or investment portfolios may include the use of derivatives in order to mitigate specific risks. For example, a foreign exchange hedge was recently put in place, on the recommendation of the Treasury Advisory Panel, to protect the investment portfolio against the weakness of the Pound after negative movements against the US Dollar.

In addition, individual investment managers will deploy various types of financial markets instruments as part of their investment strategies. These managers operate independently of Government influence, but their suitability is assessed prior to appointment and at regular intervals over their term of appointment. Their strategies are applied through regulated pooled investment vehicles and any liability for Government is limited to the value invested.

9. The Fiscal Policy Panel set out advice for Government Plan borrowing including for:

- **Financing public corporations that charge for goods and services**
- **Financing public investment in infrastructure**
- **Financing fixed capital assets such as buildings to deliver public goods**

a. Has the advice been adhered to in this Plan and, if not, what deviation from the advice has occurred and why?

The draft Government Plan 2023-26 proposes no new borrowing. This is recognised by the Fiscal Policy Panel in their report published this month. The principles which will be considered by the Council of Ministers when contemplating borrowing are set out in r.68-2022.pdf (gov.je): Debt Framework. The Debt Framework will be updated in Q1 2023 after the Government Plan is approved and S&P have completed their assessment of Jersey's credit rating.

10. Under Section 7 - Preserving the value of our Balance Sheet, it is noted that the Net Asset Value of the Government should be maintained or increased. How does the Government assess what the optimal value of its balance should be and why should it be maintained or increased?

b. To what extent does the Government possess assets that are scored as 'assets' that may turn out to involve liabilities or may yield little or no social return without further revenue of current spending?

In drafting the Government Plan, the Council of Ministers has taken into account the recommendations of the Fiscal Policy Panel in determining it's Financial Principles. These included the principle to maintain or increase the Net Asset Value (NAV) of Government. NAV is based on the presentation in the States Accounts, which comply with the relevant Accounting Standards.

Many assets require maintenance to ensure that they continue to be able to be used to provide high quality public services. These maintenance budgets are included in departmental budgets. Whilst it I important that this is recognised, it is not considered to be a liability under Generally Accepted Accounting Principles.

11. To what extent will Ministers have to make choices regarding where priority is given to maintaining the Government's balance sheet and constraining tax increases by accepting reductions in public services, if tax increases are to be avoided?

The balance of tax and spend is, and has always been, a fundamental part of the Ministerial decision making that goes into shaping a Government Plan (or its predecessors).

12. The Reserve Heads of Expenditure (General Reserve) can be used to meet unforeseen pressures, or provide advance funding for urgent expenditure in the public interest. How have the amounts been identified, in particular, for growing inflationary pressures and financial consequences of the cost of living crisis – considering this continues to evolve?

a. **Are you confident that the reserves held in the General Reserve and centrally will be sufficient to meet these unforeseen circumstances, and, if so, please provide your reasoning for this?**

In determining the appropriate level of funding to be held in the Reserve, the Government must reach an appropriate balance between ensuring that sufficient funding is available to address unforeseen circumstances and the opportunity cost of maintaining approvals that, if everything goes to plan, will not need to be spent.

In light of the higher rates of inflation that are now forecast for 2022 and 2023 in particular, the Government Plan provides for staff pay awards and, for the first time in several years, has allocated additional funding in relation to non-pay inflation. Further provision is made in the Reserve for areas of government expenditure that may experience a rate of inflation that is above the rate of growth in the Retail Prices Index (RPI) – this funding will be released where higher rates of inflation can be evidenced.

Given the above, the amounts available in the Reserve are judged to provide an appropriate level of financial resilience. Nevertheless, since Government Plan was lodged there has been increased economic volatility, which could have implications for Government income and expenditure. The Minister for Treasury and Resources retains the option to consider making further allocations from unspent balances in 2022. Given the financial uncertainty in recent years, the previous Minister for Treasury and Resources took the opportunity at the end of 2020 and 2021 to increase the amounts held in Reserves for specific purposes. Reserve requirements for 2023 remain under review and the current Minister will consider whether funds that are not spend in 2022 should be made available in the Reserve for 2023 to further strength the Government's financial resilience.

13. In 2022 you were authorised to spend up £102.4 million from the Reserve Heads of Expenditure, what is the rationale for the substantial reduction in the estimated spend value?

The Government Plan 2022-25 included £52 million in reserve allocations related to Covid-19. This consisted of:

- £29 million – Covid-19 Reserve
- £20 million – Test & Trace Programme provision
- £2.6 million – Vaccine programme provision
- £0.5 million – Covid-19 Helpline provision

Now that the funding requirements for the Test and Trace Programme and Vaccination Programme are better understood the full budget for both projects has been allocated for directly to the Covid-19 Response Head of Expenditure so no ringfenced funding needs to be held in the Reserve. Similarly, now that the public health scenario is markedly improved, costs for the Covid-19 Helpline are intended to be met from within existing resources and the amount of funding held in the Covid-19 Reserve has been reduced to £5 million.

The amount available in Reserves not related to Covid-19 has actually increased in this plan due principally to the need to make greater provision for the higher rate of inflation.

14. Is there anticipated to be any unspent reserves for 2022 and if so, how much? a. Should unspent reserves exist at the year end, what considerations are underway, if any, for how the unspent reserves will be handled/carried forward into 2023?

A key purpose of the reserve is to provide fiscal flexibility for the Government to meet unforeseen pressures for urgent expenditure in the public interest. In addition some amounts are held in the reserve for specific purposes – these ring-fenced budgets include funding for specific provisions made in the Government Plan including, for example, resources for an Assisted Home Ownership Scheme (£10 million), for pay awards and against fluctuations in benefit budgets. Amounts relating to the response to COVID are also managed separately.

As at Q3 £37 million of the Reserve had not been allocated, of which £22 million is ring-fenced and expected to be needed in 2023, for example the Assisted Home Ownership Scheme (£10 million), was committed to be carried forward in the Government Plan. If there are sufficient funds, it is anticipated that these would be carried forward into 2023 for the same purpose. Departments have identified pressures of nearly £15 million, which would use up the balance of the Reserve.

The Government Plan assumed that not all of the provision for COVID in 2022 would be required, and built in the return of unspent COVID amounts, including those in the reserve, helping to repay the borrowing for COVID.

The Government Plan indicated the potential risks resulting from higher inflation and proposed that if inflation is higher than forecast and income forecasts consequently increase, any unspent amounts at the end of 2022 should be prioritised to provide additional provision in the reserve against the corresponding impact on expenditure in 2023.

15. How might any unspent reserves for 2022 be used to address the Value for Money Programme, and how will that decision be made?

The Value for Money Programme will deliver improvements in the Government's cost-effectiveness over its life. To enable this there will be a need to allocate initial funding for the team that will deliver the programme. This investment will be recovered by value for money improvements made by the programme. The use of reserve funding unspent in 2022 is one of the options being considered to fund the programme. Other options include the use of departmental revenue underspends from 2022 or allocations from the General Reserve in 2023 (subject to availability of funds).

16. Jersey has a strong public sector balance sheet and benefits from several reserve accounts including its Strategic Reserve and Social Security Fund, what level of return are you expecting and how will the returns be assessed?

Each fund has its own performance target based on its investment strategy and long-term objectives. Broadly the long-term return objective for the overall Common Investment Fund is Jersey RPI + 2% over the medium to long term. In their most recent report, the

Fiscal Policy Panel have indicated that Jersey's trend RPI will be 2.4% - giving a return on the CIF of 4.4% per annum on average.

Individual Fund performance is monitored against both the performance targets and relevant market benchmarks. Formal reporting of performance takes place through the Government's annual report and accounts. Formal monitoring takes place in-year by the Minister's independent Treasury Advisory Panel.

17. Given the significant reliance on financial services in Jersey's overall GVA and tax receipts. To ensure that it accumulates a stock of financial assets that offer it a permanent income in the event of a permanent shock that reduces the role of the financial sector. Should Jersey consider a higher rate of saving into its reserve accounts?

The Government continues to review the advice of the FPP who are clear that any budget surpluses generated should be used to improve the Government's balance sheet. This should be through rebuilding the Stabilisation Fund or improving the Strategic Reserve balance. The FPP remain of the view that the Government should consider different options for building up the Strategic Reserve, possibly through receipts from the Prior Year Basis tax liability. The Minister is grateful to the FPP for their advice and will consider their proposals against other financial priorities.

Balances available have been used to minimise and eliminate debt arising from the impact of Covid 19, well ahead of plans.

18. The Comptroller and Auditor General recommended (R3) in the Long-Term Care Fund Report 2022 that the; the actuarial review of the Long-Term Care Fund based on 31st December 2021 data is commissioned as soon as possible for reporting in 2022 and to inform the Government Plans from 2023. Has this recommendation been actioned and, if so, how has it informed the Government Plan 2023? If not, why not?

As stated in the Government Plan:

The Long-Term Care Fund will be subject to a formal actuarial review that will commence in 2022 and be completed in early 2023. This will help inform a wider review into the operation of the fund, to ensure that it is providing the right support for Islanders.

Whilst the timing is slightly different based on practical delivery of the review, this will directly address the recommendation.

19. The Comptroller and Auditor General recommended (R5) that detailed analysis of the Long-Term Care Fund contributions collected by Revenue Jersey and used to inform or validate future revenue forecasts for the Government Plan be carried out. Has this been undertaken and, if so, what is the impact on the revenue forecast for the Government Plan 2023-26?

The forecasting of Long-Term Care Charge has now been incorporated into the Income Forecasting Group's terms of reference. Due to the close linkages between Personal Income Tax and Long-Term Care Charge, forecasts are made using linked models, using all relevant tax data.

20. In the Risk Management – Follow-Up (October 2022) report the Comptroller and Auditor General recommended that the Government Plan includes the high-level risks of delivering the priorities reflected in the Government Plan rather than a small sample of the risks taken from the Corporate Risk Register. Has this recommendation been actioned in the Government Plan 2023-26 and, if so, how?

a) What steps have been taken to ensure that consistent interpretation of risk that may impact the delivery of the Common Strategic Policy priorities has been reflected in this iteration of the Government Plan?

Consideration of risks is an important part of the Government Plan process, and feeds into several other elements of the plan.

How risk is covered in the narrative of the Plan document will be reviewed before the drafting of the next Government Plan, to ensure that the recommendations of the C&AG are properly reflected.

b) If the recommendation has not been actioned in this iteration of the Plan, will the process for assessing risk be reconsidered in line with the recommendation made for future iterations of the Plan?

See answer to 20a above.

21. Article 9 of the Public Finances (Jersey) Law 2019, requires the Government Plan to include 'other information that the Council of Ministers believes that the States may reasonably be expected to need in order to consider' the statutory factual requirements of the Government Plan. What information has been included in this regard, if any, and why?

The Government Plan 2023-2026 seeks to balance the statutory information requirements with supplementary information provided to aid understanding, and the accessibility of the plan in a clear and concise document.

The Government Plan includes further information to outline the economic context for which this year's plan is framed as well as the overarching financial strategy, including financial and tax principles that have been used to develop the Government Plan.

Other relevant information is provided in the Government Plan within financial tables as well as the supplementary financial tables as detailed in appendix 3. This includes but is not limited to further details of how net revenue expenditure budgets have been built up, as well as summary and detailed breakdowns of how new revenue expenditure has been allocated, as well as providing further detail on grouped heads of expenditure.

Furthermore, the annex to the Government Plan, provides other information pertinent to the plan to detail where service areas have transferred between heads of expenditure, outline the allocations within heads of expenditure at a service area level, as well as supplementary narrative to explain the new revenue growth expenditure allocated in the Plan.

22. Article 9 of the Public Finances (Jersey) Law 2019, requires the Government Plan to set out how the proposals in the Plan take into account:

• 'the medium-term and long-term sustainability of the States' finances and the outlook for the economy in Jersey'; and

• 'the sustainable well-being (including the economic, social, environmental and cultural well-being) of the inhabitants of Jersey over successive generations.

a) Can you briefly outline how these components have been taken into account within the Government Plan 2023-26?

Sustainable Public Finances:

The Government Plan 2023 -2026 delivers budgets that are balanced across the plan, which ensures that the Government is spending within its means, whilst also allowing for the provision of replacement assets.

The Government Plan preserves the value of the Strategic Reserve and does not include any new borrowing proposals, with borrowing for Covid-19 reduced to nil.

The financial principles set out in the plan further outline a framework for which financial decisions should be agreed in terms of sustainable public finances.

Sustainable Wellbeing:

The concept of 'sustainable wellbeing' was introduced into the Public Finances Law and requires the Council of Ministers, when preparing the Government Plan, to take into account the sustainable well-being (including the economic, social, environmental and cultural wellbeing) of the inhabitants of Jersey over successive generations and set out how the proposals in the Government Plan take that sustainable wellbeing into account.

More generally, sustainable wellbeing is a new way of measuring the progress of a society. In the past, countries have focused on measuring Gross Domestic Product (GDP) and Gross Value Added (GVA) to monitor how well their country is performing. Sustainable wellbeing is a more holistic concept and uses different tools to measure how well society is doing across the key areas that are contributing to human wellbeing. It focuses on long-term progress rather than short-term intervention.

In Jersey, sustainable wellbeing is grounded in the Future Jersey consultation which told us the ten long-term issues that Islanders considered important (e.g. vibrant and inclusive community). The ten themes are grouped into three categories: Community wellbeing -

the quality of people's lives; Environmental wellbeing – the quality of the natural world around us, and; Economic wellbeing – how well the economy is performing. Each aspect is then divided into long-term Outcomes, with associated Indicators which are published as part of the Jersey Performance Framework.

The ten Future Jersey Outcomes were designed to stay in place for a generation, not just a single Assembly term. They are the self-evident building blocks of Jersey's future, covering essential elements that Islanders identify with such as community safety, health, protecting our environment and good job opportunities.

While people will generally agree with the ambition expressed by each of the outcomes, they will often hold different views about the best ways to achieve them. For this reason, Future Jersey deliberately focuses on where Islanders want to be, not 'how' to get there.

It does not tell us as the Council of Ministers which priorities or strategies to pursue. These are political choices for us to make as we have done as we have developed the Common Strategic Policy, Government Plan and Ministerial Plans.

As set out at pages 12 and 13 of the Government Plan, the Council of Ministers has taken sustainable wellbeing into account, as required by the Public Finances Law, during the development of the Common Strategic Policy 2023-2026, Ministerial Plans and the Government Plan 2023-2026 (the Government Programme) for example, by:

- Reflecting in the CSP, Government Plan and Ministerial Plans the issues relating to sustainable wellbeing that are most important to Islanders as expressed during the election.
- Considering information, data and evidence provided to Ministers by Departments as part of taking on their Ministerial roles.
- Considering the current economic context and outlook, both internationally and locally.
- Setting out in the Common Strategic Policy 2023-2026 our shared ambition and our 7 "Priorities for Change": Housing and Cost of Living; Economy and Skills; Children and Families; Aging Population; Health and Wellbeing; Environment; and Community.
- Demonstrating through our Priorities for Change, our focus on the economic, social, cultural and environmental wellbeing of Islanders now and in the future.
- Setting out in the Common Strategic Policy how we will monitor the impact on sustainable wellbeing of actions taken under each of the Priorities for Change. Most of these indicators are from the Island Outcome Indicators set out in the Jersey Performance Framework. Many of these are long term and will take more than four years to achieve (e.g. reducing obesity rates). As a responsible Government, we are not just focused on this term of office, but on the long-term future of the Island. This will enable us to take a holistic view of progress on community, environmental and economic wellbeing across Jersey over the next four years and beyond.
- Setting out in the Ministerial Plans priorities that support the Priorities for Change, which will be the focus for delivery by individual Ministers in 2023 and beyond.

- Providing for, in the Government Plan 2023-2026 and Annex the income and expenditure that will support the delivery of our priorities, for example:
  - Public Health Strategy (I-SPPP-GP23-003)
  - Living Wage Increase (I-SPPP-GP23-005)
  - Cultural Centre (I-OCE-GP23-003)
  - Women's Refuge (I-CLS-GP23-002)
  - Cost of Living Support (I-CLS-GP23-005)
  - Education Reform – Inclusion Review (I-CYPES-GP23-001)
  - Children's Social Care Reform (I-CYPES-GP23-002)
  - Countryside, Bio-diversity, Water and Air Quality (I-IHE-GP23-001)
  - Mental Health Development and Gender Pathway (I-HCS-GP23-007)
  - Ambulance Service (I-JHA-GP23-002)
  - Fire and Rescue Service (I-JHA-GP23-003)
  - Covid-19 Response

Development of Jersey's approach to sustainable wellbeing is an ongoing process, we will be continuing to improve our use of data and evidence to inform future consideration of the sustainable wellbeing impact of the actions we take.

Yours sincerely

Deputy Ian Gorst
Minister for Treasury and Resources