STATES OF JERSEY

DRAFT PUBLIC FINANCES (AMENDMENT OF LAW No. 2) (JERSEY) REGULATIONS 201-

Lodged au Greffe on 21st April 2015
by the Minister for Treasury and Resources

STATES GREFFE

DRAFT PUBLIC FINANCES (AMENDMENT OF LAW No. 2) (JERSEY) REGULATIONS 201-

REPORT

Introduction

The Minister for Treasury and Resources is pleased to present these Regulations which amend the Public Finances (Jersey) Law 2005 ("the Finance Law") so as to enable greater flexibility in the way that expenditure is set in the Medium Term Financial Plan (MTFP).

In order to assist States Members in their deliberation, it is important that these draft Regulations are fully considered against the financial and economic background that the States are currently experiencing and the recommendations of previous Scrutiny Panels, the Fiscal Policy Panel (FPP) and the Comptroller and Auditor General to introduce more flexibility into the medium term financial planning process.

Treasury officers have initially liaised with the Corporate Services Scrutiny Panel and are grateful for the Panel's timely, informal input on this amendment.

Financial background

In 2011, amendments to the Finance Law were approved which established a new Medium Term Financial Planning framework, whereby overall States income targets and maximum annual spending limits are set for a period of years – equivalent to the term of the Council of Ministers.

The overarching objective of the framework was to provide greater control of States spending; whilst providing funding certainty for departments, with the setting of minimum annual departmental spending limits, for each year of the Medium Term Financial Plan (MTFP); at the same time retaining sufficient flexibility to manage emerging pressures and changes in priorities within overall spending limits through the annual growth allocation; and the allocation of an annual central contingency supported by annual year-end flexibility for departments.

There are a number of lessons to be learned from the first MTFP, not least that the financial situation and outlook for the States can change significantly over a short timeframe and sufficient flexibility needs to be built into future Plans to accommodate further economic and financial down-turns.

The MTFP 2013 – 2015 allocated the majority of the available spending limits, including growth funding, upfront at the start of the Plan, rather than holding back growth and the allocation of capital, as provided for in the Finance Law, to be allocated as part of the annual Budget process. With hindsight, whilst this ensured important spending in support of the economy was approved, it produced an MTFP which did not provide sufficient flexibility to accommodate the reductions in income that have occurred.

Whilst Jersey’s strong financial base would be the envy of most other jurisdictions, the scale of the current challenge facing public finances and the significant opportunity to consider carefully fundamental changes to the role, delivery and structure of government in Jersey both necessitate the need to finalise plans rather than hard-wiring individual cash limits up to 4 years in advance.

Draft proposals for MTFP 2016 – 2019 and annual Budgets

As part of the 2015 Budget, States Members were informed of a reduction in income forecasts and a potential deficit in 2015 and future years, and were notified of the measures proposed to address the 2014 and 2015 income shortfalls. The latest forecasts for the period 2016 – 2019 show that income will remain significantly below previously estimated levels, and therefore sustainable measures will be required to address the shortfalls over the MTFP period.

These sustainable measures will require the Council of Ministers to make difficult decisions on significant levels of efficiencies, savings and reductions in services and benefits, which will take some time to develop and implement before they can make detailed recommendations to the States.

The Council of Ministers is conscious that there still remains significant uncertainty in the economic outlook for the Island and income forecasts for 2016 – 2019 and, therefore, unfortunately cannot commit to any additional funding for service pressures, the uprating of benefits or additional funding for priority services until detailed plans for savings and other measures to balance the budget have been established.

For all of these justifiable reasons, the Council of Ministers is not in a position to propose detailed department revenue spending limits for each year of the MTFP 2016 – 2019.

The Minister has consulted with the Council of Ministers and is proposing changes to the Finance Law which will afford the Council, and the States, time as well as flexibility to consider how the financial challenges should be addressed.

Having carefully considered the options available, the Council has concluded that the best way forward, whilst still ensuring that the original concept of the medium term financial planning process is retained and that financial control and discipline are maintained, is that the MTFP 2016 – 2019 will propose –

- total States income targets for each year 2016 – 2019;
- total maximum expenditure allocation limits for each year 2016 – 2019;
- total net capital expenditure allocation limits for each year 2016 – 2019; and
- department spending limits, central contingencies, savings and other measures for <u>2016 only</u>.

There will be no change to the 2016 Budget report, which will recommend to the States –

- tax and funding proposals for 2016; and
- individual capital projects for 2016.

Proposed Law amendments

The purpose of the draft Regulations amending the Finance Law is to introduce the flexibility detailed above into the way that States expenditure is fixed in the MTFP.

Currently, the financial planning process set within the Finance Law requires the Council of Ministers to produce an MTFP which, as well as setting total net States expenditure from the Consolidated Fund for each year of the Plan, also requires the approval of –

- A revenue head of expenditure for each States department;
- A maximum allocation to capital expenditure;
- A maximum annual allocation for growth to provide for emerging pressures and changes in priorities; and
- An annual allocation for central contingencies.

The amendment does not alter the requirement to set an overall total amount of States expenditure for each year of the Plan and, importantly, does not alter the requirement to provide a breakdown, as detailed above, of this expenditure for the first year of the Plan.

What the amendment does do is to give the States the flexibility of providing the expenditure breakdown detailed above for the second and subsequent years in the MTFP, or including it as part of an annual Budget, or at an alternative date.

It would be the Council of Ministers' intention to bring forward the proposals for 2017, 2018 and 2019 department spending limits in 2016 for debate as part of the 2017 Budget, to provide certainty to departments for future years at the earliest opportunity. This is explained further in the diagram at the **Appendix** to this Report.

The requirement to present the Consolidated Fund balance and demonstrate that it is not overdrawn over the period of the MTFP remains unaltered as an integral part of the Finance Law.

The Minister for Treasury and Resources and the Council of Ministers are extremely keen that the principle of longer-term planning to provide greater control over States spending remains paramount, and both parties fully believe that the current amendment ensures that this principle is retained, but also gives some flexibility and enables proper planning to address the reduction in income forecasts and uncertainty in economic outlook over the next MTFP period.

The Minister is keen to emphasize that there are further issues identified by the Comptroller and Auditor General and the Corporate Services Scrutiny Panel which require careful consideration and he will, if necessary and appropriate, bring forward further Law amendments to reflect these at a later date.

Financial and manpower implications

There are no additional financial or manpower implications for the States expected to arise from the adoption of this draft legislation.

APPENDIX TO REPORT

Draft proposals for presentation of MTFP and annual Budgets 2016 – 2019

	2015	**2016**	**2017**	**2018**	**2019**
May				**MAY ELECTION**	
June	Lodge MTFP 2 2016-2019			for 4 years to May 2022	Lodge MTFP 3 2020-2023
		Lodge Budget 2017	Lodge Budget 2018		
July	MTFP2 to propose: Total Income targets Total Spending limits Total Capital Limits for 2016-2019. Dept cash limits 2016 Indicative dept cash limits 2017 - 2019 and capital projects 2016- 2019	Budget 2017 intention to propose: Tax and Funding 2017 Dept Cash Limits 2017, 2018 and 2019 Capital projects 2017 Rolling forecast of Income and Expenditure extended to 2020	Budget 2018 proposes: Tax and Funding 2018 Capital projects 2018 Rolling forecast of Income and Expenditure extended to 2021	Develop New Strategic Plan in 100 days and prepare Budget 2019 for Tax and Funding Proposals only. Rolling forecast of Income and Expenditure extended to 2022	MTFP3 to propose for 2020-2023: Total Income targets Total Spending limits Total Capital Limits Dept cash limits Growth allocations Indicative capital projects 2020-2023
September	Debate MTFP 2 2016-2019			Lodge Budget 2019	Debate MTFP 3 2020-2023
October	Lodge Budget 2016	Debate Budget 2017	Debate Budget 2018	Lodge Strategic Plan 2019	Lodge Budget 2020
	Budget 2016 to propose: Tax and Funding Capital Projects for 2016			Budget 2019 to propose: Tax and Funding and Capital Projects for 2019	Budget 2020 to propose: Tax and Funding and Capital Projects for 2020
November				Debate Budget 2019	
December	Debate Budget 2016			Debate Strategic Plan 2019	Debate Budget 2020

Explanatory Note

These Regulations amend the Public Finances (Jersey) Law 2005 (the "Law") so as to introduce flexibility in the way that expenditure is fixed in a medium term financial plan.

A medium term financial plan fixes, for each year to which the plan relates, a total amount of net States expenditure from the consolidated fund (see Article 8(2)(b) of the Law). Currently, a medium term financial plan then goes on to break down how this money will be spent for a year, as follows –

(a) a revenue head of expenditure for each States funded body (except States trading operations);

(b) an amount for contingency expenditure;

(c) a maximum amount for capital expenditure (net of receipts);

(d) a maximum amount for growth expenditure.

The amendment does not alter the requirement to set, in the medium term financial plan, a total amount of net States expenditure for a year to which the plan relates, and which cannot be exceeded for that year. Nor does it alter the requirement to provide, in the plan, a breakdown of that expenditure for the first year to which the plan relates.

However, for the second and any subsequent year to which the plan relates, the amendment gives the option of either including the breakdown of expenditure in the medium term financial plan or coming back at a later date to add it to the plan. If the breakdown of expenditure for a year is to be added at a later date, it must be lodged in sufficient time for it to be debated and approved by the States before the year starts. The same requirement applies to the Budget for the year (see Article 10(2)(b) of the Law), so the practical effect is that an addition to the medium term financial plan for a year would have to be lodged no later than the Budget for that year has to be lodged.

This option of coming back at a later date would also apply to the debate and approval of a States trading operation's income, expenditure and capital projects for a year.

The default rule is that the Council of Ministers must lodge a draft addition to a medium term financial plan. However, the Council may agree that the Minister for Treasury and Resources lodges the draft addition. In that case, the Minister is given the option of lodging the draft addition and the Budget as a single document.

The rules for submission of estimates, whether on behalf of a States funded body, the States Assembly or the Comptroller and Auditor General, continue to apply, irrespective of whether the estimates are included in the medium term financial plan or added to it at a later date.

Jersey

DRAFT PUBLIC FINANCES (AMENDMENT OF LAW No. 2) (JERSEY) REGULATIONS 201-

Arrangement

Regulation

Jersey

DRAFT PUBLIC FINANCES (AMENDMENT OF LAW No. 2) (JERSEY) REGULATIONS 201-

Made	*[date to be inserted]*
Coming into force	*[date to be inserted]*

THE STATES, in pursuance of Article 69A of the Public Finances (Jersey) Law 2005[1], have made the following Regulations –

1 Public Finances (Jersey) Law 2005 amended

In the Public Finances (Jersey) Law 2005[2] –

(a) at the beginning of Article 8(2) and (5) there shall be inserted the words "Subject to Article 8A,";

(b) in Article 8(2)(b) for the word "total" there shall be substituted the word "maximum";

(c) after Article 8 there shall be inserted the following Article –

"8A Medium term financial plan – subsequent approval of certain net States expenditure

(1) A draft medium term financial plan need not seek the approval of the States to all or any of the amounts described in Article 8(2)(c) and (d) for the second or any subsequent financial year to which the draft plan relates.

(2) Where such amounts for the second or a subsequent financial year are omitted from a draft medium term financial plan –

(a) the Council of Ministers must prepare a draft addition to the medium term financial plan that would add the amounts to the medium term financial plan for that year (a "draft addition");

(b) a draft addition may add amounts for one or more financial years;

(c) Articles 8, 24A, 24B and 24C apply, with any necessary modifications, to the preparation of a draft addition as they apply to the preparation of a draft medium term financial plan;

(d) a draft addition must be lodged in sufficient time for it to be debated and approved by the States before the start of the financial year, or the earliest financial year, to which it relates.

(3) Subject to paragraph (4), only the Council of Ministers may lodge a draft addition.

(4) The Council of Ministers may agree that a draft addition is lodged by the Minister.

(5) Where a draft addition is to be lodged by the Minister, the Minister may lodge the draft addition and a draft budget as one proposition.”.

2 Citation and commencement

These Regulations may be cited as the Public Finances (Amendment of Law No. 2) (Jersey) Regulations 201- and shall come into force on the day after the day they are made.

[1] *chapter 24.900*

[2] *chapter 24.900*