STATES OF JERSEY

GOVERNMENT PLAN 2020–2023 (P.71/2019): SEVENTH AMENDMENT (P.71/2019 Amd.(7)) – COMMENTS

Presented to the States on 21st November 2019
by the Council of Ministers

STATES GREFFE

COMMENTS

The Government Plan Review Panel's amendment (P.71/2019 Amd.(7)) would effectively remove the Efficiencies Plan from the Government Plan 2020–2023, and require it to be brought back to the States Assembly for approval.

The Council of Ministers strongly opposes this amendment and urges States Members to reject it.

The Government Plan combines spending, investment, efficiencies and modernisation proposals for the first time, and this structure has been well-received, not least by the Panel's independent adviser (CIPFA), which noted the high-level strength that [the] "Architecture/structure of the Government Plan is comprehensive and well presented". The Comptroller and Auditor General, in her September 2019 report on Financial Management and Internal Control, said –

> "Substantial progress has been made:
>
> - the Medium Term Financial Plan has been replaced with a Government Plan. This means that:
>   - income and expenditure are systematically considered at the same time; and
>   - the move from a rigid expenditure plan for four years to a plan that is fixed for one year and indicative for subsequent years enhances adaptability;
> - the process for the preparation of the Government Plan has involved more structured and wide-ranging challenge; and
> - the Government Plan is more accessible and clearly links expenditure to strategic priorities and desired outcomes.".

The identification and delivery of efficiencies enables material funding of growth plans, as set out in the Government Plan, without commensurate increases in taxes: a critical principle set out in responses received as part of the Personal Tax Review. Its presentation alongside growth plans mitigates the previous significant issue of spending proposals being supported while subsequent funding proposals are rejected; leading to a budget deficit.

The objective to deliver £40 million efficiencies was initially derived from the identification of a structural deficit from 2020 of around £30 million. This objective was reviewed in the light of the States' base expenditure of around £800 million, and what departments assessed as reasonable, and consequently increased to a £40 million objective for 2020 and £100 million across 2020–23.

The approach to efficiencies has been a well-constructed process, built from within and across departments. Approvals were secured from relevant Ministers, the One Government Political Oversight Group, and the Council of Ministers, as efficiency proposals were developed. This is in direct contradiction to the Panel's statement that [the Plan] appears to be a series of aspirational targets for the Government to impose upon departments.

The definitions of efficiencies used in the Plan are transparent; the vast majority of efficiencies come from reductions in spending and the better collection of taxes (92%). New revenue-raising activity represents only 3% of the Plan, and is aligned with the Common Strategic Priorities, the majority being a forerunner to emerging environmental policies, targeting behaviour change in a defined group.

The amendment makes the point that "any Member could lodge an amendment to remove one or all of the proposed efficiencies". Indeed, there is evidence among the amendments to P.71/2019 that this right has been exercised. It is difficult to see, therefore, what further delay would achieve.

The Council of Ministers has responded positively to proposals to present future efficiencies as part of the Government Plan and a six-monthly impact analysis of the Plan (P.88/2019), and these changes will come into force in 2020.

Financial and manpower implications

There is no legal impediment to this proposal in that, while it reduces the Consolidated Fund balance by a maximum of £40 million, it does not leave a negative balance on the Fund in 2020. It does, however, reduce the balance on the Fund by nearly a half, significantly reducing the ability of the Government to respond to financial challenges brought about by unpredictable events. It should also be noted that it would have been in contravention of the Public Finances Law for the Council of Ministers to have lodged a Government Plan without this tranche of £40 million of efficiencies, as is proposed by the amendment, as it creates a deficit position in the Consolidated Fund in 2022.

Consequently, this amendment is considered financially imprudent, and it does away with one of the major benefits of the Government Plan, noted by external reviewers including the C&AG and CIPFA, that is its concurrent treatment of expenditure and its funding.

Acceptance of the amendment could, in practice, result in a deferral of the growth plans set out for 2020 in the Government Plan (either a defined £40 million or all growth, pending agreement on which elements are deferred or stopped). This is necessary to prevent building problems for the future by committing to recurring expenditure with no commensurate approach to funding.

It would also delay and/or stop the initiation and execution of the comprehensive initiatives set out in the Government Plan intended to deliver the Assembly's commitments to support the Common Strategic Priorities.

In the context of the delivery of planned, and development of future, efficiencies there would be significant opportunity costs associated with the amendment, summarised as material delays to –

- the implementation of Efficiency 2020 projects
- the generation of the 2021 Efficiencies Plan
- the initiation of the activities funded by 2020 growth.

Conclusion

The Government is consistently and continuously told that it must address its own spending levels before considering raising new taxes. The Efficiencies Plan represents a sensible, well-researched and achievable platform to do just that. Although the Panel suggests that the Plan could be brought back in January 2020, there is no guarantee that the Assembly will have the collective will to approve delivery.

Members may ask: "What is the harm in delaying this by a couple of months?" That delay is damaging for a number of reasons:

- As outlined elsewhere, it is vital that the "hard" decisions on efficiencies are debated at the same time as the "nice to have" growth measures. This is what the Chief Minister has committed to in his amendment to Deputy Southern's proposition (P.88/2019). From the 2021 Plan onwards, efficiencies will be an integral part of the lodged document. History suggests that if we, as an Assembly, split these decisions, we will approve the spending without the measures to pay for that spending. We did it in the Medium Term Financial Plan, and that was a millstone around the neck of the last Government. Expert commentators, including the C&AG and CIIPFA, have stressed bringing income and expenditure together as an important improvement. We must not go back on this improvement.

- In consequence, the only prudent course of action for Ministers to take, in the event that this amendment is agreed to by the Assembly, would be to delay the investment in services and improvements to the outcomes for Islanders, until such a time that the Efficiencies Plan was approved. To do otherwise would be to risk incurring a significant deficit in 2020, and potentially beyond, at a time when the FPP has advised that Government should be running a surplus, and potentially threatening the sustainability of our finances.

- Officers also need to deliver the £40 million of efficiencies (including income-raising measures) in 2020. Even a month's delay could mean a shortfall in 2020 of several million pounds. If some of the measures are removed, this makes the problem worse. They would either have to be replaced, meaning extra work, which will impact on preparing the next Government Plan efficiencies, or they would not be capable of replacement in 2020, in which case the financial position worsens. The potential for an enormous requirement (potentially up to £60 million) in the 2021 Plan is a major risk.

The Council of Ministers strongly believes that the Assembly must demonstrate its commitment to living within its means. Growth where it is urgently needed comes at a price. That price is higher taxes or reduced spending. Islanders have told us which of those they prefer, and the Council believes it has a duty to better use its resources and show that it is listening. And more importantly that it is prepared to take tough decisions when needed.