STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2013 – 2015 (P.69/2012): FOURTH AMENDMENT (P.69/2012 Amd.(4)) – COMMENTS

Presented to the States on 5th November 2012
by the Council of Ministers

STATES GREFFE

COMMENTS

Deputy R.G. Le Hérissier of St. Saviour proposes that the total amount of States net revenue expenditure and the net revenue expenditure of the Treasury and Resources Department be increased by £500,000 in each of the years 2013 to 2015 to enable additional grants to be made available to third sector organisations. It is proposed that an appropriate new allocation procedure be established as appropriate between the Minister for Treasury and Resources and the Association of Jersey Charities and other bodies representing such organisations.

The Council of Ministers has reviewed this amendment and has concluded that there are difficulties in awarding funding without a clear purpose or a clear methodology for allocation. Departments have worked extremely hard to ensure that all existing arrangements are based on service level agreements, and this ensures that not only is there is proper governance of public money, but also that there is co-ordination of services between those provided by third sector organisations and those provided directly by States departments. Taxpayers should be certain that funding is given for the alternative provision of essential services and not a duplication of services. There is a well-defined process for grant awards within the States and other bodies, such as the Association of Jersey Charities (AJC), that are in the position to award funds. Finally, it is possible that the current lottery funding can be extended to provide additional funding for third sector organisations as current projections for proceeds are in excess of original expectations.

On this basis, the Council of Ministers opposes this amendment.

Council of Ministers' Comment

General points

Deputy Le Hérissier's proposal is to set up a fund that is available for the Association of Jersey Charities (AJC), and other bodies, to provide additional funding for third sector and sporting bodies. In particular, the Deputy is concerned about the level of funding already dispensed by the AJC and by the cutbacks in grants to sporting bodies.

The amendment proposed by Deputy Le Hérissier does not set out a definition of a third sector organisation. This is an important omission because the amendment proposes a central allocation method for the disbursement of the £500,000 to qualifying organisations. This would need a careful definition to ensure that funds were distributed in a way that fulfilled those objectives set out in the States Strategic Plan and enhanced the services already supplied directly by the States.

In order to analyse existing expenditure on third sector organisations, the Council of Ministers has adopted the following criteria for the definition of a third sector organisation[1]:

- Are non-governmental;
- Are 'value-driven' – that is, that are primarily motivated by the desire to further social, environmental or cultural objectives rather than to make a profit *per se*;

[1] *H.M. Treasury in its publication called Exploring the Role of the Third Sector in Public Service Delivery and Reform (2005)*

- Principally reinvest surpluses to further their social, environmental or cultural objectives; and
- Are in the place between State and (the) private sector.

The total amount of grants awarded in 2011 to a variety of organisations was £37.9 million, and this represented 6% of total net revenue expenditure for that year. An analysis of the 2011 grants awarded can be determined using the criteria set out above. On that basis, the amount awarded to third sector organisations in 2011 was £13.0 million, which represents 36% of total grants awarded in this year (excluding the £8.3 million that was awarded for Overseas Aid). It is also important to note the increase in overall grants and funding for third sector organisations over the last 3 years –

	2011 £m	2010 £m	2009 £m
Total Grants	**37.9**	**34.2**	**32.7**
% Total Grants/Net Revenue Expenditure	6%	6%	6%
Third Sector Organisations	**13.0**	**11.2**	**11.0**

Third Sector organisations play a valuable role in providing services for a wide variety of social, sporting and cultural reasons. The role of the volunteers in these efforts is not underestimated, and allows those organisations to manage service provision at a much higher level than government could directly provide. Fund-raising can be difficult in tight economic circumstances, but the States must be mindful of the balance to be struck between services that can be provided by charitable organisations and those that must be directly provided by the States.

As part of the development of the Medium Term Financial Plan, departments were asked to submit growth bids after careful examination of their base budgets. The Council of Ministers reviewed these growth bids and came to a decision on prioritisation and funding. There was no proposal from any department to increase its funding to third sector organisations outside of that which could be afforded from its base budgets.

This position was further endorsed at a recent briefing meeting on the Medium Term Financial Plan with representatives of a wide range of third sector organisations. There was general support for the level of financial support given to the third sector by the States of Jersey and an acknowledgement of the Minister for Treasury and Resources' commitment to ensuring that departments maintain the co-ordinated approach to service delivery.

Notwithstanding this, in the near future it is anticipated that, with the support of the Jersey public, the proceeds of the Channel Islands Lottery in Jersey will grow beyond their current levels (£419,572 in 2011) as a result of the improvements made by the Economic Development Department (EDD). This provides an increasing source of funding for charitable organisations, without requiring an increase in States net revenue expenditure.

The final comment must concern the proposed allocation method of the £500,000. This proposal will need additional effort and likely some strict governance procedures to ensure that the awards are made appropriately. Treasury and Resources will not have the required level of knowledge to evaluate each bid without reference to departments. This is because the bid will need to be set within the context of existing service provision, other grants awarded for complementary or similar services, and the overall strategic direction of third sector provision in general.

This makes this method of allocation at odds with the existing governance framework, and will have implications that are not set out within the amendment from a cost perspective.

Furthermore, it is not the case that the mechanism used for the allocation of lottery funding would be appropriate to allocate funding in this scenario. Due to the potential increase in funds already anticipated, EDD and the Public Lotteries Board are examining options to widen the pool of beneficiaries beyond the AJC whilst maintaining their current funding level. The proposals would form part of a major revision to the Channel Islands Lottery (Jersey) Regulations 1975.

The Health White Paper

The potential to develop services in the charitable and voluntary sector is a key aspect of the White Paper proposals agreed by the Assembly on 23rd October 2012. Commissioning services from this sector (as well as the private sector) needs to be undertaken based on the health and social care needs of Islanders. This is at the core of providing health and social care and ensuring that Islanders' needs are met. In terms of the process for awarding funding, once a need has been identified the Health and Social Services Department (HSSD) commission services based on demonstrable quantitative and qualitative health or social care outcomes and delivery of value for money. Issues such as meeting recognised care standards, interacting with other services and being an integral part of the overall provision of a service to a particular client/patient group will also be an important factor.

HSSD are moving away from simply giving grants to commissioning services. As the Deputy's report notes, this requires Service Level Agreements to be in place, and places responsibilities on the Department and the third sector organisation. Again, as the Deputy notes, it is essential that the commissioning of services is viewed as part of HSSD's overall strategy. It is essential that services are delivered and managed in a co-ordinated manner to meet the identified needs of Islanders. The allocation, commissioning and assessment of such services, therefore, should be undertaken by those with a professional knowledge and understanding of the services.

The allocation by the Treasury and Resources Department would, therefore, be inappropriate if it were related to any services that are set out in the White Paper or are currently provided by HSSD.

Council of Ministers' Key Themes

Key Theme – Growth

The States approved initial growth allocations in the 2012 Business Plan of £6 million in 2013 and £16 million in 2014. As part of the initial work on the Medium Term Financial Plan and the resource statement in the States Strategic Plan, a level of £26 million was proposed for growth in 2015 as part of the total States spending limits for the Medium Term Financial Plan.

Against these original growth allocations, Council of Ministers received growth requests from departments amounting to almost £35 million. The growth requests also proposed that a higher level of growth was required in 2013 to address the immediate priorities of Getting People Back to Work, Economic Growth and Reform of Health and Social Services. In addition to the main growth bids, initiatives for 'Back to Work' and Employment projects (which may not be permanent and recurring) of £7 million by 2015 were also proposed.

The Council of Ministers and Corporate Management Board conducted a significant prioritisation process with departments, which attempted to reduce the requests to the level of growth funding available. The Treasury worked with departments to identify if there were other ways that the growth requests could be funded within existing spending limits. Departments were encouraged to reprioritise existing services and identify efficiency savings wherever possible.

The Council of Ministers then went through a process of 7 iterations. A fully funded package of proposals was agreed which will prioritise the growth bids, taking into account changes to resources that the Treasury could identify, to help deliver the Strategic Priorities.

The prioritisation process dovetailed with the work being carried out by a number of Ministerial Oversight Groups, for example on Health and Social Services and Housing Transformation. White Papers were due to be published, and the MTFP has been prepared to be consistent with what will be proposed, without in any way pre-empting the support of the States for the funding proposals in the MTFP.

The Council of Ministers considered that there remained a priority to find additional funding for Reforming Health Services, Getting People Back to Work and Stimulating Economic Growth, and proposed to allocate all available growth in the Medium Term Financial Plan. This was not the original plan, which would have left some growth available to allocate in future years, but the immediate funding of these initiatives in 2013 was felt to be vital to provide a stimulus to employment, the economy and also to begin the essential reform of Health and Social Services.

The Council of Ministers was conscious of the need to provide some future flexibility, especially for 2014 and 2015, and this has been achieved, for example, through the provision of contingencies and the agreement of the £222 million capital programme on an annual basis.

The Council ultimately considered 3 final options –

- All prioritised growth bids to be included in MTFP,
- Removing selected growth bids to get closer to a fully funded position,
- Removing all 2013 growth except Health and Social Services.

One of the Council of Ministers' key resource principles is to maintain a balanced budget position and deliver affordable and sustainable public services, and this determined the final option, which required a final prioritisation process to select growth bids to be removed and not funded as part of the Medium Term Financial Plan proposals. These removed or deferred growth bids amounted to £11.6 million in 2013, £7.4 million in 2014 and £5.1 million in 2015.

Key Theme – Balanced Budgets

The States endorsed a 3 part plan to address the deficits which were forecast from the move to a zero/ten tax regime and the impact of the economic downturn. The 2012 Business Plan presented proposals for a balanced budget from 2013, and this has been the basis for the States Strategic Plan and Council of Ministers' proposals for the Medium Term Financial Plan.

This 3 part plan is delivered and is working –

1. Savings have been removed from budgets to deliver over £61 million by 2016,
2. Economic growth has been boosted by a fiscal stimulus package, and
3. Taxes have been raised where necessary to close the remaining gap.

The Medium Term Financial Plan proposes balanced budgets in 2013 through to 2015, and the Council of Ministers is proposing a number of budget reductions and other measures over the next 3 years to ensure that these balanced budgets can be maintained while providing the necessary resources to deliver the agreed Strategic Priorities.

It is important to keep public sector spending under control so that the Island can remain competitive with relatively low levels of inflation. If the States is to provide sustainable services to the public it is fundamental that we take account of the economic outlook, be prudent in our spending plans, ensure that savings and efficiencies are implemented and not increase public spending unless it is matched by savings or additional income.

It is also important that the States endorse the proposals for balanced budgets and do not dilute the tough decisions that have been taken so far on tax and spending by accepting amendments that would not result in balanced budgets.

Balanced budgets are essential to provide certain, stability and confidence in the Island to be able to deal with uncertainty, enable the Island to be competitive internationally and be in a position to take advantage of global economic growth when it returns.

Key Theme – Affordability

The States Strategic Plan approved 7 resource principles to ensure that the States maintain balanced budgets, but also so that public services remain affordable and sustainable over the medium term and longer term.

These resource principles are –

1. *Be prudent, taking account of the uncertain economic and financial outlook.*

2. *Identify and implement all possible savings and efficiencies. (For 2013 and beyond we will optimize methods of service delivery and provide value for money.)*

3. *No additional spend unless matched by savings or income.*

4. *The Stabilisation Fund will only be used during an economic downturn, as advised by the Fiscal Policy Panel, to fund the effects of reductions in States revenues or increased demand for States services, and to provide appropriate stimulus to the economy.*

5. *Maintain balanced budgets over the medium term for current expenditure, and achieve an appropriate balance between taxation and spending over the course of the economic cycle.*

6. *Actively manage the Balance Sheet as well as the Budget by maximising investment returns within agreed levels of risk.*

7. *Plan our expenditure on capital and infrastructure over the long term, and consider carefully the appropriate sources of funding for major projects, including borrowing.*

The Medium Term Financial Plan is an important next step in Jersey’s sustainable long-term planning and will provide a foundation for our future. Developing medium and long-term financial plans to deal with taxation and funding strategies for long-term capital and revenue expenditure is vital in meeting the challenges of the economic downturn and the ageing population. The Medium Term Financial Plan will ensure that we have the financial ability to achieve the goals of the Strategic Plan over the next 3 years.

These principles should be borne in mind when considering each amendment. Any amendment that increases total spending or reduces income will worsen the financial position, potentially meaning that the States doesn’t have balanced budgets and also that less funds are available in the Consolidated Fund to address future priorities.

Financial implications

The amendment proposes that the net revenue expenditure be increased by £500,000 in each of the years 2013 to 2015. The Council of Ministers has already considered the overall net revenue expenditure for each department, and the overall amount of funding required has meant that contingencies and other funding sources have been used in order to achieve a balanced financial position in each of the years 2013 to 2015.

This amendment would not mean a deficit in 2013, but would negatively impact on 2014 and 2015.

Additional funds will be withdrawn from the Consolidated Fund in these years, leaving less flexibility available in future years.

There are likely to be additional costs that are not set out in this proposition, to administer this fund if it is set up in this manner.