Overall Management of Public Finances during the COVID-19 pandemic

28 June 2021

R.114/2021

JERSEY AUDIT OFFICE

Contents

Summary

Introduction

1. The rapidly evolving nature of the COVID-19 pandemic has called for an extraordinary response from the Government as it has sought to save lives and protect health and livelihoods in Jersey. The principles of good governance, transparency, value for money, effective internal control and accountability for the use of public funds remain during a time of emergency. Whilst public financial management systems need to be responsive and flexible, it is essential that they continue to ensure value for money and minimise the risk of fraud and corruption.

2. In a series of reviews, I am evaluating the Government's response to the COVID-19 pandemic. The review I report here evaluates the overall management of public finances in the period from March 2020 to September 2020. It focusses on:

   - financial forecasting
   - procedures to record and monitor COVID-19 related expenditure
   - the revolving credit facility; and
   - 2020 budget re-prioritisation.

Key findings

3. The key findings from my review are as follows:

   - the financial impact of the COVID-19 pandemic on the States of Jersey (the States) was unprecedented. In common with officers across the States, this placed a significant workload on officers in Treasury and Exchequer. This high workload and the need for urgency required a pragmatic approach to some decisions
   - at an early stage of the COVID-19 pandemic, the States recognised the need to assess public finances and agree measures to meet the expected costs. During March 2020:
     - the Minister for Treasury and Resources sought and received an updated economic forecast and revised fiscal advice from the Fiscal Policy Panel (FPP); and

    - the States Assembly approved the Public Finances (Amendment of Law) (Jersey) Regulations 2020 which provided additional powers for the Minister for Treasury and Resources for a six-month period. These additional powers included greater flexibility in how funds could be used and significant increases in borrowing limits.

- in April 2020, the States forecast net spending for 2020 to be £272 million higher than the Government Plan for general revenues and departmental expenditure and £99 million for Social Security Funds. Ultimately, the actual net spending in excess of the Government Plan was lower, but still significant, at £132 million for general revenues and departmental expenditure and £21 million for Social Security Funds

- Government Financial Reports were prepared monthly and set out information on COVID-19 related costs and estimated income and expenditure for the year. The usefulness of these reports would be improved by linking them more clearly to amounts approved in the Government Plan, including additional information on key balances and on cash flows

- officers built on existing systems and processes to put in place pragmatic and flexible arrangements to identify and monitor COVID-19 related expenditure. However, the States did not have adequate arrangements in place for cash flow forecasting. Cash flow forecasting became critical at an early stage of the COVID-19 pandemic and officers were required to develop cash flow forecasts from first principles

- based on cash flow projections, the States procured a revolving credit facility to provide flexibility to borrow up to £500 million. While I consider that the procurement process followed was appropriate in these particular circumstances, it did not follow the States' procurement requirements for open tendering. Officers did not seek an exemption from the procurement processes and did not record this as a breach as required by the Public Finances Manual

- ultimately, the States did not need to borrow during 2020. There was considerable uncertainty about the impact of the COVID-19 pandemic on cash flows. The revolving credit facility provided back-up to avoid any potential requirement to sell equity holdings at a temporarily depressed price

- pragmatic and effective arrangements were put in place for departments to submit business plans to request additional funding for COVID-19 related expenditure; and

- the States recognised the need to rebalance their finances early in the COVID-19 pandemic and put revised arrangements in place to develop the Government Plan for 2021 to 2024. The Government Plan was approved by the States Assembly on 17 December 2020.

Conclusions

4. The States responded well to the impact of COVID-19 on their financial management arrangements. This included adapting existing arrangements and developing new processes. However, the stress placed on the States' financial management systems has highlighted some shortcomings in the arrangements previously in place, particularly in reporting financial information to decision makers and forecasting cash flows.

5. The States should take this opportunity to consider lessons from the impact of the COVID-19 pandemic on their financial management arrangements and identify and secure improvements going forwards.

Objectives and scope of the review

6. The review is part of a series I am undertaking looking at the Government's response to the COVID-19 pandemic as shown in Exhibit 1.

Exhibit 1: Comptroller and Auditor General reviews of the Government response to the COVID-19 pandemic

Overall Governance and Decision Making Processes						
Communications	Procurement processes and supply chain management	Management of the healthcare response	Test, trace and vaccine roll out	Risk management	Schemes to support businesses and individuals	Management of public finances

7. This review has evaluated the effectiveness of the arrangements which operated during the COVID-19 pandemic in respect of:

- financial forecasting
- procedures to record and monitor COVID-19 related expenditure
- the revolving credit facility; and
- 2020 budget re-prioritisation.

8. This review does not consider the procurement processes and supply chain management nor overall governance and decision making processes.

9. The need to rebalance the States' finances was recognised at an early stage of the COVID-19 pandemic:

- during March 2020:

    - the Minister for Treasury and Resources sought and received an updated economic forecast and revised fiscal advice from the FPP; and

    - the States Assembly approved the Public Finances (Amendment of Law) (Jersey) Regulations 2020 which provided additional powers for the Minister for Treasury and Resources for a six-month period. These additional powers included greater flexibility in how funds could be used and significant increases in borrowing limits.

- on 23 April 2020, in light of the potential financial impact of COVID-19 on the States' finances, the Council of Ministers (CoM) considered proposals for a revised process for developing and agreeing the Government Plan 2021 to 2024

- on 14 July 2020, the States Assembly approved a variation of standing orders to reduce the minimum lodging period for the Government Plan from 12 weeks to nine (P.72/2020 - Variation to lodging period for Government Plan lodged in 2020)

- the Government Plan was lodged on 12 October 2020 and reflects economic forecasts and advice provided by the FPP. This Plan recognises the impact on the States' finances from 2021 to 2024 of increased expenditure in response to the COVID-19 pandemic and reduced income from taxation and Social Security contributions. The Government Plan proposed:

    - borrowing to meet the funding gap

    - not making a taxpayer contribution to the Social Security Fund in each of the years 2020 to 2023; and

    - bringing expenditure and income into balance by 2024; and

- the States Assembly approved the Government Plan on 17 December 2020.

10. The Corporate Services Scrutiny Panel engaged the Chartered Institute of Public Finance Accountants (CIPFA) to review the COVID-19 planning response set out in the Government Plan 2021 to 2024. This included consideration of financial modelling and assumptions used to develop financial projections. I have not duplicated this work as part of my review. My review of financial forecasting is restricted to the arrangements put in place to estimate and report income, expenditure, cash flows, funds and reserves for 2020.

11. The review approach is explained in detail in Appendix One.

Detailed findings

Financial forecasting

12. At an early stage, the Government recognised that the COVID-19 pandemic was likely to have a significant impact on public finances. The Government recognised the need to take action to ensure that public finances could withstand the potential financial impact of the 'reasonable worst case scenario' modelled by Public Health England (PHE) and the UK Scientific Advisory Group for Emergencies (SAGE). The modelling was produced on 16 March 2020 for UK Crown Dependencies and Overseas Territories.

13. The financial impact of the COVID-19 pandemic was unprecedented:

- the States received lower receipts from taxation, Social Security contributions and other income as a consequence of the initial lockdown, subsequent restrictions on people and businesses and the overall impact on the economy. The States' decision to permit businesses to defer payments of Goods and Services Tax (GST) and Social Security contributions also impacted the States' cashflow; and
- the States incurred significant additional expenditure during 2020 including costs directly related to the provision of healthcare and the costs related to the measures put in place to support people and businesses.

14. Early action was taken to assess the potential impact on public finances and agree measures to meet the expected costs:

- on 18 March 2020 the Minister for Treasury and Resources sought advice from the FPP. On 23 March 2020 the FPP provided an updated economic forecast and revised fiscal advice; and
- on 24 March 2020 the States Assembly approved the Public Finances (Amendment of Law) (Jersey) Regulations 2020. This amendment provided additional powers for the Minister for Treasury and Resources for a six-month period including:
  - greater flexibility in transferring amounts between, and appropriating from, funds; and
  - increasing the limit on total borrowing from £20 million to £500 million.

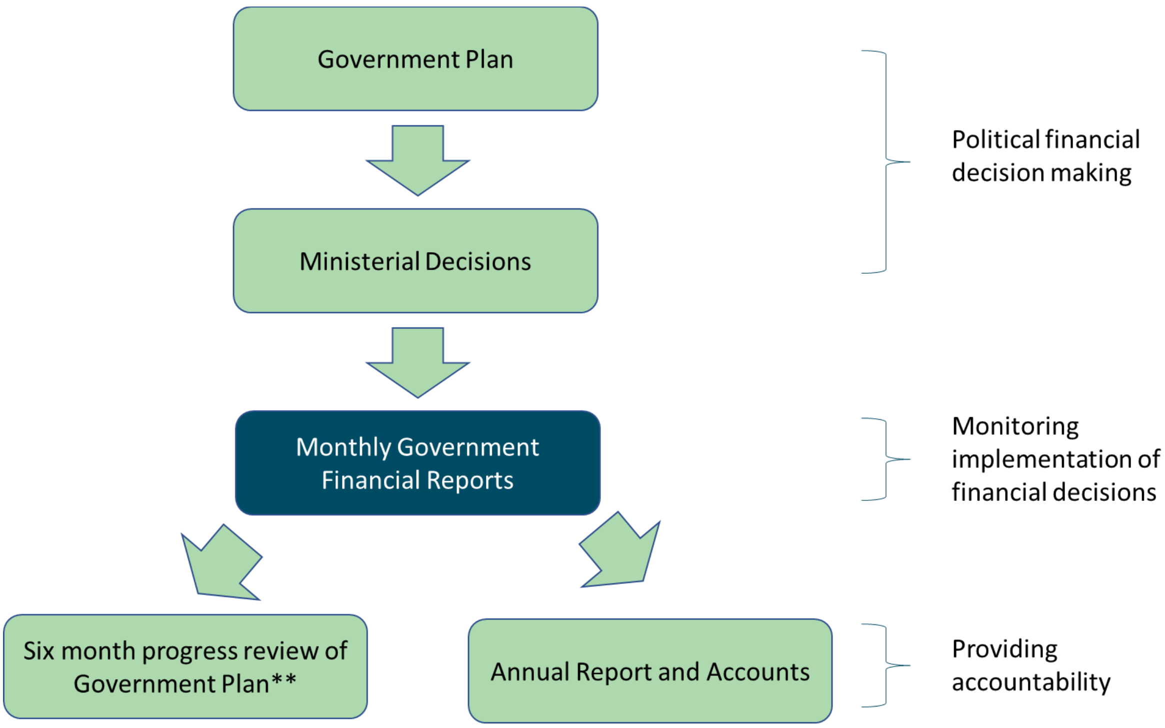
15. I have considered the following aspects of financial forecasting during the period April 2020 to September 2020:

- Government Financial Reports
- income and expenditure forecasts
- balance sheet forecasts; and
- cash flow forecasts.

Government Financial Reports

16. Government Financial Reports are prepared monthly and provide financial information to support Ministers and senior officers in monitoring the implementation of the States' political financial decisions. They are also a key link in the chain that provides public accountability (see Exhibit 2).

Exhibit 2: The role of Government Financial Reports in supporting delivery of political financial decisions and public accountability*



**In addition to these formal arrangements, frequent briefings were also provided to the Corporate Services Scrutiny Panel during the COVID-19 pandemic.*

***2020 was the first year that a review of progress against the Government Plan has been published. The six month review included a progress report, an efficiencies report and a financial report.*

17. The Government Financial Reports are presented monthly to the Executive Leadership Team (ELT) and quarterly to CoM. They provide:

- a summary of the financial position compared to budget for the end of the reporting month and a full year forecast
- a focus on general revenue income, net revenue expenditure and major project expenditure as approved in the Government Plan and supplemented by decisions of the Minister for Treasury and Resources; and
- financial information on trading operations and Social Security Funds.

18. For 2020, the Government Financial Reports also provided a useful and detailed forecast of the impact of the COVID-19 pandemic on income and expenditure, as well as details of funding put in place to address shortfalls. However, the Government Financial Reports do not easily reconcile to the Government Plan and some important financial information was not reported. My review identified the following weaknesses in reporting:

- budgets set out in the Government Financial Reports are different from the amounts approved in the Government Plan and are difficult to reconcile. Treasury and Exchequer officers maintain a detailed spreadsheet to ensure that the Government Financial Reports are consistent with the Government Plan as supplemented by decisions of the Minister for Treasury and Resources. However, the link to the Government Plan is not transparent or easy to follow. The link is especially difficult to discern in 2020 because of the magnitude and number of Ministerial Decisions in response to the COVID-19 pandemic. As a result, it would have been challenging for Ministers and senior officers to gain assurance that amounts approved in the Government Plan were being delivered
- the Government Financial Reports do not include cash flow forecasts or an analysis of cash flow risks. There is, for example, no reference to the revolving credit facility, the extent to which the States planned to draw down from the facility or the expected costs of doing so. These are all key elements of financial forecasting that are needed to inform decision making; and
- limited information was provided on balance sheet items such as projected balances on key funds. More information on balance sheet items would have been particularly useful to gain a full understanding of the financial impact of the COVID-19 pandemic and of related Ministerial Decisions. The six month progress review for the Government Plan 2020-23 included some information on Social Security Fund balances and investment performance. I understand

that Government Financial Reports now include key fund balances and are planned to be developed further in 2021.

19. In 2019, my predecessor reported on the timeliness of internal reporting as part of her review *Financial Management and Internal Control*. She noted that 'the target for corporate reporting has been reduced from approximately 20 to approximately 10 working days after the month end (and sometimes earlier to reflect the timing of meetings).' I understand that the 2021 reporting timetable requires reports to ELT to be completed within 10 working days after the month end.

20. Although, during the COVID-19 pandemic, Government Financial Reports were presented to ELT within a month of the period to which the data related, they were not presented within this 10 working day target. Reports are not presented to CoM until they have been considered by ELT. Depending on the timing of meetings, this resulted in further delays in providing information to CoM. For instance, the quarterly report to June 2020 was not presented to CoM until 25 August 2020, nine weeks after the quarter end (as shown in Exhibit 3). For 2021, Government Financial Reports are issued to ELT members once they are completed and followed up in the next available meeting. I understand that this practice will be extended to CoM in the future.

Exhibit 3: Dates Government Financial Reports were presented to ELT and CoM

Month	Date presented to ELT	Working days after month end	Date presented to CoM	Working days after month end
April*	26 May	15	10 June	26
June	27 July	19	25 August	40
July	27 August	19	n/a	n/a
September	27 October	18	11 November**	29

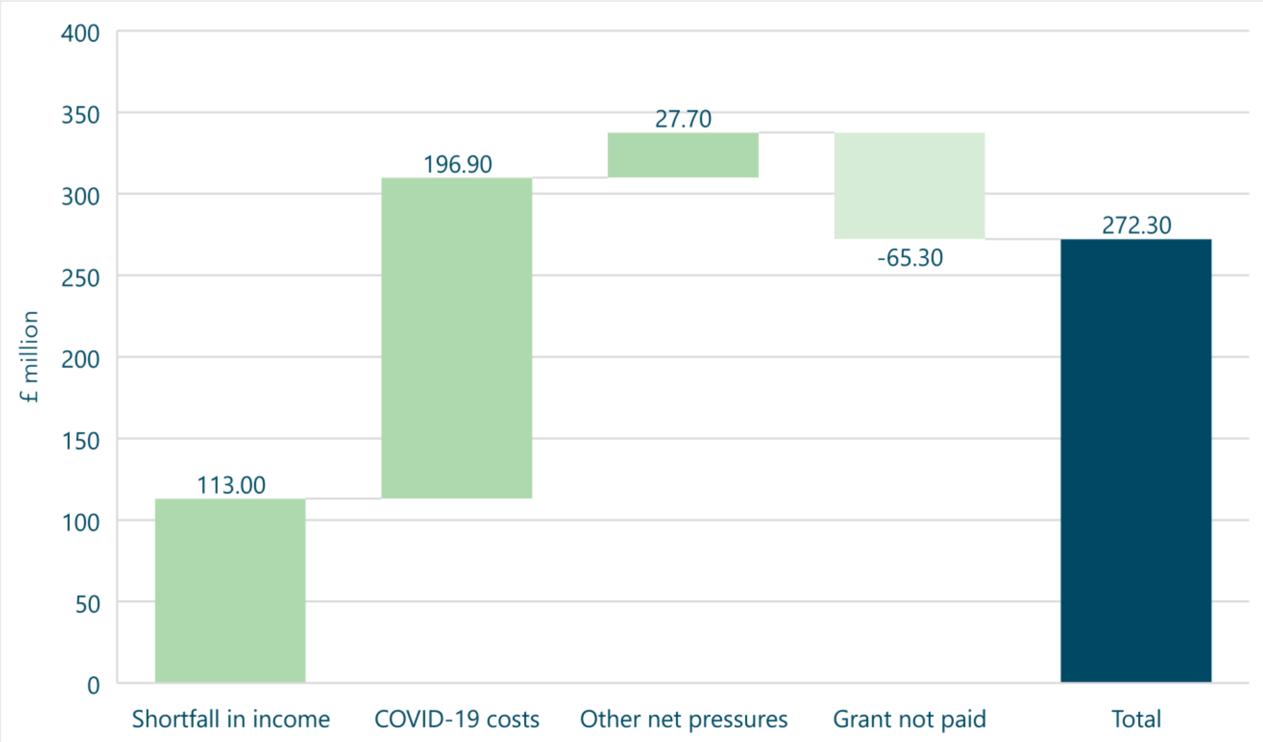
**CoM normally only receives reports quarterly. However, the April 2020 report provided an early assessment of the impact of the COVID-19 pandemic and so was also presented.*

***CoM was provided with the September 2020 report in advance of an earlier meeting that was rescheduled. At the 11 November 2020 meeting CoM was presented with an update which included financial information from October 2020.*

Income and expenditure forecasts

21. Government Financial Reports provide forecasts for general revenues and department expenditure relating to the Consolidated Fund. The April 2020 Government Financial Report forecast net spending (excluding depreciation) to be £272 million more than the Government Plan (Exhibit 4).

Exhibit 4: Forecast net spending compared to the Government Plan at April 2020 (general revenues and departmental expenditure, excluding depreciation)



Source: Jersey Audit Office analysis of Government Financial Report April 2020

22. Most of the forecast increase in net spending was due to lower than planned taxation and other income (£113 million) and COVID-19 related expenditure (£196.9 million). The increase in net spending was reduced by the States Assembly decision to cancel the planned £65.3 million supplementation grant to the Social Security Fund.

23. The Government Financial Reports also compare forecast income and expenditure for three of the Social Security Funds:

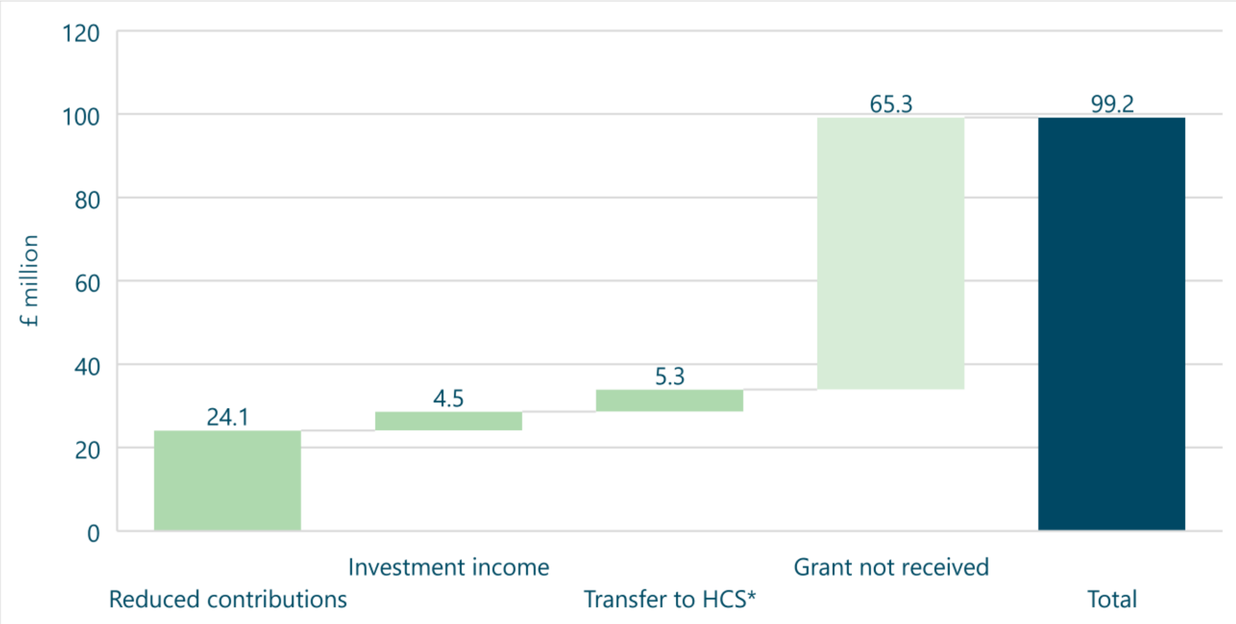
- the Social Security Fund
- the Health Insurance Fund; and
- the Long-Term Care Fund.

24. Information is not provided for income and expenditure relating to:

- the Social Security (Reserve) Fund – the only movements on this fund are investment gains or losses and transfers; or
- the Jersey Dental Scheme, for which the amounts involved are not material.

25. The April 2020 Government Financial Report forecast a total increase in spending compared to the Government Plan of £99.2 million for the three Social Security Funds as set out in Exhibit 5.

Exhibit 5: Analysis of increases in forecasted spending compared to the Government Plan for the Social Security Fund, the Health Insurance Fund and the Long-Term Care Fund



**Health and Community Services*

Source: Jersey Audit Office analysis of Government Financial Report April 2020

26. The cancellation of the £65.3 million supplementation grant to the Social Security Fund was the single biggest contributor to the £99.2 million increase in forecast spending. The other factors were:

- a £5.3 million transfer from the Health Insurance Fund to Health and Community Services (HCS) to support the Government's direct employment of General Practitioners during the COVID-19 pandemic
- lower than expected Social Security contributions (£24.1 million); and
- lower than expected investment income (£4.5 million).

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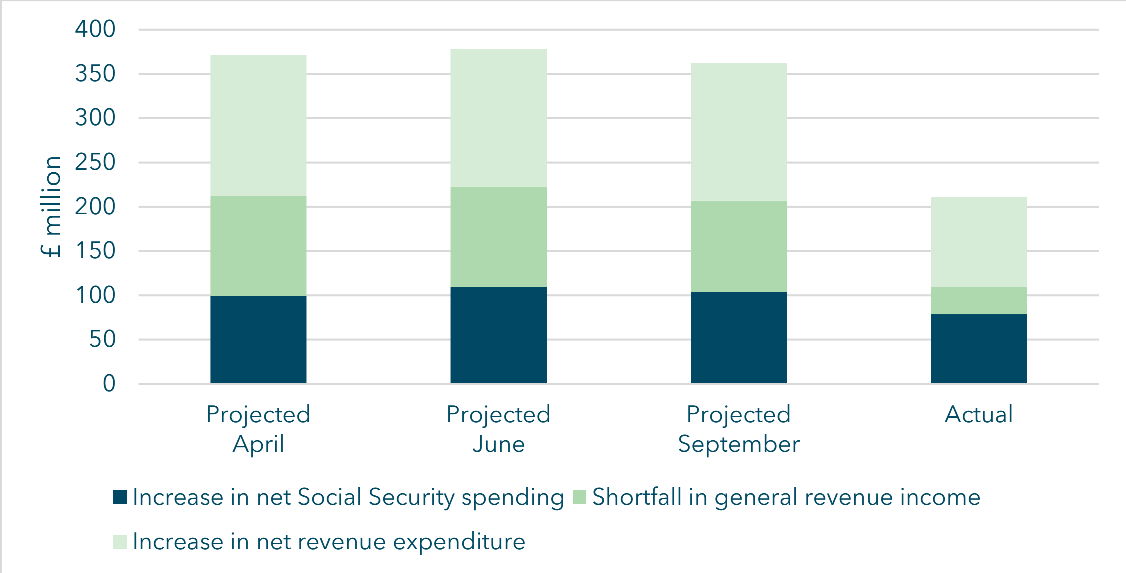
27. The Government Financial Reports during the year consistently over-estimated the impact of the COVID-19 pandemic on both the Consolidated Fund and Social Security Funds (Exhibit 6).

Exhibit 6: Government Financial Report forecast increase in spending compared to actual spending for the year ended 31 December 2020



Source: Jersey Audit Office analysis of Government Financial Reports

28. The actual net increased spending for Social Security Funds for 2020 was £20.7 million lower than forecast in April 2020. This was the result of higher than expected Social Security contributions and investment returns together with lower than expected Social Security benefit payments.

29. The actual shortfall in income for 2020 was £82.4 million less than forecast in April 2020 and £72.8 million less than forecast in September 2020. Government Financial Report forecasts are derived from the most recent information from the Income Forecasting Group (IFG). In turn, the IFG's forecasts are based on economic assumptions provided by the FPP. The reasons for differences between the forecast and actual income included:

- personal income tax not falling to the extent expected. I note that 'actual' income is still an estimate and will not be fully known until taxpayers complete their final assessments
- Goods and Services Tax (GST) income being more robust than expected. This may be a result of some sectors adapting well to the COVID-19 pandemic and Islanders, who might otherwise have spent money off-Island, spending locally
- Impôts Duties increasing because of the fall in Duty-Free imports with reduced travel; and

- property sales being higher than forecast, which led to higher than expected income from Stamp Duty.

30. Predicting taxation income is challenging and uncertain. As a result, it is particularly important for income forecasts to be accompanied by an analysis of risks and uncertainties associated with predictions. Analyses are included in published IFG forecasts and in the Government Plan but are not referred to in Government Financial Reports:

- the April 2020 Government Financial Report used estimates from the IFG's 'base case forecast'. This assumed a three-month period of restriction on economic activity with a three-month phased return to full economic activity. The IFG report also noted that the forecast was 'highly uncertain' and highlighted a range of risks. As a result, it also produced a 'downside scenario' which assumed that economic activity would remain severely restricted for up to five months. The April 2020 Government Financial Report made only limited reference to risks relating to the forecast and did not refer to the IFG downside scenario; and

- similarly, whilst the September 2020 Government Financial Report included updated income projections from the IFG's autumn forecast, it did not highlight risks and uncertainties that actual income might be higher or lower.

31. Actual net revenue expenditure was £57.6 million lower than forecast in September 2020, of which £38 million relates to an over-estimate of COVID-19 costs. I recognise that forecasting COVID-19 costs during 2020 was challenging:

- the estimates that informed the April 2020 forecast of net revenue expenditure were developed at pace, subject to high levels of uncertainty and were in the context of briefings that referred to the 'reasonable worst case scenario'. For instance, key drivers of estimates for the April 2020 Government Financial Report included assumptions about:

    - occupancy levels of the Nightingale hospital; and

    - take up of the co-funded payroll scheme; and

- estimates for subsequent Government Financial Reports in 2020 were also subject to uncertainty. These estimates reflected the net effect of:

    - significant reductions in estimates for existing schemes such as the Nightingale hospital and phase II of the co-funded payroll scheme; and

    - estimates for new schemes approved during the year.

32. The level of uncertainty surrounding estimates of net revenue expenditure and the basis on which estimates were made (for example, reasonable worst case estimate, prudent or most likely outcome) were not set out in Government Financial Reports.

33. The Treasurer wrote to Accountable Officers in March 2020 to make clear that departments were expected to meet efficiency targets set out in the Government Plan. However, the Government Financial Reports note that efficiency targets would only be met by departments not achieving or limiting planned growth in other areas. I recognise that this was a pragmatic approach taken in an exceptional year. It was also consistent with the approach set out in the Efficiencies Plan 2020-23 and was agreed by CoM for delivering efficiencies that were not subsequently approved. However, using reduced growth to compensate for the failure to deliver planned efficiencies means that some cost savings in 2020 that were labelled as 'efficiencies' are non-recurring. This risks undermining the delivery of budgets in future years. I note that an improved process for delivering efficiencies is planned to be implemented during 2021.

Cash flow forecasts

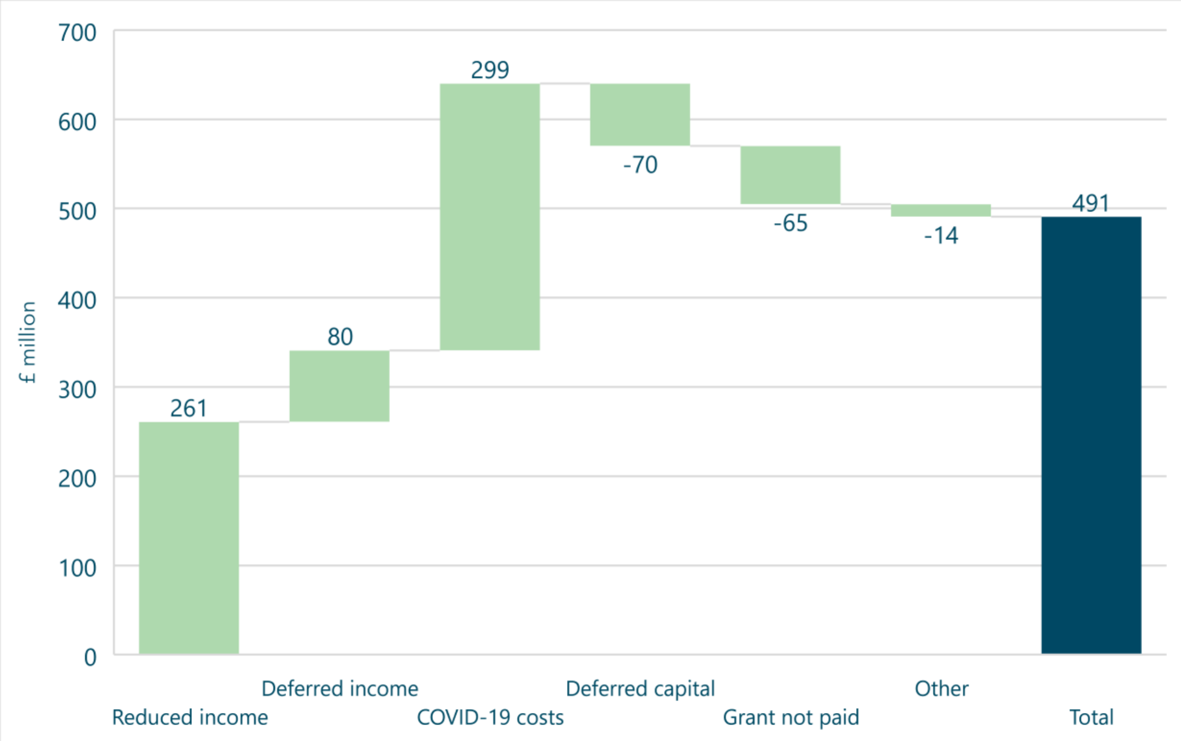
34. Treasury and Exchequer officers recognised the potential impact of the COVID-19 pandemic on cash flow management at an early stage. The Treasurer's letter to Accountable Officers on 25 March 2020 notes *'The availability of cash to continue making existing payments, as well as beginning to make new ones, is now critical.'*

35. The States have, for many years, been 'cash rich' and have not needed to focus on cash flow management. As a result, the States did not have systems and processes in place to predict and monitor cash flows. In 'normal' years, the impact of weak cash flow management arrangements was limited to the States not optimising their return on their financial assets.

36. As noted above, however, the immediate effect of the COVID-19 pandemic on the States' finances meant that cash flow management became critical and the arrangements in place for managing cash flow were inadequate. The States have now recognised the need for more active cash flow management and are developing a cash flow modelling system.

37. Treasury and Exchequer officers worked from first principles to project the impact of the COVID-19 pandemic on the States' cash requirements. This included estimates of the impact of the States' decisions to permit businesses and self-employed individuals to defer GST and Social Security contributions. At 6 April 2020, cash flow projections showed a cash shortfall in 2020 of between £403 million (realistic estimate) and £491 million (worst case) (Exhibit 7).

Exhibit 7: Estimated worst case cash shortfall as of 6 April 2020



Source: Jersey Audit Office analysis of States of Jersey projections

38. The cash flow projections prepared by officers included some, but not all, cash flows relating to Social Security Funds:

- an estimate of £50 million for the cashflow impact of the deferral of Social Security receipts was included; but
- lost income and additional expenditure relating to Social Security Funds (estimated at £99.2 million in the April 2020 Government Financial Report) was excluded.

39. In the absence of a formal cash modelling system, the audit trail for the projected cash flow forecast is incomplete. As a result, I have been unable to confirm the basis on which estimates were made or that estimates were collated completely and accurately in the projection.

40. I acknowledge that there was considerable uncertainty about the impact of the COVID-19 pandemic on cash flows. Also, the absence of a cash flow management system meant that officers were unable to rely on existing processes to support their forecasts.

41. The States did not use their extensive non-cash assets, such as equities, to fund the potential cash shortfall. This decision was based on Treasury Advisory Panel (TAP) advice that the COVID-19 pandemic had driven prices lower than their long-term

value. As a result, if equities were sold, the States would do so at a temporarily depressed price.

42. In 2016, the States made a strategic allocation of a portion of the Strategic Reserve to alternative assets that had low correlation with established markets. This reduced the exposure of the Strategic Reserve to movements in equity markets. The investment performance for the Strategic Reserve was broadly as expected for 2020. The States have subsequently revised the Strategic Reserve Investment Strategy to increase the allocation to alternative assets thereby reducing further the Strategic Reserve's exposure to movements in equity markets.

43. The projected cash flow shortfall of £491 million and the risk of not realising the long-term value of equities formed the basis for the States' decision to procure a revolving credit facility, to borrow up to £500 million. Ultimately, however, the facility was not needed during 2020.

Recommendations

R1 Review the content of the Government Financial Reports to consider:

- making the link between budgets in the Government Financial Reports and the amounts approved in the Government Plan clearer
- setting out a clearer analysis of the risks to income estimates and referring to information on risks and uncertainties published by the IFG or in the Government Plan as appropriate
- setting out the basis for expenditure estimates (for example, reasonable worst case, prudent, most likely outcome) and a clearer analysis of uncertainties
- including cash flow forecasts and an analysis of cash flow risks; and
- providing information on key balance sheet items such as key funds.

R2 Continue to develop a cash flow modelling system and ensure that it includes cash flow implications for Social Security Funds and a full audit trail.

Procedures to record COVID-19 expenditure

44. Treasury and Exchequer officers faced considerable challenges in keeping track of the impact of the COVID-19 pandemic on departmental income and expenditure including:

- costs relating to schemes to support people and businesses during the COVID-19 pandemic; and
- additional costs and reduced income relating to 'business as usual' activities.

45. Officers put in place pragmatic and flexible arrangements to identify and monitor COVID-19 related expenditure. These arrangements included:

- frequent, sometimes daily, catch up meetings of the Performance, Accounting and Reporting Leadership Team to share intelligence
- setting out COVID-19 specific business units and object codes on the financial ledger to enable departments to capture costs
- using intelligence gleaned, object reports from the ledger and information from business partners to identify and estimate any additional expenditure or lost income related to COVID-19; and
- recording COVID-19 related costs on a spreadsheet tracker and refining and updating estimates as business cases were developed, and costs became clearer.

46. Whilst the COVID-19 spreadsheet tracker was used to capture COVID-19 related expenditure, there were delays in departments coding some costs to COVID-19 business units and object codes, particularly where COVID-19 expenditure was funded from existing budgets. Further work was then required as part of the year-end close down to identify all COVID-19 related expenditure for the States Annual Report and Accounts. A separate head of expenditure was used to capture COVID-19 costs for the Government Plan 2021-24.

47. The impact of COVID-19 on expenditure for Social Security Funds was monitored and reported monthly to the Customer and Local Services Senior Management Team.

The revolving credit facility

48. Officers developed a well-structured business case to borrow up to £500 million using the United Kingdom Treasury Five Case Model (2013). This business case was informed by expert advice from:

- the FPP
- the TAP
- external financial advisors; and
- external legal advisors.

49. The preferred option set out in the business case was for the States to enter an unsecured revolving credit facility up to £500m. This would enable the States to meet the main objectives they had set for a borrowing facility:

- speed of implementation
- flexibility to draw funds as required
- lowest cost
- ensuring there were no unexpected costs; and
- providing any facility on an unsecured basis.

50. Under the Public Finances Manual requirements, the costs associated with taking out a £500 million credit facility would normally require a full open tendering process. This is because:

- the Public Finances Manual requires the Procurement Best Practice Procedures Toolkit to be followed
- the Procurement Best Practice Procedures Toolkit requires open tendering for all contracts of more than £100,000; and
- the minimum cost to the States of Jersey under a contract for taking out a credit facility for £500 million would be expected to exceed, by far, the £100,000 threshold.

51. However, given the urgency of securing the credit facility, an alternative process was followed:

- 11 banks with a Jersey presence were approached to assess whether they would be interested in providing a lending facility for the States
- all interested parties that could meet the States' expectations were invited to tender; and
- draft terms were negotiated and agreed for a consortium of five banks.

52. The States' financial advisors commented that the draft terms were not dissimilar from the terms which were likely to have been achieved prior to the COVID-19 pandemic. The draft terms were also consistent with a similar arrangement negotiated earlier in 2020 by Andium Homes.

53. I am satisfied that an open tendering process would have been neither appropriate nor practicable. I am also satisfied that the procurement process and the arrangements to secure value for money were appropriate.

54. I note, however, that officers did not seek an exemption from the procurement process required by the Public Finances Manual. I understand that officers did not consider that an exemption was required because they felt that the States were establishing a facility rather than procuring goods or services. I consider that the failure to obtain an exemption is a breach of the Public Finances Manual. This is because:

- the provision of the facility to the States is a service
- in any event, the facility was established by means of a contract and the Public Finances Manual and the Procurement Best Practice Procedures Toolkit do not distinguish between contracts that are goods and services and those that are not; and
- the Public Finances Manual requires that:
  - contracts are to be put out to tender according to the criteria set out in the Procurement Best Practice Procedures Toolkit unless an exemption has been approved; and
  - unless an exemption has been obtained in advance, then a breach must be formally recorded.

55. The Minister for Treasury and Resources signed Ministerial Decision MD-TR-2020-0051 on 7 May 2020 to approve the revolving credit facility. The supporting papers included the business case and other relevant documentation.

56. Following the Minister's decision, £5 million of the facility was drawn down and subsequently repaid during 2020. The temporary increase in borrowing limits set out in the Public Finances (Amendment of Law) (Jersey) Regulations 2020 ended on 30 September 2020. During September 2020, however, officers were concerned that there was still a risk that the States might need to have access to the facility between October 2020 and December 2020. As a result, the Minister took the prudent step of signing MD-TR-2020-0126 on 30 September 2020. This approved borrowing of between £5 million and £60 million from the facility in 2020 for cashflow purposes. This decision was subsequently rescinded by MD-TR2020-0163, signed on 18 December 2020, when it became apparent that the borrowing would not be needed in 2020. Potential borrowing using the facility was included in the Government Plan 2021-24.

Recommendation

R3 Record a breach of the Public Finances Manual for the procurement of the revolving credit facility.

2020 budget re-prioritisation

57. On 25 March 2020, the Treasurer wrote to Accountable Officers setting out the expenditure and financial implications of the COVID-19 pandemic:

- Accountable Officers would in the first instance reprioritise and repurpose existing budgets to avoid accumulation of unfunded costs; and
- if costs were not deliverable within departmental envelopes, additional and unavoidable costs should be submitted to Treasury and Exchequer, for consideration for approval by the Minister for Treasury and Resources.

58. Where the need for additional funding was identified for COVID-19 related expenditure, business cases were required. The formal processes for approval of business cases were initially set out in:

- the Treasurer's letter of 25 March 2020; and
- 'Procedures for Allocations from the reserve: revised policy March 2020' (presented to the States on 18 March 2020 as R.23/2020).

59. The formal process was later updated by 'Procedures for Allocations from the reserve: Ministerial Statement' (presented to the States on 31 July 2020 as R.80/2020).

60. The Public Finances Manual is issued under Article 31 of the Public Finances (Jersey) Law 2019. It is required to include directions and information with respect to the proper administration of the Public Finances (Jersey) Law 2019 and of the public finances in Jersey. As such, it provides officers with a single point of reference for procedures to be followed. I would normally expect arrangements such as for the approval of additional funding to be set out in the Public Finances Manual. However, the Public Finances Manual was not updated. This led to the risk of potential inconsistencies and weaknesses in internal control:

- the Treasurer's letter referred to business cases being required for amounts greater than £50,000, whereas R.23/2020 referred to business cases for amounts greater than £100,000; and

- the full process set out in R.23/2020 required business cases to be considered over a five-stage process. This would have been challenging to operate with the high volume of business related to the COVID-19 pandemic. As a result, funding requests were typically considered under the 'urgent need' provisions set out in R.23/2020. This required the Minister for Treasury and Resources to give approval on recommendation of the Treasurer.

61. In practice, pragmatic and effective arrangements were established to support the Treasurer's recommendations for 'urgent need' funding requests under R.23/2020. These arrangements were later formalised when R.23/2020 was replaced by R.80/2020:

- business cases were developed by departments with the support of the Investment Appraisal Team (IAT) which had been established on 1 January 2020, before the start of the COVID-19 pandemic

- when the IAT was satisfied that the business case was appropriate, it made a recommendation to the Treasurer

- the Treasurer sought comments from the Principal Accounting Officer and other senior officers as appropriate

- significant decisions were subject to political oversight and comment (for example from CoM or the Competent Authority Ministers); and

- when the Treasurer was satisfied that the business case was appropriate, he made a recommendation to the Minister for Treasury and Resources for approval.

62. The impact of the COVID-19 pandemic on its workload was felt by the IAT soon after it was established. The IAT was still in the process of developing and

formalising its working practices when it was required to consider a high volume of business cases for additional funding. As a result, recommendations to the Treasurer were sometimes made despite imperfections in business cases. Based on a review of a sample of business cases, I am satisfied that, given the COVID-19 pandemic climate, business cases met minimum standards. This suggests that, given the circumstances, the level of scrutiny carried out by the IAT was appropriate.

Recommendations

R4 Ensure all significant updates to financial procedures are incorporated into the Public Finances Manual on a timely and consistent basis.

R5 Review the preparation and approval of business cases during 2020 to identify opportunities to improve the arrangements and processes.

Appendix One

Audit Approach

The review included the following key elements:

- review of relevant documentation provided by the Government of Jersey; and
- interviews with key officers within the Government of Jersey.

The documentation reviewed included:

- reports to the States Assembly, Council of Ministers, the Competent Authorities Meeting and the Executive Leadership Team
- Ministerial Decisions and supporting papers
- Government Plans for 2020 to 2023 and 2021 to 2024
- minutes and papers of the Treasury Advisory Panel and the Fiscal Policy Panel
- Government Financial Reports
- Income Forecasting Group reports
- sample business cases; and
- detailed working papers and correspondence.

The following officers were interviewed or provided written input:

- Head of Finance Business Partnering
- Head of Financial Governance
- Head of Group Reporting
- Head of Investment Appraisal
- Treasurer of the States of Jersey; and
- Director, Treasury and Investment Management.

I would like to thank all officers who have contributed to this report.

The fieldwork was carried out by an affiliate working for the Comptroller and Auditor General.

Appendix Two
Summary of Recommendations

R1 Review the content of the Government Financial Reports to consider:

- making the link between budgets in the Government Financial Reports and the amounts approved in the Government Plan clearer
- setting out a clearer analysis of the risks to income estimates and referring to information on risks and uncertainties published by the IFG or in the Government Plan as appropriate
- setting out the basis for expenditure estimates (for example, reasonable worst case, prudent, most likely outcome) and a clearer analysis of uncertainties
- including cash flow forecasts and an analysis of cash flow risks; and
- providing information on key balance sheet items such as key funds.

R2 Continue to develop a cash flow modelling system and ensure that it includes cash flow implications for Social Security Funds and a full audit trail.

R3 Record a breach of the Public Finances Manual for the procurement of the revolving credit facility.

R4 Ensure all significant updates to financial procedures are incorporated into the Public Finances Manual on a timely and consistent basis.

R5 Review the preparation and approval of business cases during 2020 to identify opportunities to improve the arrangements and processes.

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