# STATES OF JERSEY

# STATES NET REVENUE EXPENDITURE 2011 AND 2012: REDUCTION (P.29/2010) – COMMENTS

**Presented to the States on 4th May 2010**
**by the Council of Ministers**

**STATES GREFFE**

## COMMENTS

The Council of Ministers does not support this proposition on the basis that the levels of saving and the short timescale for delivery will have to lead to cuts in services rather than properly planned savings supported by a firm planning regime and funds set aside to invest in changes which will deliver more sustainable long-term savings. The proper approach is to set spending levels as part of the Annual Business Plan and with the detail of how this can be achieved available at the same time. This is what the Minister for Treasury and Resources is proposing in the form of a CSR which was in response to a request from the Fiscal Policy Panel.

The Treasury Minister has committed in the 2010 Budget to produce a contingency plan to return to balanced budgets. The three streams of work underway are –

1. Firstly – to reduce expenditure – the Comprehensive Spending Review (CSR).

2. Secondly – to grow the economy – by improving productivity and driving new business.

3. And finally – as unpopular as it is going to be, and depending on the success of the first two options - the need to consider some tax increases.

The Minister for Treasury and Resources and Council of Ministers have publicly committed to a 3 year plan to identify options for £50 million of savings. They have also committed to introducing a more tightly controlled budget planning and management system in which there are proper provisions to meet unforeseen contingencies and to invest in changes that will deliver the necessary savings. The Council believes that it is appropriate to phase in this level of change over 3 years, not two, and it is not starting until 2011. This is in recognition of the current economic conditions. Some people have struggled to understand the need to undertake both a fiscal stimulus and a CSR to contain public expenditure growth. The two policies are consistent. Firstly, the fiscal stimulus is to support the economy in a temporary manner through the economic downturn, meaning that we have a stronger base – in terms of employment and tax – from which to recover once the economy starts growing again. The Stabilisation Fund is being used to implement a fiscal stimulus targeted on 2009 and 2010 when the economic downturn is forecast. The Stabilisation Fund is also being used to finance the deficits expected in 2010 and 2011 as a result of the economic downturn, given that the economy is anticipated to be in the early stages of recovery in 2011.

The CSR is about controlling States expenditure to help address the structural deficit forecast from 2012 onwards that is a consequence largely of the economic downturn. The CSR savings will only start to take effect over 3 years from 2011 (with just 2% in 2011) and therefore at the time when the economy is expected to be stronger and the fiscal stimulus has tailed off. However, the Stabilisation Fund will still be being used in 2011 to fund the forecast deficits and prevent a damaging tightening in fiscal policy when the recovery is in its early stages.

Reducing expenditure more sharply in 2011 would be inconsistent with the approach the States has agreed for using the Stabilisation Fund for fiscal stimulus and funding the deficits caused by the economic downturn. The phased approach of the CSR over 3 years recognises that the economy will be in the early stages of recovery in 2011 and therefore implements the majority of savings in 2012 and 2013 when the economy should be more resilient.

The report doesn't recognise the growth approved in the 2010 Business Plan for 2011 and 2012; however specific mention is made of Senator Shenton's amendment for additional funding for Health and Social Services respite care and base funding from the 2010 Business Plan which was approved.

The Council of Ministers believes that 11% in 2 years would be difficult to achieve and that a phased approach accumulating to savings of 10% over 3 years allied to the creation of sensible contingencies and invest to save provision is more appropriate. This will allow managers and their services to plan for the changes to minimise the effect on public services. Acting more quickly and with deeper cuts will be more drastic and is more likely to affect services. There would be no ability to restructure with longer term efficiency and effectiveness in mind. It is hard to shed costs in one year and also create a more flexible and efficient organisation whilst maintaining good staff and stakeholder morale. The biggest problem with a one year time horizon would be that the real savings could not be realised. With no lead time, cuts within the difficult areas would not be achieved, business process reengineering and innovation would not have time to take place and the spend to save projects would not deliver. The Minister for Treasury and Resources has made it quite clear that this level of savings can not be achieved by efficiencies. This is the opportunity to take a fresh, radical look at the way departments deliver services to the public. Nothing will be ruled in or out – proposals to outsource, joint-ventures; all sensible ideas will be looked at. In addition, where it is appropriate, departments must look at their lower priority services and consider scaling them back, stopping them or – if tax-payers should not be subsidising them – introducing charges. User-pays charges will be looked at on a case-by-case basis but they cannot be offered up as efficiency savings. The intention is that all options are identified to allow a political choice. What is clear is that in an organisation with more than 50% of its budget allocated to salaries, this level of spending cannot be achieved without some reduction in staffing levels.

More specifically, if the budget reductions proposed in the PAC proposition are approved such that 2011 budget is reduced by 5% and 2012 by a further 5%, rather than on the planned basis of 2%, 3% and 5% as proposed by the Council fo Ministers, departments have indicated the following impacts –

- cost reductions in tourism marketing and rural support would be accelerated;
- the majority of environmental grants would be removed;
- there would be a freeze on all new environmental initiatives;
- maintenance of existing infrastructure would be cut and a lower standard of service to the general public would be provided;
- there may be a holiday year for maintenance spend;
- less work will be issued to the external local industry. The effect of this would be to negate the benefits of the economic stimulus work;
- a higher risk of industrial action;
- there would be housing maintenance service cuts that will benefit no-one in the longer term;

- education services would have to be cut quite ruthlessly without consultation with parents, governors and teachers;
- there would need to be cuts to benefits either in the form of benefit levels or certain schemes being radically revised or even removed. Alternatively supplementation can be cut, with the inescapable consequences to either pensioners (future or present) or contributors (future or present);
- there would be a risk to Health and Social Services patient and client safety – short-term efficiencies tend to focus upon raising the eligibility criteria for certain procedures and services or cutting or reducing services with inevitable and significant job losses;
- there would be job losses across Home Affairs and the States of Jersey Police;
- there would be a potential reduction in Scrutiny budgets;
- there will be a significant impact on the ability of Jersey Property Holdings to maintain a safe and legally compliant property estate. Cuts in the base maintenance budget would be extremely difficult as this could lead to buildings being left in a condition where they are simply not fit for purpose or at worst a danger to the public or staff.

The above list is not exhaustive and is not "shroud waving." The PAC proposal represents additional savings of almost £20 million in 2011 so there are inevitable consequences arising from such short-term action. The proposed expenditure levels would also provide no possibility of implementing sustainable savings which require investment, nor would they allow for a contingency provision to be created to manage inevitable uncertainties. The Council of Ministers urges States Members to support them and the Minister for Treasury and Resources in planning to deliver long-term, sustainable savings through the CSR and not penalise the public of Jersey which is what P.29/2010 would do. Members are therefore requested to reject this proposition.