STATES OF JERSEY

DRAFT MEDIUM TERM FINANCIAL PLAN ADDITION FOR 2017 – 2019 (P.68/2016) – EIGHTH AMENDMENT

Lodged au Greffe on 13th September 2016
by the Corporate Services Scrutiny Panel

STATES GREFFE

DRAFT MEDIUM TERM FINANCIAL PLAN ADDITION FOR 2017 – 2019
(P.68/2016) – EIGHTH AMENDMENT

1 **PAGE 2, PARAGRAPH (a)(i) –**

After the words "as set out in **Summary Table B**,", insert the words –

> "except that net revenue expenditure shall be decreased for each Ministerial Department and Non Ministerial States Funded Body in 2017, 2018 and 2019 by an amount to be calculated by the Department for Treasury and Resources in order to reduce the vacancy rate (defined as budgeted against actual FTE) for that Department or Body in 2016 to a maximum of 3%".

2 **PAGE 2, PARAGRAPH (a)(i) –**

Remove the words "with in relation to the head of expenditure of the Health and Social Services Department, the approval of £5,000,000 in each of the financial years 2017 to 2019 dependent in accordance with Article 16(4) of the Public Finances (Jersey) Law 2005, on the approval by the States of the transfer of these sums from the Health Insurance Fund to the Health and Social Services Department".

3 **PAGE 2, PARAGRAPH (a)(ii) –**

After the words "as set out in **Summary Table C**", insert the words –

> "except that the total proposed Contingency amount for the financial years 2017 to 2019 be increased by an amount equal to the reduction in net revenue expenditure specified in paragraph 1 above".

4 **PAGE 2, PARAGRAPH (a)(ii) –**

From the amount identified in paragraph (3) above, shall be deducted £5,000,000 in 2017, £12,500,000 in 2018 and £20,000,000 in 2019, which will remain in the Consolidated Fund to replace and be used for the same purposes as the proposed Health Charge and the transfers from the Health Insurance Fund.

5 **PAGE 2, PARAGRAPH (c) –**

Paragraph (c) shall be deleted.

CORPORATE SERVICES SCRUTINY PANEL

REPORT

The effect of this amendment is to reduce the annual budget for those States departments who are carrying (and being funded for) an unusually high level of staff vacancies, and at the same time to remove the proposed health charge and the proposed drawing from the Health Insurance Fund.

During the course of the Panel's review into the MTFP Addition, our advisers, the Chartered Institute of Public Finance and Accounting ("CIPFA"), highlighted the "exceptionally high" level of vacancies across the States. Based on figures as at June 2016, the vacancy rate stood at 12.9%. The Panel considers that a more appropriate rate would be around 3%, or even to remove the vacancies completely. In the context of a mismatch between income and expenditure and new charges and taxation measures being introduced, it is difficult to justify the continuation of such a high level of recurring vacancies.

In terms of numbers, there were 888.4 vacant posts within the States as at June 2016. This is out of a total of 6,897 budgeted posts and works out at 12.9% of budgeted posts. The detailed breakdown of these figures is included in CIPFA's report to the Corporate Services Scrutiny Panel and is repeated in **Appendix 1** of this report. Using similar quarterly data, the rate in 2015 was 10.5% and in 2014 was 10.4%.

The amendment proposes to use the money removed from departmental budgets to replace the Health Charge and transfers from the Health Insurance Fund ("HIF") in 2017, 2018 and 2019. Recognising that some vacant posts will be required by statute or will be otherwise deemed essential, the amendment proposes to place the remainder of the money into Contingency, which can then be allocated to departments where genuine needs can be demonstrated.

Based on an overall wage bill for the States of £361 million, the Panel has calculated that unfilled vacancies amount to approximately £46 million in 2016. Although a portion of this will be down to a reasonable turnover of employees, the high overall rate suggests a degree of padding within departmental budgets – i.e. funding which is never going to be utilised. Reducing the vacancy rate down to 3% would remove £35 million in total each year from annual departmental budgets. Indeed, CIPFA have advised that it is becoming common practice in the UK to remove vacant posts entirely from budgets and even then to apply a further 3% efficiency saving on top of this. By carrying high levels of unfilled posts, CIPFA have commented that *"there is the potential for savings to be generated without significant additional effort, assuming the current level of service outcomes are considered to be acceptable"*. If Departments are managing year on year without these posts, are they actually needed?

The level of surplus funding within departments enables the Health Charge to be removed in its entirety, and also means that drawings on the HIF are unnecessary. The Panel considers that the argument for introducing a health "charge" has not been adequately made, and that this is in reality an additional tax that is being imposed. The Panel believes it is not possible to justify this new charge in light of the amount of padding in departmental budgets which the vacancy rate highlights.

The drawings on the HIF (£5 million in each of 2017, 2018 and 2019) are a transitional arrangement before the Health Charge is fully implemented. The calculations contained within the MTFP show that these drawings will mean that the HIF operates at a significant deficit over the life of the MTFP. Removing the need for the drawings would put income and expenditure of the Fund back in balance, therefore preserving the capital for future years where it is expected that benefits provided from the Fund will increase at a faster rate than income generated by the Fund.

The Panel understands that the Treasury and Resources Department is currently undertaking a piece of work to analyse the vacancy rate in more detail. As it is unlikely that this work will be completed before the MTFP debate, the Panel has proceeded with the amendment on the basis that the excess funding will be held in contingency and can be allocated out to departments should particular needs be identified during the years of this MTFP. This provides a degree of flexibility in addition to the 3% vacancy rate which departments will be permitted to retain.

Financial and manpower implications

The Treasury and Resources Department will be best placed to calculate the financial impact on departmental budgets of reducing the vacancy rate to 3%. However, for illustrative purposes, the Panel has provided some high-level calculations in **Appendix 2** to this report.

There are no additional manpower implications arising from this amendment.

APPENDIX 1

States of Jersey FTE Analysis – June 2016

Ministerial Departments	**Budget**	**Actual**	**Vacancies**	
Chief Minister's Department –	242.1	203.0	39.1	16.1%
Non-Ministerial SFB – Overseas Aid	*1.5*	*1.0*	*0.5*	*35.1%*
Community and Constitutional Affairs (CCA)	700.1	643.6	56.5	8.1%
Environment	114.9	103.2	11.7	10.2%
Infrastructure	551.9	437.2	114.6	20.8%
Economic Development, Tourism, Sport and Culture	124.4	110.7	13.7	11.0%
Education	1,719.5	1,537.7	181.8	10.6%
Health and Social Services	2,748.0	2,342.1	405.9	14.8%
Social Security	253.0	230.4	22.6	8.9%
Treasury and Resources	205.9	186.3	19.6	9.5%
Non-Ministerial States Funded	**235.7**	**213.3**	**22.4**	**9.5%**
Bailiff's Chambers	*10.0*	*10.0*	*0.0*	*0.0%*
Law Officers' Department	*72.0*	*66.1*	*5.9*	*8.2%*
Judicial Greffe	*46.9*	*40.6*	*6.3*	*13.5%*
Viscount's Department	*21.9*	*21.8*	*0.1*	*0.3%*
Official Analyst	*9.4*	*6.2*	*3.2*	*34.0%*
Establishment of H.E. Lt. Governor	*13.7*	*13.1*	*0.6*	*4.3%*
Data Protection	*1.0*	*1.0*	*0.0*	*0.0%*
Probation Service	*32.3*	*29.9*	*2.3*	*7.2%*
Comptroller & Auditor General	*1.0*	*0.6*	*0.4*	*40.5%*
States Assembly	*27.5*	*23.9*	*3.6*	*13.0%*
Sub Total (1)	**6,897.0**	**6,008.6**	**888.4**	**12.9%**

(States Trading Operations have been excluded from these calculations as they have separate budgets.)

Staffing FTEs – September 2015

FTE Analysis			
Department	**Actual Quarter 3**	**Established Quarter 3**	**Var**
	FTE	**FTE**	**FTE**
G05 – Chief Minister's Department	236.6	269.5	32.9
G35 – Department of the Environment	107.4	117.5	10.1
G10 – Economic Development	34.4	40.7	6.3
G15 – Education, Sport and Culture	1,652.0	1,787.9	135.9
G20 – Health and Social Services	2,397.5	2,731.0	333.5
G25 – Home Affairs	655.6	697.8	42.2
G30 – Housing	0.0	0.0	0.0
G45 – Transport and Technical Services	440.9	518.9	78.0
G50 – Treasury and Resources	235.9	271.4	35.5
G61 – Non-Ministerial SFB – Overseas Aid	1.5	1.8	0.3
G60 – Non-Ministerial States Funded	189.0	206.0	17.0
G40 – Social Security	237.0	260.5	23.5
G55 – States Assembly	23.4	31.5	8.1
Total	6,211.2	6,934.5	723.3

Staffing FTEs – June 2014

FTE Analysis			
Department	**Actual Quarter 2**	**Established Quarter 2**	**Var**
	FTE	**FTE**	**FTE**
G05 – Chief Minister's Department	247.3	264.8	17.5
G10 – Economic Development	57.4	60.3	2.9
G15 – Education, Sport and Culture	1,594.8	1,672.5	77.7
G20 – Health and Social Services	2,410.1	2,903.5	493.4
G25 – Home Affairs	665.0	687.9	22.8
G30 – Housing	50.8	50.8	0.0
G35 – Department of the Environment	107.9	118.5	10.6
G40 – Social Security	226.5	242.5	16.0
G45 – Transport and Technical Services	481.8	532.9	51.1
G50 – Treasury and Resources	249.1	279.2	30.1
G55 – States Assembly	28.5	33.8	5.4
G60 – Non-Ministerial States Funded	185.6	203.9	18.3
G61 – Non-Ministerial SFB – Overseas Aid	1.5	1.8	0.3
Total	6,306.3	7,052.4	746.1

APPENDIX 2

FINANCIAL IMPACT

2016 Staff Costs	Budgeted posts	Reduce by*	Financial impact	Posts removed
361,085,300	6,897	9.9%	35,747,444	682.80
**Reducing vacancy rate from 12.9% to 3% would mean an overall reduction in posts of 9.9%*				