STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2013 – 2015 (P.69/2012): TENTH AMENDMENT (P.69/2012 Amd.(10)) – COMMENTS

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

STATES GREFFE

COMMENTS

Parts 1 and 4

Parts 1 and 4: Deputy M.R. Higgins of St. Helier proposes that total States net expenditure and the net revenue expenditure of the Economic Development Department shall be increased by £60,000 in 2013 to provide uniforms for the Band of the Island of Jersey.

This part of the amendment will have the effect of reducing the surplus in 2013 to £647,000 and reducing the available balance on the Consolidated Fund.

The Council of Ministers is fully supportive of the Band of the Island of Jersey and is extremely grateful for the important work it does at local and ceremonial events. This amendment is to provide uniforms for the Band of the Island of Jersey with a single cost of £60,000 in 2013. The Council of Ministers believes that resources can be found to support the Band over the course of the Medium Term Financial Plan. Resources can be made available of £20,000 per year by carrying forward underspends in 2012 so as to provide funding for each of the 3 years of the Plan. This funding would not just be for uniforms but would also help the Band with other running costs and equipment.

On this basis, the Council of Ministers opposes this amendment but considers that alternative funding is available within the Medium Term Financial Plan which can be used to support the Band.

Department Comments

Parts 1 and 4

<u>Economic Development Department (EDD)</u>

Deputy Higgins proposes that £60,000 is required by the Band of the Island of Jersey in 2013 to purchase uniforms, but it is unclear how he has arrived at this estimate. Other information received by the Council of Ministers suggests that this funding could be spread over the life of the Medium Term Financial Plan with £20,000 for each of the years 2013, 2014 and 2015. This would exceed the Band of the Island of Jersey's uniform funding requirements, which are estimated to be £40,000, after applying existing funds from the Band's fund-raising activities. The full amount of £60,000 spread over 3 years would enable the Band to purchase 45 uniforms, which have a life of 10 years, and have some funding available for other running costs and equipment. The narrative for Deputy Higgins' amendment, therefore, does not fully reflect what the Band of the Island of Jersey could achieve with £60,000.

The Council of Ministers are supportive of the valuable work that the Band of the Island of Jersey does, both for tourist and ceremonial events. However, there are a number of issues with Deputy Higgins' amendment that mean the Council of Ministers cannot support it in its present format.

The basis of Deputy Higgins' amendment is factually incorrect. EDD did not reduce the grant to the Band of the Island of Jersey in 2012. EDD (Tourism) paid £6,000 for 6 performances at events in 2011 and £5,000 for 5 performances in 2012. This was not a ‘grant’. The Tourism Development Fund (TDF) paid £19,577.50 for new uniforms in 2005.

Consequently, this amendment does not represent the reinstatement of any funds removed or reduced. Instead, it represents a significant new grant award of £60,000 – outside of the TDF – to be funded through higher net expenditure by the States in 2013.

However, resources can be made available of £20,000 per year by carrying forward Social Security underspends in 2012 to provide funding for each of the 3 years of the Plan. This funding would not just be for uniforms, but would also help the Band with other running costs and equipment.

On this basis, the Council of Ministers opposes this amendment but considers that alternative funding is available within the Medium Term Financial Plan which can be used to support the Band.

Financial implications of Parts 1 and 4

This part of the Amendment will have the effect of reducing the surplus in 2013 to £647,000 and reducing the available balance on the Consolidated Fund.

Parts 2 and 5

Parts 2 and 5: Deputy Higgins proposes that total States net revenue expenditure and the net revenue expenditure of the Home Affairs Department shall be increased by £40,000 in 2013, 2014 and 2015 to fund the re-establishment of the post of Island Military Liaison Officer.

This part of the Amendment will have the effect of reducing the surplus in 2013, 2014 and 2015 to £667,000, £19,000 and £158,000 respectively and reducing the available balance on the Consolidated Fund.

The Council of Ministers has considered this proposal and understands that certain functions previously carried out by the Island Military Liaison Officer (IMLO) remain necessary. The Home Affairs Department, however, has put in alternative arrangements for some of these functions and does not require an IMLO. To reinstate what was a departmental CSR saving would seem counterproductive.

The Council of Ministers does, however, acknowledge that there is some benefit in having a single post to co-ordinate forces’ cadet work, and ceremonial functions that have a military element. This role would be a Cadet and Military Support Officer with overarching co-ordination and support of Cadet forces. Cadet forces would continue to receive direct funding from Home Affairs towards their running costs. This is awarded as a grant on an annual basis. In 2012, the grant was £10,000 for each Cadet force.

The level of funding required for the Cadet and Military Support Officer would be £40,000 for 2013, £40,000 for 2014 and £40,000 for 2015. The Council of Ministers has identified that funding for this post can be found from underspends arising in 2012. This would be supported by £8,000 of funding that is currently held within Home Affairs to fulfil the current Military Liaison Officer requirements. This funding would be moved, along with the functions, to the Lieutenant Governor’s Office.

On the basis that funding has been identified to support a post being created in the Lieutenant Governor’s Department, the Council of Ministers opposes this amendment.

Department Comments

Parts 2 and 5

Home Affairs Department Comments

Deputy Higgins raised a similar amendment last year to the 2012 Annual Business Plan, which was also opposed by the Council of Ministers.

The Island Military Liaison Officer (IMLO) post was relinquished as a 2012 CSR saving releasing 1.0FTE and £39,000. The Home Affairs Department will be making total savings of £3.632 million for the period 2011 – 2013, plus procurement savings. Saving such a large sum, whilst maintaining the operational capability of some of the Island’s essential services, has required judgements to be made about relative priorities and involved difficult choices. In the Department’s view, the loss of the IMLO post has less impact on the Island than making an equivalent saving affecting, for example, border controls, policing or fire prevention. Moreover, the Department has taken steps to deliver the core IMLO role in a different way in order that military units can still undertake training visits to Jersey.

Since the beginning of 2012, the military liaison role has been undertaken by the Jersey Field Squadron. During this period, 19 separate military units have visited, mostly for one to 2 weeks each, involving a total of 363 personnel. This programme has been achieved without any additional cost to the public. The suggestion that the loss of the IMLO post was “*a cynical manipulation of manpower figures by the TA who acquired the post only to give it up almost immediately as its contribution towards departmental savings*” is refuted. The IMLO budget was always embedded within the Field Squadron budget, and they have contributed an additional £75,000 to the corporate savings effort.

There is a proposal being considered that would seek to move this post from Home Affairs to the Lieutenant Governor’s budget as there is a requirement to oversee the Forces’ cadet work and to help co-ordinate ceremonial events. It is anticipated that this proposal could be funded from underspends arising in 2012.

On this basis, there would be no requirement for the amendment as set out by Deputy Higgins to be approved.

Financial implications of Parts 2 and 5

This part of the Amendment will have the effect of reducing the surplus in 2013, 2014 and 2015 to £667,000, £19,000 and £158,000 respectively, and reducing the available balance on the Consolidated Fund.

Parts 3 and 6

Parts 3 and 6: Deputy Higgins proposes that total States net expenditure and the net allocation for capital expenditure shall be increased by £800,000 in 2013 towards the cost of creating a new Headquarters for the Jersey Sea Cadets.

This part of the amendment will have the effect of putting the States into deficit in 2013 by £93,000 and reducing the available balance on the Consolidated Fund.

The Sea Cadets currently have £400,000 funding already available to help fund a new Headquarters. Jersey Property Holdings will commit a modest amount of expenditure from the existing funds to help provide an interim arrangement and plan for a longer-term solution. The current estimate is that a total of £1.2 million will be required for this project, although it may be that further analysis would reduce this amount. On the current basis, the Council of Ministers will support the inclusion of the £800,000 in the 2014 capital programme as part of the annual Budget process.

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

Department Comments

Part 3 and 6

Capital Expenditure Comments

Background

The site at Les Galots has for some time been identified as a possible site for relocating the Sea Cadets and other similar water-based community groups.

Funding of £600,000 was allocated by the States in 1996 to the (then) Sport, Leisure and Recreation Committee to progress a scheme, but despite expending almost £200,000, no viable solution was reached.

The balance of funding was transferred to Treasury in 2006. Jersey Property Holdings (JPH) working with the Department of Education Sport and Culture (ESC), the Sea Cadets and other water-based community groups and produced an outline project scheme in 2009 as a Fiscal Stimulus bid. The scheme costs were estimated at £1.5 million and the bid was rejected.

The 25th Amendment to the Island Plan (P.48/2011) provided for the Les Galots site to accommodate the Sea Cadets –

> *"To address deficiencies in the provision of community facilities, the following site is safeguarded for the development of community facilities, to include development of a building suitable to accommodate the headquarters facility for the Jersey Sea Cadets – Les Galots site, Old South Pier, St. Helier".*

In his amendment, then Deputy I.J. Gorst of St. Clement also recognised that, *"there will however be a requirement for 'planning gain' to fund the eventual construction of a [community] building".*

It is, therefore, clear that there is substantial support for development of a facility on the site, but insufficient funds are in place to achieve this as a public development alone.

Current Position

The site at Les Galots potentially exceeds the spatial requirements of these groups and it may be possible to develop additional buildings, subject to Planning approval, that could provide a means of 'cross-subsidising' the community facilities.

A working group comprising representatives of Ports of Jersey, ESC, SoJDC, JPH and the various water-based community groups developed a comprehensive project plan, including design strategies, financial plan and an independent management proposal.

On behalf of the Group, JPH has entered into preliminary discussions with a third party to explore the potential to create a 'Joint Venture', whereby the Public contributes the land at Les Galots, in the form of a long leasehold interest, and the £400,000 funding held by JPH in return for community facilities to be specified in a development agreement alongside some commercial development.

The discussions are at an early stage and will require the approval of the Ministers for Economic Development and Treasury and Resources before progressing. If this approach is successful, the facility could be provided without the need for further funds to be drawn from the Consolidated Fund. Should this approach not be successful, the Council of Ministers will support the inclusion of the £800,000 in the 2014 capital programme as part of the annual Budget process.

A political Working Group is considering potential options for the future of Fort Regent. The presence of the Sea Cadets on the site is not an impediment to the work of that group on the basis that a relocation solution for the Sea Cadets will be in place prior to the conclusion of any redevelopment.

Financial implications of Parts 3 and 6

This part of the amendment would have the effect of putting the States into deficit in 2013 by £93,000 and reducing the available balance on the Consolidated Fund.

Council of Ministers' Key Themes

<u>Key Theme – Growth</u>

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 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.

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.

<u>Key Theme – Balanced Budgets</u>

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 a 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.