

#### **4.7 Senator S.C. Ferguson of the Minister for Treasury and Resources regarding the maintenance of departmental contingency funds:**

Further to a written response on 30th November 2010, when the Minister stated that all departments were encouraged to maintain their own departmental contingency, what is the total of the budgeted sum by year for the department in relation to such contingency funds for 2011, 2012 and 2013?

##### **Senator P.F.C. Ozouf (The Minister for Treasury and Resources):**

My written response on 30th of November stated that all departments were being encouraged to maintain their own departmental contingencies and reserves. Encouragement is somewhat different from having been able to put them in place. The proposals for contingencies form a part of the C.S.R. (Comprehensive Spending Review) principles which have been developed in order to encourage better financial management, particularly involving greater flexibility within spending limits over the 3-year period. Departments were not asked to separately identify contingency funds in their business plan submissions, so I am unable to provide an analysis of the individual budgeted sums in departments. I would add though that most jurisdictions recognise the importance of contingencies in order to control and manage spending within proposed limits. Such reserves are essential to manage forecast variations and unforeseen expenditure, and to allow external factors which impact on the economy.

##### **4.7.1 Senator S.C. Ferguson:**

Yes, I agree with the principles expressed by the Minister but having served on the Health Committee, I am well aware that less important projects are often treated as quasi-contingency funds, as was demonstrated by the use of surplus endoscopy funds by the Health Department. Also, I am aware that there are contingency amounts built into projects. Can the Minister return to the departments and obtain the figures for the estimate of funds which could be moved from such projects in an emergency and, therefore, are unofficially contingency funds? Will he ask the departments what their margin for error is and how much contingency they have built into their budgets?

##### **Senator P.F.C. Ozouf:**

I can ask, and I am happy to engage with Corporate Affairs in relation to this issue during the course of next year. I do think this is quite a difficult issue though, and all departments will receive an annual budget, and they will be making choices as to what they are able to do in terms of completing projects as their pressures during the year become clearer in terms of what they are doing. It is quite difficult, in a sense, to say that that is definitely a contingency, because effectively, with a discretionary spend of Health or Education or Home Affairs, there will be choices that departments will make. What we are trying to do is to strengthen the whole issue of contingencies. We have set out 3 types of contingencies; D.E.L.s, (Departmental Expenditure Limits), A.M.E.s (Annual Management Expenditure) and 'Items for unforeseen'; I think that gets us to a much more clear extent to contingencies. I am happy to ask and continue to have dialogue with departments supported by Corporate Affairs.

##### **4.7.2 The Deputy of St. Mary:**

I am just puzzled by these different contingencies. My understanding of the latest budget that we are going to debate tomorrow is that the contingencies are all going to be the departmental contingencies. They are going to be wrapped-into a central contingency, but that appears not to be the case. Can the Minister confirm that the

departmental contingencies are going to stay as departmental? I might have a supplementary.

**Senator P.F.C. Ozouf:**

The Deputy is quite correct; that there is going to be essentially a held D.E.L., a departmental limit for use by departments if the need should arise. That is different from, I think, the point that Senator Ferguson was making; that there are going to be inevitably some discretionary issues where departments are going to release funds for different projects as their year progresses. To be able to cast every single item of expenditure a year in advance is something that is pretty difficult and I would just remind the Assembly that the A.M.E. and D.E.L. ... we are aiming to have a contingency of .5 per cent for D.E.L. and 1 per cent by 2013 for A.M.E. of which the detail has all been published in the Business Plan. These are contingencies which are based upon the best practice of other governments in the world and I would think that that is something that the Assembly should be supporting, in a world where we are going to be putting budgets under increasing new pressure.

**4.7.3 The Deputy of St. Mary:**

Can the Minister confirm then where D.E.L. and A.M.E. are going to be held?

**Senator P.F.C. Ozouf:**

D.E.L. and A.M.E. are going to be centrally held and will form part of the 3-part plan for the contingencies, of which there is an initial set of rules that have been set out, and we have an amendment in the Budget tomorrow from Deputy Vallois on the issue of how those contingencies are being released. But those A.M.E.s and D.E.L.s will be centrally held by the Treasury and released under the rules that we are going to be exploring in the Budget debate in the next couple of days.

**4.7.4 The Deputy of St. Mary:**

May I ask another supplementary, because it is going to be important for tomorrow? So, under the present arrangements then, if it snows for another 2 weeks and T.T.S. (Transport and Technical Services) have run out of the funds that they have guesstimated they need for salting and gritting the roads and getting people up at 2.00 a.m. to do so, do they have to come running to the Minister for Treasury and Resources to explain that rather than do this they have got to do that and they need a bit more money for gritting? Is that now what we have come to?

**Senator P.F.C. Ozouf:**

I hope that any Ministers are not going to be running through the snow but the fact is that we are not going to be expecting departments to be literally trying to find an excuse almost in order to access those contingencies. I know that that is the concern that some Members and Deputy Vallois and, I think, Senator Ferguson, have. Certainly any contingency request would be, in my mind, in excess of £500,000 minimum... and there are going to be penalties in order to access contingencies. Departments have to manage their expenditure within their budgets but there are some things, some extraordinarily large items that we accept that they cannot necessarily budget for. This is not an issue about reducing spending, by the way; this is an issue about proper contingencies and proper budgeting, not to allow the fiscal drag of increased spending and that is a different thing.

**4.7.5 Deputy A.E. Jeune:**

It is probably a little unfair, this question, but I just wonder whether the Minister may have any idea how many departments, if they opened a drawer, might find a roll of £800,000.

**Senator P.F.C. Ozouf:**

I do not think many departments have a drawer with £800,000 in it. The fact is that we have had a long experience about dealing with contingencies. Back in the old days of Finance and Economics we had a General Reserve which became almost a bidding war between different departments. The money was there and so people bid within it. We then did away with contingencies; that meant that my predecessor and I had to come to this Assembly asking for Article 11(8) requests. That has been rightly criticised by the Comptroller and Auditor General. We want to put in place an annual amount of fixed expenditure, put in contingencies; have proper, difficult, tough rules associated with accessing it in order that departments can manage their expenditure in what is going to be a difficult world in the next 3 years, as we see departmental expenditure limits falling by £65 million. That is an important point about why we need contingencies, in a proper rule-based sense, than ever before.

**4.7.6 Senator S.C. Ferguson:**

We cannot improve our financial management if we do not know what spare capacity in cash terms could be available. Will the Minister find those figures and, as a corollary to that, will the Minister also supply the figures to this House of what the estimates for annual under-spend were at the end of October before the year-end spend - habitual in the public sector - is in full swing?

**Senator P.F.C. Ozouf:**

Those figures historically have been well-known by Members; I think they are in the public domain. There is always going to be, one hopes, an issue of under-spends because there will be other departments that will be over-spending and one needs to make adjustments at the end of the year in order to make the departments and the overall books balance. I think there is obviously much more to be done, even more than we have already done, in strengthening financial management in the States, getting more information. That is what the strengthening of the Treasury has been but there is a limit in terms of just the Centre asking questions of departments. What are you spending your money on? How are you doing in terms of accounting? One can create a whole cottage industry in terms of information which is not necessarily information. I want departments to have reasonable cash limits and work within them but have a contingency in order that they can manage properly without a whole bureaucracy which is even more complex.