States of Jersey
States Assembly

États de Jersey
Assemblée des États

Public Accounts Committee

Financial Management

Presented to the States on 10th August 2016

P.A.C. 1/2016

Contents

1 Terms of Reference

To consider steps being taken by the Treasury and Resources Department and, where appropriate, other States departments, to address deficiencies in:

- The current framework for allocation of resources by the legislature to the executive;
- The current framework of accountability by the Executive to the legislature for the use of resources allocated;
- Financial governance and leadership across the (States) organisation; and
- Financial planning within the (States) organisation.

Following the publication by the Comptroller and Auditor General (C&AG) of her Review of Financial Management (R.38/2015), which contained 36 recommendations, the PAC sought to:

1. Hold public hearings with Chief Officers and any other individuals or organisational representatives considered necessary.
2. Gather evidence of, and reasons for, their responses to the C&AG's report.
3. Report to the States Assembly with the PAC's findings and any recommendations arising from the evidence.

2 Chairman's Foreword

Given that the States of Jersey faced a shortfall of income estimated at £148 million, the PAC considered it vitally important to follow up on the 36 recommendations made by the Comptroller and Auditor General (C&AG) in her report of 2015 to the States of Jersey, "Review of Financial Management" (R.38/2015).

The PAC questioned all States Departments on what services they are providing and whether those services or activities should be maintained, stopped, reduced, outsourced or provided more efficiently. It has challenged them on how closely they work together to achieve savings, an efficient, modernised and streamlined workforce, and value for money for the public.

The PAC concludes there is a "cultural inertia" throughout many departments, which manifests in their working in 'silos' rather than corporately. Clear evidence emerges that Chief Officers (CO) are divided on their view on centralising some key functions such as Human Resources (HR) and Information Technology (IT).

There is also inconsistency in approaches to States office strategy, with three Chief Officers claiming that they expected to, or certainly preferred to, remain in their current location rather than working in the same building with other Department Heads. However, the PAC echoes the sentiment expressed by the CO of Economic Development, Tourism, Sport and Culture (EDSTC):

> ***"…coming together into a more central location is the way that you fundamentally change the culture. The culture will be changed by the infrastructure, not the other way around."***

The States' Strategic Plan of 2015 states that improved financial management systems are a key outcome, yet evidence of progress in this important area is weak. The Treasurer of the States reassures the PAC that progress is being made, but the PAC considers that real progress is hampered by a lack of resource, a lack of a clear vision and too many highly-qualified finance staff being involved in day-to-day transactions rather than strategic corporate initiatives.

Whilst it understands the Treasury's reason to accept cuts to its budget alongside other departments, the PAC concludes it should adopt a less "salami-slice" approach and invest in necessary restructure of processes and staff skills. The performance of the central financial management function within the States is vital to achieving meaningful change and operational efficiencies. Therefore the concept of "invest to save" should include directing appropriate resources for Treasury, in order that it might bring together and develop a truly corporate strategy for the States as a whole. This restructuring could and should include appointing a dedicated Deputy Treasurer.

On behalf of the Public Accounts Committee I would like to thank those who have contributed to this review in giving evidence, either orally or in writing, the Comptroller and Auditor General for her technical support, all of the support staff for their assistance and our officer for her hard work and support throughout this review.

Deputy Andrew Lewis, Chairman, PAC

3 Summary of PAC's Key Findings and Recommendations

KEY FINDING 1: Forecasting of budgets is in terms of individual underspend or overspend, but not thought of corporately. Each department is insufficiently corporate or centre-focused.

KEY FINDING 2: Bench-marking against similar jurisdictions, together with other techniques to assess value for money, are not routinely undertaken.

RECOMMENDATION: The Chief Executive and Treasurer should establish an effective benchmarking system against similar small jurisdictions, which should then be adopted by all departments.

RECOMMENDATION: The Chief Executive should establish corporate cooperation between departments as a mandatory and contractual obligation for Chief Officers.

RECOMMENDATION: The Chief Executive and Treasurer should adopt greater scrutiny of growth bids that are funded by individual department savings.

RECOMMENDATION: All Chief Officers at all times must act corporately to ensure that the States Property, IT and HR assets are used to their maximum capacity through sharing assets ensuring they are well maintained, sweated and (when no longer required) disposed of quickly, efficiently and cost effectively.

KEY FINDING 3: There is too much focus on departmental responsibility at the expense of collective strategic leadership.

RECOMMENDATION: All Chief Officers should actively demonstrate that their departments do not act in ways that are symptomatic of a silo mentality, to the detriment of the corporate body.

RECOMMENDATION: The Chief Executive should create a consistent framework for departmental business plans that meets SMART criteria i.e. Specific, Measurable, Achievable, Relevant and Time-bound.

RECOMMENDATION: Chief Officers to exhibit a full commitment for the plan to create a central administrative hub within which they would spend at least part of their time undertaking key corporate objectives.

RECOMMENDATION: All departments should commit to working together at both a tactical and strategic level.

KEY FINDING 4: Recommendations by the Corporate Services Scrutiny Panel in 2012 had not yet been implemented, including a rolling MTFP.

RECOMMENDATION: The Chief Executive and Treasurer should ensure that the Strategic Plan (the "where to" document) and Corporate Plan ("how to") will inform a high-level MTFP, which in turn will inform a detailed budget.

KEY FINDING 5: There is inconsistency in challenging existing budgets, service provision and current working practices

RECOMMENDATION: The Chief Executive should adopt a consistent approach to all Departments when challenging existing budgets, service provision and established ways of working.

RECOMMENDATION: The Chief Executive should develop and publish a full Estates strategy for the next 10 years.

RECOMMENDATION: The Chief Executive and Treasurer should ensure that the MTFP becomes more flexible, dynamic and truly reflect the drivers of change.

KEY FINDING 6: Each department takes a different approach to zero-based budgeting and success is not always shared with others.

RECOMMENDATION: The Chief Executive should ensure all departments undertake ZBB to drive organisational culture change, make routine and robust cost efficiencies and provide reallocation of resources for growth.

RECOMMENDATION: All departments should establish corporate as well as departmental and individual targets for finance and non-finance managers.

RECOMMENDATION: All departments should routinely ensure that all staff have core objectives and that there is better monitoring of the completion of staff appraisals.

KEY FINDING 7: Highly qualified staff are often undertaking several routine transactional processes at the expense of providing support to managers.

RECOMMENDATION: The Chief Executive and Treasurer should work together to ensure that there is a restructure of finance departments, both individual and corporate, so that highly trained and skilled staff undertake more decision making and fewer transactional processes.

4 Introduction

4.1 In April 2015 the C&AG presented to the States a report entitled 'Financial Management' (R.38/2015).[1] The report contained 36 recommendations, which are reproduced in full at Appendix 1, together with the response of the Treasury and Resources Department (Appendix 2), and its Action Plan (Appendix 3). The recommendations were designed to address issues regarding:

(i) the current framework for allocation of resources by the legislature to the executive;
(ii) the current framework of accountability by the executive to the legislature for the use of resources allocated;
(iii) financial governance and leadership within the States; and
(iv) financial planning within the States.

4.2 Given the apparent seriousness of the findings outlined in R.38/2015, the Chairman of PAC asked for an executive response to the recommendations to be supplied within 4 weeks.

4.3 An executive response was received 17 weeks later – the delay in responding having been attributed to the extensive works required to prepare the draft Medium Term Financial Plan 2016-2019. Although all of the recommendations were accepted in full or in principle, and an Action Plan followed soon afterwards, the PAC considered it to be vitally important that the departments should be questioned as to why those recommendations had not been followed urgently and what, if any progress had been made.

4.4 The PAC decided to concentrate its evidence gathering in the following key areas:

- Corporate Planning
- MTFP
- Zero-based budgeting
- Organisational Culture
- Performance Management

4.5 By focussing on the above themes, the PAC hoped to determine whether there were cultural issues affecting performance management of finance professionals and non-financial managers; what plans were in place to address the delayed implementation of certain recommendations made by the Corporate Services Scrutiny Panel (SR.18/2012);[2] and how departments were working to achieve a rolling Medium Term Financial Plan (MTFP). It also sought to determine the cultural approach of all States Departments to identifying efficiency savings and how the Executive proposed to approach the funding of the capital programme in future years.

4.6 The Strategic Plan 2015-2018[3] states that sustainable public finances are a key objective, while page 9 asserts that improving financial management systems is a key outcome being targeted.

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[1] Review of Financial Management - Presented to the States on 2nd April 2015, by the Comptroller and Auditor General
[2] Review of the Medium Term Financial Plan - Presented to the States on 22nd October 2012, by CSSP
[3] States of Jersey Strategic Plan, adopted by the States on 30th April 2015, www.gov.je

5 Process and Evidence

5.1 The review process undertaken by Scrutiny Panels and the Public Accounts Committee is guided by the Code of Practice. Having decided on the terms of reference, the scoping documents were approved by the Chairmen's Committee. The PAC informed the C&AG it would follow up on the implementation of her recommendations by individual departments.

Public Hearings with Chief Officers

5.2 Public hearings took place on 25th January, 9th February and 1st March 2016. Twelve Chief Officers were asked a series of questions, devised to ascertain which of the 36 recommendations made by the C&AG were accepted, which were rejected, and what, if any progress had been made on implementing them.

5.3 At the first hearing, the PAC heard from the Chief Officers (CO) of the Social Security Department (SSD), Environment Department (ED), Economic Development, Tourism, Sport and Culture Department (EDSTC) and the Education Department (EdD)

5.4 At the second hearing, questions were posed to the Chief Officer, Department for Infrastructure (DfI), The Greffier of the States, Chief Officer, Community and Constitutional Affairs (CCA) and the Chief Officer, Health and Social Services Department (HSSD).

5.5 The Chief Executive and the Treasurer of the States were witnesses at the third hearing.

5.6 The questions related to five broad themes, namely corporate planning, the MTFP, zero-based budgeting, organisational culture and performance management. The C&AG or her Deputy were also present at the public hearings.

Department Responses

5.7 Individual departments were contacted, before and after the public hearings and asked for their views on the C&AG's recommendations or for clarification or evidence of points already made. The recommendations, documented responses and summaries of oral evidence given in response to the recommendations form the substantive body of this report.

5.8 All States departments responded, and all of them either accepted, or accepted in principle, the C&AG's recommendations. Although they endorsed the recommendations, some expressed doubts as to their achievability.

Executive Response

5.9 The Executive Response to R.38/2015 is attached in full in the appendices to this report, however extracts are summarised here. The Executive accepted most of the 36 recommendations in full and the remainder in principle. The Executive welcomed the C&AG's Report and its recommendations as:

> ***"an important contribution to the shaping of the future model of financial management and function across the States as the Executive moves to a***

more corporate and collective leadership of strategic financial management."

5.10 The Executive noted that an appropriate model of financial management was critical to the achievement of the required changes and successful transformation of the Public Sector.

5.11 All information (unless noted as confidential, in which case it has been paraphrased) utilised by the PAC to compile this report, is available on the Scrutiny Website: Scrutiny.gov.je.

6 Corporate Planning

6.1 Recommendations 3-5 of the C&AG's Review of Financial Management related to the need to reinforce a culture of collective responsibility for corporate financial management issues by the Council of Ministers and Corporate Management Board, and to fix regular discussion of key strategic financial issues and priorities.

Responsibilities

6.2 At the third public hearing, the Chief Executive outlined his responsibilities and described the recently-changed reporting lines. He advised that in terms of financial management, the Chief Officer, also known as the Accounting Officer, would report to him. In his opinion there was an improved collaborative approach in the Council of Ministers and Corporate Management Board and there was now far more recognition of how departments need to work together.

6.3 Although acknowledging that the C&AG's recommendations had been accepted in principle or in full, the Treasurer advised that undertaking all the 36 changes recommended in her report was not something that could be delivered quickly or without resources.[4] He accepted that it was his responsibility to put together a financial framework within which Accounting Officers have to work.

Corporate Savings

6.4 The Chief Executive, when asked whether making savings corporately could address the structural deficit, replied that it would be achieved by having control on staff numbers. He advised that reviews were underway to understand how to streamline the organisation, and that he was looking closely at the number of staff employed in the organisation and very tight vacancy management, voluntary redundancy and, above all, pay restraint.

6.5 When asked how the Chief Executive had challenged departments on their service and activity restructuring, he replied that better management information was making it easier to identify savings. He said that all departments had been required to bring some services together and undertake benchmarking and comparison work to see whether it was better to provide services in-house or out of house. However, he considered that benchmarking was difficult to do in Jersey to achieve true like-for-like comparisons.

6.6 Challenged on the progress with public sector reform, and £90 million savings to meet the adjustment to the structural deficit of approximately £145 million, the Chief Executive stated that streamlining was key as was providing central management information, for the Corporate Management Board to understand more about the operation of the organisation as a whole. He was encouraging Chief Officers to perform in a more corporate manner[5], and added that when the Medium Term Financial Plan commenced, the public sector reform programme in 2012/13 had also been launched.

Departmental Reviews

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[4] Public Hearing with Treasurer of the States and Chief Executive, 1st March 2016, p3
[5] Public Hearing with the Treasurer of the States and the Chief Executive, 1st March 2016, p10

6.7 The Chief Officers were asked what tools they had been using within their respective departments to review services and activities, in order for the PAC to examine the rigour of the approach adopted to identify expenditure reductions. The PAC was looking for examples of tools such as comparison of service provision to statutory duties and strategic objectives; benchmarking activity and expenditure, both internally and externally; and use of 'Lean' methodology, a States-wide project to make savings and rationalise services.

6.8 The Chief Officer, CCA advised they had a check and balances system which is about safely removing costs from the fire and rescue service without increasing any risk to the community. The Greffier of the States advised that as his budget was relatively small (about £6 million), with almost half of that allocated to salaries, his department had been undergoing an analysis of how best to modernise the States Assembly and provide better services. The Environment Department Chief Officer considered that his department had become:

"more corporate,…we are about 40 per cent dependent on income in Environment, so we do keep a very keen eye on that to make sure that we can afford to do what we are doing." [6]

Centralised Services

6.9 The PAC recognises that, currently, HR, IT, estates and procurement are, in the main, organised centrally whereas substantial elements of finance management are lodged in individual departments. It recalls the C&AG's opinion that there is no single correct way to organise services, and acknowledges that there were competing challenges of securing corporate standards, corporate working, economies of scale and responsiveness to service needs.

6.10 The Panel asked a series of questions around the Chief Officers' perceptions of the efficiency, effectiveness and responsiveness of centrally-provided services, savings achieved by central initiatives and the potential for improved value for money through centralisation in other areas.

6.11 The Chief Executive cited the Infrastructure Department as looking to become more of an arm's length organisation (ALO) and commented that he wanted to bring together only the right amount of people so that they could be accommodated in one of the sites available. He advised that he wanted to be sure that the costing was right and the feasibility complete before his report on centralising initiatives was published. The Treasurer used the example of moving departments to work closer together, such as the Population Office from Chief Minister's to Social Security and Home Affairs policy-making function to within the Chief Minister's Department:

"It is very clear that once you start getting …people together, they start working together in a different way and you (get) a far more collaborative approach." [7]

6.12 The Chief Officer, Community and Constitutional Affairs (CCA) advised that traditional roles in parish administration could be lost through centralisation, but that any changes should be managed gently in order to maintain the existing goodwill and enthusiasm.

[6] Public Hearing with (amongst others) Chief Officer of Environment Department, 25th January 2016, p16
[7] Public Hearing with the Treasurer and Chief Executive, 1st March 2016, p8

The Chief Officer, Environment Department said of the centralised H.R. and centralised I.T:

> **"*from a departmental perspective I feel like I am getting less of a service because of that centralisation."*** [8]

However the Chief Officer, Education Department commented that he favoured:

> ***"a corporate centre which sees its role in life as making service delivery to people who live and work in Jersey more efficient, better, quicker, higher quality."*** [9]

eGovernment (eGov)

6.13 The Chief Officer of CCA advised that his department had a number of projects which are part of the current eGov programme and the Chief Officer, Health and Social Services (HSSD) submitted that there were many areas of health and social care delivery which would benefit from using technology more efficiently and effectively.

6.14 The PAC queried why, despite several million pounds of capital having been allocated some years ago for the purpose of a fully-integrated IT system, and £12 million allocated for an Integrated Care Record System, these projects had not been completed. The Chief Officer, HSSD advised the projects were still ongoing.

6.15 The Chief Officer, Economic Development, Tourism, Sport and Culture Department (EDTSC) advised that his department had a good relationship with the Treasury and had no problems with centralisation – the department had engaged in a major service redesign exercise that has moved the old department from a "direct delivery" to a largely "externally commissioned" model. The Chief Officer, Department for Infrastructure commented that the main influence on centralisation was work modernisation although he did not see eGov as a way to make savings for his department but agreed it would provide better customer service.

.16 The Greffier of the States considered that the eGov programme would be "transformational" as:

> ***"people outside want to interact with parliamentary bodies more and more and they want to do so in a way which is easy".***

Continue, Reduce, Cease or Outsource?

6.17 The PAC sought clarification from the Chief Officers as to what services had been identified within individual departments to be continued, reduced, ceased or outsourced to make savings.

6.18 The Chief Officer of the Social Security Department advised that his department had adopted the Lean Programme, and had been successful in making improvements to free up staff capacity, but was not looking to cease any activity. It was also looking to work

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[8] Public Hearing with (amongst others) Chief Officer of Environment Department, 25th January 2016, p53
[9] Public Hearing with (amongst others) Chief Officer (Director) of Education, 25th January 2016, p54

with the Taxes Office and with eGov to see how it could collect income and streamline activities.

6.19 The Chief Officer of the Environment Department stated that his department was looking to reduce staff through a vacancy management programme and possible reductions in the amount of regulation applied across the Island. The Chief Officer, EDTSC advised that over the previous 3 to 4 years, the department had been completely restructured and reduced to 5 core functions, i.e. strategy policy, data protection, oversight of regulation, and management of external delivery.

6.20 The Chief Officer, Education Department advised that £6 million savings were achieved through efficiencies and reducing management costs, it was looking to opportunities to outsource and/or reduce, but that it had made most of the efficiencies it was likely to make.

6.21 The Chief Officer, Department for Infrastructure had been reviewing all the services that his department provided and commented that outsourcing to local suppliers who were upskilled could be advantageous.

6.22 The Chief Officer, Health and Social Services said that there were few services that could be cut from her department because they were required by the public. However she raised the issue that the role of the States could be as an enabler for the delivery of service by others, rather than as the provider itself (outsourcing).

Growth Bids

6.23 The Review of Financial Management highlighted a focus on scrutiny of growth bids (as opposed to ongoing expenditure) in the MTFP process. This focus means that there is potential for departments to fund ‘growth’ through internal savings, regardless or not of whether such ‘growth’ accords with Strategic Plan priorities. The PAC wanted to investigate the extent to which expenditure reductions were being identified internally but not considered corporately, and asked Department Heads to give examples of recent potential growth bids which had been avoided through driving greater efficiency or cessation of low priority activity in other parts of the business.

6.24 The Chief Officer of the Social Security Department replied that his department had found better ways of working to absorb a £250,000 shortfall, and likewise, the Chief Officer, Environment Department agreed that he either chose not to undertake an activity or had reprioritised within the department. However the Chief Officer, Education Department explained that there was necessary growth in his Department, but that nevertheless, he had made the same level of savings as all the other departments and had kept growth to a minimum by reducing the people running the department by significant numbers.

PAC Findings

The PAC considers that although each department had looked for ways to make savings, that there is insufficient vision of the overall strategic plan, that is, what the States will be delivering or should be delivering. Forecasting of budgets is in terms of individual underspend or overspend, but not thought of corporately. The PAC considers that this highlights a near-“silo” mentality, whereby each Department is not sufficiently corporate or centre-focussed.

Key finding 1: Forecasting of budgets is in terms of individual underspend or overspend, but not thought of corporately. Each Department is insufficiently corporate or centre-focussed.

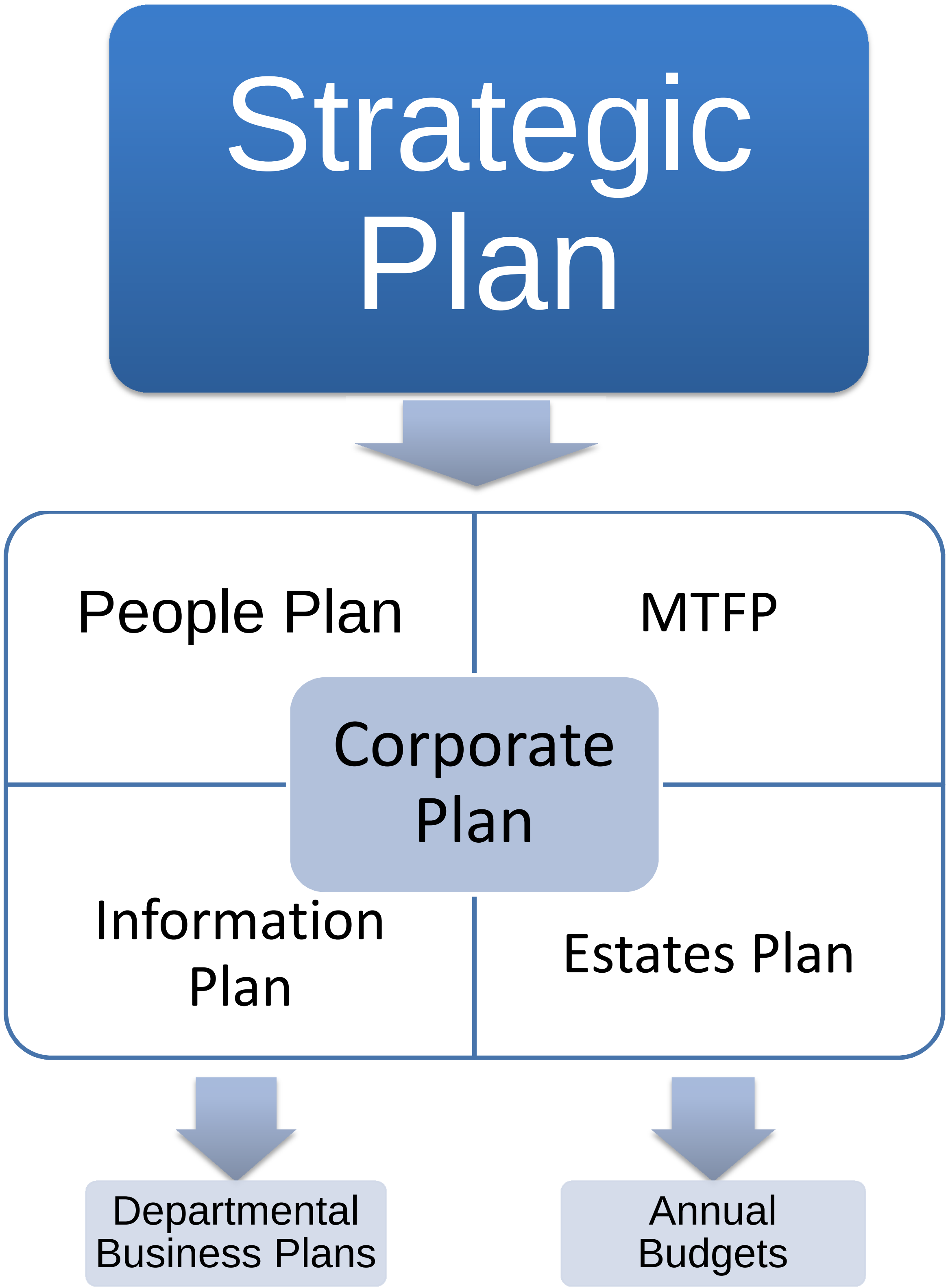
Although pleased with each department's actions on making savings and efficiencies, it agrees that departmental business plans, aims and objectives should be much more strongly linked to the States-wide Strategic Plan.
It is struck by the fact that there seems to be no cohesive drawing together of financial, property, IT and HR plans so that each department understands "what good looks like".
Bench-marking against similar jurisdictions is not widespread and the Chief Executive asserted that is because finding true like-for like comparisons was difficult. However, although the PAC accepts that Jersey is, in many ways, unique, it does not accept that benchmarking to measure performance and value for money, could not be achieved. It agrees benchmarking and other techniques to establish best value should be established throughout departments, routinely.

KEY FINDING 2: Bench-marking against similar jurisdictions, together with other techniques to assess value for money are not routinely undertaken.

The PAC considers that there is not a strong enough drive to centralise functions, because some Department Heads had expressed their perception of receiving a "lesser" service than if that function were embedded in their own department, for instance HR and IT services. Most of the comments in respect of eGov had focussed on the technological or IT aspects of the programme rather than the move to centralising functions and streamlining customer services. This seems to illustrate a "cultural inertia", acting as impediments to the necessary changes. The PAC also believes that apart from the LEAN methodology adopted throughout the States departments, insufficient steps have been taken to really progress better financial management.

The PAC agrees with the C&AG's central premise that the smaller the organisation concerned (and the States are a relatively small organisation that is not geographically dispersed) the stronger the arguments for central provision of support services to departments.

The PAC is aware that there is no States-Wide Corporate Plan. A Corporate Plan should be developed in order to bridge strategic priorities, the Medium Term Financial Plan and each Department's business objectives. The Strategic Plan (the "where to" document) and Corporate Plan ("how to") should inform a high-level MTFP, which in turn would inform a detailed budget, as set out in the diagram:



Source: Jersey Audit Office

Further, there needs to be a consistent framework for departmental business plans so that each target meets SMART criteria: Specific, Measurable, Achievable, Relevant and Time-bound. This would lead to a coherent, consistent approach and a methodical means to build a strong collective leadership in Financial Management and reinforce a culture of collective responsibility by the Council of Ministers and Corporate Management Board.

The PAC urges the Chief Officers to accept that radical change is necessary and to speed up the process. Any issues arising can be resolved by more effective use of strategic and corporate planning.

PAC Recommendations

RECOMMENDATION: The Chief Executive and Treasurer should establish an effective benchmarking system against similar small jurisdictions, which should then be adopted by all departments.

RECOMMENDATION: The Chief Executive should establish corporate cooperation between departments as a mandatory and contractual obligation for Chief Officers.

RECOMMENDATION: The Chief Executive and Treasurer should adopt greater scrutiny of growth bids that are funded by individual department savings.

RECOMMENDATION: All Chief Officers at all times must act corporately to ensure that the States Property, IT and HR assets are used to their maximum capacity through sharing assets ensuring they are well maintained, sweated and (when no longer required) disposed of quickly, efficiently and cost effectively.

RECOMMENDATION: All Chief Officers should actively demonstrate that their departments do not act in ways that are symptomatic of a silo mentality, to the detriment of the corporate body.

RECOMMENDATION: The Chief Executive should create a consistent framework for departmental business plans that meets SMART criteria i.e. Specific, Measurable, Achievable, Relevant and Time-bound.

7 Organisational Culture

7.1 **The Strategic Plan calls for improved organisational culture, and the PAC was keen to discover how Chief Officers were working to secure progress, both corporately and within their own departments.**

7.2 The Review of Financial Management highlights the weak linkages between the MTFP and other key corporate plans, such as those for HR, estates and IT. The C&AG recommended effective investment in IT to facilitate delivery and management of services. Some key means of driving efficiency are secured corporately through changes in terms and conditions of employment and therefore working practices, as well as changes from traditional office accommodation to modern flexible office accommodation.

Office Modernisation

7.3 The PAC asked questions of the Chief Officers to establish whether this initiative was considered a priority by them, and whether the delay in developing the office strategy was due to an organisational culture issue.

7.4 The Chief Executive advised that the reason for the delay was the size of the project, namely one that requires over 70,000 square feet of office accommodation and he also agreed that it required the changing of organisational culture to proceed.

7.5 The Chief Officer, Environment Department submitted that his department was looking at its infrastructure, including buildings, technology, eGovernment and the office modernisation project. Regarding the amalgamation of offices, the Chief Officer of Economic Development, Tourism, Sport and Culture was of the opinion that:

> "*…**coming together into a more central location is the way that you fundamentally change the culture. The culture will be changed by the infrastructure, not the other way around".*** [10]

7.6 The Chairman of the PAC prompted the departments to think about the "bigger picture"

> ***"There is also the issue of office modernisation as a programme generally. You all have secretariats, you all have administrative centres, and some county councils, for example, would have that all in one corridor. We have it in 26 locations, I think. How engaged are you all with the office modernisation programme? What about the administration of the States and combining that into one centre?"***

7.7 The Chief Officer, Social Security Department, advised that the office modernisation strategy has some tremendous benefits for customers, although whilst there was scope for providing services online, there would still be a need for a place where customers could meet service providers face-to-face. He added that the Population Office had moved to Social Security, because:

[10] Public Hearing with (amongst others) Chief Officer, EDSTC, 25th January 2016, p35

"they can do multiple transactions at the same time, and in terms of collaborative working between different functions of government we have been able to make improvements on every level." [11]

7.8 The Chief Officer, Department for Infrastructure agreed that the plan was to have a central function with core services, and the Chief Officer, Community and Constitutional Affairs added that a range of policy areas had been brought together. The Chief Officer, HSSD, confirmed that she was working on relocating a number of individuals working in policy and strategy, into the central team, however she considered it was vital that she and other key staff remained based in the hospital premises:

"I think those individuals who work in Health and Social Services who are engaged solely in policy and strategy, a very, very small number of them should and could be located alongside other policy and strategy people …But…my team in particular needs to be embedded within the organisation supporting their staff, leading their staff." [12]

7.9 The Chairman asked in respect of the drive to centralise, whether some functions should be taken back to individual departments. The Chief Officer of HSSD, argued that she would take back HR, as it was crucial in delivery of safe sustainable and affordable delivery of health care, and the Greffier agreed that the relationship with IT and HR would be improved by being closer. The Chief Officer, CCA said that he was comfortable with the present situation but the Chief Officer, Department for Infrastructure was less keen:

"…until we have all the policies and strategies in place we are in this no-man's land in between the old policies and the new ones, so it is quite challenging."

Working Together

7.10 The Chief Officers were asked to provide recent examples of joint working that have already resulted in the achievement of savings. This question was posed in recognition of the fact that efficiencies can often be secured by organisations working together to secure economies of scale, secure procurement savings or manage peaks in demand. In the context of the States, some of those potential savings can be secured by departments working with one another e.g. on sharing systems or staff. Historically, there has been a relatively weak focus on corporate working as opposed to individual departments which may have been an impediment to such joint working.

7.11 The Chief Executive spoke of the need for radical change, but in determining the provision of core and frontline services, he commented:

"How do we provide them and at what cost? As an organisation, how much further are we ready and prepared to go to really make those changes happen and make them more efficient?

He added that he would first go through a re-engineering and streamlining of services first to 'get the system right.'

[11] Public Hearing with (amongst others) Chief Officer of Social Security Department, 25th January 2016, p33
[12] Public Hearing with (amongst others) Chief Officer of Health and Social Services Department, 9th February 2016, p40

7.12 The Chief Officer, Department for Infrastructure gave as an example of cross departmental working, Property Holdings, which work for many other departments, delivering complex infrastructure projects such as the provision of schools:

> **"*It is not a strategic level; it is more of a tactical level that we work together.*"**

7.13 The Chief Officer, HSSD advised that that IT departments are currently working on the move of the environmental health team from Health and Social Services to the Environment Department. She also cited Jersey Talking Therapies, as a joint service between the Psychology Department, the Health and Social Services and Mind Jersey, and added that there were joint initiatives, for instance additional training provided to the fire service so they could undertake a first response:

> ***"That helps to support the ambulance service so that we are not making bids for more paramedics, because we can make use of that emergency response that we already have out there*."**

She also mentioned working with Social Security closely on a number of projects and Infrastructure on how to deliver better ways to dispose of clinical waste.

7.14 The Chief Officer, CCA agreed that there were a few points where different services interact:

> ***"(In the Prison) there we have been able to do some quite good work, both with the Health Department in terms of things like mental health services and treatment services for prisoners, and also with the Education Department. Most recently we have also done something to make an improvement that save resources with the library service as well.*"**

7.15 The Chief Officer, Environment Department added that his department address this issue by questioning what regulation is relevant and what does the Island get from it? He looks at how regulators work together and whether they could combine certain functions. He gave an example of sending someone out in the field to carry out a task, but whilst the officer was there, consider whether he or she could undertake other tasks such as look for water pollution compliance, for example. He agreed that there was commonality between enforcement, recording and prosecution functions which could be combined.

PAC Findings

A recurring theme throughout the discussions was the Chief Officers' focus on the needs of their individual departments and officers, rather than seeing their role as part of a corporate body.

KEY FINDING 3: There is too much focus on departmental responsibility at the expense of collective strategic leadership.

Although the PAC applauds some of the initiatives described by the Chief Officers, it echoes the C&AG's comments that there is too much focus on departmental responsibility. This was highlighted most strongly in the Chief Officer of Health and Social Services response to the question of where she should be located*:*

"Would it make a difference if I were sitting in Cyril Le Marquand House rather than the hospital? I think it would because what my staff like more than anything is visibility in leadership. I think, while I am nurturing them to understand that what we have now is the whole system and that whole system involves a whole range of providers, not just the hospital and social services and community services, I certainly do not think it would be to the benefit of delivering good quality services if we started to split the senior team and locate them in different places."

The PAC notes that where the departments are isolated from real world factors such as the running costs of premises, the effect in slowing down meaningful change is marked, as noted by the Chief Officer of Education:

"Where (the premises) let us down is multi-agency working… We need to be sitting next to people from health and social care in the third sector, and we have to contrive ways of doing that at the moment…if we are serious about supporting our must vulnerable children …then we need to work much more closely with others. ..this is the first time in my life I have worked somewhere where I have had no idea of the costs of my buildings around me, and I think the M.T.F.P. process has shone a light on this. Finding out exactly how much it costs to heat, to run, to maintain my building is quite difficult…if I knew exactly how much it costs and why I would probably be tempted to be more efficient."

The PAC agrees and reiterates the observations of the Chief Officer, Economic Development, Tourism, Sport and Culture Department:

"(Being) together in a more central location is the way that you fundamentally change the culture. The culture will be changed by the infrastructure, not the other way around."

The PAC agrees with the C&AG that cultural change is needed:

"a shift from the departmental to the corporate, from the short-term to the long-term and from a presumption of growth to the reality of entrenchment."

The PAC concludes that some of the key drivers of change, namely IT and office modernisation should be at the forefront of corporate planning in order to effectively reduce expenditure and promote more rapid reform. Chief Officers should commit to the office modernisation programme and be prepared to spend time undertaking key corporate objectives for the benefit of the whole organisation. A faster, more radical and urgent approach is needed to secure real change and produce the acknowledged savings needed to repair the structural deficit. By continuous change and adaptation, the States will be better aligned with the fiscal environment.

However, it also acknowledges that initial investment in key areas and a move away from across-the-board "salami-slicing" of departmental budgets would have to be made in order to secure the changes.

The PAC agrees with the eight steps for change in organisations[13], as outlined by John P. Kotter, a former professor at Harvard Business School and world-renowned change expert:

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[13] http://www.kotterinternational.com/the-8-step-process-for-leading-change

1. Establish a sense of urgency
2. Form a guiding coalition
3. Create a vision
4. Communicate the vision
5. Empower people to act on the vision
6. Create 'short term wins'
7. Consolidate improvements to produce further change
8. Institutionalise new approaches

PAC Recommendations

RECOMMENDATION: Chief Officers to exhibit a full commitment for the plan to create a central administrative hub within which they would spend at least part of their time undertaking key corporate objectives.

RECOMMENDATION: All departments should commit to working together at both a tactical and strategic level.

8 Medium Term Financial Plan

Linkage to Strategic Plan

8.1 The C&AG's Review of Financial Management identified weaknesses in linkage of the MTFP to the Strategic Plan priorities and in the extent to which the Strategic Plan objectives drove existing expenditure as opposed to new expenditure. Further, it identified weaknesses in arrangements for any challenge of existing expenditure.

8.2 Recommendations 16 – 31 illustrated a need to develop the MTFP starting from both Strategic Plan priorities (what is to be achieved) and Reform Agenda principles (how it is to be achieved). The C&AG had recommended undertaking a comprehensive programme of zero-based budget reviews, amending legislation to provide for a rolling MTFP and challenging both growth bids and base budgets.

8.3 The Chief Executive stated that the amount of work that every department has put in to developing the Medium Term Financial Plan effectively provided a significant range of service areas that could be challenged or cut.

8.4 The PAC probed the extent to which departments were in a position to contribute fully to the 4-year plan. Further, having noted that the second MTFP which was lodged in the summer of 2015, included little or no detail on how departments would achieve their savings, the PAC asked what the departments were doing to improve the process.

8.5 Asked if the linkage of the MTFP to the Strategic Plan priorities had been achieved, the Chief Executive responded**:**

> **"*Partly. It is getting better… traditionally financial management has been about the budget and delivering against the budget from a financial perspective. It has not always been as transparent as perhaps it could be to see how financial management links directly to strategic objectives. …What we do need to do, going forward, is to make sure that there is a much tighter linkage."*** [14]

8.6 The Treasurer replied that it had been the focus of the Corporate Management Board in terms of aiding the Council of Ministers:

> **"where we have been identifying more on an incremental basis, where additional savings over and above those identified in 2015/2016 would be, considering the States strategic priorities."**

8.7 When asked why his department had not been ready with the MTFP, the Chief Officer, Environment Department replied that it was mainly due to uncertainty over department boundaries combined with there being a lot to do over a 3-4 month window, in other words, prioritising responsibilities over a short time-frame.[15]

8.8 Challenged on his answer regarding the uncertainties including income forecasts, he added that while the Ministers were becoming aware of what the department's priorities were and what their political priorities would be, those priorities would have to be married up to the resources available. Further, he argued that it was a challenge to provide detail for the 4 years ahead, including savings that may or may not be deployed.

[14] Public Hearing with the Treasurer of the States and the Chief Executive, 1st March 2016, p15
[15] Public Hearing with (amongst others) chief Officer, Environment Department, 25th January 2016, p24

8.9 When asked if there was anything that could be done to plan better and quicker, the Chief Officer, Education Department considered that it would be helpful to undertake the Strategic Plan and the budget in a single process. The Chief Officer, HSSD, advised that her department had started planning for the Medium Term Financial Plan through the development of the long-term revenue plan but that a challenge was to project forward for 3 more years beyond 2016, as there could be significant changes to service provision and treatments.

Rolling MTFP

8.10 The PAC asked Department heads whether there was difficulty with the concept of a "rolling" M.T.F.P. and the Chief Officer, HSSD, commented that her policy was based on a 4-year planning process, so that they always looked a year and then 3 years in advance, and did that for every year out of the capital. The Chief Officer, Department for Infrastructure argued that the MTFP had:

> **"*never really solved capital because capital allocation is on an annual basis and we are reliant on steady long-term capital spend and the capital allocation, it would be nice if it stayed in that way".***

PAC Findings

The PAC is mindful that the first MTFP had been prepared in 2012, covering 2013-2015 and its purpose was to project finances, both income and expenditure, and to allocate resources. It had been subject to scrutiny by the Corporate Services Scrutiny Panel, but key recommendations outlined in their report (SR.18/2012) had not been implemented, in particular a rolling MTFP (a continuous process to maintain and update the MTFP to provide a framework for future planning).

Key Finding 4: Recommendations by the Corporate Services Scrutiny Panel in 2012 had not yet been implemented, including a rolling MTFP.

The PAC agrees with the findings of the C&AG that the linkage of the MTFP with the Strategic Plan was loose, and somewhat artificial, and that it focussed too much on growth rather than the necessary reduction on spending. The PAC found that there was no consistency in challenging existing budgets, service provision and established ways of working.

KEY FINDING 5: There is inconsistency in challenging existing budgets, service provision and current working practices.

It noted that although a principle of the Strategic Plan had been to maximise investment returns by, for example, optimising the use of physical assets, the MTFP did not include a meaningful estates strategy. It concludes that a medium to long-term estates strategy is essential for 'joined-up thinking' in planning the future of States departments and assets.

The PAC considers that a Corporate Plan, published in advance of the MTFP, should reflect clearly how objectives are to be achieved the process of reform throughout the organisation and investment in key areas such as IT and HR. A Corporate Plan would help the Corporate Management Board form a vision of what they were trying to achieve, what States Offices should look like and the services it should provide. From that, it would be easier to then map out the current situation and plot the course towards a more effective organisation.

The PAC has already commented in the previous chapter on the unsatisfactory practice of "salami-slicing" cuts in annual departmental budgets. Although it acknowledges that reduction on spending is necessary, it considers that a corporate strategy to make savings should also include investment where appropriate, for instance in IT or "invest to save" projects within the Treasury Department. This in turn will provide a platform for achieving greater efficiencies and streamlining of services.

The PAC concludes that the MTFP, in its present form, is unduly inflexible. It should be more flexible and dynamic and truly reflect the drivers of change such as IT, office modernisation strategy and corporate priorities.

PAC Recommendations

RECOMMENDATION: The Chief Executive and Treasurer should ensure the Strategic Plan (the "where to" document) and a Corporate Plan ("how to") informs a high-level MTFP, which in turn will inform a detailed budget.

RECOMMENDATION: The Chief Executive and Treasurer should adopt a consistent approach to all departments when challenging existing budgets, service provision and established ways of working.

RECOMMENDATION: The Chief Executive should develop and publish a full Estates strategy for the next 10 years.

RECOMMENDATION: The Chief Executive and Treasurer should ensure that the MTFP becomes more flexible, dynamic and truly reflect the drivers of change.

9 Zero Based budgeting (ZBB)

9.1 **The Strategic Plan calls for a '*comprehensive programme of zero-based budget reviews including consideration of whether there is an obligation to provide a service*." Recommendation 19 of the Review of Financial Management recommends a programme of zero-based budget reviews of all services over the life of the MTFP.**

9.2 Traditional budgeting is incremental: the starting point is the budget for the previous period and this is adjusted to reflect, for example, pay and price increases, changes in demand, target savings levels. In contrast, zero-based budgeting (ZBB) involves budgeting with a clean sheet of paper, justifying proposed expenditure as economic, efficient and effective. Whilst this is a more costly process, if used in a targeted way, it can yield benefits and drive improvements in value for money.

9.3 The Comptroller and Auditor General agreed that the process of identifying key areas and working out exactly what the costs were, was difficult:

> ***"So it is what are you trying to achieve, how do you achieve it, and then how can you go about achieving the same type of outcomes but, if possible, spending less money. That really is one of the key targets of zero-based budgeting and it is challenging."*** [16]

9.4 The PAC probed the Chief Officers over their understanding, and use of, zero-based budgeting, in order to understand how departments were moving forward and what challenges they were facing or anticipating. The Chairman of the PAC read out a quote from a published article, credited to McKinsey & Co:

> ***"Zero-based budgeting is a repeatable process that organisations use to vigorously review every pound in the annual budget, manage financial performance on a monthly basis, and build a culture of cost management among all employees."*** [17]

9.5 The Chief Officer, EDTSC advised that the department segmented its spend, starting literally with a zero base, however the Chief Officer, Environment Department submitted that his department used incremental budgeting for the regulatory services, although he did challenge how those services were provided. The Chief Officer, Education Department advised that his attempts at zero-based budgeting had not been a great success in his department as sometimes it would lead to individual organisations making a case to him about how important their services or activities were. He also advised that he was hampered by not knowing, for example, how much sickness, recruitment processes, or accommodation, contributed to his department costs.

9.6 The Chief Officer, Health and Social Services added that she used zero-based budgeting as a really good tool to sit alongside Lean methodology to strip back to the basics of what services are to be provided, and how best to do that for the client. She commented that her senior management team have endorsed zero-based budgeting with the intent to put a 5-year programme in place:

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[16] Comptroller and Auditor General in attendance at the Public Hearing of 25th January 2016, p46
[17] Five myths (and realities) about zero-based budgeting, (Article, October 2014) www.mckinsey.com

*"**Where we have particular areas where we know there is a problem or a challenge, or a particular area where we know we need to do major service redesign, it is a really good methodology to use.**"*

9.7 She also mentioned other methodology, such as routinely benchmarking against Guernsey and Isle of Man for service provision and using AEC network benchmarks on areas such as patient in-stays and social care.

PAC Findings

The PAC notes that the one of the principles of the 2012 Strategic Plan was to identify and implement all possible savings and efficiencies, optimising methods of service delivery to improve values for money. It was envisaged that zero-based budgeting would provide a robust scrutiny of services and activities of States departments, including challenging whether that service needed to be undertaken at all. The PAC agrees that ZBB should not be used as a blunt instrument (for example, to review every activity or service undertaken by the States of Jersey) as that would prove counter-productive, costly, time-consuming and cumbersome.

Most departments have begun a process of identifying services which can be reduced, outsourced, or ceased altogether. However, the PAC observes that every department takes a different approach to zero-based budgeting and when the process is successfully undertaken in one department, that success is not necessarily shared with other departments. This seems to highlight a non-unified approach of departments.

KEY FINDING 6: Each department takes a different approach to zero-based budgeting and success is not always shared with others.

Summing up the experiences of departments' use of zero-based budgeting and its place in the MTFP, the PAC agrees that it has its use in each Department and at a corporate level. It is surprised that some departments cannot easily identify how much their buildings cost to run. Although centralising departments is not dependent on building costs, moving offices can act as a driver to facilitate cost savings and organisational culture change. This will help identify which departments could or should be centralised and streamlined.

The PAC agrees ZBB can be used to drive significant and sustainable savings together with a culture of cost management not just because it highlights costs, but because it also highlights accountability at all levels of the organisation. Undertaking ZBB as a rigorous and routine process can free up unproductive costs, which can then be redirected to more productive areas, driving future growth.

In key areas, zero-based budgeting can identify the cost of services, ways to reduce that cost and in some cases, ways to provide those services differently and more effectively.

If a zero-based budget approach is used to calculate unit costs, the information can be utilised, for example, for the provision of office accommodation.

PAC Recommendations

RECOMMENDATION: The Chief Executive and Treasurer should encourage all departments to undertake ZBB to drive organisational culture change, make routine and robust cost efficiencies and provide reallocation of resources for growth.

10 Performance Management

10.1 **The Review of Financial Management highlighted the importance of development of the skills of non-financial managers in financial management. R10 and R11 recommended standardisation of the required skills and embedding them within the performance management framework. Given that high-performing organisations ensure that finance managers support non-finance managers in both long-term planning and day-to-day delivery, the PAC considered that financial management was too important to leave to financial managers alone.**

Non-Finance Managers

10.2 The C&AG had commented on the current programme of training on finance for non-financial managers and concluded that the current module of the Modern Manager Programme - Understanding Financial Management and Managing Budgets – was pitched at a basic level and there was no reinforcement e.g. through follow-up training. The C&AG noted in her report that high-performing organisations effectively manage the performance of staff by setting appropriate objectives aligned to organisational priorities, evaluating performance against those objectives and identifying priorities for personal development to improve performance.

10.3 The C&AG identified weaknesses in States departments' arrangements for performance management, including low recorded incidence of completion of staff appraisals, and at R13 made a recommendation for embedding a system of performance management across the States. At R15 she recommended that the training be reviewed and updated to maximise its effectiveness.

10.4 The PAC was keen to ask questions of the Chief Officers about impediments to effective financial management by non-financial managers, such as the timeliness and quality of financial information available to them. The PAC also probed the Chief Officers about the role of the finance manager, how involved they were with long-term planning, scenario planning, and providing operational support for non-financial managers.

Role of Finance Managers

10.5 Regarding the nature of the roles provided by financial management staff, the PAC is aware that in high-performing organisations there is a progressive shift away from transaction processing and financial control activities (as efficiencies are secured in how these are delivered) to 'decision support', helping non-financial managers make decisions on the use of resources. The Treasurer advised:

> ***"…I am keen to have a dedicated module all on finance…available to all budget holders. (Regarding transactions, there is a) question mark over whether finance staff are doing the budget holder's job."*** [18]

10.6 The PAC probed further as to whether highly-qualified finance staff were being utilised to the best effect and the Treasurer agreed it was a valid challenge.

The Chief Executive explained that the organisation has moved from where it was to where it is today and where it has got to be for the future:

[18] Public Hearing with the Treasurer of the States and the Chief Executive, 1st March 2016, p40

"C. & A.G. reports in financial management are very helpful …instead of financial management being transactional, it has got to move to transformation."

Performance Management

10.7 The Chief Executive explained that business plans were falling out of favour and that there should be a rolling-out of a corporate plan for each large department which effectively brings together all the main objectives for them to deliver against. He showed an example of a "Brief of Intent", at the Public Hearing, which is reproduced at Appendix 4. He commented that he liked the simple way it was laid out and advised that although the plans were not examined at the Corporate Management Board (CMB), they would be considered in detail at the chief officer's performance appraisal.

10.8 When asked what improvements, if any, the Chief Officers had made to the system of managing departmental and individual performance, the Chief Officer, EDTSC answered by advising that that department had a very good management accounting function, which is part of the Treasury but is a business partnership model:

"Both at management accountant and finance director level, they are, I would say, very closely involved with the overall strategic financial management and business planning, for instance the discussions we are having at the moment around the M.T.F.P. 2 submission."

He added that performance management is related to the Strategic Plan, through the strategic objective of jobs and growth, but could be improved by working closely with the Treasury and making Financial Directions more principles-based.

10.9 The Chief Officer, SSD reported that his department was running the new pilot for the appraisal system in Social Security, whereas the Chief Officer, Department for Infrastructure advised that his department had given the budgets to managers and the key issue was to stay within cash limits.

10.10 The Chief Officer, CCA answered that most of his departments were using a management by objectives system, but he saw the next frontier to be:

"moving into something which is more values-based and which brings in a broader set of considerations than just: "What was your objective and have you met them?"

10.11 The Chief Officer, HSSD said her finance director had performed excellently in:

"…bringing our processes and our systems and our policies right up to date and engaged in a lot of development for budget holders within the department, so everybody had, alongside the States-led training, bespoke training and support within the department to understand the nature of their responsibilities as budget holders."

10.12 The departments were challenged on the roles of departmental cost centre managers, and the Chief Officer, Environment Department agreed that his Financial Director had a role in looking at the bigger picture. The Chief Officer, Education Department agreed that his Finance Director undertakes many more responsibilities than just focussing on the funding:

*"**She has responsibility for the entire capital programme, IT systems, much wider role and that enables her to have a better understanding of what is going on in the department in terms of our priorities and raising standards, which helps make sure that our resources are allocated to our priorities.***

Moving line management to Treasury

10.13 Regarding R10, the PAC questioned the departments on their reaction to the proposal to move line management of finance managers to the Treasury. The PAC was mindful that, notwithstanding line management reporting arrangements, finance staff have responsibilities to both their departments and Treasury and Resources and perform a vital bridge role. It was keen to investigate the relationship between 'the centre' and each department.

10.14 Most Chief Officers said that they preferred for the finance directors and other financial management staff to be embedded in their own department so that they understood the requirements of the department thoroughly.

10.15 The Comptroller and Auditor General clarified the recommendation by re-stating that she meant line-managed within the Treasury and Resources Department and that she was not suggesting the finance staff should be physically located in the Treasury. The Treasurer concurred with this view, adding:

"Corporate" speaks to the fact it is supposed to be there to support frontline and service delivery organisations in delivery of the functions …(but) I want finance staff to be in the departments, understanding the businesses." [19]

10.16 He said that his finance director's role was to challenge, to make sure that (the department) was on the right side of the Financial Directions, for example, and to provide that challenge further down the organisation in a way that he, the Treasurer, could not.

10.17 The Chief Officer, Department for Infrastructure agreed and stated that the Finance Director should report to him:

" with a dotted line to the Treasury, as it is now… I need someone with the expertise and understanding of my business working with me to help meet my budget and deliver what I have to deliver."

PAC Findings

The PAC notes the main objective of the C&AG's recommendations is to facilitate the provision of a better finance function, with more focus on decision support at a corporate level. This would allow better use of the skills of the 145 finance staff across the States (of whom fewer than half are currently in Treasury and Resources). It considers that in order for the management team to dedicate more resource to corporate initiatives, there should be consideration given to the appointment of a dedicated Deputy Treasurer.

[19] Public Hearing with the Treasurer of the States and the Chief Executive, 1st March 2016, p47

KEY FINDING 7: Highly qualified staff often undertake several routine transactional processes at the expense of providing support to managers.

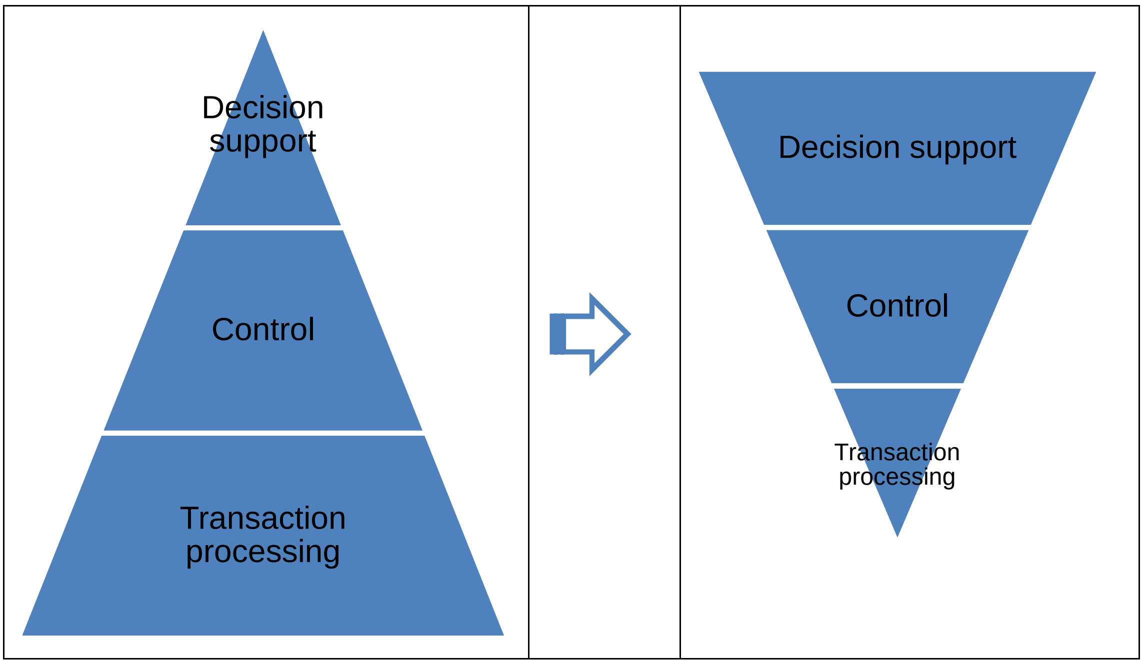
The PAC agrees with the comments of the Chairman made in the public hearings:

> **"(There should be) a *dialogue going on between financial managers across departments … if everybody is working in a silo then there is less opportunity for that…it is quite a large financial function across the whole of the States, …are we making best use of those capabilities and experiences across the States? … There are people in the Treasury that are highly qualified that are not necessarily using their full capability across departments*."[20]**

The PAC also considers that responses made by most Chief Officers on questions of performance management indicate they believe that performance management is a departmental rather than a corporate issue. The PAC considers that there should be corporate targets for individuals, in order to mitigate against a fixed, department-embedded mindset.

The PAC considers that the changes proposed by the C&AG would not end finance staff being aligned to individual departments or supporting Accounting Officers. If the service were to be centrally provided, it is often accompanied by a 'Finance Business Partner' model where there is a designated senior member of staff that facilitates access to the wide range of finance services available to support a service department.

It wholeheartedly endorses the C&AG's advice that there should be core objectives for all staff within their departments and better monitoring of the completion of staff appraisals. It further endorsed the vision of highly trained and skilled staff undertaking more decision making and fewer transactional processes, as per the 'Transforming a finance function' diagram below:



[20] PAC Public Hearing on Financial Management, 9th February 2016, p54

Source: Jersey Audit Office

PAC Recommendations

RECOMMENDATION: All departments should establish corporate as well as departmental and individual targets for finance and non-finance managers.

RECOMMENDATION: All departments should routinely ensure that all staff have core objectives and that there is better monitoring of the completion of staff appraisals.

RECOMMENDATION: The Chief Executive and Treasurer should work together to restructure finance departments, both individual and corporate, so that highly trained and skilled staff undertake more decision making and fewer transactional processes.

11 Conclusion

11.1 The PAC agrees that whether it be the Corporate Management Board or via the Financial Advisory Board (FAB), all departments should work to integrate financial planning at a corporate level, and find a way to spread good financial processes and achievements from one department to another. There should be much more emphasis on sharing good ideas and working towards becoming a streamlined corporate entity, which constantly strives to improve.

11.2 There is a need to prioritise corporate issues above the needs of each department, otherwise very little will change to make them more efficient and centralised.

11.3 An urgent restructuring of Finance Management should take place, with more emphasis on leaders undertaking strategy and fewer transactional processes. The introduction of eGov, or new and improved transactional systems will not serve as a panacea if cultural change is not implemented first.

11.4 The PAC considers an end to the “silo” mentality of departments, “salami-slicing” of budgets and office modernisation to be the essential elements of real organisational culture change needed for effective financial management.

11.5 States members can make the best decisions in terms of Strategic and Corporate Planning, only if items presented to them have been subject to robust financial scrutiny.

11.6 If the Treasury and Resources Department were to be the hub for strong strategic financial planning and management, it should consider restructuring and investment, in order for the management team to dedicate more resource to corporate initiatives. This could and should include appointing a dedicated Deputy Treasurer.

11.7 The PAC concludes that notwithstanding the many good, innovative and cost-effective ideas within departments, there is not enough evidence of implementing the C&AG’s recommendations with a real sense of urgency.

12 Public Accounts Committee Membership

The Public Accounts Committee's remit is different to that of other Scrutiny Panels in that it has a retrospective perspective and holds States Officers, rather than States Members, to account for their implementation of policy and procedures. The PAC incorporates both States Members and non-States Members. Its remit includes following up on reports by the Comptroller and Auditor General and reporting its findings to the States Assembly. It takes a retrospective look at whether public funds have been applied for the purpose intended by the States and whether sound financial practices have been applied throughout the administrations of all States departments.

Committee Members:

Deputy Andrew Lewis, Chairman

Deputy Judith Martin of St Helier

Connétable C. Taylor of St John

Mr Robert Parker

Mr Michael Robinson

Mr Gary Drinkwater

13 APPENDIX 1: Summary of C&AG's Recommendations

Recommendation 1 In the future extend the Medium Term Financial Plan to cover all the public finances of Jersey.

Recommendation 2 In the future include depreciation and impairment in the measure of expenditure for which funds are allocated by the States Assembly.

Recommendation 3 Take steps to reinforce a culture of collective responsibility for corporate financial management issues by the Council of Ministers and Corporate Management Board.

Recommendation 4 For Corporate Management Board meetings, include standing items at least quarterly for the discussion of key strategic financial issues.

Recommendation 5 For Council of Ministers meetings, include regular discussion of strategic financial issues in the context of strategic priorities.

Recommendation 6 Routinely include strategic and operational financial issues on all departmental management team agendas.

Recommendation 7 Revise the Accounting Officer letter explicitly to reflect the duties in Financial Direction 2.2.

Recommendation 8 Review the Accounting Officer letter in the context of the equivalent for Accounting Officers in UK central government and make amendments as appropriate.

Recommendation 9 Consider the amendments to accountability arrangements that are necessary in order to secure effective accountability whilst preserving constitutional independence of certain bodies.

Recommendation 10 Develop a plan for enhancing the contribution of financial professionals across the organisation, focussing on strategic level input and support for nonfinancial managers, including moving line management of all finance staff to Treasury and Resources.

Recommendation 11 Clearly reflect the full range of required financial management skills in the new competency framework and link job evaluation, recruitment, promotion, objectives, identification of training requirements and performance evaluation to those for all staff with financial management responsibilities.

Recommendation 12 Set standard objectives for financial management applicable to all staff from Chief Executive downwards with financial management responsibilities at each grade within the States.

Recommendation 13 Prioritise embedding a performance management culture across the States, including objective setting and performance appraisal, as a key component of the reform agenda.

Recommendation 14 Update and implement the training strategy for finance staff to provide needs based training for finance staff across the States.

Recommendation 15 Review and update the training on financial management for non-financial staff to maximise its relevance and effectiveness.
30

Recommendation 16 When presenting the new MTFP: report back to the States Assembly on progress in implementing recommendations made in the Corporate Services Scrutiny Panel 2012 report; and outline proposed future action.

Recommendation 17 In the future develop the MTFP starting from both: Strategic Plan priorities (what is to be achieved); and Reform Agenda principles (how it is to be achieved).

Recommendation 18 In compiling future MTFPs, apply the same rigorous scrutiny to existing expenditure as to that given to planned growth.

Recommendation19 Over the cycle of the new MTFP undertake a comprehensive programme of zero-based budget reviews.

Recommendation 20 Fully reflect key corporate planning, including workforce planning and the estates strategy in the next MTFPs.

Recommendation 21 Before compiling future MTFPs consider the appropriateness of the existing resourcing principles.

Recommendation 22 In future years, establish processes to report on compliance with the resourcing principles.

Recommendation 23 Place a greater emphasis on the range of potential outcomes in compiling future MTFPs.

Recommendation 24 When advised to do so by the FPP, make provision in the MTFP for replenishment of the Stabilisation Fund.

Recommendation 25 Consider amending legislation to provide for a rolling MTFP.

Recommendation 26 Revise arrangements for future MTFPs to provide more effective challenge of both growth bids and base budgets.

Recommendation 27 Consider including a structured element of external challenge to support managers in preparing the MTFP.

Recommendation 28 Adopt streamlined contents for future MTFPs informed by a review of the 2012 MTFP in practice.

Recommendation 29 Take steps to promote consistency of departmental elements of the MTFP.

Recommendation 30 Include in the MTFP: a consolidated corporate risk assessment; a corporate consideration of demographic issues; and a sensitivity analysis undertaken at corporate level.

Recommendation 31 Include balance sheet forecasts in the MTFP.

Recommendation 32 Review current carry-forward process to encourage and incentivise potential underspends to be identified and, where appropriate, redistributed for corporate benefit.

Recommendation 33 Develop more sophisticated mechanisms for identifying efficiency savings.

Recommendation 34 Review and reinforce compliance with corporate standards for business cases as a pre-requisite to their inclusion in the capital programme.

Recommendation 35 Consider whether a different approach to funding of the capital programme should be adopted.

Recommendation 36 Include detailed scenario modelling for a range of options in relation to tax revenues in the next MTFP.

14 APPENDIX 2

Response to Review of Financial Management – R.38/2015

The Report and its comments and recommendations are welcomed as an important contribution to the shaping of the future model of financial management and function across the States as the Executive moves to a more corporate and collective leadership of strategic financial management.

The appropriate model of financial management is critical to the achievement of the required changes and transformation of the Public Sector as is the contribution of the finance function to the culture required if that transformation is to be successful.

Understanding and communication of how existing funding is utilised to deliver existing services is a core function of the finance function and the report sets out clear recommendations as to how we can improve that understanding and challenge of existing expenditure.

The ongoing production of the Medium Term Financial Plan has been extensive, in-depth and collectively undertaken by the Council of Ministers and Corporate Management Board, and in doing so, is bringing together financial and strategic issues. That work will continue with the development of the second part of the current MTFP and presentation of an MTFP Addition by June 2016 and again, this report assists with improvements that can be made and through the development of a long term plan for Jersey over the coming 12 months.

Reponses to individual recommendations and improvements made in the short time available between the Report's publication and the delivery of the MTFP2 are made below.

Recommendations:

Report Ref:	Recommendations	Accept/ Reject	Comments	Target date of action/ completion
R1	In the future extend the Medium Term Financial Plan to cover all the public finances of Jersey.	Accept in principle	The recommendation is accepted in principle. The MTFP 2016 - 2019 has been broadened by including the composition of the various major funds in Section 16 "Managing the Balance Sheet" and the future of the Social Security Fund and the HIF are outlined in Section 18 "Planning for an Ageing Population". In addition projections for SSF and HIF are included in the assessment of the overall Fiscal Position Section 6 "Economic Background – Fiscal Position" and in detail at Appendix 8 of the MTFP Report.	Some improvements made in MTFP 2016-2019. Inclusion of forecasts for Social Security Funds to be considered for inclusion in the MTFP Addition 2017-2019 published in June

			Whilst these are improvements, consideration will be given to the merits of including more detailed forecasts of income & expenditure from major Funds, such as the Social Security Funds, within future MTFPs Actuarial reviews of the Social Security Funds are already available that identify the medium to long term expenditure from those Funds	2016.
R2	In the future include depreciation and impairment in the measure of expenditure for which funds are allocated by the States Assembly.	Accept	MTFP 2013-2015 included a likely depreciation charge for each of the years of the plan, for information only. The proposition for the MTFP 2016 -2019 includes the approval of total depreciation for 2016. It is not the intention to do likewise for impairments at this stage due to the nature of that expenditure being unplanned. Depreciation has been an implicit part of the assessment of the States structural deficit and is therefore given more prominence in the MTFP 2016-2019. Depreciation forecasts from 2016 to 2019 are explicitly included in Financial Forecasts as an assessment of the Forecast Surplus/(Deficit) of General Revenue Expenditure and Income and this is directly comparable with Accounts presentation.	Incorporated in MTFP 2016-2019. Further work on any changes to Capital Expenditure funding allocation and planning to be considered and would include provision for depreciation, ahead of the MTFP Addition for 2017-2019 and in preparation for the MTFP 2020-2023
R3	Take steps to reinforce a culture of collective responsibility for corporate financial management issues by the Council of Ministers and Corporate Management Board.	Accept	The Council of Ministers, aided by the Corporate Management Board has worked collectively to develop the strategy for the MTFP 2016 -2019, which has included consideration of the use of Reserves.	Ongoing

			Likewise Public Sector Reform initiatives and identification of 2017-2019 savings are being developed through collective working across Departments, as well as through collectively considering savings proposals from individual Departments.	
R4	For Corporate Management Board meetings, include standing items at least quarterly for the discussion of key strategic financial issues.	Accept	Corporate Management Board already spends the majority of its time considering financial issues. Treasury's intention is to fully include consideration by CMB of key financial policy issues such as funding of the capital programme and policies in respect of Reserves.	Ongoing
R5	For Council of Ministers meetings, include regular discussion of strategic financial issues in the context of strategic priorities.	Accept	Council of Ministers' meetings already include significant consideration of strategic financial issues. This will be built upon as proposals for the MTFP Addition are made and Budget proposals are developed.	Ongoing
R6	Routinely include strategic and operational financial issues on all departmental management team agendas	Accept	Many Departments, particularly the larger spending Departments, either have dedicated regular meetings for operational financial management or include financial management matters regularly at more general senior management team meetings. The discussion of strategic and operational financial matters at Corporate Management Board, Finance Advisory Board and Financial Reporting Group, provides for consideration across Departments, but also allows Accounting Officers, Finance Directors and Finance Managers to be well informed and to	Ongoing

			be able to brief their respective teams as to those key financial matters.	
R7	Revise the Accounting Officer letter explicitly to reflect the duties in Financial Direction 2.2.	Accept	The Accounting Officer letter has been updated to explicitly refer to the full requirements set within Financial Direction 2.2.	Implemented
R8	Review the Accounting Officer letter in the context of the equivalent for Accounting Officers in UK central government and make amendments as appropriate.	Accept	The original concept of the Accounting Officer for Jersey was based on the relevant UK model. The content of the letters will be reviewed and will, where appropriate be amended.	Deadline for review: 30th September 2015
R9	Consider the amendments to accountability arrangements that are necessary in order to secure effective accountability whilst preserving constitutional independence of certain bodies	Accept	Consideration is currently being undertaken and where appropriate amendments made.	Consideration and any necessary actions initiated by 31st December, 2015
R10	Develop a plan for enhancing the contribution of financial professionals across the organisation, focussing on strategic level input and support for non-financial managers, including moving line management of all finance staff to Treasury and Resources.	Accept	A review of financial management will be undertaken across all departments to develop a new financial framework under which all departments will function. The output from this review will include a "roadmap" for the replacement of current systems and the move of line management of all Finance staff to Treasury and the consequent implications for Departmental Finance teams, taking into account the wider responsibilities of some teams. Further to the decision as to future line management, a plan for enhancing the contribution of finance professionals will be developed.	Plan to be developed for future of finance function by Q2 of 2016.
R11	Clearly reflect the full range of required financial management skills in the new competency framework and link job evaluation, recruitment,	Accept	The job evaluation process considers the financial management elements of the content of jobs. The recommendation will be taken on board	Ongoing

	promotion, objectives, identification of training requirements and performance evaluation to those for all staff with financial management responsibilities.		throughout the Public Sector Workstreams to ensure that the importance of financial management is given the prominence that it warrants.	
R12	Set standard objectives for financial management applicable to all staff from Chief Executive downwards with financial management responsibilities at each grade within the States.	Accept		Standard objectives to be reviewed and developed by December 2015 and introduced over 2016
R13	Prioritise embedding a performance management culture across the States, including objective setting and performance appraisal, as a key component of the reform agenda	Accept	Improved performance management is one of the key enablers of the Public Sector Reform programme.	Plans already being developed through the Public Sector Workstreams
R14	Update and implement the training strategy for finance staff to provide needs-based training for finance staff across the States.	Accept	There is already training and support for professional qualification and development across the States, however as recommended, the strategy will be updated and an implementation plan developed. Currently a training plan for Continued Professional Development (CPD) is being revised.	CPD revised plan by December 2015. Training strategy developed and implemented by Q2 2016.
R15	Review and update the training on financial management for non-financial staff to maximise its relevance and effectiveness	Accept	The management training and development programme 'the Modern Manager' programme is being revised and refreshed. The new offering will continue to reflect the requirement for managers to have financial skills in order to provide sustainable services within the current financial climate. The E-learning – States of Jersey Finance Driving Licence will be reviewed and to ensure it is up to date and given enhanced publicity.	Modern Manager update currently being revised. E-Learning Driving Licence reviewed by Q1 2016.

R16	When presenting the new MTFP: • report back to the States Assembly on progress in implementing recommendations made in the Corporate Services Scrutiny Panel 2012 report; and • outline proposed future action.	Accept	Section 5 "Development of the MTFP" identifies the Improvements since the first MTFP, some of which arise from the CSSP Report of 2012 • Flexibility and Contingency Plans • Rolling Approval and Forecasting • Use of Central Growth Allocation • Capital Allocations Process • Adjusted Fiscal Position	Presented in MTFP now published.
R17	In the future develop the MTFP starting from both: • Strategic Plan priorities (**what** is to be achieved); and • Reform Agenda principles (**how** it is to be achieved).	Accept	Growth funding for the Strategic Priorities is being prioritised within the existing process where additional monies are required. It should be noted, all the same, that in 2015, the Strategic Plan and MTFP have necessarily had to be produced to some extent concurrently. The Strategic Priorities and Reform Agenda have featured strongly in the prioritisation of additional Funding and the Work streams being developed to identify the savings and efficiencies required over the next four years. There will be more time allowed for this within the new electoral cycle providing from June 2018 to July 2019, also allowing time to produce a new Strategic Plan.	Improvements in MTFP 2016-2019 have been made in the time available. Further considerations ahead of the MTFP Addition 2017-2019 by June 2016 Fully for MTFP 2020-2023
R18	In compiling future MTFPs, apply the same rigorous scrutiny to existing expenditure as to that given to planned growth	Accept	It is acknowledged that there is less scrutiny applied to existing expenditure at a corporate level compared with planned growth. However, at Departmental level there is always the challenge to revisit the need for further funding and to confirm they could not prioritise within existing budgets and deliver value for money. It should also be noted that the considerable targets for savings in 2016-2019 necessitates a rigorous examination of what government already does and how it should be delivered.	The considerable targets for savings in 2017-2019 will necessitate a rigorous examination of what government already does and how it should be delivered in preparation for the MTFP Addition 2017-2019 in June 2016

			Both within Departments and through the Public Sector Reform programme this scrutiny will continue.	
R19	Over the cycle of the new MTFP undertake a comprehensive programme of zero-based budget reviews	Accept in principle	Resources are currently insufficient to undertake this on a comprehensive basis and will be stretched further during the delivery current savings programme. However the importance of a zero-based budgeting approach is agreed and is regarded as warranting investment from within funds to deliver Public Sector Reform. Consideration will be given as to resource and skills required to undertake such a task, with a plan developed. Treasury will commit to trialling a process for roll out elsewhere.	Development of a plan to undertake programme of reviews by Q3 2016.
R20	Fully reflect key corporate planning, including workforce planning and the estates strategy in the next MTFPs.	Accept	Workforce planning and modernisation and office rationalisation are significant and crucial elements of the Public Sector Transformation requirement. Work is underway and has had some influence on the overall expenditure levels proposed and the profile of people savings over the MTFP 2016-2019. Future MTFPs will provide more comprehensive inclusion.	Influenced current MTFP spending limits and profiles. Full inclusion for MTFP3
R21	Before compiling future MTFPs consider the appropriateness of the existing resourcing principles.	Accept	These have been considered when presenting the Resources Statement to the Draft Strategic Plan 2015-2018 and are part of the review of Fiscal Framework to be presented alongside the MTFP. However, comments from the report will be taken on board with a view to improvement in the future and in delivering the	Immediate Updated Fiscal framework to be presented as addendum to MTFP ahead of debate. Resource

			next MTFP.	Principles will be reviewed on an ongoing basis.
R22	In future years establish processes to report on compliance with the resourcing principles	Accept	The resource principles identified in the Strategic Plan 2015-2018 are the basis on which the Fiscal Framework is developed and the MTFP is based. A process to report on compliance will be established.	December 2016
R23	Place a greater emphasis on the range of potential outcomes in compiling future MTFPs.	Accept	Establishment of the IFG has improved the consideration of scenarios around the income forecasts. Income forecasts are presented as a range which by 2019 amounts to £130m driven by the range of economic outcomes endorsed by the FPP. Further scenarios will be developed in future. The MTFP includes Contingency Planning should income levels vary from forecasts.	Improvements made in the forecasting of range of income outcomes within MTFP 2016-2019 with ongoing improvements considered leading to MTFP Addition in June 2016 and for MTFP 2020-2023
R24	When advised to do so by the FPP, make provision in the MTFP for replenishment of the Stabilisation Fund.	Accept- however, this is a policy matter	It is understood that this is already the policy of the Council of Ministers and provision for improvements in income would include replenishing the Stabilisation Fund, see Contingency Plans, Section 14, pg 96 of MTFP2.	As and when appropriate
R25	Consider amending legislation to provide for a rolling MTFP.	Accept in principle – although changes in legislation are not necessary.	Legislation does not prevent the Council of Ministers from providing details of estimated income and expenditure for years following the MTFP period. A rolling MTFP will be delivered, through the inclusion of forecasts of income and expenditure of an additional year in each annual Budget. This will form part of the Fiscal Framework to be published in September.	This already forms part of the Fiscal Framework. Inclusion of forecasts to 2020 for MTFP Addition by June 2016 for 2017 Budget

R26	Revise arrangements for future MTFPs to provide more effective challenge of both growth bids and base budgets.	Accept	The Report identifies the considerable challenge already in place and recommendations elsewhere in the report will enhance that challenge when implemented. That challenge will be further enhanced by the ongoing stream of work within MTFP considering services delivered through base budgets.	Improvements and ongoing current work progressing within Public Sector Reform Workstream.
R27	Consider including a structured element of external challenge to support managers in preparing the MTFP	Accept	The current programme for public sector transformation includes elements of external challenge and the inclusion of external challenge will be maintained for future MTFPs	Implemented and ongoing
R28	Adopt streamlined contents for future MTFPs informed by a review of the 2012 MTFP in practice.	Accept	Format and content reviewed for 2016-2019, structure of MTFP Annex pages reviewed for consistency between departments, with volume considerably reduced. IFG detailed report, MTFP Department Annex and Fiscal Framework are presented as Addendums to the MTFP.	Improvements for MTFP 2016-2019 and ongoing improvements considered for MTFP 2020-2023, particularly in respect of consistency
R29	Take steps to promote consistency of departmental elements of the MTFP	Accept	See R28	Improvements made for MTFP 2016-2019 and further improvements for MTFP 2020-2023
R30	Include in the MTFP: • a consolidated corporate risk assessment; • a corporate consideration of demographic issues; and • a sensitivity analysis undertaken at corporate level.	Accept	Consideration given and content extended to include risk management and population issues (Section 3 and 5 of MTFP report). Demographic issues feature heavily in the forecast of expenditure going forward within MTFP2. Sensitivity analysis and risks related to income	Improvements made for MTFP 2016-2019 and ongoing improvements MTFP2 Addition.

			uncertainty addressed by IFG. Consideration of inclusion of risk assessment of delivery of Public Sector Reform to be included within MTFP Addition.	
R31	Include balance sheet forecasts in the MTFP	Accept		MTFP 2020-2023
R32	Review current carry-forward process to encourage and incentivise potential underspends to be identified and, where appropriate, redistributed for corporate benefit.	Accept	The existing process requires all underspends to be identified and each carry forward request is assessed to ensure it is an appropriate use of resources. Historically the carry forward process has very much been approached from a Departmental perspective, however the 2014 to 2015 carry forward process returned £13 million to the Consolidated Fund out of a total departmental underspend of £26 million. This was used for the corporate benefit in contributing to managing the Consolidated Fund balance.	For 2015 Carry Forward process
R33	Develop more sophisticated mechanisms for identifying efficiency savings	Accept	The development of the current savings programme is adopting a more sophisticated cross-departmental approach to identifying savings. Further work will be carried out to identify the detailed savings and expenditure allocations for departments ahead of the MTFP Addition by June 2016. The deployment of the LEAN methodology and the approach being taken to re-engineer processes as part of e-govt, facilitates the identification and delivery of savings in a more sophisticated manner.	Currently being undertaken for implementation in June 2016 MTFP2 Addition.
R34	Review and reinforce compliance with corporate standards for business cases as a pre-requisite to their inclusion in the capital programme.	Accept	All projects included in the indicative capital programme in the MTFP 2016 – 2019 have a corresponding business case. The capital business case template has been developed in	Implemented For MTFP 2016-2019

			line with industry best practice and is considered a robust basis on which to prioritise capital allocations.	
R35	Consider whether a different approach to funding of the capital programme should be adopted	Accept	In recent years the States have considered and approved different funding routes for particular capital projects on an ad hoc basis. The States have continued to adopt a prudent approach to the funding of capital projects by ensuring that all funding for a project is allocated up front at the start. The Treasury is acutely aware that this approach has its drawbacks especially as large sums of money can be tied up in projects which may take several years to complete. The Treasury is considering alternative approaches for funding future years' capital programmes and is especially keen to develop a revised procedure which ensures that the aforementioned drawback is addressed as well as ensuring that States assets are managed and developed in a structured manner.	Proposals by Q1 2016 in preparation for MTFP Addition in June 2016
R36	Include detailed scenario modelling for a range of options in relation to tax revenues in the next MTFP.	Accept	Central IFG forecasts are based upon a central, upper and lower forecast of economic factors, endorsed by the FPP, rather than +/- 5%. The establishment of the Income Forecasting Group with a wider remit has meant that the Group has considered all the uncertainties and risks around the whole income forecast. Additional information and sensitivity analysis has been carried out to assess the level of variation. Higher and lower income scenarios around all appropriate income areas have been included. Income forecasts are presented as a range. Specific scenarios will be developed for the future, where appropriate and sensible to do so.	Improvements made through the establishment of the IFG for MTFP 2016-2019 with further improvements for MTFP 2020-2023

15 Appendix 3: Example of a Brief Intent