STATES OF JERSEY

ANNUAL BUSINESS PLAN 2009 (P.113/2008): FOURTH AMENDMENT (P.113/2008 Amd.(4)) – COMMENTS

Presented to the States on 8th September 2008
by the Public Accounts Committee

STATES GREFFE

COMMENTS

The Public Accounts Committee considers that it is quite irresponsible for the Council of Ministers to propose further spending increases at a time when the more cynical might be tempted to wonder if this is perhaps electioneering. It is incomprehensible that new spending initiatives are proposed at a time which is generally regarded as being one of economic risk and before existing services have been properly financed. Furthermore, the latest amendments demonstrate a total disregard for the States' decision to maintain spending at a specified level, as approved in the 2008 Business Plan.

States members were advised earlier this year of service pressures and initiatives which have not been included in the cash limits, and Scrutiny Panels were asked to comment. The outcome of those deliberations was that although Scrutiny supported some of the proposals for increased spending, the Council should propose a plan within the cash limit agreed last year.

Spending pressures identified in Table 3.3 total£29.25 million; however the PAC is concerned that this is still not a complete list.

There is still uncertainty that pay awards can remain within the targets included in the Business Plan. If this cannot be achieved additional expenditure will be required.

Overall, these amendments reinforce the view of the PAC that the present budgeting process is less than adequate, there is no realistic forward planning and the concept of 3 year rolling forecasts is not strictly applied.

There is little evidence that the required measures to improve financial management and financial controls are being seriously pursued. Evidence received during the Public Accounts Committee's recent hearings on the 2007 States Accounts indicates that no rigour is applied to the budgeting process; income forecasting is seriously underestimated in order to ensure that there are sufficient surpluses to cover budget deficiencies; and departments do not know or are unwilling to disclose the full costs of services.

Furthermore, while the Public Accounts Committee fully endorses the move to GAAP accounting, the Committee is concerned that this move will materially affect the reported state of the finances of the States of Jersey in future years. It is quite possible that the inclusion of depreciation, rather than capital servicing, will lead to a deficit rather than a surplus in the States Accounts. The Treasurer stated in a recent hearing before the Public Accounts Committee that he could not quantify the effect of the change to GAAP accounting. It is extremely imprudent to decide on additional expenditure without accurate information being available to permit the effect of such expenditure on future financial periods to be understood.

Furthermore, the States will recall that the Public Accounts Committee's report on the Comptroller and Auditor General's report on efficiency savings concluded that only about £5.8 million of the purported £35 million savings was the result of genuine efficiencies. In fact the Public Accounts Committee's conclusion can be summarised as follows –

- £21.9 million represented a reduction in expenditure;
- £1.5 million represented deferred expenditure;
- £4.06 million was a reduction in expenditure from other sources or from exogenous factors;
- £2.5 million arose from increased income;
- but only £5.8 million represents corporate efficiencies.

Following this year's elections the States will be electing a new Council of Ministers, which will then be required to produce a Strategic Plan to be approved by the States. It is reasonable to assume that priorities may change. It is questionable that this Council of Ministers should be proposing measures which will tie the hands of not only the new Council of Ministers, but the States as a whole, to ongoing additional expenditure proposed for 2009 and beyond.

The Public Accounts Committee is acutely conscious of the need to support the lower income groups, particularly those just above the income support level who do not pay tax and those who fall into the lower tax brackets. However, it does not feel that a knee-jerk reaction to changing circumstances is good government. It considers that there are more efficient methods which will comply with the recommendations of the Fiscal Policy Panel.

Most of the issues raised by the Council of Ministers' proposition are not new, and yet this additional spending has been introduced to fund new initiatives rather than focus on maintaining existing services. The Public Accounts Committee considers that the Council of Ministers should address long-standing funding pressures and implement genuine efficiencies before committing the States to extra recurring spending.

This thinking is supported by the report by the Fiscal Policy Panel which emphasized that the States "*should not approve decisions either as part of the Business Plan or Budget that undermine the tax base or commit to expenditure growth greater than that currently forecast.*" Their comments were based on the original Business Plan before these amendments. The Public Accounts Committee regrets that the Council of Ministers' proposals conflict with the advice given by the Fiscal Policy Panel.