STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2016 – 2019 (P.72/2015): TWELFTH AMENDMENT (P.72/2015 Amd.(12)) – COMMENTS

Presented to the States on 5th October 2015
by the Council of Ministers

STATES GREFFE

COMMENTS

The Corporate Services Scrutiny Panel proposes –

- The States commence the payment of Parish Rates in 2016 rather than the original proposal to begin in 2017. As a mechanism to fund the payment is still to be identified, the payment should be met from Contingency in 2016 – 2019 and the income figures in 2017 – 2019 removed.

The Council of Ministers strongly opposes this amendment and urges States members to oppose it.

Summary of Council of Ministers' Comments

The Council of Ministers opposes this Amendment for the following reasons –

- It is right that the States pay Rates on their properties, but it must be affordable and funded sustainably, with the proper legal and process changes required to avoid the States simply paying more so that others, in particular businesses, pay less. Furthermore, it should be part and parcel of more joint working with the Parishes to deliver the best services for Islanders. This is why the Council of Ministers has committed to pay Rates by 2017, giving just over 12 months to deliver this change, as part of an overall, sensible, and considered package.

- Proposing to fund the payment of Rates out of the £7 million of provisions for unforeseen and unexpected events such as storm damage and emergencies already represents only 1% of expenditure, and will reduce considerably the ability to respond to such events.

Background

It is broadly accepted that the States should pay Rates on its property portfolio, so that it fully understands the cost of its property portfolio and does not have a competitive advantage vis-à-vis the private sector. However, it is important to remember exactly what the Council of Ministers outlined when they accepted the Connétable of St. Helier's amendment to the Strategic Plan, namely –

> "To support this, the Council of Ministers will provide in the Medium Term Financial Plan for the payment of Rates, should this amendment be accepted.
>
> In recognition that this must be funded, the Medium Term Financial Plan will also include additional income to support this payment. This will be brought forward to the Assembly for separate approval as part of an overall package for the funding and provision of municipal services. It will seek to do this in close co-operation with parochial authorities. It follows that the payment of Rates will be contingent on the identification and approval of this income stream, and an agreement for the fair and reasonable funding and efficient and effective provision of municipal services".

Detailed Comments

The basic work to enable the States to pay Rates has been undertaken, with the Rates assessors having reviewed States properties. Furthermore, the Rates Law can be amended by Regulations such that the exemption held by the States can be removed quickly. So, the States is reasonably well placed to pay Rates, which is positive news.

However, more time is needed for such a major change to be made, if we are to avoid large unintended consequences, such as changing the Rates paid by others, and if we are to deliver on what was agreed in the Strategic Plan.

While the exemption for the States can be removed by Regulations, and therefore in time, just, for 2016, a primary Law change would also be needed to avoid the States at the same time becoming liable for the Island-wide Rate. This will take longer, and if is not done, the level of Island-wide Rates paid by other non-domestic ratepayers would be reduced. If this is not done, the States would be paying for a reduction in the Rates of businesses, ironically by making a payment to itself. Putting aside the issue of the States becoming liable for the Island-wide Rate and noting with thought this could be fixed – the States becoming liable for Parish Rates could also result in reduced Rates bills. While these are matters for the Parishes, surely, potential shifts in fiscal burdens across the Island deserves more thought?

Furthermore, the Strategic Plan is very clear that payment of Rates should be part of an overall “new partnership” with the Parishes, to support the most effective and efficient municipal services possible. These improvements must be an opportunity to strengthen the role of the Parishes in our society – providing more money, supporting better services for residents. This will take time, and expecting this “new partnership” to be concluded by 2016, such that the States can start paying Rates in line with the agreed position in the Strategic Plan, is unrealistic. At the least, opportunity should be provided in 2016 for this work to advance.

In accepting the amendment to the Strategic Plan, the Council of Ministers was also clear that the additional costs should be funded by additional income. This seems a simple principle. The public purse needs to be prudently balanced, and simply relying on contingencies to fund greater commitments is a dangerous strategy. A more sustainable funding model is needed, and it is unrealistic to expect this in 2016. Finding a mechanism by 2017 is also challenging, but at least it gives an opportunity to think through all the potential options and associated issues.

There are also administrative implications of a quick change – the States is not ready to process a large number of returns on individual properties and needs to work with the Parishes on a bulk return mechanism, otherwise we will need more staff to simply process returns and notice of assessments.

Finally, should the additional income source not be fully in place by 2017 and the “new partnership” not be in place, it would still be the case that the MTFP provides that Rates will be paid by 2017. The MTFP itself cannot link income to expenditure – this is simply the basis on which this change is supported by the Council of Ministers.

The Council of Ministers therefore commits to working with the Parishes to explore these issues in depth, and asks that this change is not rushed through with inadequate thought, and the risk of unintended consequences, particularly as change is already scheduled for 2017.

Contingencies

The Corporate Services Scrutiny Panel proposes that £1 million is removed from Central Contingencies in 2016.

Principles of Contingencies

- Contingencies provide an important part of the flexibility within the MTFP. They provide short-term resources for unexpected events.
- Contingencies should not be used to fund recurring spending, only to provide temporary funding until a permanent re-allocation of funding is agreed.
- Contingencies also provide a buffer for more volatile areas of spending, such as social security benefits. These areas, termed annually managed expenditure (A.M.E.), are extremely difficult for departments to forecast and manage, and so central contingencies are provided in addition to those held in departments.
- Allocation of contingency funding is closely managed through the Council of Ministers and Minister for Treasury and Resources' approval. The allocation process is part of Financial Directions.
- Adequate contingency provisions are an important part of the overall flexibility in the MTFP to help deal with the scale of change and reform that is needed.
- A fundamental principle of contingencies is that they should not be used to permanently fund recurring items of expenditure, but be used primarily for one-off unforeseen events.
- The proposed Amendments to the MTFP seek to remove £2.963 million in 2016 from Contingencies, which if continued as proposed for the period of the MTFP would amount to over £11 million.

Contingency Provisions

- The Council would highlight that, although the 2016 provision for Contingencies amounts to £37 million, it is very clear from the MTFP Report (Section 9) that this includes a number of specific allocations.
- The provision for the actual annual contingency is only £7 million. This is made up of –
    - £5 million or 1% for total States general department expenditure, and
    - £2 million or 2% for Social Security benefits.

This is far from a generous allocation.

- The balance of the £37 million is made up of –
    - £10 million for Redundancies,
    - £5 million for Economic and Productivity Growth initiatives,
    - £7 million for Restructuring projects to support Public Sector Reform,
    - £4 million for the Independent Jersey Care Inquiry, and
    - £4 million provision for pay and pensions proposals.

- These additional provisions for the Independent Jersey Care Inquiry, Redundancy and Economic and Productivity Growth initiatives, are proposed as part of the Contingency Allocation only to provide appropriate governance and control over the allocation of this funding.
- The Council of Ministers would also want to highlight that these additional provisions are primarily funded in 2016 from transfers from the Strategic Reserve, and does not therefore believe it would be appropriate to use this funding for the purposes proposed by the various amendments affecting Central Contingencies.

Financial implications

The financial implications of this Amendment are primarily an increase in the expenditure budget (allocated to Jersey Property Holdings) and a reduction in the contingency allocation, and therefore the flexibility within the MTFP and in particular the expenditure allocations in 2016. Taken alone, this Amendment amounts to £1 million from Contingencies in 2016, but together with similar proposed Amendments (11), (13) and (14), the central contingency could be reduced by almost £3 million in 2016.

As the Council of Ministers has explained, the principle of taking funds from central contingency would have a significant effect on flexibility and provision for risks on expenditure in 2016. The combined effect of the proposed Amendments represents £3 million out of the £7 million Contingency Allocation, which is not specifically allocated in 2016. This would leave department expenditure and social security benefits (A.M.E.) significantly at risk during 2016.

The second part of this Amendment also seeks to remove the sustainable mechanism for income from 2017 – 2019, and the CSSP indicates that this should be replaced by further reductions to Central Contingency of £1 million per annum from 2017 – 2019. In total, this Amendment removes £4 million from Central Contingency Allocations, which will significantly affect the flexibility and risk to other expenditure allocations within the MTFP.

Together with the other proposed Amendments, this could amount to a reduction to Central Contingency Allocations of over £10 million over the period of the Plan.

Until the review has been undertaken, it is not possible to quantify the impact on resources required to manage the significant increase in volume of Rates assessments to be processed within the statutory deadlines. However, if a paper-based process for issuing Rates information by Parishes to the States remains, it is likely that supplementary staff resources will be required.