

Corporate Services Scrutiny Panel

Finance Sub Panel

Record of Meeting

Date: **7th March 2008**

Meeting Number: **2**

Present	Deputy P J D Ryan, Chairman Connétable D Murphy Connétable P Hanning Deputy R Le Hérissier
Apologies	
In attendance	R. Mann, Adviser M. Haden, Scrutiny officer

Ref Back	Agenda matter	Action
	<p>The Sub Panel considered a paper prepared by its adviser covering matters arising from the Business Plan 2009 presentation on 1st February 2008. It was noted that the issues outlined in the paper were linked to the objectives as set out in the Scoping document and the Sub Panel's terms of reference. It was agreed that this paper provided a template for issues to be addressed over a period of time and that, to start with, the Sub Panel would focus attention on certain key issues:</p> <p>Following a presentation from the Minister on progress in developing the 2009 States Business Plan the Finance Sub Panel met the Minister for Treasury and Resources, the Treasurer of the States and the Head of Financial Planning to discuss the following matters:</p> <p>Financial forecasting: The Sub Panel was informed that the major element of the forecast concerned Income Tax. This element was the responsibility of the Comptroller of Income Tax who was assisted by a forecasting group.</p> <p>The detailed tax information considered by the group was strictly confidential and the Minister himself was not party to that information.</p> <p>The forecast group did not consider a range of scenarios but made an assumption of an average 2% economic growth.</p> <p>Formal methods were in place by which the forecast group considered the appropriate base for the forecasts and the assumptions regarding the influence of trends in inflation, average earnings, and company profits. The base evidence could be provided to the Sub Panel for examination.</p> <p>The experience and instinct of the forecasting group was also</p>	

applied to their assessment and it was maintained that this was an important factor in the development of a forecast with a fair degree of accuracy.

It was extremely difficult to predict tax income due to the range of factors involved: for example, wage increases, company profitability, varying company reporting timetables. The economy was subject to volatile external factors and a margin of variance should be expected in the forecasts.

It was suggested that too much reliance was placed on spot forecasts which were published three times a year (to coincide with the Business Plan and Budget process) and that it would be more relevant to examine trends.

It was noted that the newly established Fiscal Policy group might require further studies of the economy which would help to inform these trends. This group was charged with commenting on the appropriateness of the States financial position/forecasts.

It was suggested that political debate on States expenditure should be separated from income forecasts. There was a risk that States spending plans could be heavily influenced by short term fluctuations in forecasts. The key political question should rather be to determine what was a sustainable level of public expenditure.

The question of zero-based budgeting was discussed. However, it was noted that, whilst this process might be appropriate for discrete services, the totality of the States services was too complicated for such an exercise.

A suggestion that some form of external validation of the forecast might contribute towards greater confidence in the income forecasts. It was suggested however that this would not reduce the range of uncertainty in the forecasts. Nor would it be helpful if an external body attempted to 'second guess' the outcome of the forecasting group. The Sub Panel's proper role was to monitor the forecasting process to ensure that it was robust.

Furthermore it was suggested that introducing a form of external validation would tend to perpetuate a decision-making process based on income forecasts rather than on an understanding of sustainable levels of public expenditure. The Chairman remarked that it would be worthwhile to debate further the point made about de-linking decisions on spending plans from financial forecasts.

The Sub Panel was informed that the Minister would shortly be entering a discussion with the forecasting group regarding their assumptions. It was agreed that the Sub Panel would subsequently call the Minister to a public hearing to discuss the outcome of these discussions. This would be an appropriate way forward rather than the Sub Panel approaching the forecasting group directly.

Pay policy: de-coupling the impact of GST from pay awards

It was noted that the States pay policy was that any pay settlement over and above the amount provided in the Business Plan would have to be funded from within departmental cash limits. Under the new Public Finances (Jersey) Law 2005 Chief Officers were responsible for finding ways to meet any increased settlement. There was no contingency fund to allow for this eventuality. Consequently there would be an impact on services and jobs.

	<p>For 2008 the importance of de-coupling pay awards from the effect of GST had been emphasised as GST related settlements would undermine the Fiscal Strategy. It was noted however that negotiations with employee groups might result in a different outcome, as had occurred in 2007. This had had a significant impact on health services.</p> <p>The Sub Panel stated that it was essential that the implications of the pay policy were communicated clearly and that vulnerable services were identified to the public and advised the Minister that it would monitor this matter.</p> <p>Mitigating risks</p> <p>The Sub Panel's adviser asked whether there was a process available to mitigate identified risks. The Sub Panel was informed that an explicit risk strategy did not currently exist. The establishment of the Stabilisation Fund, however, was a step in this direction. A further step would be the introduction of a three year business planning cycle; however moves in this direction had not proved to be successful.</p> <p>The Sub Panel thanked the Minister for the opportunity for this discussion and the Minister and his officers withdrew.</p>	
	<p>Sub Panel priorities</p> <p>Following the above discussion, the Sub Panel confirmed that it would focus on the following matters in its :</p> <ul style="list-style-type: none"> • Financial forecasting: the robustness of process and opportunity for greater Scrutiny oversight. It was agreed that the Sub Panel would formally request the Minister to attend a hearing following his discussions with the forecasting group. • The requirement for clarity around the communications issues and intentions in relation to failure to de-coupling pay awards from GST. • Risk mitigation: The adviser was requested to provide a briefing note • Three year financial planning: The adviser was requested to provide a briefing note. <p>The Sub Panel noted that the Council of Ministers had highlighted certain department spending pressures and had requested Scrutiny Panels to consider whether approved spending limits should be increased to cover these items. It was agreed that the Chairmen's Committee should encourage all Panels to engage in this process.</p>	

Initialed.....

Date.....