Public Accounts Committee

Report on the States' £35m expenditure reductions

States of Jersey
States Assembly

États de Jersey
Assemblée des États

Presented to the States on 13th May 2008.

P.A.C.2/2008

REPORT

The Public Accounts Committee

The primary function of the Public Accounts Committee is defined in Standing Orders[1] as the review of reports by the Comptroller and Auditor General regarding –

The audit of the Annual Accounts of the States of Jersey and to report to the States upon any significant issues arising from those reports;

Investigations into the economy, efficiency and effectiveness achieved in the use of resources by the States, States funded bodies, independently audited States bodies (apart from those that are companies owned and controlled by the States), and States aided independent bodies;

The adequacy of corporate governance arrangements within the States, States funded bodies, independently audited States bodies, and States aided independent bodies, and

To assess whether public funds have been applied for the purpose intended and whether extravagance and waste are being eradicated and sound financial practices applied throughout the administration of the States.

The Public Accounts Committee may also examine issues, other than those arising from the reports of the Comptroller and Auditor General, from time to time.

The Public Accounts Committee represents a specialised area of scrutiny. Scrutiny examines policy whereas the Public Accounts Committee examines the use of States' resources in the furtherance of those policies. Consequently initial enquiries are made of Chief Officers rather than Ministers. This is not to say that enquiries may not be made of Ministers should the reports and recommendations of the Public Accounts Committee be ignored.

The work of the Public Accounts Committee is ongoing rather than on a one-off basis and the Committee will return to topics previously examined in order to evaluate whether recommendations have been followed or procedures improved. If such a follow-up is unsatisfactory then the Committee may decide to hold further public hearings in order to identify the reasons for the lack of progress.

The current membership of the Public Accounts Committee consists of –

States Members	**Independent Members**
Deputy Sarah Ferguson of St. Brelade No. 1 (Chairman)	
Deputy James Reed of St. Ouen (Vice-Chairman)	Mr. Tony Grimes
Deputy Alan Breckon of St. Saviour No. 2	Advocate Alex Ohlsson
Connétable Tom de Feu of St. Peter	Mr. Chris Evans
Connétable Daniel Murphy of Grouville	Mr. Roger Bignell
Senator Leonard Norman	Mr. Martin Magee

Contents

Section One: Background

Setting the Scene

1. The Comptroller and Auditor General (CAG) has published 2 reports on government expenditure in Jersey. The first, 'States' Spending Review – Setting the Scene', detailed the development of expenditure in recent years, and identified trends in that expenditure. This represented groundwork essential for the production of his second report 'States' Spending Review – £35 million Cost Reductions', which examined the effects of recent attempts to reduce expenditure by various means.

2. In his 'Setting the Scene' report, the Comptroller and Auditor General demonstrated that government expenditure in Jersey tends to rise faster than the Retail Price Index, indicating a growth of expenditure in real terms[2]. The Comptroller and Auditor General identifies the general trend as an increase in government expenditure in buoyant economic periods, with a slowdown in expenditure growth associated with limited or non-existent growth in economic growth.

3. In 2006, (the last year for which full information was available at the time of the Comptroller and Auditor General's reports) government expenditure fell as a percentage of government income, and increased overall less than RPI, indicating a reduction in real terms. This represents the continuation of a trend that began in 2005[3].

Spending Review

4. The Comptroller and Auditor General's report on '£35 million Cost Reductions' sought to identify and verify the reductions in expenditure claimed by the Executive.

Particular Issues raised in the Comptroller and Auditor General's report

Savings

5. The approach to savings was not consistent across all Departments.

6. The definitions of savings were not consistent across all Departments.

7. The evidence for the savings was not available from all Departments.

8. There are doubts as to the sustainability of certain reductions in expenditure.

Management and Control

9. There was evidence of a lack of concerted corporate action in the management of finances.

10. Measurement of Performance was not clearly defined.

Recategorisation of Savings

11. The result of these issues was that of the £35 million the Comptroller and Auditor General estimated that:

    £21.9 million represents a reduction in expenditure

    £1.5 million represents deferred expense

    £5.8 million represents Corporate efficiencies

£4.06 million was a reduction in expenditure from other sources or from exogenous factors

£2.5 million arose from increased income.

Press Release

12. The Committee also considered the Press release regarding the £35 million savings in the context of the Report of the Comptroller and Auditor General.

Section Two: Recommendations

13. **The Committee considers it vital that savings be represented for what they are, and that the public are not led to believe that they are all efficiency savings due to a lack of clarity.**

14. **The Committee is concerned that there should be complete clarity in the terminology used in describing the reduction of expenditure and recommends that the definitions used by the Comptroller and Auditor General should be used in future and should be included in Financial Directions .**

15. **The Committee would encourage the development of better procedures to identify the results of departmental efficiency savings and, again, would recommend greater clarity in their description.**

16. **The Committee considers that, where demographic and exogenous trends are occurring, Departments should develop clear policies to cope with these.**

17. **The Committee considers that the thinking behind the plan for Jersey Property Holdings was valid and is disappointed to understand that the required steps to move this forward were not yet complete. It considers that this should be addressed as a matter of urgency.**

18. **The Committee would also encourage senior management to make a greater effort to involve middle level managers in the budgeting process and the discussion of efficiencies.**

19. **The Committee is concerned at the rationale expressed by the Treasurer in that "reducing the bottom line means that savings have been made" and considers that this does not represent efficient or effective financial management. It also considers that the lack of a year end report on the effects of the reductions in expenditure has removed incentives to demonstrate effectiveness.**

    It is pleased to note that this omission has been amended by the Chief Executive.

20. **The Committee agrees with the Chief Executive that the imposition of myriad targets is not helpful and leads to dysfunctional behaviour rather than sensible management. This is a view which is shared by the Comptroller and Auditor General as set out in his programme for 2007.[4]**

    The Committee understands that the Comptroller and Auditor General will be preparing a report on performance management in due course and looks forward to that report.

21. **The Public Accounts Committee deplores the lack of clarity in the press release and recommends that greater care is taken in the descriptions used in press releases.**

Section Three: Findings

22. **The Committee noted that the Executive considers any reduction in the public funding requirements to be a saving. While the Committee approves wholeheartedly of reductions in public expenditure, it considers it vital that these savings be represented for what they are, and that the public are not led to believe that these are all efficiency savings due to a lack of clarity. User-pays services are still ultimately funded by the public, for instance.**

23. **The Committee is concerned that there should be complete clarity in the terminology used in describing the reduction of expenditure and recommends that the definitions used by the Comptroller and Auditor General should be used in future.**

24. **The Committee would encourage the development of better procedures to identify the results of departmental efficiency savings and, again, would recommend greater clarity in their description.**

25. **The Committee is also concerned that the approach to savings is not part of a coherent strategy. The closure of St. Mark's School, for example, is an effect of demographic changes and there should be a policy in place to address this.**

26. **The Committee considers that the thinking behind the plan for Jersey Property Holdings was valid and is disappointed to understand that the required steps to move this forward were not yet complete. It considers that this should be addressed as a matter of urgency.**

27. **The Committee also noted that there had been concerns over maintenance of States Property for some years. These were first highlighted by the Audit Commission in 2000. At that time the estimate of the spending on maintenance was £13.4 million but, from the comments made in this review, it appears that the allocated budgets retained in Departments are used as a "buffer" against spending pressures.**

28. **The Committee considers that deferred costs are not genuine savings. The Comptroller and Auditor General's definitions are quite clear and should be included in Financial Directions.**

29. **The Committee would also encourage senior management to make a greater effort to involve middle level managers, such as the Heads of schools, in the budgeting process and the discussion of efficiencies.**

30. **The Committee suggested to the Executive that there was considerably more clarity in respect of corporate cost reductions than those made at the departmental level. This led to a concern that, for instance, there could be no certainty that a saving made in one year was not included as an additional cost for a Department in a later year.**

31. **The Committee notes that, in his report, the Comptroller and**

Auditor General has reviewed all the expenditure reductions publicised as savings. It is on that basis he has stated that only some £13.5 million of the FSR reductions in expenditure could be considered savings. Furthermore, although he considers that the there is solid evidence of the Corporate Efficiencies of £7.3 million, £1.5 million of these are attributable to Property Holdings and therefore mainly relate to maintenance and are probably not sustainable.

32. **The Committee is concerned at the rationale expressed by the Treasurer in that "reducing the bottom line means that savings have been made" and considers that this does not represent efficient or effective financial management. It also considers that the lack of a year end report on the effects of the reductions in expenditure has removed incentives to demonstrate effectiveness.**

It is pleased to note that this omission has been amended by the Chief Executive.

33. **The Committee agrees with the Chief Executive that the imposition of myriad targets is not helpful and leads to dysfunctional behaviour rather than sensible management. This is a view which is shared by the Comptroller and Auditor General as set out in his programme for 2007.**[5]

The Committee understands that the Comptroller and Auditor General will be preparing a report on performance management in due course and looks forward to that report.

34. **In light of this response, the Committee expressed concern that there was a lack of clarity as to where responsibility for savings lay. It was not certain, for instance, how the Treasurer's 'professional network' could effectively report when until 2007 Chief Officers did not provide details of expenditure reductions made, even to the Chief Executive.**

35. **The Public Accounts Committee deplores the lack of clarity in the press release. It cannot be said that there are £15 million in efficiency savings since, as the Comptroller and Auditor General states in his report, regarding departmental efficiencies, …** ***In view of the paucity of the available information, it is difficult to describe the nature of the cost reductions that have been achieved (£8.393 million) save to note that budgets have been reduced and departments have largely lived within their budgets so that however it has been achieved there has been a reduction in spending.***[6]

Section Four: Examination of the Evidence

Savings

36. The Committee noted that the Executive considers any reduction in the public funding requirements to be a saving. While the Committee approves wholeheartedly of reductions in public expenditure, it considers it vital that these savings be represented for what they are, and that the public are not led to believe that these are all efficiency savings due to a lack of clarity. User-pays services are still ultimately funded by the public, for instance.

37. The Executive defended its use of the term '*cuts which States Departments are making to reduce spending*''[7] to encompass both FSR and efficiency savings together.

38. The Fundamental Spending Review (FSR) process was devised in 2002 and implemented in 2003. It represents targeted reductions in States expenditure, agreed upon by a bargaining process between Departments. Cost savings usually reflect reductions in services provided by the States which were deemed to be of low priority. These reductions were linked to 'growth requests' for increased spending in other services. This was therefore a re-prioritisation of States expenditure. The Treasurer of the States gave this definition – "*F.S.R. was not efficiency savings, in fact it is meant to be anything other than efficiency savings, it is political decisions.*"[8]

39. The method of implementing Fundamental Spending Review savings has created challenges to monitoring their success. The Comptroller and Auditor General notes that the Departments have freedom to utilise their budget as they see fit within the pre-agreed cash limits. Detailed expenditure outlines submitted to the States in Departmental Business Plans are indications of intention only. Therefore the States Assembly can only affect the overall expenditure for a Department.

40. Efficiency Savings are reductions that allow the States to provide the same services at less cost. This might include centralising services and purchasing to gain economies of scale, for example. The efficiencies were divided between 'Corporate Efficiency' savings, which were to be made in centralised services such as human resources, information technology, procurement, etc., and 'Departmental Efficiencies'. Departmental Efficiencies were allocated to the 10 non-trading Committees according to total expenditure after social benefits, grants and transfer payments were deducted.

41. The Comptroller and Auditor General notes that there is a fundamental difference in the measurement of Corporate and Departmental Efficiencies. Corporate Efficiencies are well recorded, however – "*For Departmental targets the States have not systematically collected information on how the efficiency savings have been targeted and*

achieved."[9]

42. The Executive broadly accepted the definitions used by the Comptroller and Auditor General to quantify FSR and efficiency savings. It was acknowledged that in some instances there was a lack of clarity as to how a reduction in expenditure should be categorised.

43. The Comptroller and Auditor General, in his report '£35 million Cost Reductions', expressed doubts that £4.064 million of the total expenditure reduction claimed by the Executive were in fact 'savings' achieved by Departments in a real sense.

It was suggested that these reductions were in fact due to –[10]

Accounting adjustments	£379,000
Reduction in costs not arising from States action	£1,926,000
Cessation of activity due to replacement or obsolescence	£556,000
Saving subsequently reversed through growth	£149,000
Deferral nets off against growth funding	£1,041,000
Planned but unachievable cash savings	£172,000
Growth erroneously included	-£158,000

The Comptroller and Auditor General also attributes an additional £2,512,000 reduction in net expenditure to increases in revenue rather than reduced spending.

44. It was claimed that, for example, the closure of St. Mark's School represented a real saving. This was included as part of the £1.92 million reduction that the Comptroller and Auditor General had identified was not arising from States action.

45. Within that £1.92 million, it is noted that theEducation, Sport and Culture Department has recorded a cost saving of £621,000 in 2006 due to a '*reduction in the number of pupils of appropriate age*[11]'. The Comptroller and Auditor General indicates in the report that this saving is in fact due to '*a change in the size of the population and not in any way as a result of action by the States'*.

46. The Executive was of the opinion that this reduction was in fact due to States action, as *"difficult decisions had to be made ... it might be an easier decision to close St. Mark's School than a Parish school but actually a political decision is still taken to do something."*[12]

47. The Committee and the Executive discussed the nature of the savings, and it was agreed that the cost of the building housing St. Mark's School had not been saved, as this was still in the control of, and funded by, the Education, Sport and Culture Department. The savings had been made on a per pupil basis.

48. However, the Executive contended that this 'per pupil' saving could not have been made without closing in the school as – *"if you just cut the 'per unit' funding of all of the other schools you get to a point where the 'per pupil' funding is not sufficient to keep the school running with the curriculum choice that is required."*[13]

49. Notwithstanding the examination provided, the Comptroller and Auditor General noted that he – *"would be slightly more persuaded by that point if there were not a very substantial number of unused school places left after the closure of St. Mark's."*[14]

50. Mr. Ogley acknowledged that– *"they were real savings of net revenue spend. They might not have been real savings if you were using a different measure, like gross spend."*[15] He also pointed out, however, that – *"taxes are lower by the equivalent of £4 million per annum as a result of those decisions, and they were political decisions."*[16]

51. Additionally, the Committee noted through discussions with the Executive at the Public Hearing that the Education, Sport and Culture Department had been unable to determine exactly what efficiency savings had been made by schools to achieve the reduction in bottom-line expenditure that the Department had sought. The Department had simply cut non-staff inflation from all school budgets and left the details of the savings to individual schools. There was no therefore no clarity as to whether savings had been made by increased efficiency as intended or by reducing services.

52. **The Committee is concerned that there should be complete clarity in the terminology used in describing the reduction of expenditure and recommends that the definitions used by the Comptroller and Auditor General should be used in future.**

53. **The Committee would encourage the development of better procedures to identify the results of efficiency savings and, again, would recommend greater clarity in their description.**

54. **The Committee is also concerned that the approach to savings is not part of a coherent strategy. The closure of St. Mark's School, for example, is an effect of demographic changes and there should be a policy in place to address this.**

55. £1.5 million of the efficiency savings were from JPH and represented a reduction in property maintenance. The Committee queried if this was sustainable in the long term. Mr. Ogley suggested that *"£1.5 million of that was a targeted saving in revenue on property and the mix of that targeting was reducing the number of staff working on property by generalising staff and bringing them together. That, I believe, is entirely achievable and is sustainable."*[17]

56. However, he also stated that since the decision was made to reduce expenditure on maintenance through efficiency, a reassessment of maintenance needs had become necessary due to new information. A report from the Property Holdings Department had *"identified how much you should be spending on maintaining your assets and how much we are spending on maintaining our assets. The gap between those 2 figures, indications are of the figure Bill referred to which is about £4*

million."[18]

57. The Committee has since determined that a significant under provision has been made for maintenance over the years. Mr. Black was requested to provide the figures needed for a proper maintenance programme.

58. Furthermore, the Committee has been aware for some time, following their report on Property Holdings, that there had been problems ensuring that the budgets attached to property maintenance were fully transferred to Property Holdings. Notwithstanding this, the responsibility for achieving savings on maintenance had been passed to Property Holdings. This results in a mismatch where Property Holdings is expected to achieve savings but the relevant budget is not under their control.

59. It is evident from the Comptroller and Auditor General's report that this transfer has still not been effected. In fact the Committee is aware that maintenance budgets are used as a "buffer" if unforeseen spending pressures become apparent. For example it is understood that £500k of the maintenance budget retained by Health and Social Services was utilised to underwrite the Nurses pay award.

Mr. Ogley confirmed this approach "*people have taken the money they were spending on this* [maintenance]... *because they do not want to centralise it, they have either cut it out or spent it on something else.*[19]

60. Additionally, Mr. Black noted that the introduction of GAAP (Generally Accepted Accounting Principles) accounting had indicated that "*we are under-depreciating our assets by a very significant sum and we do not know by how much but it could well be tens of millions."*[20]

61. While the Committee appreciates the frankness of Mr. Black in addressing the issues of deferred property maintenance, it notes that Property Holdings must establish how much property will be required by the States in future, and how much is to be disposed of, before detailed maintenance figures can be developed.

62. Furthermore, the Committee is concerned that the reduction in maintenance might not be as benign as has been suggested. If problems develop due to a lack of prompt action the costs of reinstating works will be greater than prevention, therefore reduced maintenance spend not only defers expenditure but incurs potentially serious additional costs in the future. The CAG's position is also contrary to that of the Executive. He notes that *"The result of this* [reduction] *is likely to be an increase in future requirement for funding for maintenance works, such that the budget reduction of £1.5m represents a deferment of expenditure, not a saving."*[21]

63. **The Committee considers that the thinking behind the plan for Jersey Property Holdings was valid and is disappointed to understand that the required steps to move this forward were not yet complete. It considers that this should be addressed as a matter of urgency.**

64. The Committee also noted that there had been concerns over maintenance of States Property for some years. These were first highlighted by the Audit Commission in 2000. At that time the estimate of the spending on maintenance was £13.4 million but, from the comments made in this review, it appears that the allocated budgets retained in Departments are used as a "buffer" against

spending pressures.

65. **Sustainability**

The Committee therefore inquired as to how departments ensured that these savings were sustainable. The Executive responded to the effect that "*Some departments have had the initiatives in place and logged every action they have taken to achieve efficiencies and you can be sure they are sustainable.*" [22]

66. The example of the Transport and Technical Services Department was cited, and Mr. Black informed the Committee that this Department had detailed all of the reductions made within the Department to achieve its planned efficiency savings. This resulted in sustainable savings being achieved, and put the Department in a position to verify that these were sustainable.

67. He also explained that the Education, Sport and Culture Department, however, had simply not included non-staff inflation increases in the budgets of individual schools. There was therefore no record as to what reductions had been made, and no assurance could be given that these were sustainable in the long-term (as discussed in Section 2).

68. The Executive was of the opinion that however the reductions were carried out, all Departments were required to make these savings by one method or another as they were cut from the bottom line of the departmental budget. Mr. Ogley agreed with the conclusion within the Comptroller and Auditor General's report '£5 million cost reductions', which he paraphrased – *"it says that in some departments we have not been as rigorous in recording what we have done. In some departments, frankly, and I think in a small number of cases, we have just cut a post instead of becoming more efficient."*[23]

69. **The Committee considers that deferred costs are not genuine savings. The Comptroller and Auditor General's definitions are quite clear and should be included in Financial Directions.**

70. **The Committee would also encourage senior management to make a greater effort to involve middle level managers, such as the Heads of schools, in the budgeting process and the discussion of efficiencies.**

71. **Management and Control**

The Committee inquired if it was not simply possible to direct Departments to transfer the relevant funds, Mr. Ogley replied that– "*It was very difficult in the early years of this programme, let us be honest about it, before we had a ministerial structure in place, because there was no authority across committees and money did disappear… It is now much easier. We do have some authority.*"[24]

72. Mr. Ogley also acknowledged the difficulties of making corporate efficiency savings with a decentralised accounting system. In reference to a clear and comparable accounting system he said – "*If you have that, then you can put it together and say: "Last year I spent this amount. I now want that amount over here." We will centralise it. We will take 5 or 10 per cent out of it if that is what makes sense. But if what you find is your accounting says: "We spent this amount last year and then, by the way, did you know we spent another couple of hundred thousand out of a different set of budget heads but it was all for that purpose and you cannot*

have them this year," it is ... and that is what you see reflected in here, to be quite honest."[25]

73. In his report '£35 million Cost Reductions', the Comptroller and Auditor General notes that "*Departments have been charged to reduce their expenditure and on occasion have recorded the reduction in expenditure without recording the service effect of that change. In these cases, it has not been possible to identify the effect on services of the spending reduction. Moreover, I have not been able to make good this deficiency by referring to the States service performance reports. As I have reported in another report, for the period covered by this report, there was no comprehensive system for performance reports."*[26]

74. The Comptroller and Auditor General has noted that the same time as FSR savings were being applied, decisions had been taken to increase expenditure in some areas. He notes his concerns that *"unless careful recording and supervision took place, there was an opportunity for Departments to utilise the possibility of confusion between the two factors to nullify the effect of the agreed reductions."*[27]

75. The Comptroller and Auditor General also notes that the agreed growth in government expenditure was greater than the reductions from FSR and efficiency savings for every year from 2004 to 2006, and that current information indicated that this trend would continue at least until 2008. This discounts increases for inflation and the expenditure of the Overseas Aid Committee.[28]

76. Accordingly, at the Public Hearing, in light of the Comptroller and Auditor General's concerns, the Committee attempted to determine the Executive's view on how cost reductions should be evaluated, and what measures were to be implemented to improve that evaluation.

77. **The Committee suggested to the Executive that there was considerably more clarity in respect of corporate cost reductions than those made at the departmental level. This led to a concern that, for instance, there could be no certainty that a saving made in one year was not included as an additional cost for a Department in a later year.**

78. The Comptroller and Auditor General has also noted the possibility of cost reductions being made from areas that were not the intended target of savings. He has noted that as Departments have total discretion to spend money within their overall cash limits as they see fit, if they are unable to make an identified saving they will simply have to reduce expenditure in other areas to meet their reduced 'bottom line'.

79. The Executive also expressed concern that there might be implications in attempting to measure efficiency savings too closely, Mr. Ogley reiterated the point of the Treasurer of the States when he noted that – *"we have to be careful on the savings thing that we do not create another industry where we are employing people to go round and measure things that are not significant."*[29]

80. The Committee notes, however, that in his report the Comptroller and Auditor General states *, the reductions were deducted from the relevant Departments' total budgets, and growth, where it was agreed, was added to the same totals budgets. The result was that, unless careful recording*

and supervision took place, there was an opportunity for Departments to utilise the possibility of confusion between the two factors to nullify the effect of the agreed reductions."

81. He goes on to comment: *the same time as reductions in expenditure were being targeted, substantial increases in expenditure were also being approved. In other words, a major re-direction of resources was being planned. Whilst such a process is entirely legitimate, if the process were to result in a real re-direction of resources, it was necessary to ensure that there was proper recording and monitoring of steps taken to achieve the planned changes.*

82. The Comptroller and Auditor General concludes that: *In view of the paucity of the available information, it is difficult to describe the nature of the cost reductions that have been achieved save to note that on a superficial view budgets have been reduced and departments have largely lived within their budgets so that however it has been achieved there has been some reduction in spending. The weakness in this analysis is that there has also been some 'growth' in departmental budgets whose effect may have confused the position*

83. This is in sharp contrast to the comment made by Mr. Black that whether or not detailed information about how the savings were made was available, *"all departments have achieved the reduction in their spending because it is taken off the bottom line."*[30]

84. During the course of the hearing, Mr. Ogley outlined for the Committee how he envisaged Departments would make the necessary efficiency saving. He informed the Committee that –

"You really make savings because you change the culture of the organisation .... What we have done is we have gone for the line that says: "You are accountable, you are responsible, manage for less and, by the way, tell us the big things you are doing to deliver that more for less as opposed to measure every item ... You do not count the paper clips but you do count the big things. ... and I think £10,000, £15,000 plus is a big thing, even in a budget of £500 million ... The reason you count them is because somebody else might be able to do the same thing and learn from it and improve as well. And you make sure they do not get the money back."[31]

85. The Comptroller and Auditor General agreed, noting that – *"I am sure every member of the Committee supports the idea that the change in culture that leads to improvement in resource applications, resource utilisation, greater efficiencies, is an extremely important programme."*

86. Mr. Ogley also noted however that: *"at the beginning of the year I asked those chief officers to show me the list of what they intended to do. So I saw it at the beginning of the year what they intended to do. I was a bit surprised I did not see at the year end the measure that said, yes, they had done it."* (The Committee noted that this meant that Chief Officers did not report expenditure reductions until 2007 although the FSR process commenced in 2003.)

87. **The Committee notes that, in his report, the Comptroller and Auditor General has reviewed all the expenditure reductions publicised as savings. It is on that basis he has stated that only some £13.5 million of the FSR reductions in expenditure could be considered savings. Furthermore, although he considers that the there is solid evidence of**

the Corporate Efficiencies of £7.3 million, £1.5 million of these are attributable to Property Holdings and therefore probably relate to maintenance and are not sustainable.

88. **The Committee is concerned that the rationale expressed by the Treasurer is that "reducing the bottom line means that savings have been made" and considers that this does not represent efficient or effective financial management. It also considers that the lack of a year end report on the effects of the reductions in expenditure has removed incentives to demonstrate effectiveness.**

It is pleased to note that this omission has been amended by the Chief Executive.

89. **The Committee agrees with the Chief Executive that the imposition of myriad targets is not helpful and leads to dysfunctional behaviour rather than sensible management. This is a view which is shared by the Comptroller and Auditor General as set out in his programme for 2007.[32]**

The Committee understands that the Comptroller and Auditor General will be preparing a report on performance management in due course and looks forward to that report.

90. Concerning Departmental efficiencies, the Comptroller and Auditor General states "*In view of the paucity of the available information, it is difficult to describe the nature of the cost reductions that have been achieved save to note that on a superficial view budgets have been reduced and departments have largely lived within their budgets so that however it has been achieved there has been some reduction in spending. The weakness in this analysis is that there has also been some 'growth' in departmental budgets whose effect may have confused the position.*

91. The Committee attempted to determine who was ultimately responsible for the management of the expenditure reduction process. Mr. Ogley responded that "e*very accounting officer has the responsibility of living within their budget and delivering what the States has set in its business plan in terms of the objectives…. The Treasurer has a professional network to monitor that and to report to it and ultimately it is my responsibility and I am happy to accept that responsibility*."[33]

92. **In light of this response, the Committee expressed concern that there was a lack of clarity as to where responsibility for savings lay. It was not certain, for instance, how the Treasurer's 'professional network' could effectively report when until 2007 Chief Officers did not provide details of expenditure reductions made, even to the Chief Executive.**

93. Mr. Ogley also acknowledged that it was possible for Ministers to intervene in the process, but indicated that is this were to be the case then "*they have got to now make that* [decision] *as an overt ministerial decision*"[34]. Such a decision would stand as a permanent record that the Minister had refused to make the identified savings, and accordingly the Chief Officer would not be held accountable. Instead, the Minister would be open to political challenge on the subject. The Committee considered that this level of personal responsibility was a positive step.

Press Release

94. During the Public Accounts Committee Public Hearing held on 11th February 2008, the Committee questioned the Executive about the nature of the £35 million that it had been claimed had been cut from government expenditure. The Committee in particular noted that reference had been made to this £35 million as'efficiency savings'.

95. The Executive indicated that the confusion was caused by a press release having been produced, dated 6th November 2007, that was headed 'Chief Minister publishes £35m efficiency cuts'[35]. The content of this press release, however, stated that only £15 million efficiency savings had been made, and that the remaining £20 million saving was generated by FSR reductions. The Executive apologised for the oversight, and indicated that it was due to a lapse in communication between the Treasury and Resources Department and the Communication Unit.

96. The Executive position was that the £35 million savings were made up of £20 million of FSR savings and£15 million of efficiency savings. It was suggested that this was made clear to the Jersey Evening Post, and therefore to the public. Mr. Ogley commented that *"if you look at the J.E.P. headline when we put it out, it said: '£15 million efficiency.' We did not claim the £35 million was efficiency."*

97. The Public Accounts Committee deplores the lack of clarity in the press release. It cannot be said that there are £15 million in efficiency savings since, as the Comptroller and Auditor General states in his report, regarding departmental efficiencies, … ***In view of the paucity of the available information, it is difficult to describe the nature of the cost reductions that have been achieved (£8.393 million) save to note that budgets have been reduced and departments have largely lived within their budgets so that however it has been achieved there has been a reduction in spending.[36]***

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[1] Article 132 Public Accounts Committee: terms of reference

[2] Comptroller and Auditor General, 'Setting the Scene' – Section 18

[3] Comptroller and Auditor General, 'Setting the Scene' – Sections 20-22

[4] Comptroller and Auditor General's Programme for 2007

[5] Comptroller and Auditor General's Programme for 2007

[6] Comptroller and Auditor General £35 Million Cost Reduction page 20

[7] Jersey Evening Post dated 00.2007/8 from a press release issued by the Executive

[8] Mr. I. Black, Treasurer of the States, transcript page 13

[9] CAG – '£35 million Cost Reductions', Section 55

[10] Comptroller and Auditor General – '£35 million Cost Reductions' Section 44 (a detailed breakdown of these figures is available in Appendix 4 of that report)

[11] Comptroller and Auditor General – '£35 million Cost Reductions', Section 50

[12] Mr. B. Ogley, transcript page 31

[13] Mr. B. Ogley, transcript page 32-33

[14] Mr. C. Swinson, transcript page 33

[15] Mr. B. Ogley, transcript page 35

[16] Mr. B. Ogley, transcript page 34

[17] Mr. B. Ogley, transcript page 6

[18] Mr. I. Black, transcript page 7

[19] Mr. B. Ogley, transcript page 19

[20] Mr. I. Black, transcript page 7

[21] CAG – '£35 million Cost Reductions', Section 62 or 60

[22] Mr. I. Black, transcript page 7

[23] Mr. B. Ogley, transcript page 12

[24] Mr. B. Ogley, transcript page 19

[25] Mr. B. Ogley, transcript page 19

[26] CAG – '£35 million Cost Reductions', Section 37 or 36

[27] CAG – '£35 million Cost Reductions', Section 28

[28] CAG – '£35 million Cost Reductions', Section 29

[29] Mr. B. Ogley, transcript page 26

[30] Mr. I. Black, transcript page 8

[31] Mr. B. Ogley, transcript page 10-11

[32] Comptroller and Auditor General's Programme for 2007

[33] Mr. I. Black, transcript page 12

[34] Mr. B. Ogley, transcript page 28

[35] This press release is available on line at:
www.gov.je/ChiefMinister/Strategic+and+Business+Planning/ChiefMinisterpublishesefficiencycuts.htm
It is also attached as an Appendix to the '£35 million Cost Reductions' report

[36] Comptroller and Auditor General £35 million Cost Reduction page 20