STATES OF JERSEY

EXPENDITURE PROPOSALS FOR 2012 AND 2013 AND DRAFT BUDGET STATEMENT 2011 (P.157/2010) – EIGHTH AMENDMENT (P.157/2010 Amd.(8)) – COMMENTS

Presented to the States on 6th December 2010
by the Council of Ministers

STATES GREFFE

2010 Price code: C P.157 Amd.(8)Com.

COMMENTS

The Council of Ministers opposes this amendment as it aims to reduce the proposed level of Central Reserves in 2012 and 2013.

However, the Council of Ministers is prepared to address Deputy Vallois' concerns regarding the management and allocation of the Reserves, and to commit to working with the Corporate Services Scrutiny Panel to identify an appropriate process for 2012 and 2013, which will be brought back to the States in the new year and in advance of the debate on the 2012 Business Plan.

Deputy Vallois proposes that the Central Reserves in 2012 and 2013 are reduced by £4 million and £8 million respectively with the effect of reducing States Total Net Expenditure by the same amounts in these years.

Comment

In order to control and manage States spending within the proposed limits, the Council of Ministers proposed the creation of Central Reserves to manage forecast variations, unforeseen expenditure and to allow for the influence of external factors in the economy.

The Central Reserves for 2011 have been approved in the 2011 Business Plan, and the current proposals for 2012 and 2013 in P.157/2010 merely continue this funding for these years.

The following table shows that the only increase in 2012 and 2013 is in respect of the AME and DEL Reserves, where the amounts are increased to reflect the fact that the range of forecasting error on expenditure increases in each forecast year. This is accepted practice and follows the UK principles and experience.

Different levels of provision and increase are provided for the 2 Reserves reflecting the likely volatility of the expenditure. The DEL reserve represents a 0.5% increase in DEL expenditure each year. This could have, for example, provided funds for the loss of the Reciprocal Health Agreement, or in future for an increase in student tuition fees in Education.

The higher provision of 1.5% for the AME Reserve reflects the more volatile nature of this expenditure, such as the current difficulties in forecasting and assessing the impact of the economic downturn on employment trends, and hence the numbers of claimants and levels of income support.

Jersey	2011	2012	2013	Total
	£m	£m	£m	£m
Unforeseen/One off provision	5	5	5	15
0.5% DEL provision	2	4	6	12
1% AME Provision	2	4	6	12
Total Central Reserve	9	13	17	39
Restructuring Provision	6	10	10	26
Total Central Allocations	15	23	27	65
Total States Expenditure	620	622	624	
as % of Total States Expenditure				
Unforeseen/One off provision	0.8%	0.8%	0.8%	
0.5% DEL provision	0.3%	0.6%	1.0%	
1% AME Provision	0.3%	0.6%	1.0%	
Total Central Reserve	1.5%	2.1%	2.7%	
Source: 2011 Draft Budget/Business Plan				

At the outset of the CSR process, the HM Treasury advisers who conducted a workshop with the Council of Ministers advised that the level of reserves would be difficult to assess without any experience of a new 3 year process and new financial management structure. As an example, in the early years of a similar regime in the UK, the total Central Reserves between 1983 and 1996 averaged 1.5% of government expenditure in Year 1, 2.5% in Year 2 and 3.3% in Year 3. These levels have been able to be reduced over subsequent years.

These initial UK figures, which applied for a number of years, are higher than the levels currently proposed for the States Central Reserves of 1.5% for 2011, 2.1% for 2012 and 2.7% for 2013.

The Council of Ministers would intend to review the appropriate level of States provisions after a period of years of the new CSR and financial management regime. Until that time the levels of Central Reserves proposed follow best advice.

Summary

The provision of an appropriate level of Central Reserves is an important part of the 3 year CSR process and new financial management regime to control States spending. The Council of Ministers opposes the proposed reduction in 2012 and 2013 Central Reserves, but is prepared to work with the Corporate Services Scrutiny Panel, and bring proposals for the control and management of Central Reserves to the States in 2011 and ahead of the 2012 Business Plan.

The process outlined and approved as part of the 2011 Business Plan is tightly controlled. It will only be available after all opportunities for funding and reprioritisation within departments have been explored. Approval will require recommendations of the Council of Ministers and finally the Minister for Treasury and Resources. Approvals will be regularly reported to the States.

There will be an annual opportunity to consider the transfer of any unspent balances to the Consolidated or Stabilisation Fund as appropriate. Finally, it is intended that after a period of years, experience will enable the level of funding of Central Reserves to be adjusted.

Financial implications

The amendment proposes that Central Reserves in 2012 and 2013 are reduced by £4 million and £8 million respectively, with the effect of reducing States Total Net Expenditure by the same amounts in these years.

EXTRACT FROM BUSINESS PLAN 2011 FOR INFORMATION

5. COMPREHENSIVE SPENDING REVIEW

5.1 Background

In the 2010 Budget the Minister for Treasury & Resources, supported by the Council of Ministers, committed to two significant new projects: a Comprehensive Spending Review (CSR) and a wide ranging Fiscal Strategy Review (FSR). In the current economic circumstances it is essential that there is a realistic and honest debate on tax and spending.

The CSR is an integral part of the plan to address the forecast structural deficit and return to balanced budgets by 2013. The CSR is about controlling public spending but it is also about introducing changes intended to extend the States planning horizons and give stability for departments to plan their services over a longer time scale.

The CSR has drawn on the experience of the UK, France and Canada in determining the principles under which the review should be governed. The purposes of the review have been to:

- control States spending by setting tough but achievable savings targets and realistic growth proposals;
- improve financial management across the States of Jersey by ensuring incentives are built in to the budgeting system to encourage improved decision-making;
- extend the States planning horizon so that clear three-year plans are made and adhered to;
- bring greater transparency to financial planning and provide more complete cost information for decision making; and
- deliver better value for money and good management of assets and investments.

The intention is to introduce a culture and framework of longer-term financial planning. The concept is of a major strategic or business review of objectives and priorities every three years at each change of Council of Ministers with annual reviews becoming part of business as usual. This should require the States to debate only variations to the three year plan each year together with any variations being prioritised and managed within the three-year spending envelope. In this first CSR, a three-year spending envelope is being proposed, but it is recognised that a new Council of Ministers is due to be elected in late 2011, therefore the final year of this spending envelope will be the first year of the next three-year process.

5.2 Principles

The Comprehensive Spending Review is based on a number of key principles which it is intended will govern States planning and budgeting for the future. These are set out and explained below.

Principle	What does this mean?	Why is this a good principle?	How has this changed?
3 year spending envelope	Every 3 years, at each change of Council of Ministers, the States would agree a maximum limit for expenditure for each of the next 3 years.	Departments will be able to plan over a longer period and therefore prioritise and phase any programmes of spending.	At present the States only approves expenditure for the next year.
End Year Flexibility	Departments will be given the flexibility to carry over any unspent money from their budget to the following year.	This has two benefits: • departments cannot always predict accurately when money will be spent, and therefore this allows for a longer term approach to using public money. • this flexibility incentivises departments to control and minimise expenditure so that plans for future initiatives can be realised.	Departments can currently apply to carry forward underspends, but this has not always been approved where other priorities have been deemed to take priority.
DEL expenditure	'DEL' stands for Department Expenditure Limit. Expenditure that is manageable and controllable is designated DEL expenditure	This separates out controllable expenditure from more volatile expenditure which is outside the control of departments (see section below). Accounting Officers can therefore be more readily held to account for DEL budgets.	Accounting Officers have previously been accountable for their cash limit, irrespective of whether the expenditure was controllable or not. The definition of AME now recognises the volatility of certain expenditure.

Principle	What does this mean?	Why is this a good principle?	How has this changed?
AME expenditure	'AME' stands for 'Annually Managed Expenditure'. Expenditure that is exceptionally volatile or dependent on factors (such as economic changes) that are outside of the Departments' control is designated AME expenditure. To qualify such expenditure should also be so large that a department could not be expected to absorb the volatility in its DEL.	Volatile areas of expenditure will still be the responsibility of Accounting Officers but this designation allows for more effective management, with a centrally held 'AME' reserve available for variations against budget. It is proposed that access to this reserve will be controlled by the Council of Ministers. Only Supplementation and Income Support benefits are designated as 'AME', except for 2011, when depreciation will be treated as AME while further improvements in managing assets are made.	Accounting Officers have previously been accountable for their cash limit, irrespective of whether the expenditure was controllable or not, however classifying expenditure as AME recognises its volatility.
Central Reserves	Part of the overall spending envelope is allocated to reserves which are available to cover unforeseen spending requirements. More detail on the makeup of Central Reserves is contained in section 5.4.	This allows for urgent spending needs (such as pandemic flu or the Historic Child Abuse Enquiry) to be met without having to increase the overall spending of the States beyond that originally planned. It is proposed that approval from the Council of Ministers will be required to draw down on any of the Central Reserves.	Currently there are no such reserves and so additional funding had to be requested from the States, or other services impacted, in order to manage these unforeseen events.

Principle	What does this mean?	Why is this a good principle?	How has this changed?
Improved financial management	The CSR process will ensure that more transparent and complete cost information is available to inform decision making and that services are delivered in the most efficient and cost effective way.	It is essential that public money is spent carefully and prudently and that this spending is able to be effectively scrutinised.	Financial Management has been improved considerably in recent years through the introduction of GAAP accounting. The CSR will ensure that this is extended to the budgeting process.

5.3 Overview of the process

The first task for Ministers was to set the targets for the CSR and this was part of their initial discussions on the appropriate tax and spending envelope – see Section 3.3.

Out of these discussions Ministers agreed that the targets were for all departments to provide options for savings which would deliver at least £50 million by 2013. Ministers considered it was important that the level of savings be phased to reflect the time available to deliver savings by 2011, but also sensitive to the fact that in 2011 the Island should be seeing a gradual recovery from the downturn. The levels were therefore agreed as 2% or £10 million for 2011 increasing to £25 million in 2012 and £50 million in 2013.

The Council also agreed that user pays options should be considered in addition to the savings options to provide some political choice.

The CSR is intended to create an opportunity to look at all services differently and to identify new ways of working. Departments were asked to review all services and consider a series of questions including:

- What do we do?
- Do we need to carry on doing what we do?
- Can we do it differently for less money?

In addition to the individual reviews being undertaken within departments, a number of major reviews have also been commissioned and these reviews are particularly aimed at identifying savings for these departments to contribute to Part two of the process (see below) and the £25 million and £50 million savings.

The major department reviews are in Health and Social Services, Education, Sport and Culture, Social Security and Home Affairs. There is also a corporate review of Terms and Conditions for all States employees and a specific review focussing on the volatile area of court and case costs.

The process was divided into two parts and the timeframe and key activities in each part are set out below.

Part 1 – 2011	
Activity	**Details**
Identify 2011 CSR proposals in detail	• £12 million savings proposals • affordable growth bids • user pays options • restructuring funding required for investment to deliver savings • Central Reserves • capital programme
Agree total expenditure envelope for 2012 and 2013	• identify total envelope which would include revenue and capital expenditure • reflect the overall £25 million and £50 million savings for those years
Present 2011 Business Plan	• 2011 detailed cash limits • 2012 and 2013 total spending limits • to be lodged in July 2010 and debated September 2010

Part 2 – 2012 and 2013	
Activity	**Details**
Identify proposals 2012 and 2013	• £25 million savings in 2012 and £50 million savings in 2013 • affordable growth proposals • user pays options • restructuring funding required • Central Reserves • capital programme
Propose a Part 2 Business Plan	• Further detail on 2012 and 2013 revenue and capital expenditure within the spending envelopes proposed in September • Lodge in October 2010 alongside FSR proposals in the 2011 budget, for debate in December 2010

In addition to all the detailed plans set out above, the States already has other initiatives running in procurement and property which are also expected to contribute to the process. The final proposals will inevitably comprise a mixture of corporate and department savings if the target of £50 million is to be achieved within the proposed timescale. Success will mean that the States returns to balanced budgets by 2013 and will ensure stability for public services into the long term.

5.4 Proposals for 2011 – Rules and Framework

5.4.1 Introduction

The CSR introduces certain new principles to the current financial planning and budgeting framework. These principles are presented in the Business Plan but are not at this stage proposed to be introduced in law. The intention is that this first CSR provides the opportunity for States members and officers to work with a new framework and approval process before deciding whether to make the necessary law changes. If law changes are decided to be necessary, these will be proposed early in 2011, so that they can be brought into effect for the 2013 Business Plan process.

Certain principles will however require changes to the current framework and these are outlined in this section. The proposals will require appropriate controls and procedures whereby funds can be accessed and approved. The intention would be to develop the changes required through further consultation with the Public Accounts Committee and Corporate Services Scrutiny Panel.

5.4.2 Tax and Spending Envelope

The spending envelope proposed by Ministers in January not only set the £50 million savings targets for CSR but also proposed provisions for limited growth, Central Reserves and restructuring costs. These provisions are now proposed for 2011 and discussed in detail in this section.

5.4.3 Central Reserves

The central reserve consists of three elements:

- Firstly a provision for one-off items representing £5 million or about 1% of net expenditure. This provision should be maintained for each of the three years but it should not represent funding for items of a recurring nature.
- The second element of the central reserve is to provide for variations in general department expenditure limits (DEL), typically as a result of pay awards or where a significant recurring pressure arises which can not be addressed by the department or the Council within cash limits. The central reserve could provide time in-year for priorities to be reassessed and balanced within cash limits ahead of the next Business Plan.
- The final element is a similar provision for variations in the most volatile elements of expenditure for Supplementation and Income Support (AME).

The proposed provisions for each of the DEL and AME reserve are £2 million per annum, which represents in broad terms 0.5% for DEL expenditure and 1.5% for AME reflecting the relative expected volatility of these areas.

Central Reserves are provided as a final resort to spending pressures only after individual departments own reserves and opportunity for reprioritisation have been thoroughly explored. The proposal is that these Central Reserves should be allocated to the Treasury and Resources department with an appropriate process for allocation.

The intention is that departments and the Accounting Officer will manage spending pressures within their cash limits and the central reserve will only be approached where the spending pressure is too significant for the department to manage within that year. Past examples could be items of the scale of the Reciprocal Health Agreement or Pandemic Flu. Each case would be reviewed by the Treasury with the relevant department and it would be required to identify if the pressure is one-off, or how it would be managed within spending limits the following year. Only at this point could the request be recommended to the Council of Ministers.

The decision to allocate funding will therefore be by Ministerial Decision of the Minister for Treasury and Resources, but only after consultation and agreement with the Council of Ministers.

It is likely that the level of reserves would become one of the few areas to be reviewed annually within the three-year cycle and any variations presented in the annual Business Plan.

5.4.4 2% Savings proposals

As part of the tax and spending discussions Ministers agreed that all departments should be asked to identify options for at least 2% savings for 2011. The exception was Social Security where separate proposals for supplementation are to be addressed as one of the FSR options and consequently separate targets for the remainder of the budget have been agreed. Social Security department is presenting proposals of £2 million for 2011, and this is equivalent to 2% of the department's budget adjusted for Supplementation and income support transitional relief.

As a result of the work by departments, review by officers and the workshops with Ministers, the proposals being put forward are for £12 million of savings in 2011. This exceeds the original £10 million target, principally because of the contribution from Social Security.

The savings include a contribution from the States Assembly which is equivalent to a 2% saving on its budget excluding States members' remuneration. The Finance Law requires the Chief Minister to present the budget requested by the States Assembly and the view of the Privileges and Procedures Committee is that for 2011 it is not possible to offer savings from the States members' remuneration budget.

The savings discussions have been challenging and have involved peer review of each others savings by individual Ministers. The outcome is that all Ministers have identified proposals for 2% savings in 2011. The only exception is for Education, Sport and Culture where the Minister is committed to delivering 2% savings but is unable to identify final proposals in detail until the outcomes of various service reviews which are ongoing in that department. Some £1 million has already been identified with a further £1.3 million to be identified at a later date. The Council has accepted the Education Minister's position and committed to support the Minister in identifying the balance of savings proposals for 2011 in due course.

5.4.5 User Pays

Departments are encouraged as part of the CSR process to explore all opportunities for the recovery of appropriate fees or charges for services provided. Ministers agreed that any such opportunities should be identified in addition to the savings targets to enable a political choice to be made between reductions in services or charges.

For 2011, limited work has been possible on this area in the time available and the expectation is that a wider range of user pays options will be explored by departments and put forward for discussion for 2012 and 2013.

For 2011, £430,600 of proposals from departments are proposed by the Council of Ministers. As further proposals are identified the Council recognises that these will need to be considered alongside the outcomes of the Fiscal Strategy Review to identify the impact of any such charges.

5.4.6 Growth proposals

The original provision for growth was set at £3 million as part of the spending envelope discussions with Ministers in January. Initially, departments bids were higher but have been trimmed down and prioritised through peer review by Ministers and a prioritisation by Chief Officers. This resulted in a proposal for priority schemes to be considered by the Council at its workshops in May. The Council also reviewed the existing growth commitments from the 2010 Business Plan to explore any reprioritising that may be appropriate against new bids.

The outcomes of the Council's deliberations reduced the growth proposals to £3.6 million. The final proposals includes a review of the original 2% growth funding for Health of £3.3 million and a reallocation to existing funding pressures which were bid for by Health as growth in CSR. The Council is also proposing that growth required in the Financial Crimes Unit could be funded from an increase in company fees. This will be considered in the Budget alongside other company fee proposals currently being discussed with Guernsey. Furthermore, an additional post in Income Tax will generate additional tax revenues which will more than cover the annual cost.

A further proposal is to consider a one-off transfer of circa £5 million from the Health Insurance Fund in 2011 to provide funding for Health growth and improve the financial position of the Consolidated Fund.

Details of the CSR proposals for 2011 are included in the Appendix to this Business Plan and the impact is described by departments against the individual lines of the department service analysis in the Annex.

<u>5.4.7 Restructuring costs</u>

The proposed provision for 2011 of £6 million reflects initial indications from departments of the investment required and also includes provision for certain corporate initiatives that are planned. Departments have been asked to identify where such funding is required alongside the savings which will be delivered in 2011, 2012 and 2013. There is a requirement to demonstrate a minimum payback over three years.

The level of provision in 2011 also takes into account P.64/2010, an Article 11(8) request from the Minister for Treasury and Resources to the States for £6 million for potential voluntary redundancies and £0.5 million for procurement initiatives to give a kick start to the CSR process in 2010.

There is no doubt that the level of change that will be required to deliver further savings will need to be supported by significant investment. The Council proposed a total one-off investment of £33 million over the three years 2011–2013 to deliver the £50 million of recurring savings as part of the spending envelope.

The funds proposed and approved for restructuring will not be allocated direct to departments but allocated and held centrally in Treasury and Resources. It is intended that the allocation of restructuring monies will follow similar strict procedures as access to the Central Reserves and these are explained at Section 5.4.3.

For the allocation of the Restructuring Provision each initiative will require a full business case to be prepared by the department demonstrating, where appropriate, the payback in terms of future savings within the required 3 year period. This would then be reviewed by the Corporate Management Board and if agreed would be recommended to the Council of Ministers. The decision to allocate funding will therefore be made by Ministerial Decision of the Minister for Treasury and Resources but only after consultation with the Council of Ministers.

All such Ministerial decisions would be public and any allocations would be included in the report on expenditure approvals prepared by the Treasurer and presented to the States twice a year.

5.4.8 End Year Flexibility

It is intended as part of the new framework that departments have greater certainty on carrying forward underspends from one year to the next to increase flexibility in their three-year spending limits. This would only apply to controllable (DEL) expenditure.

The process would use the existing monthly reporting arrangements for departments to identify forecast underspends. At a given point in the year, probably the June quarter, a department could request that a level of any forecast underspend be carried forward. This would be considered by Treasury, taking into account the potential year end position for the States as a whole with any balances on the Central Reserves. From this a recommendation would be made as part of the quarterly financial monitoring report to the Council of Ministers. If agreed by the Council of Ministers the department could then plan to allocate those monies to the following year. Consideration would need to be given to any limits on the level of such carry forwards.