STATES OF JERSEY

EXPENDITURE PROPOSALS FOR 2012 AND 2013 AND DRAFT BUDGET STATEMENT 2011 (P.157/2010): EIGHTH AMENDMENT

Lodged au Greffe on 23rd November 2010
by Deputy T.A. Vallois of St. Saviour

STATES GREFFE

PAGE 2, PARAGRAPH (a) –

In order to reduce the provision for Central Reserves in 2012 and 2013, for the figure "£694,200,000" for 2012 substitute the figure "£690,200,000"; for the figure "£688,300,000" for 2013 substitute the figure "£680,300,000"; and in Summary Table A on page 50, for the figure "£13,000,000" substitute the figure "£9,000,000", and for the figure "£17,000,000" substitute the figure "£9,000,000".

DEPUTY T.A. VALLOIS OF ST. SAVIOUR

REPORT

The Provision for Central Reserves increases in years 2012 and 2013.

The Business Plan 2011 covers the 3 elements of the Central Reserves at Section 5.4.3 on page 29 –

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 breakdown would therefore be –

	2011	*2012*	*2013*
Unforeseen/One Off Provision	£5m	£5m	£5m
0.5% Annual Departmental Expenditure Limit (DEL) Provision	£2m	£4m	£6m
1.0% Annual Annually Managed Expenditure (AME) Provision	£2m	£4m	£6m
Total Central Reserve	£9m	£13m	£17m

Section 5.4.3 of the Business Plan goes on to explain that these reserves are provided as a final resort for spending pressures, only after all other sources have been exhausted. Access to the Central Reserves will also be closely controlled by Treasury with appropriate approval procedures which are being developed.

The increase in the Central Reserves is intended to reflect the fact that the range of forecasting error on expenditure will increase the further ahead we forecast.

At the outset of the CSR process, senior officers from H.M. Treasury were drafted in to provide a 2 day workshop for Chief Officers and the Council of Ministers. The advice received was that the level of Central Reserve required for DEL (Departmental Expenditure Limits) should be a smaller proportion of the budget than that for AME (Annually Managed Expenditure).

Their other comment was that the level of central reserve would be difficult to assess from past trends as the behaviour and performance would vary under different financial management regimes. This means that, as we are embarking on a new approach, we should look to set an initial level for central reserves and then review this after the experience of a period of years of the new regime and financial management structure.

A lot has been established within the Treasury function over the last 18 months in order to improve financial management for the future of public finances. Although understanding what the Minister for Treasury and Resources is trying to achieve with such a proposal for the setting-up of a 3 year cash limit process, my concern is that this would be setting up a 'cart before the horse' scenario.

The reason for my concern is three-fold –

1. The States Assembly are yet to approve any changes to the Public Finances Law to establish a 3 year cash limit and it is my understanding that this will not be in place until after the 2012 Budget process.

2. Setting a Central Allocation of such magnitude (totalling £50 million) for 2012 and 2013 may not be the appropriate way forward for the new States Assembly and therefore the Public who ultimately pay for this.

3. Uncertainty surrounding the past trends and the new financial management regime being set in place.

Upon researching the use of Central Reserves, the following extracts caught my attention as to the issues that may arise due to the concerns noted above.

Spending Review 2000 New Public Spending Plans 2001–2004 H.M. Treasury

Prudent for a Purpose: Building opportunity and security for all.

> *"tighten expenditure control by forcing departments to live within spending limits for not just one but three financial years, with access to only a small DEL Reserve. The aim is to force them to prioritise competing pressures and contain them within an overall limit, rather than giving them an opportunity to come back for more."*

Plans for DEL are firm for the next 3 years and the Government has said they will not change unless there were a major shock such as a war, or if inflation varied cumulatively more than 1.5% from forecast. The Treasury has set itself a PSA target of ensuring that the DEL for the 3 years of the CSR period is adhered to.

A contingency reserve is a reserve for in-year expenditures above appropriations for handling genuine contingencies; it should be modest in size (if too large, a bidding process from ministries may quickly set in).

It should be under the control of the ministry of finance, and access should be granted by the ministry of finance only under stringent conditions.

The Consultation on the Fiscal Strategy Review did not provide a clear view as to a preference by the Public of Tax measures that could be increased or introduced to help tackle the £100 million deficit.

There was one clear message that was made as a result, and that was the wish of those that responded to the review that the States of Jersey should get spending under control before raising taxes.

Although we are looking to set up a savings target of £65 million over the next 3 years, we also have a central allocations element to the Budget which totals

£64.8 million. The resultant question that arises from this is what exactly are the States of Jersey are trying to achieve?

Whilst there is no agreement for a 3 year cash limit and no stringent guidelines currently in place to adhere to such fiscal measure, I believe it would be inappropriate to allow recurring expenditure within a Central Reserve Allocation at this time, and would suggest that a more thorough analysis is completed during 2011 in preparation for the 2012 Budget, whereby the debate will be on a more informed basis.

Financial and manpower implications

This amendment would result in a reduction of the Total States Net Expenditure Allocation of £12 million over a period of 2 years.

No manpower implications would result from the adoption of this amendment.