STATES OF JERSEY

DRAFT ANNUAL BUSINESS PLAN 2011 (P.99/2010): NINTH AMENDMENT (P.99/2010 Amd.(9)) – COMMENTS

Presented to the States on 13th September 2010
by the Council of Ministers

STATES GREFFE

COMMENTS

The Council of Ministers opposes parts 1 and 2 to this amendment and part 3 is subject to an amendment.

The Corporate Services Scrutiny Panel proposes that –

1. the net revenue expenditure of £652,881,000 for 2011 shall be reduced to £647,881,000 and that the £5,000,000 reduction be pro-rata across the ministerial departments as below –

States Funded Bodies	**2011 Revised Gross Revenue Expenditure**	**2011 Income Allocation**	**2011 Revised Net Expenditure Allocation**
	£	**£**	**£**
Ministerial Departments			
Chief Minister	5,545,841	(493,000)	5,052,841
Economic Development	17,424,680	(1,475,000)	15,949,680
Education Sport and Culture	116,199,606	(16,904,000)	99,295,606
Health and Social Services	186,373,798	(20,118,000)	166,255,798
Home Affairs	49,670,364	(1,706,000)	47,964,364
Housing	17,127,883	(38,184,000)	(21,056,117)
Planning & Environment	10,316,435	(3,644,000)	6,672,435
Social Security	176,958,673	(3,335,000)	173,623,673
Transport and Technical Services	46,687,501	(18,602,000)	28,085,501
Treasury & Resources (Dept alloc.)	47,399,219	(7,712,000)	39,687,219
TOTALS FOR THESE MINISTERIAL DEPARTMENTS	**673,704,000**	**(112,173,000)**	**561,531,000**

and,

2. on page 2, paragraph (a), after the words "with any increase above", the words "or decrease below" be inserted, and for the word "compensated" the words "to be adjusted" are substituted, and

3. on page 2, paragraph (e) that the proposed total net revenue expenditure of the States funded bodies for 2012 and 2013 as set out in Summary Table E shall be decreased from £708,000,000 to £698,000,000 in 2012 and from £712,000,000 to £697,000,000 in 2013.

Comment

The Council of Ministers debated at length the consequences of the States accepting the Corporate Affairs Amendment. Whilst it supports the objective to maximise savings, the Council is firmly of the view that a decision to make greater savings, over and above those already set out, should only be made with the full understanding of the consequences.

This amendment could be seen as the central alternative to the Annual Business Plan put forward by the Council of Ministers. Not central in the terms of being a halfway house, but central in that it focuses on the level of savings to be achieved over the next 3 years vis-à-vis the tax rises and economic growth which form the other 2 parts of the Council of Ministers' 3-part strategy.

The Council of Ministers shares the Panel's intention to maximise the level of savings and minimise the need for additional tax rises. It also supports the desire to save more than raise taxes.

However, for the reasons below, the Council recommends to the Assembly that the Comprehensive Spending Review process should be allowed to run its course.

Business Plan preparation

Preparation for the 2011 Annual Business Plan began at the start of 2010, with an assessment of the financial position likely to be faced by the Island in the years ahead.

It soon became clear that even with an economy gradually coming out of recession, the Island faced annual deficits in its spending for the next few years of the order of £100 million per annum. There are various contributory factors to this shortfall which have been discussed and documented over recent months, but there seems little dissent from the view that this is the likely figure for 2013. Forecasting further into the future becomes even more inexact, but it would be prudent to assume that this is a reality. The advice the Council has received is that it is a structural deficit rather than simply a cyclical variation.

This was the view taken by the Council of Ministers, and supported by workshops with other States members and discussions with key stakeholders in commerce and industry, and importantly by the independent Fiscal Policy Panel.

The Council of Ministers' strategy to tackle the deficit is well documented in the Business Plan. It is based on detailed analysis and is very clear. It consists of a 3-part plan –

- To maximise savings, without inflicting unintended damage on our key public services, in order to minimise the need for tax rises.
- To boost economic growth in order to maximise jobs for Islanders and tax revenues.
- To increase taxes only as much as is necessary to fund important investment and in a way which is fair and supportive of economic growth.

A key component of this strategy was therefore that significant reductions needed to be made in planned States expenditure over the period in question if there was to be any hope of bringing the Island's economy back into balance.

The Corporate Services Scrutiny Panel also appear to have framed their amendment on the basis that "The increased savings required by this amendment will take the ratio of cuts to spending versus tax to the 80:20 split, which has been found to achieve optimal results". The Council of Ministers disagree that this is the only ratio that can deliver optimal results and point out that there is little evidence to support such an assertion. Rather, that by adopting the Council of Ministers' 3-part plan as above, members will be agreeing to a framework which achieves the right balance for Jersey. By ensuring that spending savings do not have unintended consequences for key public services and that any tax increases are not to the detriment of the competitiveness of our key industries, we will create the conditions for future growth and prosperity.

Comprehensive Spending Review

Ministers are aware of the need to maintain an acceptable level of public services, while recognising that, as the demand for new services occurs, other services may achieve a lower level of priority.

Ministers were also aware, right from the very beginning, of the need to keep any tax rises as small as possible in order to maintain a competitive economy, thereby facilitating the third arm of Ministerial policy for dealing with the deficit, by encouraging controlled economic growth.

Resolution of this stage of the process took considerable discussion, but effectively could be summarised in 2 questions on reducing spending –

1. How much?

2. How quickly?

Ministers worked with a 3-year timescale, recognising that this was the minimum time period likely to be required to achieve meaningful change. Ministers were also aware that savings of the required magnitude could only be achieved by applying significant changes to the existing way of doing things. Such significant changes would not happen overnight, and in many cases would only happen with the aid of some initial, upfront investment of time and money to facilitate the required restructuring.

For this reason it was agreed that the Comprehensive Spending Review should be carried out in 2 phases. Because major change would take time to plan and implement, it was acknowledged that this would have to take place in the second phase of the process, but that meanwhile some reductions to spending could be made in 2011 in advance of major reforms. The 2011 target reflects the outcomes of the first phase of this spending review process.

The way forward

Ministers were anxious to ensure that any proposals put forward were realistic and deliverable within the planned timetable. It was also necessary to treat the whole programme as a package, rather than attempt a year-by-year piecemeal approach.

The policy of the Council of Ministers is that over the next 3 years it ought to be possible to achieve reductions of expenditure which, by the end of 2013, would amount to at least £50 million per annum. Ministerial Policy is that £50 million ought to be the level of savings to be achieved, and conversely that tax increases in excess of £50 million would be detrimental to both the local economy and the wishes of the people of Jersey.

Ministers also took the view that because the more far-reaching changes necessary to achieve significant savings would take time to plan and implement, the target for a reduction in expenditure for 2011 should be relatively modest at £12 million, whilst for 2012 it should be more like £25 million; and that by 2013 the full £50 million was required. This also recognises the recommendations of the Fiscal Policy Panel, who advised against reducing the deficit too rapidly whilst Jersey's economy still requires a fiscal stimulus.

Ministers were realistic about the timescale needed to achieve the changes in practices which could reduce spending further. If further savings could be achieved, in addition to the targets mentioned above, then Ministers were committed to delivering these. When all of the detailed proposals submitted by departments for savings in 2012 and 2013 have been fully evaluated by the Council of Ministers later in September, if some of them can be brought forward into 2011, they will be. But it is essential that the impact of these savings is fully evaluated and that the respective Minister can be sure of their successful delivery.

Members might also need to recall that they debated the timescale earlier this year, when P.29/2010 was debated with the objective of achieving the £50 million savings target over a 2-year period in 2 tranches of £25 million per annum. That proposition was withdrawn after it was appreciated that attempting to deliver £50 million over 2 years would not allow the reduction in services to be properly planned, and have a detrimental outcome.

In addition, and most importantly, Ministers did not see the £50 million in 2013 as the end goal, but rather as the milestone, an achievable goal on the way to delivering further reductions in spending in the years 2014 and beyond. No figure has been set at this stage for future years, but Ministers fully understand the intentions behind the amendment of the Corporate Affairs Scrutiny Panel. Indeed, the only real difference in view between the Council of Ministers and the Corporate Affairs Scrutiny Panel is in the timescale.

Conclusion

As can be seen from the above comments, the Council of Ministers agrees with the Corporate Services Scrutiny Panel that tax should be minimised and savings maximised. The Council has set itself realistic targets for the next 3 years. It has embarked upon a process and has made progress on delivering against that timetable. It is confident that is can achieve the proposals set out in its 2011 Annual Business Plan within the timetable contained within that Plan. However, any change to those parameters would create uncertainty and a need to revisit the Comprehensive Spending Review which has already consumed significant time and manpower.

The Council has previously explained that it is going to conclude the second part of the Comprehensive Spending Review before the Budget is lodged at the end of October. It will then publish its savings proposals for 2012 and 2013.

It may be possible that some of the CSR Stage Two proposals could be brought forward for implementation in 2011. If this were possible it would mean that the level of savings achieved in 2011 would be higher. This would result in budgets under-spends for 2011.

The Council would advise strongly against committing to greater levels of savings in 2011 before concluding the second stage of the Comprehensive Spending Review.

The Council believes that looking to 2012 and 2013, its target plans to reduce spending by £50 million by 2013 is going to be challenging. Such a target will require significant change in the way States services are delivered, and this will require proper consultation with both users of services and staff. To go further than the Council's target at this stage is unwise and unrealistic.

Part 1

In particular, and in respect of the first part of the amendment, relating to 2011, there is now a clear and achievable savings plan put forward for that year. To change those plans and revise those targets at this stage, particularly on an ad-hoc pro-rata basis across all departments, will not only create uncertainty and confusion, but more importantly could jeopardise the second phase of the Comprehensive Spending Review, which is where the major savings will occur.

The Council of Ministers recommends Members reject the first part of the amendment.

Part 2

It would appear that the intent of part 2 of the amendment is not to permit any reductions to the total net revenue expenditure to be used to reduce the £50 million deficit.

The current forecasts show that a proposed deficit of £50 million in 2011 would result in a Consolidated Fund balance of £20 million at the end of 2011. The Fiscal Policy Panel strongly recommended that a balance of £20 million be held in the Consolidated Fund to allow some flexibility for unforeseen items.

The Minister for Treasury and Resources feels it would be more appropriate if any further savings or reductions in expenditure were used to reduce the £50 million deficit, particularly in this current economic climate.

Moreover, it would seem appropriate for fiscal decisions to be made following a more informed debate in December when the Budget is presented.

Financial Implications

Part 2 of the amendment could result in a reduction in the fiscal target requirement for 2011 if Net Revenue expenditure were to decrease or it may result in an increase in the fiscal target if Net Revenue expenditure were to increase.

The Council of Ministers recommends Members reject the second part of the amendment.

Part 3

For 2012 and 2013 the Council of Ministers accepts that the timescale is slightly longer. However, it is also aware that the significant changes necessary in order to achieve even a £50 million reduction in spending cannot be achieved overnight, and that even to deliver them by the end of 2013 will produce significant challenges. Nonetheless the Council is committed to exceeding this target if it is at all possible.

Recognising that the £50 million is a milestone rather than the end of the road, but a milestone which Ministers believe is achievable, the Council of Ministers recommend maintaining the existing path, which has been carefully planned over a realistic timeframe. Members will be aware that Ministers have set aside considerable time to consider the proposals from all departments for 2012 and 2013 savings in the coming weeks, which will include the outcomes of the major department reviews. It is only after this that a better assessment of the savings achievable over the 3 years to 2013 can be reached.

Members should also appreciate that part (e) of the Proposition refers to working within the amounts shown, and Ministers are anxious to emphasize that it is their intention to seek further savings and ensure that these are properly applied to further constrain spending.

For these reasons the Council of Ministers also recommends Members reject the final part of this amendment.