

Emerging issues  
2008



COMPTROLLER &  
AUDITOR GENERAL

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# Emerging issues

# STATES' SPENDING REVIEW



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## SECTION ONE ~ INTRODUCTION

1. On 11 December 2007, I announced that I would be undertaking a review of the efficiency and effectiveness of States expenditure comprising three principal components:
  - (1) a review of the £35 million annual reductions of expenditure which the States will have achieved by the end of 2008 and which were the subject of a press release by the Chief Minister's Department on 6 November 2007;
  - (2) a review of States-wide spending; and
  - (3) a review of the effectiveness of the process (including the provisions of the Public Finance Law) for the control of expenditure.
2. The content of the press release announcing the Review is set out in Appendix One.
3. In February I published a report entitled 'Setting the Scene' which described the context for this review. In that month, I also published a report on the first component of the review: the £35 million annual reductions of expenditure that the States will have achieved by the end of 2008.
4. This report deals with the second component of the review: an examination of States-wide spending.

### **Work undertaken**

5. The review has consisted of the following investigations:
  - (1) reviews of a small number of major spending departments;
  - (2) reviews of a number of smaller spending departments; and
  - (3) reviews of a number of cross-cutting issues which affect all of the States' departments.
6. A list of States' departments showing their provisional cash limits for 2009<sup>1</sup> together with the extent of the reviews which have been undertaken is set out as Appendix Two to this report.
7. As will be seen from that Appendix, a number of major spending departments were not reviewed in detail as a part of this review. In particular:
  - (1) the Social Security Department was not reviewed in view of the imminent introduction of the new arrangements surrounding Income Support; and
  - (2) the Housing Department was not reviewed in view of the recent approval of that department's strategic plan.

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<sup>1</sup> The Council of Ministers' draft proposals were published in March 2008.

8. The purpose of selecting departments for review in this way was to examine the possibility that the States' arrangements for control of expenditure were more or less effective in smaller departments than in larger departments.
9. Most of the planned reviews have been largely completed although in some cases some further work is being undertaken. The detailed reports of all the studies undertaken will be published in due course.

### ***Content of this report***

10. This report consists of three principal parts:
  - (1) a summary of the options for reducing departmental expenditure that have been identified in the course of this review. These options are described briefly in this report but will be described in greater detail in separate departmental reports which will be published in due course.
  - (2) a summary of the cross-cutting issues which appear to offer possibilities for spending reductions.
  - (3) observations arising from this review on the effectiveness of the States' control of expenditure and steps which should be considered to improve that effectiveness.
11. Each option for reducing spending is categorised in three ways:
  - (1) in terms of the certainty of the possible reduction. Options for spending reductions may be uncertain for a number of reasons. In some cases, it may simply be difficult to estimate the precise consequences of a particular option for reduction: perhaps because the precise terms of any option may be difficult to foresee. In other cases, it may be that the sensitivity of an approach may make its achievement especially problematic.
  - (2) in terms of the timing of any possible reduction. For example, it may be necessary for legislation to be changed for spending to be reduced.
  - (3) in terms of the nature of the option. In some cases, the reduction may be achieved by a straightforward reduction in spending through greater efficiency (i.e. there would be no effect upon the service provided by the States). In other cases, the reduction may be achieved by increasing charges for the States' services (i.e. 'user pays').
12. The purpose of categorising options in this way is to avoid creating misconceptions about the scale and timing of any expenditure reductions that may result from this review.

### **Acknowledgements**

13. Completion of this Review has involved a large number of people largely within the States. I am grateful to all of them for their assistance, support and forbearance.

## SECTION TWO ~ SUMMARY OF OBSERVATIONS

### Introduction

14. In this section of the report I will set out a summary of the observations and recommendations arising from the Spending Review followed by some reflections on their significance.

### Observations

#### Potential expenditure reductions

15. The Spending Review has been based in large part on work that the Chief Officers of the States' departments have already commenced or proposed. The outcome of the Spending review as far as concerns reductions in expenditure can be summarised in the following way:
- (1) As a result of the departmental reviews undertaken, a number of expenditure reductions appear possible. If all were to be implemented, the total effect would be a reduction in expenditure by the States of the order of £7.88 million. The nature of these reductions, is described briefly in Section Three of this report. They are summarised in Appendix Four (which indicates the time which might be taken to realise the reductions) and Appendix Five (which indicates the type of the possible reductions).
  - (2) As a result of reviews of cross-cutting issues, apart from human resource issues, further potential expenditure reductions of the order of £4 million appear possible. The nature of these reductions is described in section four of this report.
16. In addition, the report proposes that the States should undertake a searching review of its staff remuneration mechanisms and suggests that the States should aim to reduce its staff's annual employment cost by about ½ % annually.
17. These options have been conservatively estimated (e.g. any regular revenue that might be expected has been intentionally understated) and do not include all of the financial benefits that may flow from implementation (e.g. they do not include the proceeds of sale of any buildings that may become surplus to requirements as a result of adoption of an option). Strenuous attempts have been made to ensure that the estimates of reductions in expenditure were agreed by departmental management teams. In some cases, management teams have not completed the research necessary to do this so that the estimates are subject to further work to be undertaken by the departments concerned. In such cases, I have checked that the figures set out in this report are accepted by all departments as not substantially mis-stated.
18. The Council of Ministers has published proposals for cash limits for 2009 which amount in total to £531,537 million. This figure is for Net Revenue Expenditure which is less than the States' total expenditure.<sup>2</sup>

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<sup>2</sup> The differences between the different measures of States' expenditure are set out in my report entitled 'Setting the Scene'. I understand that in calculating the proposed cash limits for 2009, the Treasury & Resources Department did not calculate the implicit amount of total expenditure but

19. The relationship between the expenditure reductions set out in this paper and the Council of Ministers' proposed cash limits is not straightforward. It cannot simply be assumed that the reductions set out in this paper, and in particular, the reductions arising from action on cross-cutting issues can be deducted from the proposed cash limits.<sup>3</sup>
20. The spending options set out in this paper represent the following proportions of this figure:
  - (1) Departmental options: 1.5%;
  - (2) Cross-cutting options: 0.9%; and
21. The fact that these opportunities for reductions in expenditure have been identified does not imply either that I recommend the implementation of all of them or that in practice they would prove straightforward to implement or acceptable to the Island's population.

**Timing of reductions**

22. Within these constraints, I have attempted to estimate the period over which the reductions described in this report may be achieved. The detailed considerations concerning timing are set out in the following sections of this report. The following table sets out my estimates of the period over which the reductions may be realised.

<i>£ million</i>	<i>Total</i>	<i>Short term</i>	<i>Medium term</i>	<i>Long term</i>
Departmental reviews	7.8	0.8	5.4	1.6
Cross-cutting issues	5.0	0.0	5.0	0.0
Human resource issues	15.3	1.1	4.1	10.1
	<b>27.1</b>	<b>1.9</b>	<b>13.5</b>	<b>11.7</b>

started by up-rating the 2008 Business Plan net totals by an estimate of inflation. Thus, although an estimate exists for Net Revenue Expenditure in 2009, at the time the proposals were published, there was no estimate for total States spending in that year.

<sup>3</sup> This problem has arisen because the proposed cash limits assume that the expenditure reductions achieved by the £20 million programme of efficiency savings will continue in the future (as was originally intended). Those savings included an assumption that expenditure would be reduced annually by £4 million as result of property sales. It is now clear that the continuing achievement of sales at this level cannot safely be assumed. The proposed cash limits therefore take account of the procurement and property occupation savings mentioned in this report in substitution for the property sales proceeds taken into account when the £20 million efficiency savings programme was first proposed.

## Related issues

23. In addition to drawing attention to these spending options, this report draws attention to a number of issues which, on the evidence gathered in the Review require attention:

(1) *Corporate management:*

There is some evidence that it has not proved possible to pursue corporate initiatives with the consistency that was required to ensure successful implementation. Consideration should be given to ensuring that the corporate management of the States has the capacity to pursue the transformation of the States successfully. This will involve considering inter alia:

- (a) whether the Chief Minister's Department is appropriately structured to permit the discharge of all the responsibilities allocated to it;
- (b) whether the Chief Minister's Department is appropriately resourced to permit consistent discharge of all of the responsibilities delegated to it; and
- (c) within these studies, whether appropriate resource has been dedicated to the achievement of the transformation of the States which the Spending Review suggests offers the most fruitful prospect of significant reductions in expenditure.

The test of whether the structure and resources of the Chief Minister's Department are appropriate should be whether it is sufficiently resilient to be able to apply consistent pressure to the achievement of the internal objectives of the States at the same time as dealing with external pressures.

(2) *Departmental management*

Consideration should therefore be given to the adequacy of the management teams within each of the States' departments to cope with the scale of the change which they will be expected to deliver.

(3) *Financial management*

The evidence gathered by the Review suggests that the financial management of the States' affairs should be improved. To become an effective financial control function, the department should at least insist upon:

- (a) rigorous budgetary control based on budgets to which departments and officials are held to account;
- (b) proper book-keeping arrangements which enable the costs of activities to be determined clearly;
- (c) proper disciplines of project planning and management.<sup>4</sup>

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<sup>4</sup> These conclusions are consistent with observations made in Proposition P58/2004: 'Despite the best efforts of fellow officers to assist, much of the information requested by the Vision team is simply not



Consideration of the means by which this may best be done will form a part of the third and last stage of the Spending Review: a review of the operations of the Public Finances Law.<sup>5</sup>

(4) *Structure of the States*

The Review has not provided evidence to suggest that further combinations of departments offer prospect of short-term reductions in expenditure. There may however be value in commissioning studies into:

- (a) the possibility of merging the income tax collection responsibilities of the Treasury & Resources Department and certain of the functions of the Employment & Social Security Department (ie the collection of social security contributions); and
- (b) the possibility of co-locating the increasing number of independent regulatory offices (e.g. Jersey Financial Services Commission, Data Protection Commissioner, Jersey Competition Regulatory Authority, Civil Aviation Regulator etc). This is not to suggest that they should cease to be independent of each other but that there may be an advantage in them sharing occupancy of serviced offices.

(5) *States' activities*

In principle, the States should not seek to manage directly any activity that would be better managed elsewhere unless there is a clear public interest in not making that change. Where it is necessary for the States to control a strategically significant asset or activity, wherever possible that should be achieved in a means that does not involve the States directly in management.

## **Reflections**

- 24. Whilst the Spending Review has been in progress, siren voices have urged me to express a clear conclusion in terms such as: 'the States are hopelessly inefficient' or 'the States are as efficient as they could be'.
- 25. In this report, I have avoided such simplistic statements. On the one hand, the States' organisation is substantial: it is most unlikely that they will ever reach a position in which there were no possibility of improving efficiency either overall or in particular places. On the other hand, in view of the effort that manifestly has been invested in improving the effectiveness of the States, it would be most surprising if the States could fairly be described as hopelessly efficient.
- 26. The truth is likely to be more prosaic and less extreme.

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held at present. This lack of available information across the States makes it difficult to predict accurately'. Paragraph 9 of P58/2004.

<sup>5</sup> See paragraph 1 of this report.

27. In a Proposition lodged on 20 April 2004<sup>6</sup>, the Policy and Resources Committee set out five key messages for its five year vision for the Island's public sector:
- (1) The customer will be at the heart of everything we do.
  - (2) We all work together for the benefit of all concerned.
  - (3) Culture change.
  - (4) Business Process Re-engineering.
  - (5) Intelligence Led Government.
28. The programme set out in that Proposition was and remains challenging. Achieving a lasting change in culture and re-designing business processes, as envisaged in the Proposition, were not likely to be quick or short-term projects. In particular, the training for managers and employees envisaged in the Proposition<sup>7</sup>, were bound to require time in which to engender the skills and attitudes at which the Proposition aimed.
29. It is clear that the Spending Review has not found evidence of general and wide-spread inefficiency. This might have been surprising in the light of the pressure in recent years to reduce departmental budgets. It has also found evidence that a number of the projects envisaged by the 2004 Proposition have accomplished their objectives. However, this does not mean that all of the objectives of the 2004 Proposition have yet been achieved. There are still areas in which efficiency and the States' cost-effectiveness could be improved. The opportunities for departmental and corporate action to deal with these are set out in this report.

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<sup>6</sup> Proposition P58/2004: Public Sector Re-organisation: five year vision for the public sector.

<sup>7</sup> Paragraph 7.10 of Proposition P58/2004.

### SECTION THREE ~ DEPARTMENTAL REVIEWS

#### *Introduction*

30. The principal outcome of the departmental reviews is a list of potential spending reductions which is set out in Appendix Three. Detailed reports have been prepared in respect of the principal departments reviewed and will be published in due course.
31. The options described briefly in Appendix Three include a number of potential reductions which involve re-consideration of the services provided by the States. In fact, the reviews also considered the effect on services of making more substantial reductions in departmental expenditure (i.e. up to 10-15%). It was clear from this work that such reductions would be likely to lead to considerable changes in the level and in some cases the type of service which the States could provide. These issues are considered in the detailed departmental reports.
32. The financial significance of the potential spending reductions is indicated in Appendix Four (which analyses potential reductions by the time that may be required to implement them) and in Appendix Five (which analyses potential reductions by type). It is also summarised below.

#### *Potential reductions*

33. Overall, the potential reductions in Net Revenue Expenditure listed in Appendix Three amount of £7,880,000.
34. It should be noted that, as a general principle, the estimates of potential reductions are intentionally under-stated.

#### *Time required to implement reductions.*

35. As shown in Appendix Four, of the total potential reductions of £7,880,000, it is estimated that reductions amounting to £805,000 could be implemented in the short term (i.e. for 2009), reductions amounting to £5,425,000 could be implemented in the medium term (i.e. within three years) and reductions amounting to £1,650,000 could be implemented in the long term (i.e. by 2015).

#### *Types of reduction*

36. As shown in Appendix Five, of the potential reductions amounting to £7,880,000, reductions arising from improvements in efficiency amount to £5,275,000; and reductions arising from increasing charges to service users amount to £950,000. Other reductions arise from cuts in grants (£840,000), increases in States' income (£300,000) and from a proposed change in the status of the Meteorological Department (£500,000).

# Emerging issues

## STATES' SPENDING REVIEW



### *Reductions analysed by department*

37. The following table analyses the potential reductions by department:

<i>£'000</i>	<i>Efficiency</i>	<i>Other</i>	<i>Totals</i>
Economic Development		250.0	250.0
Education Sport & Culture	1,650.0	1,490.0	3,140.0
Health & Social Services	3,125.0		3,125.0
Home Affairs: Customs & Immigration			0.0
Home Affairs: Fire & Rescue Service		65.0	65.0
Home Affairs: HM Prison			0.0
Law Officers' Department			0.0
Planning & Environment	250.0	500.0	750.0
States Assembly	100.0		100.0
Treasury & Resources	150.0	300.0	450.0
	<u>5,275.0</u>	<u>2,605.0</u>	<u>7,880.0</u>

## SECTION FOUR ~ CROSS-CUTTING ISSUES

### *Introduction*

38. In this section of the report, I deal with a number of cross-cutting issues:
- (1) property management;
  - (2) procurement practices; and
  - (3) information technology services.
39. The review did not extend to other cross-cutting issues such as the maintenance of the States' Information Technology infrastructure.

### *Property management*

40. In 2006, the States' Assembly approved a proposition which led to the creation of Jersey Property Holdings (JPH) as an entity which would be responsible for:
- (1) taking over ownership of the properties occupied and owned by the States;
  - (2) taking over responsibility for the management and maintenance of those properties; and
  - (3) taking responsibility for the rationalisation of the States' portfolio of property assets and more particularly maximising the benefits obtained through their ownership and minimising the costs attaching to their occupation by the States.
41. In the event, the transfer of ownership and management responsibility to JPH took longer than was originally envisaged. Moreover, the transfer from individual departments of the maintenance budgets attaching to properties proved problematic. Not only did this transfer take longer than had originally been expected, but the amounts transferred did not match the totals which had been expected to be transferred.<sup>8</sup>
42. After both properties and budgets had been transferred, it also became apparent that certain departments had allowed significant maintenance backlogs to develop.<sup>9</sup>
43. The result of these pressures is that the reductions in maintenance expenditure which had been anticipated when the creation of JPH was proposed have still not been achieved.

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<sup>8</sup> I understand that before the creation of Jersey Property Holdings was proposed, the total amount of departmental property maintenance budgets had been ascertained. Although the Treasury & Resources Minister had power under the Public Finances Law to direct that the budgets should be transferred to Jersey Property Holdings as a simple administrative matter, this approach was not used and the transfers became the subject of inter-departmental agreements and thus were subject to a need for agreement from transferor departments. In practice, this failed to secure the transfer of the expected budgets.

<sup>9</sup> It is believed that these backlogs had developed as a result of departments deferring maintenance expenditure as a way of meeting expenditure pressures.

Indeed, the exercise has revealed a backlog of maintenance work which is likely to result in an increase in expenditure rather than a reduction.

44. A fortiori, the rationalisation of the States' use of properties has not begun in earnest. Planning is underway for the proposed revision of accounting for property costs so that departments will bear a realistic cost for the property which they occupy. At present, as the costs of property occupation are borne centrally, property is a 'free good' for departments and there is no financial incentive for them to rationalise and minimise its use.
45. For the purposes of this Review, the implication is that the savings that were originally expected remain to be achieved. For the purposes of this Review, I have assumed that these reductions in expenditure may amount to at least £1 million per year. This is subject to further discussions with the Treasury & Resources Department concerning the relationship between these reductions in occupancy costs and the original programme to achieve £20 million savings through efficiency.<sup>10</sup>

## **Procurement**

46. The States are in the process of renewing the initiative to achieve reductions in expenditure by improving the States' management of procurement. Although some reductions have already been achieved, there remains much that could be done, as is shown by the inclusion in the departmental reviews of a reference to the possibility of a material reduction in spending by the Department of Health and Social Services (see Appendix Three). If similar reductions were to be achieved generally within the States, the effect would be a reduction in expenditure that would amount, conservatively, to at least £3 million.

## **Information Technology services**

47. The need to streamline Information Technology services (IT services) has been acknowledged by the establishment of the Information Services Department (ISD), a single department responsible for the provision and management of corporate IT services. Currently there are three strands of IT services projects:
  - (1) States' wide corporate activities that are acknowledged to be the responsibility of ISD.
  - (2) Business embedded projects which have acknowledged ISD support: e.g. in the Department of Health and Social Services etc.
  - (3) Stand-alone systems within individual departments to which ISD had little or no input: e.g. the Integrated Customer Care Record (ICR) system being developed by the Department of Health and Social Services and the Income Tax and JD Edwards systems managed by the Treasury & Resources Department.

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<sup>10</sup> The £20 million efficiency savings programme envisaged that annually recurring revenue savings of £1.5 million would be achieved by Jersey Property Holdings. That projected saving was to be made largely by increasing the efficiency of the States' management of property maintenance. In the event, those savings have been achieved but at the expense of proper maintenance. The Proposition referred to the possibility of savings through improved efficiency of property usage but did not take that into account. It is that type of saving to which this review is referring.

48. It is ISD's objective that, with the co-operation of individual departments, strands two and three should be merged so that ISD should support all department embedded systems. This should facilitate:
- (1) the adoption of a matrix management function by which business support groups are managed by individual departments within a 'Head of Profession' role exercised by ISD to establish common strategy and standards;
  - (2) the establishment of ISD in the role of 'prime contractor' to manage the delivery of business applications to individual departments with ISD being accountable under a series of Service Level Agreements; and
  - (3) the co-ordination by ISD of the out-sourcing of IT support including the identification and use of Island resources currently employed in the private sector.
49. It is believed that adoption of these recommendations should lead to reductions in expenditure through improvements in efficiency. It has not however been possible to estimate these reductions with an acceptable degree of reliability so that this report does not take any account of the possible reductions.
50. Development of the functions of ISD in the manner proposed above should also enable the States to re-consider other arrangements with the possibility of improvements in effectiveness, and perhaps savings in expenditure. For example, there appears to be scope for re-considering the arrangements made by departments for disaster recovery that currently appear to be fragmented and variable in quality.

### *Timing*

51. For the purpose of this report, I have assumed that the reductions described in this section of the report will be achieved in the medium term (i.e. by 2011).

## SECTION FIVE ~ HUMAN RESOURCE ISSUES

### Introduction

52. The States' 'Five Year Vision' identified a number of common themes that cut across service delivery areas. The first of these was 'culture':

*"Support for a set of shared values across the public sector is essential. The organisation needs to be 'singing from the same song sheet' in order to deliver this plan. Furthermore, the necessary cultural change will require the following seven levers for change to be applied:*

- (1) *structure and role of Human Resources.*
- (2) *Establishing and communicating a clear strategic vision and goals.*
- (3) *Identifying and embedding a set of values for the States of Jersey.*
- (4) *Customer service.*
- (5) *Communication.*
- (6) *Performance management.*
- (7) *Management style.*<sup>11</sup>

53. As the Proposition goes on to say:

*"... good staff management is the key to delivering the vision. It drives the culture change required and it provides the necessary tools to secure, involve, reward, train, develop and retain staff. . .*

*The Human Resources service both underpins and drives this vision of a more efficient and effective service structured around the customers' needs.*<sup>12</sup>

54. This programme of work was considerable. The 2004 proposition itself named as two of the risks to the overall programme a cultural reluctance to change and insufficient buy-in to change.<sup>13</sup> Whatever the States' ambitions for the programme may have been, it was always likely that this programme of culture change would take time.

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<sup>11</sup> Proposition P58/2004: pages 20-21.

<sup>12</sup> Proposition P58/2004: page 21.

<sup>13</sup> Proposition P58/2004: page 26.



55. Unsurprisingly, the States' staff are not only the foundation for all of its work, the price paid for their services is the States' largest item of expenditure and accordingly fell to be considered within the Spending Review.
56. Under this heading, the Review considered:
- (1) issues relating to the remuneration paid to the States' staff;
  - (2) issues relating to the pension schemes available to the States' employees; and
  - (3) other issues including such matters as performance management, absence management and terms of employment by the States.

## **Remuneration**

### **Background**

57. Between January and March 2006, the Hay Group undertook a survey of the remuneration paid by the States of Jersey to their staff and compared that with remuneration paid to staff of similar grades within the private sector in the Island and within the public sector on the mainland.
58. As far as the survey of remuneration experience in the Island's private sector is concerned, the survey covered 32 organisations: 18 in the finance sector and 14 in the individual and service sector.
59. The States of Jersey provided the Hay Group with job descriptions for initial analysis. These roles were matched and grouped against the generic job descriptions currently used by Hay Group. This job of matching process ensured like for like comparisons to the survey participants' roles and enabled Hay Group to make a robust pay comparison based on job size. The survey concluded:

*"Overall the private finance sector is the highest paid sector in Jersey, the average difference in basic paid is 21% higher than the private industrial and service sector. There is a substantial difference in total earnings where the earnings gap on average is 28%. The gap in total earnings between the finance sector and the industrial and service sector are mainly due to the mix in variable pay.*

*The market data suggests that finance organisations pay at least some type of bonus to their employees across all levels with the organisation and the scope for earning potential is much larger within finance companies.*

*The industrial and service sector appears to be some way behind the finance sector particularly at the graduate and professional levels. This indicates that roles at these levels in the finance sector tend to be more specialised and therefore attract a larger salary.*

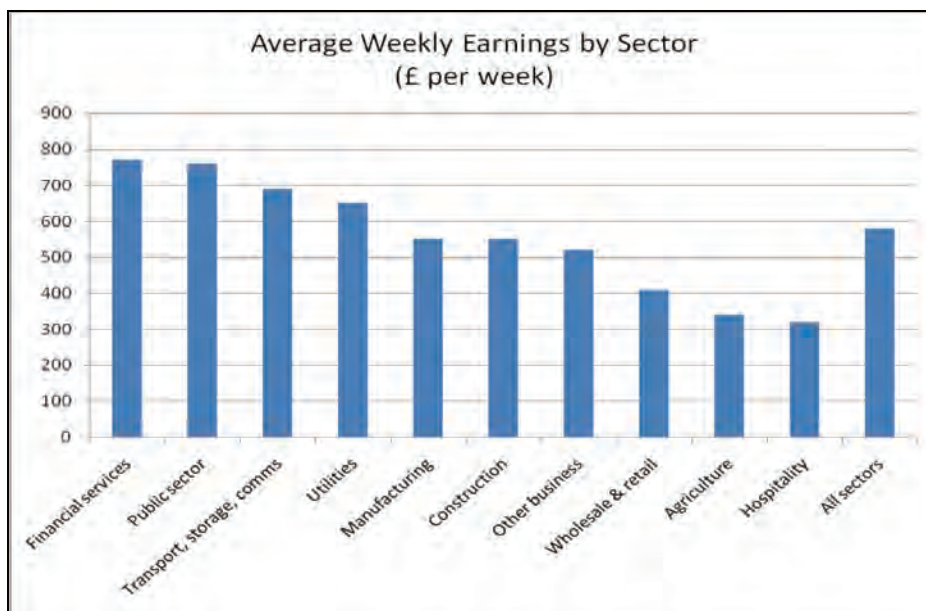
*The public sector is 10% ahead of the market median and basic pay when compared to all organisations in the private sector and 3% above the market median in total earnings. This data suggests that the public sector is in a healthy basic pay position when compared against the private sector in Jersey. It will also suggest a very competitive position when comparing total earnings, although this is relative to economy and company performance and is due to the variable nature of a percentage of most private sector packages.*

The public sector have an even healthier market position when compared against the private industrial and service sector with a 23% lead on the market median in pensionable pay and are 21% ahead of the market median in total earnings.

Although the private finance sector is the highest paying group in the private sector the public sector still have a lead on overall pensionable salary (4.1%). However, the finance sector is the highest payers when looking at total earnings (4% more than the public sector).

Although the data in the report suggests that the public sector overall are well placed in the pay market in Jersey, there are some pay groups which are behind, or specific positions in certain pay groups."

60. This overall general analysis is consistent with the result of work carried out by the Island's Statistics Unit and published in June 2007. The Statistics Unit report included the following table comparing average weekly earnings in different sectors in the Island.<sup>14</sup>



61. The significance of the Hay Group survey and of the Statistics Unit report is that they suggest that:

- (1) average remuneration within the Island's public sector appears to be higher than in almost all of the Island's sectors. In its work, the Statistics Unit found that earnings of public sector employees amounted to £760 whereas the average earnings of financial services sector employees amounted to £770. By comparison, the average earnings for all sectors were £580 and in utility businesses £650.

<sup>14</sup> The information concerning the financial services sector is based on data recorded for the 2006 Survey of Financial Institutions, bonus payments increase the average earnings of FTE workers in the Finance sector by around £100 per week.

- (2) the margin between public sector earnings and private sector earnings was greatest for the lowest paid grades.
  - (3) at the highest paid grades, public sector earnings were lower than comparable earnings in the private sector.
62. The survey evidence about remuneration comparisons is consistent with anecdotal evidence. States' departments suggest that it is possible to recruit and train professional staff (i.e. that in early training grades the available remuneration is competitive with the private sector) but that once they have qualified and have gained experience, employees are vulnerable to recruitment offers from the private sector (i.e. at higher grades, the States' remuneration is not competitive).

## Implications

63. From the point of view of the Spending Review, the significance of this information is two-fold:
- (1) for some positions, the States pays most generously in comparison with the private sector. For some senior positions, the States remuneration systems is not competitive with remuneration offered by private sector employers and in consequence, the States are at risk of losing senior employees.
  - (3) the existing remuneration system does not appear sufficiently flexible to reward skill and experience appropriately.

## Pension schemes

64. At the end of March 2008, I published three reports on various aspects of the pension arrangements which are available to the States' staff. In brief, I concluded that:
- (1) whilst the States' pension schemes offer pension benefits that exceed those made available in the Island's private sector, in general terms, they offer benefits that are equivalent to those available from equivalent schemes available in the mainland's public sector.
  - (2) for categories of staff who must be recruited from the mainland, the States are justified in providing pension benefits that are equivalent to those available in the mainland's public sector.
65. In the light of these conclusions, I also referred to the possibility that other approaches might be adopted:

*"The observations that I have set out above raise the possibility that the cost to the States of making pension provision for employees could be reduced if a different approach were adopted. For example:*

- (1) the PECRS might be terminated and replaced with a DC scheme, or

- (2) *the PECRS could be divided so that the existing terms would continue to be available to employees for whom considerations of competition over recruitment are material and other terms were available to employees for whom such considerations are inappropriate.*<sup>15</sup>

66. In that report, I indicated in outline what the financial implications might be. As far as the second alternative approach is concerned, the relevant paragraph of that report reads as follows:

*"For the purpose of this analysis, I assume that the rules of PECRS were changed so that, the pension entitlement of employees for whose recruitment competing pension provision is not a material consideration, is limited to the benefits that can be financed from the contributions that are actually made (both employers' and employee's contributions). Such a change would be significant for, since the inception of the scheme, the aim has been that, as far as possible<sup>16</sup>, the basic provisions of the scheme should be applied equally to all of the States' employees. The financial implications might be as follows:*

- (1) *the extent of any cost reduction achieved by the States would depend upon:*
- (a) *the number of employees to whom the reduced provisions were to be applied, and*
- (b) *the contribution rates that were agreed.*
- (2) *the extent of any immediate cost reduction achieved by the States would depend upon whether the new arrangements were to be applied to existing members. If the new arrangements were to be applied only to new member so that existing members continued to accrue benefits under the existing arrangements any reduction would only be realised slowly as the proportion of new employees grew.*
- (3) *any cost reduction would be limited by any consequent adjustment of salary levels to take account of the reduced benefits.*
- (4) *a change of this type would involve a re-negotiation of the future funding arrangements for the pre-1987 liability which are based on the assumption that an additional contribution of about 2% for all members will be paid for a period of about 80 years.*
- (5) *the cost of management of the PECRS would increase although this is currently borne by the PECRS.*<sup>17</sup>

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<sup>15</sup> Paragraph 125 of that report.

<sup>16</sup> In practice this has meant that the only 'special' arrangements are those made for uniformed members in recognition of the different lengths of expected service.

<sup>17</sup> Paragraph 128 of that report.

67. If this approach were adopted, it seems likely that the States' costs would be reduced although in view of the factors listed above, it is difficult to be confident in any estimate of the reduction that would be achieved.
68. The fact that for many staff grades the survey evidence I have quoted suggests that the remuneration paid to staff exceeds the remuneration that would be paid for equivalent staff in the private sector, should be interpreted in conjunction with the evidence that the pension benefits available to some staff appear more generous than those available in the Island's private sector.

### Recommendations

69. The implication of these observations is that the current remuneration arrangements of the States may not be fit for purpose in the sense that they may not serve to ensure that the States can acquire the services of the staff which are needed at an appropriate cost: i.e. a cost that is competitive but not over-generous.
70. It was not within the scope of the Spending Review to design a remuneration system that would serve all of the States' objectives: not least that of ensuring that reward matches performance. The evidence suggests however that the States' staff remuneration mechanisms should be thoroughly reviewed to ensure that they are appropriate to support the achievement of the States' objectives in the current environment.
71. The evidence also suggests that a remuneration system dedicated to ensuring that staff remuneration is competitive but not unduly generous may prove to be less expensive to the States than the present arrangements. For the purposes of this report, I have assumed that the States should aim at reducing the total staff employment cost by about 1% annually. In other words, a reduction of about £3 million.

## *Human resources: other matters*

### **Performance management**

72. The States' staff handbook provides for the regular review and appraisal of the performance of each member of staff. In practice this does not happen consistently. The result is that members of staff are not informed formally of aspects of their performance which exceed expectations or of aspects in which they are failing to meet expectations. Further, because these regular reviews are not taking place, neither is there a consistent attempt to plan measures to encourage and support staff development.
73. The States' Human Resources Department (HRD) has now achieved the objective of creating a Human Resource database which has been populated with reliable, validated information. This should provide a reliable basis for recording that review meetings with staff have taken place and that development plans have been agreed. Once this has been done, it should then be possible to monitor the implementation of such plans.
74. It is important that these next steps should be taken as quickly as possible: which will first require the HRD to persuade senior and middle management of the importance of these measures.
75. In the context of the Spending Review, the significance is that as an employer paying better than market salaries, the States should have a right to expect better than average performance and should have a duty to support staff in aiming at that level of performance. If the States do not communicate to staff what is expected then achievement of this performance objective is merely left to happenstance.
76. Furthermore, if the regular communication with staff does not take place, the States make it more difficult to deal with the exceptional circumstance in which poor performance requires more drastic steps such as formal procedures which lead to dismissal.
77. The review of the Health and Social Services Department found that managers believed that the procedures which exist in the staff handbook are not straightforward and were not inclined to use them. They exist however and appear to be rarely used: not least because managers appear to avoid them.
78. HRD should review the procedures for regular appraisals and for formal action on poor performance to ensure that they are fit for purpose, but then managers should be expected to carry out the reviews as a normal and unexceptional part of their responsibilities and to use the formal procedures when they are appropriate.

### ***Terms and conditions***

79. This point has a more general application. There are a number of respects in which the standard terms and conditions of employment are regarded as cumbersome. HRD should review all of the standard arrangements, taking account of the views of senior and middle managers. Once any necessary changes have been made, managers should reasonably be expected to follow the formal arrangements without exception.
80. As a part of this exercise, consideration should be given to informal conditions and practices that apply in certain parts of the States organisation: not simply the formal conditions.

## Redundancy arrangements

81. As a part of the review of the normal terms and conditions of employment, the standard terms for redundancy should be re-visited. In interviews with managers in the course of this review, there were frequent references to the difficulty of declaring redundancies.
82. Whilst one would expect that an employer would attempt in most circumstances to avoid the need for declaring positions to be redundant, this is a necessary part of staff management. Positions may become redundant either because processes change or because the demand for a service falls or disappears. When this happens, if there is no suitable alternative employment, then it may be necessary to declare a position redundant. Ultimately, the logical consequence of trying to guarantee employment from the date of recruitment until retirement is either an unacceptable risk of financial embarrassment for the employer or a change in the employer's behaviour so that no-one is recruited to a permanent position: all positions become time-limited.
83. In understand that for some years, the States has been bound by an agreement that no redundancies would be declared on a compulsory basis. This agreement comes to an end in 2009. At the same time, the terms of the current agreement for payment of compensation in the context of voluntary redundancies is so expensive<sup>18</sup> that redundancies are rarely declared on this basis.
84. It should be clear that a number of the spending options canvassed in this report (and the related detailed departmental reports) will be impossible unless the standard terms for declaring positions redundant are re-negotiated.

## Implications for the Spending Review

85. For the purposes of this Review, one would expect that improvement of staff management practices and, perhaps most importantly, performance management techniques, should tend to lead to a greater effectiveness and to a lower staffing requirement. However, this relationship is not explicit and I do not therefore include any element of cost reduction as a result of these steps in the summary of possible reductions.
86. This does not however extend to the possible reductions in cost relating to remuneration and pensions provision that are mentioned at the early parts of this section of the report. Those reductions are included in the summary of possible reductions.

## Timing of reductions

87. In considering departmental reductions in expenditure, I have attempted to estimate the period of time over which any reductions may be realised. I have also considered over what period, the possible reductions in staff remuneration might be realised.
88. This naturally depends upon the speed with which the States agree that any possible reductions shall be effected. Experience elsewhere suggests that such changes cannot be effected quickly not least because any excess of remuneration is likely to have been built

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<sup>18</sup> After employment for a relatively small number of years, the compensation payable to an employee accepting voluntary redundancy would be equivalent to 18 months' salary.

up over a long period. For the purpose of this report, and not necessarily as a precise indication of what can or should be achieved, I have assumed that the excess remuneration might be adjusted over a period of 20 years. To be prudent, I have also assumed in this calculation that the total amount of the excess of £30 million (rather than the full amount of £33 million that I have calculated earlier in this section of the report).

89. This would mean that the surplus would be adjusted by 20 annual amounts of about £1.5 million. In the first year, the accounting effect would not be this full amount as remuneration is adjusted annually in mid-year.
90. On this basis, I have assumed, for the purpose of this report, that the annually recurring reductions that might be expected would amount to:
  - (1) about £1.1 million in the short term (i.e. in 2009);
  - (2) about £4.1 million in the medium term (i.e. by 2011); and
  - (3) about £10.1 million in the long term (i.e. by 2015).



## SECTION SIX ~ EMERGING ISSUES

### *Introduction*

91. In this section of the report, I will deal with a number of issues that emerge from the outcome of the Spending Review and in particular:
- (1) how the States manages corporate initiatives;
  - (2) the adequacy of departmental management;
  - (3) the condition of financial management in the States;
  - (4) the efficiency of departmental structures; and
  - (5) whether the States should be doing everything that is currently done by the States.

### *Corporate initiatives*

#### **Introduction**

92. The outcome of the Spending Review suggests that whilst there are substantial spending reductions that could be achieved through concentrated action on the part of individual departments, there are even more substantial reductions in expenditure that could be achieved through corporate action.<sup>19</sup> However, the Spending review has also identified the fact that the States has experienced some difficulty in implementing the corporate initiatives that have been so far been attempted. The evidence on this is set out in my recent report on the States achievement of £35 million of spending reductions and is summarised below.

#### **Efficiency Savings Programme**

93. Whilst it appears to have achieved material reductions in expenditure, the States' Efficiency Savings Programme was inconsistently implemented. This programme was initiated centrally but implemented by each department.
94. In effect, there was no central management of the programme: management was left to the senior management team in each department. The result was that approaches were inconsistent. Some departments appear to have adopted an analytical and detailed approach to the identification of means of improving efficiency. Other departments merely top-sliced the budgets of their individual units which led in many cases not to an improvement in efficiency but to deferral of expenditure. It seems likely that in some cases that deferral will tend to increase the expenditure of the States: for example in cases where maintenance programmes have been delayed.

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<sup>19</sup> As summarised in Section Two of this report, the Review has identified potential reductions of £7.795 million that might be achieved through department action and £37 million that might be achieved through corporate action. This point is reinforced by the fact that many of the departmental options raise issues concerning the design and extent of services whilst the corporate initiatives do not appear to do this.

## Corporate savings

95. The corporate savings initiatives that were commenced at the same time as the Efficiency Savings Programme have not been consistently effective. For example:
- (1) Significant savings have been achieved as a result of new arrangements for telephony services.
  - (2) The creation of the Treasury & Resources Department's Shared Services Unit has been effective in providing a cost effective means of processing financial transactions.
  - (3) The development of Jersey Property Holdings has been slow: frustrated by the unwillingness of departments to transfer properties and budgets promptly. The result is that the promised savings have yet to be achieved.
  - (4) The corporate initiatives aimed at improving procurement practice have not been followed consistently by all departments.
  - (5) Although the Human Resources Department has now succeeded in establishing a reliable database of the States' employees and their record, it has not been consistently successful in using the database as a foundation for effective encouragement for proper management of sickness absence, performance review and appraisal and reviews of standard terms and conditions of employment (see section five of this report).

## Analysis

96. To some extent, the fact that these initiatives have not been consistently successful should not be surprising. It might perhaps have been more surprising if all initiatives had been equally successful. It is however important to understand any common factors that lie behind the recent experience so that steps can be taken where appropriate to ensure that these factors do not impede further progress.
97. The evidence provided by the Spending Review points to two factors that may have contributed to problems in implementing corporate initiatives
98. Firstly, it is plain that departments have been able to frustrate corporate initiatives. The experience of the creation of Jersey Property Holdings demonstrates this. As I have mentioned above, departments were not enthusiastic about transferring their properties to JPH although this has now been accomplished: but much later than had been anticipated. Further maintenance budgets proved difficult to transfer. But there are other examples. It has proved difficult to implement straightforward procurement disciplines through all departments.
99. To a certain extent resistance to new arrangements was to have been expected. Departments have a commitment to providing services to the Island and would have been expected to be cautious in ceding control over the assets which they regard as necessary for those services. But it is striking that actions that should have been simple administrative actions (i.e. the transfer of budgets) became problematic.
100. It is not the case that all transfers of responsibility have been so difficult. After all, the transfer of human resource management staff from departments to the Chief Minister's Department has been achieved as has the creation of the Treasury & Resources Department's Shared Services Unit.

101. It is possible that the inconsistent achievement is explained by a second factor: the constraints on the States' corporate management.
102. This is the responsibility of the Chief Minister's Department and the Chief Executive; but it is only one of their responsibilities. They also have other responsibilities which on occasion will conflict with and take precedence over the basic corporate management responsibility. These other responsibilities include:
- (1) planning the States strategies;
  - (2) managing the States' international relationships;
  - (3) providing policy advice to the Council of Ministers;
  - (4) managing crises; and
  - (5) managing certain small units that have been brigaded within the Chief Minister's Department (such as the Population Office).
103. From time to time some of these responsibilities will inevitably distract attention from the need to press forward with the corporate initiatives that offer the prospect of transforming the effectiveness of the States. It seems reasonable to suppose that from time to time this has led to an slackening in the attention paid by corporate management to the States' transformation project and thus to an inconsistency in pressure for change. If this has happened in the context of the States' corporate management initiatives, then it may also have happened in the context of others of the responsibilities listed above. The unfortunate consequence is that there seems to be a risk that of certain of the States' key responsibilities may from time to time only receive the attention they require at the expense of other responsibilities.
104. Consideration should therefore be given to:
- (1) whether the Chief Minister's Department is appropriately structured to permit the discharge of all the responsibilities allocated to it; and
  - (2) whether the Chief Minister's Department is appropriately resourced to permit consistent discharge of all of the responsibilities delegated to it; and
  - (3) within these studies, whether appropriate resource has been dedicated to the achievement of the transformation of the States which the Spending Review suggests offers the most fruitful prospect of significant reductions in expenditure.
105. The test of whether the structure and resources of the Chief Minister's Department are appropriate should be whether it is sufficiently resilient to be able to apply consistent pressure to the achievement of the internal objectives of the States at the same time as dealing with external pressures.

### ***Departmental management***

106. Just as consideration should be given to the resilience of the States' corporate management arrangements, so consideration should also be given to whether departmental management teams are all adequate to meet the challenges which are being created by the States' own programme of development let alone those which would be created by attempting to implement the changes that are covered by this report.

107. The evidence obtained in the course of the Spending Review suggests that departmental management teams may not all be adequate to dealing with these challenges.
108. In recent years, the pressure to achieve efficiency savings, whilst not reducing the services provided to the Island, has led to a pressure to reduce the number of management and support staff. This has, in some part, been a response to the public pressure 'to cut the number of bureaucrats'. Whilst avoiding unnecessary management positions is laudable, it may produce management teams that do not have the resources necessary to cope with major changes to the structure and scope of services.
109. The Department for Education Sport and Culture provides an example of this. Partly for reasons of economy and partly for reasons of good educational practice, the department has delegated many management functions (including many financial management functions) to those responsible for its schools and colleges. The central Senior Management Team is small consisting of the Director, a small number of Assistant Directors and a limited support staff.<sup>20</sup> This team has proved adequate to deal with management of the network of schools and colleges provided that no major change in the network is required. The proposals for major change that are explained in Appendix Three, if implemented, would require a considerable amount of work for the central team in managing the department's relationships with its staff, parents and other stakeholders let alone making the necessary practical arrangements for change to occur.
110. In my view, the Chief Officer is rightly concerned that the existing management team would need to be augmented if extensive change were to be contemplated in addition to the initiatives that are currently being implemented (e.g. the development of the States' human resource management practices).
111. This department does not appear exceptional in this respect.
112. Consideration should therefore be given to the adequacy of the management teams within each of the States' departments to cope with the scale of the change which they will be expected to deliver.

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<sup>20</sup> This does not include the departmental heads who have responsibility for providing the services for which the department is responsible and the advisers on whom the department relies to guide the department on the appropriateness of its policies and their implementation.

## **Financial management**

### **Introduction**

113. Although, as mentioned above, the development of the Treasury & Resources Department's Shared Services Unit (a corporate initiative) has been successful in providing a common approach to processing financial transactions, other aspects of financial management within the States are less satisfactory. This is apparent from evidence that was collected in the course of the Spending Review.

### **Budgetary control**

114. For example, budgetary control as a mechanism for controlling expenditure and demanding accountability for overspending is ineffective. Individual line item budgets are not generally treated as benchmarks for spending. Although departments pay more attention to their overall budget totals, they know that even these totals can be changed by Ministerial Order.
115. Budgeting is in effect treated as a game in which the freedom to flex budgets vitiates any element of control.
116. The result was that on many occasions during the review, questions about the budgets that had been set for items of expenditure were met by officials who asked in which budget the questioner was interested: the original budget or the final budget.

### **Book-keeping**

117. As was also discovered during the review, the common book-keeping system does not provide reliable States wide data on costs partly because the ledger structures were applied inconsistently between departments (i.e. the definitions of cost are not consistent between departments), and partly because the accounting practices of the States do not require that all costs of a department's activity are recorded in the same place (e.g. the cost of occupying property is not included within each department's individual budget but reported in the accounts of Jersey Property Holdings<sup>21</sup>).

### **Internal control systems**

118. One might expect that the States would operate a single internal control system to ensure that liabilities and expenditure are properly controlled and that assets and income are properly safeguarded. According to the Public Finances Law, the Treasury & Resources Department is responsible for issuing Financial Directions that should specify how individual departments are required to manage their affairs: in effect, to specify the internal control arrangements that should be applied.

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<sup>21</sup> It is intended that this practice will end, and that departments will be charged by Jersey Property Holdings (JPH) for occupying property managed by JPH. When this is done, each department's accounts will report the cost of occupying premises and decisions can be made by departments which take account of these as much as other costs. Another example is provided by the current absence of depreciation charges in departmental accounts. A notional charge for the 'repayment of capital' is made by the Treasury & Resources Department and this is supposed to serve as a proxy for a depreciation charge.

119. It is evident from the Spending Review that these controls are not applied consistently by all departments. This is consistent with the view of the Chief Internal Auditor who, in a report to the Corporate Management Board's Audit Committee recently reported that the existing Financial Directions 'are not fit for purpose' and that departments report that they cannot comply with them.
120. The result is not a single, unified system of internal control but a series of parallel systems.

## Resource allocation

121. As the Spending Review has shown, smaller departments tend to be under funded even when the consequences of the under funding are demonstrable and public. Larger departments tend to be over funded and to escape the full effect of corporate pressure to constrain spending and to make efficiency savings.
122. In other words, resource allocation in the States unduly reflects political strength rather than a rational setting of priorities for expenditure.

## Analysis

123. The result of these and other factors is that departments can frustrate corporate initiatives and attempts to control costs by obscuring costs and budgets. The Treasury & Resources Department cannot interrogate departmental information on costs and budgets successfully. Although it has the physical means to do this (i.e. it can gain access to the computer ledger records, it does not have people with the experience of each department's spending to challenge effectively each department's analysis of its spending.
124. Even if it could gain access in every case to reliable data, the Treasury & Resources Department does not have the resources necessary to understand and, if appropriate, challenge the detailed spending plans of every department. I understand that, as a part of the transformation project, it was originally proposed that the accounting and finance staff in each department should be directly responsible to the Treasurer of the States in the same way as human resource and information technology staff became responsible to the appropriate corporate heads. In practice this change in responsibility was not implemented for finance staff.
125. It should be acknowledged that the Treasury & Resources Department has studies under way to transform the financial management of the States partly by adopting UK Generally Accepted Accounting Principles (UK GAAP) and partly by reforming the resource allocation system. Whilst recognising the merits of these studies, they will not bear fruit unless the department accepts responsibility for ensuring that all departments comply with its requirements in a disciplined manner (as did not happen when Financial Directions were issued following the Public Finances Act).
126. The evidence gathered by the Review is that there are opportunities for the States to improve its control of expenditure by insisting upon compliance with fundamental financial disciplines monitored rigorously by the Treasury & Resources Department. These include the disciplines of proper project planning and management.

127. To become an effective financial control function, the department should insist upon:

- (1) rigorous budgetary control based on budgets to which departments and officials are held to account;
- (2) proper book-keeping arrangements which enable the costs of activities to be determined clearly.
- (3) proper disciplines of project planning and management

Consideration of the means by which this may best be done will form a part of the third and last stage of the Spending Review: a review of the operations of the Public Finances Law.<sup>23</sup>

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<sup>23</sup> See paragraph 1 of this report.

## *Structure of the States*

### **Introduction**

128. In the course of the Spending Review, questions arose concerning the departmental structure of the States and, in particular, whether it would be possible to avoid unnecessary overhead expenditure by grouping departments.

### **Experience**

129. The evidence collected by the Review is that reductions in expenditure cannot be achieved by the simple expedient of grouping departments unless mergers can be implemented on a thorough-going basis.
130. The Planning & Environment Department provides an example of the difficulties that may be encountered. This department was created by linking the planning and building control units with a number of units that are grouped as 'environmental units'. It has not proved possible to locate all of these units in the same place so that the planning and building control units are located at South Hill, while the environmental units are largely based at Howard Davis Farm and the Meteorological Office is of course located at the airport.
131. It is not of course unusual for a department to have a number of locations, but where what were previously independent units are grouped as a single department but remain physically separate, the task of management in combining the various units is made very much more difficult and the chance of making reductions in overhead expenditure is also made more difficult. This difficulty has not been eased by the fact that ministerial responsibility for units in the department is divided between the Planning & Environment Minister and the Economic Development Minister.
132. The Review became aware of evidence of the consequences of these difficulties for the Planning & Environment Department.
133. The implication of this evidence is that unless co-location and a degree of integration are possible, significant expenditure reductions cannot be expected to be achieved through linking departments.
134. Of course, there may be other reasons for grouping activities within a single department. For example, the Home Affairs Department is responsible for a number of activities carried on by services that remain independent in operation, management and location. There appears to be no suggestion that the department's existence reduces operational expenditure but it does simplify the management of the States' activities.

### **Possible approaches**

135. The Review has not provided evidence to suggest that further combinations of departments offer prospect of short-term reductions in expenditure. There may however be value in commissioning studies into:
- (1) the possibility of merging the income tax collection responsibilities of the Treasury & Resources Department and certain of the functions of the Employment & Social Security Department (ie the collection of social security contributions); and



- (2) the possibility of co-locating the increasing number of independent regulatory offices (eg Jersey Financial Services Commission, Data Protection Commissioner, Jersey Competition Regulatory Authority, Civil Aviation Regulator etc). This is not to suggest that they should cease to be independent of each other but that there may be an advantage in them sharing occupancy of serviced offices.

## **States' activities**

### **Meteorological Office**

136. In the course of the Spending Review, the position of the Meteorological Office was considered and, as will be seen from Appendix Three, it is suggested that consideration should be given to that office becoming independent of the States and in that position being encouraged to maximise the commercial potential of the services that it could provide.
137. In making this proposal, the purpose is not to question the judgement that it is valuable to the Island that local weather advice services are available. It is however to question:
  - (1) whether those services necessarily have to be provided by the States; and
  - (2) whether the location of an Office within the States can unreasonably constrain the development of its services with the result that the cost of the service to the States is higher than otherwise it need be.
138. Similar questions could be asked of other activities currently undertaken by the States.

### **Trading Funds**

139. The Public Finances (Jersey) Law 2005 makes special provision for the existence of Trading Funds, presumably with the intention that the accounting and reporting framework for such funds could be separate from the framework for the States generally and, perhaps, more commercial. In practice, the framework within which the Trading Funds operate is the same as that which applies to the States generally and is not commercial. Thus the commercial objectives of the Trading Funds are set in terms that are more related to the States' financial reporting arrangements and the performance of the Trading Funds is reported and monitored largely in terms of the States' accounting measures and not in more commercial terms.
140. This may not be an ideal environment in which quasi-commercial activities may thrive.
141. There is recent experience of the migration of a commercial activity from the States to a more independent, clearly commercial existence: Jersey Post. Consideration should be given to commissioning a study of:
  - (1) whether the migration of Jersey Post has led to improvements in Jersey Post's commercial performance; and
  - (2) whether the experience of Jersey Post provides a model which should also be applied to Trading Funds such as Jersey Harbours and Jersey Airport.

142. Quite apart from activities that have already been recognised by the States as Trading Funds and thus as quasi-commercial, there are other activities currently undertaken by the States which either in the Island or elsewhere may also be undertaken by private sector entities. The management of social housing is an example of such an activity.

### Approach

143. The possibility that some activities may not be best managed within the Island's public sector has been debated for many years.
144. For example, in February 2005, a Shadow Scrutiny Panel reported on the future of Jersey Harbours<sup>24</sup> and observed that, in 1999, the States had been requested to give approval, in principle, to the incorporation of Jersey Harbours as a means of improving the efficiency and effectiveness of the management of Jersey Harbours.<sup>25</sup>
145. The February 2005 report records evidence given to it by the President of the Finance and Economics Committee:

*"It is a concern to my Committee that a service review of the harbours some years ago suggested that it was running at less than total efficiency . . . Therefore my objective would be to make sure something does happen to make sure that that department will run in a more fitting way. It is likely that that will be better achieved by having the sort of approach that something like incorporation would bring to the operation rather than a continuation of the existing structure."<sup>26</sup>*

146. In other words, the possibility that location of an activity within the States' structure may impede efficiency has been recognised for some years, but it has not proved possible to achieve agreement for the implementation of alternative arrangements. I am loath to recommend that further reviews should be undertaken as successors to reviews that have already been undertaken. However, it would be remiss of me to fail to point out that the evidence suggests that quasi-commercial activities could be managed more efficiently if located outside the States' structure. This need not mean that the States' loses control of strategically significant important assets.

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<sup>24</sup> Report SR2/2005 issued 15 February 2005.

<sup>25</sup> Report and Proposition P162/99. This proposition followed a Strategic Service Review of Jersey Harbours (March 1999) carried out by Fisher Associates which concluded that 'Jersey Harbours' could be made much more efficient if it was placed within a more effective framework . . . The most progressive option which also safeguards the national interest, is incorporation into a 100% government owned company.' Quoted on page 8 of the report SR2/2005.

<sup>26</sup> Transcript of public hearing on 23 September 2004, page 40. Quoted on page 21 of the report SR2/2005.

147. In principle, the States should not seek to manage directly any activity which would be better managed elsewhere unless there is a clear public interest in not making that change. Where it is necessary for the States to control a strategically significant asset or activity, wherever possible that should be achieved in a means that does not involve the States directly in management.
148. Consideration should therefore be given to:
- (1) whether there is a clear public interest in each activity being undertaken by the States.
  - (2) where there is no such clear public interest, whether there is a clear justification (for example in terms of efficiency) for that activity being undertaken by the States as opposed to the States ensuring that it is undertaken whether by the States or a private sector organisation.

## **APPENDIX ONE ~ PRESS RELEASE ANNOUNCING THE REVIEW**

The Comptroller & Auditor General, Chris Swinson OBE, has announced the terms of a Review of the Effectiveness and Efficiency of States expenditure.

The review will cover all aspects of the operation of the States and will be broadly divided into three stages:

- (1) a review of the £35 million reductions of expenditure which the States will have achieved by the end of 2008;
- (2) a review of States-wide spending; and
- (3) a review of the effectiveness of the process (including the provisions of the Public Finance Law) for the control of expenditure.

The review of States-wide spending will consist of two groups of projects. One group will concentrate on the key departments whilst the other group will examine cross-cutting issues affecting all departments. The five key objectives of each of the project will be to identify:

- (1) Expenditure savings that may be achieved by improving efficiency or effectiveness, without significant impact upon achieving the objectives of the services provided by the States;
- (2) Any improved efficiency or effectiveness, which may lead to improvements in service delivery, whilst not necessarily leading to savings in expenditure;
- (3) Possible savings in expenditure that may be achieved by re-consideration of the services provided by the States;
- (4) The steps that would be needed if potential savings were to be achieved;
- (5) The costs that would be incurred in achieving these savings.

The overall aim of this work is to contribute to the better management of States' expenditure and to provide a basis for informed debate.

The review will lead to a series of reports which will be published in the normal way and then will be considered by the Public Accounts Committee. It is anticipated that the first and second stages of the review will largely have been completed by the late Spring of 2008.

# Emerging issues STATES' SPENDING REVIEW



## APPENDIX TWO ~ COVERAGE OF THE REVIEW

	<i>2009 Cash Limit £'000</i>	<i>Review coverage</i>
Chief Minister	15,207.7	Limited review
Economic Development	16,459.4	Limited review
Education Sport & Culture	98,022.8	Full review
Health and Social Services	154,089.7	Full review
Home Affairs	45,096.0	Most units reviewed
Housing	-22,564.7	
Planning and Environment	6,187.4	Full review
Social Security	150,313.9	
Transport and Technical Services	22,472.5	Limited review
Treasury and Resources	17,342.0	Limited review
Non-Ministerial States Funded Bodies		
Bailiff's Chambers	1,258.5	
Law Officers' Department	5,412.2	Full review
Judicial Greffe	3,983.3	
Viscount's Department	1,431.7	
Official Analyst	601.9	
Lieutenant Governor	746.8	
Dean of Jersey	22.2	
Data Protection Commission	225.9	
Probation Department	1,551.9	
C&AG	730.3	
States Assembly	5,214.5	Limited review
Overseas Aid Commission	7,731.2	
	<u>531,537.1</u>	

## APPENDIX THREE ~ LIST OF OPTIONS FOR REDUCTION OF SPENDING

### Introduction

App 3-1. In this Appendix, I will set out the various options for reducing the States' Net Revenue Expenditure which have been identified as a result of the Review process starting with the initial work by the Corporate Management Board. The options are grouped by department as follows:

- (1) Economic Development.
- (2) Education Sport & Culture.
- (3) Health & Social Services.
- (4) Home Affairs: Customs & Immigration.
- (5) Home Affairs: Fire & Rescue Service.
- (6) Home Affairs: HM Prison.
- (7) Law Officers' Department.
- (8) Planning & Environment Department.
- (9) States Assembly.
- (10) Treasury & Resources Department.

### Economic Development

#### Jersey Finance

<i>Amount</i>	<i>£250,000</i>
<i>Timing</i>	<i>Long term</i>
<i>Type of reduction</i>	<i>Other</i>
<i>Certainty</i>	<i>Speculative</i>

App 3-2. At present, Jersey Finance is financed partly by the States and partly by the financial services industry. This option for reducing spending would lead to a balancing of the direct and 'in kind' contributions made by these two parties so that the States and the industry make equivalent contributions.

### Education, Sport and Culture

#### Primary school provision

<i>Amount</i>	<i>£900,000</i>
<i>Timing</i>	<i>Long-term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Not speculative</i>

App 3-3. The current demographic projections used by the department for service planning indicates that by 2015, there will be a substantial surplus of primary school places. The recently published draft proposals from the Council of Ministers' for the 2009 Business Plan recognises and includes a reduction in expenditure for the department of £325,000 in 2009, £288,000 in 2010 and £208,000 in 2011. On the basis of the current predictions, it is reasonable to expect that the reduction in expenditure that could be achieved by elimination of surplus places would be higher than this by 2015.

App 3-4. There is inevitably some uncertainty surrounding the demographic projections.

## Secondary Education

<i>Amount</i>	<i>£250,000</i>
<i>Timing</i>	<i>Medium term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Not speculative</i>

App 3-5. As reported in the Council of Ministers' proposals for the 2009 Business Plan, the department's demographic projections to 2015 indicate a reducing secondary school population. It is agreed that the resulting surplus places in secondary schools would not be 'of sufficient magnitude' to warrant a school closure. However, it appears possible that the reduction in secondary school population will be sufficient to permit some reorganisation of the current secondary school provision.

App 3-6. The estimate of the possible expenditure reduction of £250,000 is therefore indicative of what may be possible.

## Fee-paying provided schools

<i>Amount</i>	<i>£800,000</i>
<i>Timing</i>	<i>Medium term</i>
<i>Type of reduction</i>	<i>User pays</i>
<i>Certainty</i>	<i>Speculative</i>

App 3-7. Certain schools owned and managed by the States (e.g. Victoria College and Jersey College for Girls) charge fees. Currently these fees are set by reference to the formula by which the funds provided to non-fee paying schools are calculated. This formula takes account of the staff and non-staff direct costs of schools (except property costs). Broadly, fees are set to cover at least 50% of these formula costs and thus do not cover the property costs incurred by the States in providing these schools. If the fees were to be increased to meet 50% of the property costs incurred, they would have to be increased by about £800,000.

## Highlands College

<i>Amount</i>	<i>£250,000</i>
<i>Timing</i>	<i>Short-term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Not speculative</i>

- App 3-8. In the recent past, Highlands College has been financed by applying (with some adjustments) the formula funding basis which is used for primary and secondary schools. A detailed review undertaken on the department's behalf indicate that the application of formula funding in this way resulted in some surplus funding for the College. The steps which are being taken by the department with the Learning and Skills Executive to provide a better framework for the financing of Highlands are much to be welcomed. On the basis of the review undertaken on behalf of the department, it would seem possible to reduce funding to Highlands further than the reduction of £200,000 already assumed by the department.

## Youth Service

<i>Amount</i>	<i>£250,000</i>
<i>Timing</i>	<i>Short-term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Not speculative</i>

- App 3-9. The Chief Officer proposes that a review of the Youth Service and its effectiveness should be carried out as soon as possible.

## Jersey Child Care Trust

<i>Amount</i>	<i>£90,000</i>
<i>Timing</i>	<i>Short-term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Not speculative</i>

- App 3-10. In a report published in 2006, I pointed out that the department had failed to give a clear remit to the Trust and that steps should be taken to correct the position. On the one hand the steps would lead to the possibility of a reduction in the department's grant to the Trust through raising of additional finance from the private sector, or alternatively an elimination of the department's grant to the trust. Since the publication of that report, the Trustees have secured additional finance from the public sector but the department has not yet clarified its intentions for the Trust as the Minister's 'early years' proposals will fall to be reviewed in the light of an impending Scrutiny report.

## Schools Instrumental Service

<i>Amount</i>	<i>£100,000</i>
<i>Timing</i>	<i>Short-term</i>
<i>Type of reduction</i>	<i>User pays</i>
<i>Certainty</i>	<i>Not speculative</i>

- App 3-11. This service is a valued part of the department's services and is believed to have contributed significantly to the enrichment of the Island's cultural life.



- App 3-12. The service currently incurs costs of the order of approximately £600,000 per year. No charges are made in respect of the loan of instruments. It is proposed that charges should be introduced in respect of the loan of instruments and that they should be calculated to achieve an income of approximately £100,000 per year in the first instance.

### Performance Spaces

<i>Amount</i>	<i>£500,000</i>
<i>Timing</i>	<i>Medium-term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Not speculative</i>

- App 3-13. The department currently supports a number of performance spaces by way of grants or subsidies to Jersey Opera House, St James's, Jersey Arts Centre and Fort Regent.

- App 3-14. Quite apart from the department's obligation to subsidise the organisations responsible for these spaces which are unable to cover their running costs from current income, the department (and/or the States) have in effect accepted obligations to maintain the buildings concerned (which in at least two cases are elderly and problematic). Even if this commitment has not been expressed in formal agreements (e.g. as in the case of the Jersey Opera House) this is the effect of the current arrangements as the organisations using the spaces have no prospect of financing the maintenance of their premises unless the States provide the necessary funds.

- App 3-15. In the case of the Jersey Opera House, the States has also underwritten the bank loan which was arranged to finance the purchase of the Opera House.

- App 3-16. Consideration should be given to rationalising the department's support for all of these spaces with a view to eliminating a significant part of the cost of support.

### Health & Social Services

#### Introduction

- App 3-17. As is the case with other departments, many of the proposals listed below were proposed by the department and in most cases the necessary preparatory work has been commenced.

#### Management of procurement

<i>Amount</i>	<i>£800,000</i>
<i>Timing</i>	<i>Medium-term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Not speculative</i>

- App 3-18. The department should establish a centralised procurement function with a view to achieving savings through a more rigorous approach to purchasing. The department

already purchases drugs through a main land consortium but reductions could be achieved by extending good procurement practice to other areas of purchasing.

### Project management

App 3-19. The department should re-consider the way in which its major projects are managed. Early identification of the benefits that should be achieved through the implementation of such projects so that the achievement of these benefits can subsequently be achieved by effective management should ensure that the benefits are indeed achieved. No account of the possible savings is taken here on the basis that they will be re-invested.

### Locum services

<i>Amount</i>	<i>600,000</i>
<i>Timing</i>	<i>Medium-term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Not speculative</i>

App 3-20. The department should review all of its staffing arrangements with a view to minimising its need to acquire the services of locums to cover staff absences.

### Nursing costs

<i>Amount</i>	<i>£800,000</i>
<i>Timing</i>	<i>Medium-term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Speculative</i>

App 3-21. The department should seek to reduce its nursing costs by ensuring that the use of overtime working and agency nurses is minimised and that the appropriate grades of staff are employed for all functions.

### United Kingdom treatment costs

<i>Amount</i>	<i>£200,000</i>
<i>Timing</i>	<i>Medium term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Speculative</i>

App 3-22. The department should review the costs incurred in flying patients to the United Kingdom for treatment through more rigorous assessment and the establishment of cost effective service level agreements with selected hospitals.

### Accident and Emergency treatment

<i>Amount</i>	<i>£75,000</i>
<i>Timing</i>	<i>Medium term</i>
<i>Type of reduction</i>	<i>User pays</i>
<i>Certainty</i>	<i>Not speculative</i>

- App 3-23. The department should introduce charges for patients accessing primary care by way of visits to the hospital's Accident and Emergency Department.

### Health tourism

<i>Amount</i>	<i>£250,000</i>
<i>Timing</i>	<i>Medium term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Speculative</i>

- App 3-24. The department should seek to reduce the costs which are incurred as a result of people without medical insurance cover or cover from reciprocal health cost agreements visiting the Island to receive treatment for pre-existing medical problems. In a number of cases, treatment of these cases involves the department in considerable expense including the provision of treatment in mainland specialist centres and the associated travel costs.

### Human resource management

<i>Amount</i>	<i>£100,000</i>
<i>Timing</i>	<i>Medium term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Not speculative</i>

- App 3-25. The department has a number of staff who it recognised are not performing adequately either through long term illness or for other reasons. The responsible managers explain that their departmental costs are unnecessarily high because appropriate procedures do not exist to deal with such cases. In contrast, the States' human resources Department believes that appropriate procedures do exist. The department should make use of the procedures that have been provided to release the posts which are currently occupied in this way.

### Mental health: use of drugs

<i>Amount</i>	<i>£50,000</i>
<i>Timing</i>	<i>Medium term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Speculative</i>

- App 3-26. Drug treatment and other care should be made available only to patients showing moderate symptoms of illness rather than initial signs. Such an approach would be consistent with the department's normal practice of applying the guidelines of the National Institute of Clinical Excellence (NICE) which in fact recommend this approach.

App 3-27. Further, the department should review the consistency of its compliance with its policy of applying NICE guidelines.

### Critical mass issues

<i>Amount</i>	<i>£250,000</i>
<i>Timing</i>	<i>Medium term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Speculative</i>

App 3-28. In a number of instances, the unit cost of services provided by the department is higher than the costs that would be incurred by mainland health services because the size of the Island's population is relatively small. This suggest that opportunities may exist for unit costs to be reduced if it were possible to reach agreement with the States of Guernsey to collaborate in the management of the services concerned.

### Home Affairs Department: Customs & Immigration

App 3-29. The outcome of the work undertaken during the Spending Review is that this service is, if anything, under-funded and that there is little likelihood that significant expenditure reductions could be achieved without major and contentious revisions of the service provided by the department.

### Home Affairs Department: Fire & Rescue Service

#### Closure of the Western Fire Station

<i>Amount</i>	<i>£15,000</i>
<i>Timing</i>	<i>Short-term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Not speculative</i>

App 3-30. The Western Fire Station would be closed and the retained fire fighters, currently associated with that fire station would either be associated with the principal fire station in St Helier or replaced by retained fire fighters recruited in St Helier. Incidental utility costs of approximately £5,000 per year would be avoided together with associated maintenance and supervision costs which may amount to approximately £10,000.

App 3-31. The Jersey Fire Service has been experiencing difficulty in recruiting retained fire fighters for the Western Fire Station. The result is that, irrespective of spending pressures, it may prove necessary to close the Western Fire Station for operational reasons.

App 3-32. Closure of the station would have some effect upon incident response times but appears unlikely to increase response times for incidents within the immediate vicinity of the station beyond response times experienced elsewhere in the Island.

App 3-33. The estimate of reduction of expenditure does not take any account of the proceeds of sale of the fire station site.

### Charges for inspection of commercial premises.

<i>Amount</i>	<i>£50,000</i>
<i>Timing</i>	<i>Medium term</i>
<i>Type of reduction</i>	<i>User pays</i>
<i>Certainty</i>	<i>Not speculative</i>

App 3-34. The Jersey Fire Service inspects commercial premises during development to assess fire safety and the appropriateness of fire precautions. The Planning & Environment Department makes charges for inspection visits in similar circumstances. The estimate of the total amount of charges is indicative only.

App 3-35. Introduction of charges would require a change in the legislation governing the Fire & Rescue Service.

### **Home Affairs Department: HM Prison, La Moye**

App 3-36. The outcome of the work undertaken during the Spending Review is that there is little likelihood of significant reductions in expenditure being achieved within HM Prison's budget. Indeed, the budget of HM Prison is currently being increased to deal with the serious concerns voiced in the report following the recent report of HM Inspector of Prisons.

### **Law Officers' Department:**

App 3-37. The review undertaken of this department was different in style and focus from the reviews undertaken of other departments.

App 3-38. A request had been made firstly for authority to increase salaries for senior staff who are at risk of being lured from employment within the department by offers of significantly larger salaries from private sector employers. The review confirmed that the pressure from competitive salaries is a significant problem for the department and its effectiveness is threatened by this difficulty. The manner in which this problem may best be handled is dealt with elsewhere in this report.

App 3-39. The Accounting Officer has also requested authority to recruit additional staff to the department to deal with the considerable work pressures that the department is experiencing.

App 3-40. In this respect, the review concluded that HM Attorney General and the Accounting Officer should be asked to implement certain improvements in managerial arrangements within the department before the recruitment of additional staff could be considered.

App 3-41. These detailed considerations are considered in the detailed report of the review of this department.

## *Planning and Environment Department*

### **Co-location of the department's units**

- App 3-42. The department consists of two groups of units: a group of units located at South Hill which deal with planning and building control matters, and a group located at Howard Davis Farm which deal with environmental issues. The department also includes the Meteorological Office which is located separately at the airport. These divided locations pre-date the creation of the department.
- App 3-43. The current arrangement has impeded the integration of the department's units into a single organisation and now impedes the effective management of the department. Co-location is therefore desirable to assist in proper management of the department. It is possible that co-location might lead to reductions in expenditure, but the link between co-location and cost reductions is uncertain so that no account of any potential savings is taken in this report.

### **Reorganisation of Planning**

<i>Amount</i>	<i>£250,000</i>
<i>Timing</i>	<i>Medium-term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Speculative</i>

- App 3-44. In recent years, the Building Control section of the Planning and Environment Department has been substantially re-organised. The purpose of the reorganisation was to streamline the application and approval process and it involved a re-consideration of the regulations so that the requirements were simplified, a re-design of the application forms, and a re-consideration of the way in which the department responds.
- App 3-45. A similar exercise should be carried out in respect of planning applications. In particular, consideration should be given to placing the onus upon applicants to demonstrate that all of the reasonable requirements of the department with respect to the quality of an application and to consultation with interested parties have been satisfied. The objective should be to minimise the department's administrative burden in dealing with applications.
- App 3-46. As reported in the Council of Ministers' proposals for the 2009 Business Plan, to deal with the volume of current applications, the department has developed a proposal for the employment of additional staff which will be funded by additional application charges. Implementation of those proposals is necessary to deal with the department's current workload using current procedures. Once the current pressure has eased, re-consideration of the current procedures should be possible.
- App 3-47. The possible reduction in cost is indicative. The aim should be that the planning function should largely be financed by charges paid by applicants. If that were to be achieved, further expenditure reductions would be possible.

## Meteorological Office

<i>Amount</i>	<i>£500,000</i>
<i>Timing</i>	<i>Medium-term</i>
<i>Type of reduction</i>	
<i>Certainty</i>	<i>Speculative</i>

App 3-48. There are strong arguments for ensuring that there is a local weather forecasting service within the Island. These arguments do not necessarily lead to the conclusion that such a service should be provided by the States.

App 3-49. Consideration should be given to 'privatising' the Meteorological Office. Whilst accepting the arguments which appear to justify the maintenance of a local core meteorological service, the ability of the service to sell its services to other commercial entities appears unreasonably constrained by its location within the States' organisation. It is likely to be necessary in early years for the States to guarantee to the office a certain level of business thus the full cost of the office could not be avoided by privatisation.

## States Assembly

<i>Amount</i>	<i>£100,000</i>
<i>Timing</i>	<i>Short term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Non-speculative</i>

## Scrutiny budgets

App 3-50. As one of the reforms that accompanied the introduction of Ministerial Government at the end of 2005, the States Assembly established a number of Scrutiny Panels with appropriate officer support. It was to be expected that the budgetary provision that was made for these panels would be reconsidered in the light of experience. Actual expenditure in both 2006 and 2007 fell significantly below the budgets and even allowing for the development of the panels' activity, it appears reasonable to contemplate an adjustment of the budgets in the light of the under-spending.

App 3-51. Importantly, the reduction would not appear to threaten the democratic effectiveness of the panels.

### Treasury & Resources Department

#### Strategic investments

<i>Amount</i>	<i>£300,000</i>
<i>Timing</i>	<i>Medium term</i>
<i>Type of reduction</i>	<i>Income generation</i>
<i>Certainty</i>	<i>Speculative</i>

- App 3-52. The department manages the States' interests in a number of companies including: Jersey Telecoms, Jersey Post, Jersey Electricity Company etc. These are collectively referred to as 'strategic investments'. As at 31 December 2007, the book value of these investments excluding Jersey Electricity was about £87,500,000; and the market value of the States' 54% interest in Jersey Electricity was about £41,000,000.
- App 3-53. It is in the interest of the States to maximise the long term income which can reasonably be expected from these investments.
- App 3-54. At present, the relationship between the States and the long term investee companies is managed by the senior officials of the department on the basis of information exchanges with the companies concerned. There is reason to suppose that more pro-active management would have improved the value of the States' interest. Consideration should be given to how the effectiveness of the States' management of its interests might be improved: perhaps by creating a 'shareholder board' of people with experience of managing such long term interests.
- App 3-55. Income is currently of the order of £3,000,000. The department should be challenged to achieve a long term sustainable increase in this income of at least 10% (net after costs incurred).

#### Income tax collection

<i>Amount</i>	<i>£100,000</i>
<i>Timing</i>	<i>Medium term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Speculative</i>

- App 3-56. Towards the end of 2007, the Treasury minister announced that on-line filing of Tax Returns and on-line self-assessment would be available to personal tax-payers from the 2009 Year of Assessment. It is intended that tax-payers will receive a credit of £20 for using the self-assessment facility. Electronic filing and automatic assessment are already available.
- App 3-57. A satisfactory take-up of these facilities offer the possibility of changing the profile of the staff of the Comptroller of Income Tax to reduce the emphasis on processing tax returns and to increase the Comptroller's activity to identify and proceed against cases of tax evasion. It is believed that an increase in the Comptroller's activity in this area will lead to an increase in tax collection that will greatly exceed the cost of the additional staff who will be necessary.
- App 3-58. The projected increase in tax income of £100,000 is indicative being the cost of the additional staff whom it is proposed to employ in this area.



### Payment mechanisms

<i>Amount</i>	<i>£50,000</i>
<i>Timing</i>	<i>Short term</i>
<i>Type of reduction</i>	<i>Efficiency</i>
<i>Certainty</i>	<i>Non-speculative</i>

- App 3-59. At present, the States does not consistently make use of the most cost-effective mechanisms for making and receiving payments. For example, about 140 staff are paid in cash each week and about 220 staff are paid by way of cheques on a regular basis. Further many housing tenants pay rent in cash. Beyond these arrangements, many social security payments are made by way of cash or cheque.
- App 3-60. It would be advantageous if all staff were paid by way of BACS transfer (and received their payslips by e-mail). Similarly, it would be advantageous if all housing rents were paid by way of direct debits. If these changes were made, then the benefit would accrue to the States. If social security benefits were paid electronically the benefit would accrue to the relevant social security fund.
- App 3-61. Whilst recognising that some people would resist a move away from cash payment and that some flexibility may be needed to deal with genuine hardship caused by such a change, the States should use every means to encourage such a change. The saving is indicative and does not include the more substantial savings that would result from a change in respect of social security benefits.

## APPENDIX FOUR ~ SUMMARY OF DEPARTMENTAL SPENDING OPTIONS

	<u>Totals</u>	<u>Timing</u>		
		<u>Short</u>	<u>Medium</u>	<u>Long</u>
<i>Economic Development</i>				
Jersey Finance grant	250			250
<i>Education Sport and Culture</i>				
Primary school provision	900			900
Secondary education	250		250	
Fee-paying schools	800		800	
Highlands College	250	250		
University education				
Youth service	250	250		
Jersey Child Care Trust	90	90		
School instruments service	100	100		
Performance spaces	500		500	
<i>Health &amp; Social Services</i>				
Procurement	800		800	
Project management				
Locum services	600		600	
Nursing costs	800		800	
UK treatment costs	200		200	
A&E treatment	75		75	
Health tourism	250		250	
HR management	100		100	
Mental health: use of drugs	50		50	
Critical mass issues	250		250	
<i>Home Affairs: Customs &amp; Immigration</i>				
<i>Home Affairs: Fire &amp; Rescue Service</i>				
Western Fire Station	15	15		
Commercial inspections	50		50	
<i>Home Affairs: HM Prison</i>				
<i>Law Officers' Department</i>				
<i>Planning and Environment Department</i>				
Reorganisation of planning	250		250	
Meteorological Office	500			500
<i>States Assembly</i>				
Scrutiny Panels	100	100		
<i>Treasury &amp; Resources Department</i>				
Strategic investments	300		300	
Income tax collection	100		100	
Payment mechanisms	50		50	
	<u>7880</u>	<u>805</u>	<u>5425</u>	<u>1650</u>

## APPENDIX FIVE ~ SUMMARY OF DEPARTMENTAL SPENDING OPTIONS

	<u>Totals</u>	<u>Effy</u> <u>Userpays</u>		<u>Type</u> <u>Other</u>
<i>Economic Development</i>				
Jersey Finance grant	250			250
<i>Education Sport and Culture</i>				
Primary school provision	900	900		
Secondary education	250	250		
Fee-paying schools	800		800	
Highlands College	250	250		
University education				
Youth service	250	250		
Jersey Child Care Trust	90			90
School instruments service	100		100	
Performance spaces	500			500
<i>Health &amp; Social Services</i>				
Procurement	800	800		
Project management				
Locum services	600	600		
Nursing costs	800	800		
UK treatment costs	200	200		
A&E treatment	75	75		
Health tourism	250	250		
HR management	100	100		
Mental health: use of drugs	50	50		
Critical mass issues	250	250		
<i>Home Affairs: Customs &amp; Immigration</i>				
<i>Home Affairs: Fire &amp; Rescue Service</i>				
Western Fire Station	15			15
Commercial inspections	50		50	
<i>Home Affairs: HM Prison</i>				
<i>Law Officers' Department</i>				
<i>Planning and Environment Department</i>				
Reorganisation of planning	250	250		
Meteorological Office	500			500
<i>States Assembly</i>				
Scrutiny Panels	100	100		
<i>Treasury &amp; Resources Department</i>				
Strategic investments	300			300
Income tax collection	100	100		
Payment mechanisms	50	50		
	<u>7880</u>	<u>5275</u>	<u>950</u>	<u>1655</u>