

STATES OF JERSEY



STATES' EXPENDITURE: CLASSIFICATION IN ACCORDANCE WITH INTERNATIONAL BEST PRACTICE

**Lodged au Greffe on 6th September 2019
by Deputy R.J. Ward of St. Helier**

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion –

to request the Minister for Treasury and Resources, working with Statistics Jersey, to require all States' expenditure to be classified in accordance with the United Nations Classification of the Functions of Government system, so that the Annual Accounts of the States of Jersey 2019 and all subsequent government documents presenting financial information (including the Government Plan 2021) classify public spending in accordance with international best practice.

DEPUTY R.J. WARD OF ST. HELIER

REPORT

The Classification of the Functions of Government, abbreviated as **COFOG**, was developed in its current version in 1999 by the Organisation for Economic Co-operation and Development, and published by the United Nations Statistical Division as a standard classifying the purposes of government activities.

COFOG classifies government expenditure data from the System of National Accounts by the purpose for which the funds are used. First-level COFOG data are available for 31 out of the 34 OECD member countries.

The classification of all States' spending need only be classified at level 1, which is appropriate for Jersey as a jurisdiction. It is the easiest and most widely-used type of classification. The first-level COFOG splits expenditure data into 10 "functional" groups or sub-sectors of expenditures –

- General public services
- Defence
- Public order and safety
- Economic affairs
- Environmental protection
- Housing and community amenities
- Health
- Recreation, culture and religion
- Education
- Social protection.

The aim is to make easier the production of statistics for Jersey that are comparable to other jurisdictions. Without this classification being done, it requires a detailed look at individual expenditure lines from the States' Accounts in order to classify the expenditure to be undertaken manually; thus making the production of meaningful and transparent statistics cumbersome and hugely time-consuming for the Statistics Unit.

By adopting COFOG as a bolt-on to the current spending records, these statistics become quick to produce, directly comparable, and add a level of transparency and openness to government spending that will be useful to States Members in analysis. It will also give a clearer picture to the voting public on the relative expenditure of government departments.

It is vital for Jersey to have a benchmark of where it sits in expenditure compared to other world jurisdictions. Particularly as we engage in wider world trade following BREXIT. Both to have a gauge of the need for public spending and to identify effective spend and need to maintain Jersey as an attractive jurisdiction in which to live and do business.

By benchmarking public spending with other jurisdictions, it will allow a judgment on the effectiveness and level of spending required. This is because comparisons with higher and lower spending jurisdictions and the outcomes of that spending on their society can be made. This will be important as the government looks for efficiencies in the public sector.

“Assessing the efficiency and performance of public expenses is a key item for analyzing the quality of public expenses because it connects the revenues as public resources and their yield (efficiency) or the revenues to the results obtained (performance). Publishing the COFOG data (functional classification of public expenses adopted at the level of OECD member states) by the EU-27 member states represented a big step forward in judging and organising expenditures on multiannual criteria. Similarly, right decisions should be taken concerning the choice of some relevant variables used to determine the performance of the public sector (e.g. such as the results of the education system, the number of patients cured, the infant mortality rate and the number of professors, doctors, nurses and researches etc.).”

https://mpr.ub.uni-muenchen.de/12927/1/MPRA_paper_12927.pdf

An additional benefit of adoption of COFOG is the consistency of recording of spending at a time when departments are in flux in terms of the changes to governmental structure and the development of the government planning systems, new to the Assembly.

This will enable complex cross-department spending to be easily collated in order for a bigger picture of spending on the functions of government for Jersey to be produced. Therefore, sensible collaboration between departments can continue, but a clear picture of the general and overall spending on the common functions of government remains clear and accessible. Indeed, this is an ideal time to adopt this system of classification of spending, as new departments develop, and yearly spending in the government plan is allocated.

The process of classification should not be a laborious task, as demonstrated by 31 OECD countries using this classification system. As we develop IT systems, collaborative working, and update systems of recording spend from new departments, this can be incorporated using the structure readily available from OECD.

To assist the implementation, I am asking for this proposition to be adopted in order that the principle to classify expenditure using COFOG is adopted. I am content that a realistic timescale and mechanism can be developed with the co-operation of the Treasury and the Statistics Unit, given the principle being driven by the Minister following the proposition.

Financial and manpower implications

There are no financial costs for the States arising from adopting the criteria for classification. Time to implement is minimal, given incorporation into current systems. There is specialist knowledge that exists within the Statistics Unit that can be a ready-made resource to drive this change.

References

<https://ec.europa.eu/eurostat/documents/3859598/5917333/KS-RA-11-013-EN.PDF>