

Financial Report

Treasury and Exchequer

R.115/2019

30 June 2019



Introduction

This report provides a summary of the financial position as at the end of June 2019, including income and expenditure against budget and a full year forecast.

The projected year-end financial position as at the end of June is a snapshot as at that date and will continue to develop as the year progresses and departments work on managing key priorities within available resources, on ensuring budgets are brought into balance where necessary and expenditure and income are tightly managed to provide the best value for money for the island.

The final position as at the end of 2019 will be reported in the Annual Report and Accounts 2019.

The report focusses on general revenue income as approved in the Budget Statement 2019 and the departmental expenditure approved in the Medium Term Financial Plan Addition 2017 - 2019 and represented in the Transition Report.

This is the first in-year financial report to be published in a number of years in line with the drive for more open and transparent Government reporting. It has been produced at a summary level to focus attention on the key areas of interest.

As new structures and reporting capabilities progress the content of future reports will evolve.

Income and expenditure – highlights

The full-year general revenue income forecast at the end of June 2019 is £843.6 million which is £16.0 million higher than the budget set as part of the 2019 Budget Statement at £827.6 million, consistent with the forecast in the Government Plan.

The departmental net expenditure full year forecast at £800.7 million, including budgets in Reserves but forecast to be spent in 2019, is £0.6 million less than the budget available at £801.3 million.

Based on the June forecasts, there would be a year-end operating surplus of income over expenditure of £42.9 million which is £16.6 million higher than the budgeted surplus of £26.3 million.

Depreciation across departments is forecast to be £50.9 million in 2019, compared to a budget of £53.0 million, a saving of £2.1 million. After depreciation, the budget is forecast to be broadly balanced with a currently projected small deficit of £8.0 million which will be worked on throughout the remainder of the year. This is shown below:

2018 Actual £m		June YTD			Full Year		
		Budget £m	Actual £m	Var £m	Budget £m	Forecast £m	Var £m
799.2	General Revenue Income	503.3	438.6	(64.7)	827.6	843.6	16.0
759.3	Net Departmental Expenditure	377.4	375.6	(1.8)	771.1	771.0	(0.1)
	Unallocated Reserves				30.2	29.7	(0.5)
759.3	Net Departmental Expenditure including Reserves	377.4	375.6	(1.8)	801.3	800.7	(0.6)
39.9	Operating Surplus/(Deficit)	125.9	63.0	(62.9)	26.3	42.9	16.6
46.5	Depreciation	23.9	18.6	(5.3)	53.0	50.9	(2.1)
(6.6)	Surplus/(Deficit) after Depreciation	102.0	44.4	(57.6)	(26.7)	(8.0)	18.7

General Revenue Income

Variations in income are shown in more detail below. It can be seen that there is one major income budget which also shows the major variance as at the end of June.

Breakdown of General Revenue Income Year To Date (YTD) and Full-Year Projected Forecast at June

	June YTD			Full Year		
	Budget £m	Actual £m	Var £m	Budget £m	Forecast £m	Var £m
Income Tax	370.0	314.5	(55.5)	565.9	574.0	8.1
GST	49.4	48.5	(0.9)	92.2	93.4	1.2
Impôts	29.3	26.8	(2.5)	64.3	65.8	1.5
Stamp Duty	17.7	14.6	(3.1)	35.4	35.9	0.5
Island Rate	6.6	6.5	(0.1)	13.3	13.5	0.2
Other income - Dividend	5.1	4.7	(0.4)	14.4	19.4	5.0
Other income - Non Dividend	10.3	8.2	(2.1)	11.7	11.7	0.0
Returns from Social Housing Providers	14.9	14.8	(0.1)	30.4	29.9	(0.5)
Total	503.3	438.6	(64.7)	827.6	843.6	16.0

“Budget” refers to the estimates for income agreed in Budget 2019.

The June year to date underachievement of income against budget is largely due to the number of personal Income Tax assessments still being carried out as most of the income is recognised only once the final assessment is completed.

The full year forecast position is predominantly driven by the expected overachievement of Income Tax and dividend income compared to the budget set in the Budget Statement 2019. The Income Tax improvement reflects the growth in earnings and wider economic conditions while the dividends increase relates to an increase in dividends from the States of Jersey Development Company and JT (Jersey Telecom).

Department Net Expenditure

Departmental expenditure for the six months ending June shows an underspend of £1.8 million against budget (less than 1% variance). This varies between departments, with an underspend in Customer and Local Services (£2.3 million) and an overspend in Children, Young People, Education and Skills (£1.4 million).

Based upon June's forecast, annual departmental net expenditure (before Unallocated Reserves) is forecast to underspend by £0.1 million.

Unallocated Reserves are forecast to have an uncommitted balance of £0.5 million.

Overall, annual departmental net expenditure is therefore forecast to underspend by £0.6 million after anticipated allocations of centrally-held funding, subject to the associated Ministerial approval – budget £801.3 million versus a forecast of £800.7 million.

Departmental Net Expenditure Year To Date (YTD) and Full-Year Projected Forecast at June

Department	June YTD			Full Year		
	Budget £m	Actual £m	Var £m	Budget £m	Forecast £m	Var £m
Health and Community Services	103.7	103.7	0.0	204.4	203.8	0.6
Children, Young People, Education and Skills	69.1	70.5	-1.4	136.2	138.4	-2.2
Treasury and Exchequer	60.6	60.5	0.1	124.3	124.7	-0.4
Customer and Local Services	44.0	41.7	2.3	90.3	85.5	4.8
Growth, Housing and Environment	25.9	25.5	0.4	65.3	65.3	0.0
Justice and Home Affairs	25.6	25.0	0.6	54.5	54.3	0.2
Chief Operating Office	16.6	16.6	0.0	28.8	30.8	-2.0
Non Ministerial	12.1	12.4	-0.3	24.4	24.1	0.3
Office of the Chief Executive	8.1	8.2	-0.1	17.4	18.2	-0.8
Jersey Overseas Aid	5.2	4.6	0.6	10.3	10.3	0.0
Strategic Policy, Performance and Population	3.3	3.8	-0.5	8.9	9.3	-0.4
States Assembly	3.2	3.1	0.1	6.3	6.3	0.0
Total	377.4	375.6	1.8	771.1	771.0	0.1
Unallocated Reserves				30.2	29.7	0.5
Total Net Expenditure				801.3	800.7	0.6

A breakdown of the main reasons for the variances between budget and actual/forecast are shown below, analysed by Department.

Health and Community Services (HCS) (projected year-end forecast £0.6 million underspend)

The department is responsible for health matters from the cradle to the grave, and coordinates a wide range of frontline health services, whether in the community or in hospital.

It ensures that not only are our medical services of the highest standard, but that the services provided in the community to vulnerable groups, the elderly, the disabled and those suffering from mental ill health, also meet the high standards of care that they deserve.

The department has most of the functions of the previous Health and Social Services Department, but places greater emphasis on community care for vulnerable groups and stronger preventative services.

Key financial highlights:

HCS has a balanced budget at the end of June and is forecasting a projected year-end underspend of £0.6 million

The forecast position arises from:

- increased income, largely arising from income received from charitable sources and Long Term Care benefits
- an underspend on workforce costs which is a mix of an overspend on medical workforce, reduced expenditure on nursing and a budget held to offset staffing pressures yet to be fully utilised
- finally, an overspend on payments to external bodies, mainly due to the referral of patients to UK hospitals and the increasing cost of domiciliary care in the community.

Children, Young People, Education and Skills (CYPES) (projected year-end forecast £2.2 million overspend)

The department puts the care, welfare, education and whole life chances of children and young people absolutely at its heart. The pace of reform, and the scale of cultural and service change the department needs to ensure that children and young people are protected and enabled to flourish is developing.

The department is responsible for putting children first, completing the urgent Care Inquiry reforms and adopting worldwide best practice in the care of children and young people. It will also modernise and improve the standards of academic education and vocational skills in Jersey.

In addition, it will strengthen the links between Jersey's businesses and schools and colleges, so that young people have better opportunities to build careers in the island, reducing reliance on skilled migrants, and improved whole life chances.

Key financial highlights:

The department has a year to date overspend of £1.4 million and a full year projected forecast of £2.2 million overspend.

The forecast position is mainly as a result of the following:

- as a sector schools are overspending with decreasing pupil numbers putting pressure on school budgets because the per pupil funding results in a lower overall budget whilst non-variable costs such as staffing and facilities costs remain static. Schools are also dealing with the impact of an increase in pupils with special needs
- pupil numbers are proving to be less than estimated when the last Medium Term Financial Plan was agreed which is generating a surplus of funds
- a number of service areas in CYPES are overspending because of pressures arising from recruitment costs, placement costs of children by the Child and Adolescent Mental Health Services, safeguarding costs and the cost of complex needs and children in need. Offsetting these is an underspend arising from vacancies in the service.

The management team is actively working to reduce the forecast overspend.

Treasury and Exchequer (T&E) **(projected year-end forecast £0.4 million overspend)**

Treasury and Exchequer looks after the Island's finances and financial assets, ensuring the protection and good use of public funds with the aim of ensuring long-term financial sustainability for the island by making sure every pound of Jersey taxpayers' money is spent wisely and all financial implications of decisions are understood. The department includes Revenue Jersey, which administers Jersey's tax system, enforces and collects a range of taxes.

The department is also responsible for the grants to the Social Security and Long Term Care Funds.

Key financial highlights:

Treasury and Exchequer is reporting an underspend position £0.1 million which is currently assumed to move to a projected forecast overspend of £0.4 million by the end of 2019. The current forecast year-end position

arises from:

- staff base budget pressure in Revenue Jersey due to a delay in implementation of new taxes computer system which is expected to deliver efficiencies
- finance staff (excluding Revenue Jersey and projects) – this includes the implementation of the new Treasury Target Operating Model, and additional resources required in 2019; offset by savings due to staff turnover
- underachievement of income mainly from cessation of recharges for staff supporting projects and overspend on Debt Management professional fees and bank charges.

Work continues to reduce the projected overspend of £0.4 million.

Customer and Local Services (CLS)

(projected year-end forecast £4.8 million underspend)

Customer and Local Services brings together a wide range of front line government services to make it easy for customers to access government and is responsible for delivering more local services in the community and establishing a stronger relationship with Parishes and the voluntary sector. In 2019 the department has a budget of £90.3 million, of which £78.5 million is for benefit payments and financial support provided to low income households and other areas of the community.

Key financial highlights:

Customer and Local Services net expenditure for the six months ending June shows an underspend of £2.3 million against budget and a full year forecast underspend of £4.8 million by the end of 2019.

The forecast underspend is due to lower benefit claims compared to budget due to improved labour market conditions and ongoing success of the Back to Work programme.

Growth, Housing and Environment (GHE) (projected year-end forecast break even)

The department brings together all the elements to provide the right environment for economic growth and business competitiveness – from the smallest start-up to the largest multinational.

It ensures that the Government continues to maintain and develop a sustainable island, with urban planning that enhances, rather than undermines, our natural and cultural heritage. It enforces the many regulations – from consumer protection to biodiversity – that protect our quality of life in our unique island environment.

It also ensures that the environment and economy are not competing forces, but are complementary partners in developing our island's future infrastructure, and it also includes a stronger focus on special large-scale infrastructure projects and partnership with the Government's arms-length organisations.

Key financial highlights:

Overall the department is currently forecasting net expenditure for the six months ending June as an underspend of £0.4 million against budget, and a full-year forecast to break even, although there are a number of departmental pressures included in the forecast position. A number of property maintenance and refurbishment projects have also been delayed until 2020 to ensure that the department remains within its cash limit. The main departmental pressures are detailed below:

- Fort Regent – there is a reduction in forecast income due to cancellation of events as a result of the current poor condition and availability of facilities. Work on improving emergency lighting and other facilities at Fort Regent is ongoing and the proposed increase to membership costs for 2019 has been deferred in recognition of the current poor state and availability of some facilities.
- Active Membership – there has been a reduction in membership fee income due to people freezing/cancelling their memberships due to the ongoing issues/uncertainty of facilities. This has been reflected in the income forecasts for 2019 and consideration will need to be given to whether budgets for 2020 onwards need to be realigned.
- Environmental Health – the delay in implementing charges for the RentSafe and EatSafe schemes has led to a forecast underachievement of income.
- Maintenance costs on the Island's critical infrastructure are overspending, some of which is offset by increased income from electricity sales and tipping income.

Offsetting the above, the income forecast for Solid Waste has been increased due to the large volumes of contaminated waste being

received from the excavation for the Horizon development and as a balancing measure the budget for property projects has been reduced in order to offset pressures. Initial reviews of the projects proposed to be undertaken later in the year indicates that some of this reduction can be accommodated due to slippage and ability to defer works until 2020. The balance of the reduction will be found by alternative means, and work continues to identify further savings and additional income in other areas of the GHE budget.

Broad Street - Expected sale proceeds in 2019 of offices vacated as a result of consolidating teams into a single, modern location, will far exceed these costs and will be used to fund them. The adjustments will be shown in future monitoring reports.

Justice and Home Affairs (JHA) (projected year-end forecast £0.2 million underspend)

The new Justice and Home Affairs department integrates public protection, law enforcement, emergency services and emergency planning, to keep Jersey safe and secure.

It brings key 'blue light' and emergency services (including Police, Fire and Rescue, Ambulance Service), together with Customs and Immigration, the Prison Service, the Health and Safety Inspectorate, and the States' Official Analyst.

Key financial highlights:

As at June Justice and Home Affairs is reporting a £0.6 million underspend which will move to a forecast underspend of £0.2 million by the end of 2019.

The £0.2 million forecast variance is mainly due to overachievement of income and an underspend in workforce costs offset by overspend on operational costs.

Chief Operating Office (COO) (projected year-end forecast £2.0 million overspend)

As at June the Chief Operating Office is reporting a breakeven position which will move to a projected forecast overspend of £2.0 million by the end of 2019. The forecast overspend is mainly due to the following:

- Modernisation and Digital due to funding business critical programmes such as cyber security and hired service costs associated with restructuring and reforming to a more efficient and effective support function
- People & Corporate Services mainly due to lack of previous investment in resourcing the function leading to temporary hired service costs associated with staff negotiations and supporting the resourcing of the Target Operating Model to modernise Government and contractor support for additional modules for the new HR/Payroll system
- Commercial Services mainly due to unfunded staff costs and professional fees associated with the support of contract review and management to deliver committed savings in 2020.

Measures to reduce the forecast overspend are being pursued including:

- Postponing recruitment in the areas of Business Architecture and Portfolio Management
- Postponing recruitment in a range of other areas.

Non-Ministerial Departments (projected year-end forecast £0.3 million underspend)

The Non-Ministerial Departments are those that are necessarily separate from executive government and consist of:

- Bailiff's Chambers
- Law Officers' Department
- Judicial Greffe
- Viscount's Department
- Office of the Dean of Jersey
- Office of the Lieutenant Governor
- Office of the Data Protection Commissioner
- Probation and After Care Service
- Comptroller and Auditor General

Key financial highlights:

As at June the Non-Ministerial Departments are reporting a £0.3 million

overspend which will move to a forecast underspend of £0.3 million by the end of 2019.

The £0.3 million full-year forecast underspend is due to over achievement of income mainly due to recovery of ring-fenced court and case costs, inter departmental transfers, and nationalisation applications.

Office of the Chief Executive (OCE) (projected year-end forecast £0.8 million overspend)

As at June the Office of the Chief Executive is reporting an overspend position £0.1 million which will move to a forecast overspend of £0.8 million by the end of 2019. The forecast overspend is mainly due to the following:

- an income shortfall expected from the Regulation of Care legislation
- various staff/non staff costs across the Department due to creation of these teams with budget transfers to finance them yet to be actioned

The department aims to reduce the forecast overspend through a combination of vacancy management and the review of non-staff spend. A review of project spend will also be undertaken. A prudent worst case assumption is currently being made. In order to further address the projected forecast overspend it is anticipated that outstanding budget transfers as per the original transition report and potential funding from unallocated reserves will balance the budget by the year end.

Jersey Overseas Aid (projected year-end forecast break even)

The Jersey Overseas Aid Commission (JOAC) is an independent aided body. The objectives of JOAC are to manage and administer the monies voted annually by the States Assembly for overseas aid.

Key financial highlights:

At the end of June, the JOAC is reporting a £0.6 million underspend, which will move to a forecast breakeven position by the end of 2019.

Strategic Policy, Performance and Population (SPPP) (projected year-end forecast £0.4 million overspend)

Strategic Policy, Performance and Population is a newly created department which leads strategic policy, planning and performance to achieve the ambitions of islanders for the future. The department also supports a number of arms-length functions, including the Medical Officer of Health, Statistics Jersey, Jersey Care Commission, Safeguarding Partnership Board, Office of the Children's Commissioner, Charities Commission, Jersey Law Commission, Jersey Architecture Commission, the Employment Forum and the Jersey Advisory Conciliation Service (JACS).

Key financial highlights:

As at June SPPP is reporting a £0.5 million overspend which will move to a forecast overspend of £0.4 million by the end of 2019.

The £0.4 million year to date overspend is mainly due to the consequences of restructuring the department and absorbing the associated costs. Work is continuing to secure funding from the inward transfers of a number of vacant posts from other departments which will make up this shortfall.

States Assembly (projected year-end forecast break even)

The States Assembly is the highest decision-making authority of the Island and makes decisions about new laws or major policy changes. The States Greffe provides an independent administrative support service to the States Assembly and its members, whether they are serving in scrutiny, the executive or in their capacity as private members.

Key financial highlights:

As at June the States Assembly is reporting a £0.1 million underspend which will move to a projected forecast breakeven position by the end of 2019.

Capital – highlights

Capital budgets have been approved on a full project requirement basis meaning the entire budgetary requirement is allocated in the first year of the project to be spent over multiple years. This results in large balances of allocated but unspent budgets at the end of each year.

The first Government Plan, lodged this year covering 2020 to 2023, is introducing capital budget allocation more closely aligned with cashflow in each year to enable more projects to be started whilst also managing the overall exposure within available resources.

Departments have spent £30.7 million in the first 6 months of 2019 and are forecasting to spend £70.9 million by the end of the year.

The full year forecast spend of £70.9 million in 2019 is higher than the levels delivered in the past few years reflecting the number of major projects progressing this year, including the new Les Quennevais School and Sewage Treatment Works.

