

**EXECUTIVE COUNCIL****CONFIDENTIAL**

**Title of Report: DRAFT ESTIMATES 2011/12**

**Paper No:** 134/11

**Date:** 24 May 2011

**Report of:** Financial Secretary

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**Purpose**

1. To consider the draft operating and capital estimates for the forthcoming financial year and make recommendations to the Budget Select Committee.

**Recommendations**

2. It is recommended that Honourable Members:
  - a) refer the Draft Estimates and other papers and documents already issued to the Budget Select Committee;
  - b) remit the Appropriation Bill to the Legislative Assembly;
  - c) authorise the Governor to approve the Capital Equalisation Order.
  - d) approve the following allowances effective 1 July 2011:

Level A Attendance Allowance	£30.75/week
Level B Attendance Allowance	£58.75/week
Level C Attendance Allowance	£88.75/week
Fostering Allowance	£31.50/day

- e) approve the following pension rates effective 1 January 2012:

Standard Pension Rate	£123.00/week
Married Couple's Pension Supplement	£69.00/week
Ex gratia Pension rate	£110.00/week

- f) approve the increase in electricity unit rate to 21p/unit effective 28<sup>th</sup> May 2011.

## **Financial Implications**

3. None, other than budget deficits and surpluses as detailed in attachments.

## **Introduction**

4. This paper should be read in conjunction with the Budget Policy Paper previously issued (ExCo Paper 94/11) and the schedule of amendments made during the 6 May SFC meeting (Appendix A). In addition the attached booklet containing the Summary Draft Estimates of Revenue and Expenditure is an integral part of this paper.

## **2011/12 Budget Strategy**

5. The budget process for 2011/12 has again been exhaustive. Honourable Members examined budget submissions from managers in detail in the budget meeting on 31 March/1 April and amendments were incorporated and discussed at the subsequent meeting of SFC on 6 May. The budget figures have been aggregated into a summary budget booklet (attached). This includes a draft Appropriation Bill (pages 1 & 2) which incorporates the proposals so far agreed by Members.
6. The draft estimates, as incorporated in the attached documentation, show a net budget surplus of £101,650 for the forthcoming financial year, having taken account of the proposed adjustments so far agreed.
7. The prime objectives of the MTFP strategy are centred around the desire to achieve a balanced budget with the longer term aim of reducing the dependence of FIG on Illex licence revenues. The table below compares the current budget projections with the revised MTFP targets. The current projections show the MTFP target as being marginally exceeded in 2011/12 but not being met in the remaining years. This is mainly due to the revenues being received in 2011/12 from oil exploration. Further work will be required in future years in order to bring the budget in line with the MTFP targets.

	Estimate 2011/12 £M	Projection 2012/13 £M	Projection 2013/14 £M	Projection 2014/15 £M	Projection 2015/16 £M
MTFP Target	0.000	0.000	0.000	0.000	0.000
<b>Current Cash Surplus/(Deficit)</b>	<b>0.102</b>	<b>(0.317)</b>	<b>(0.507)</b>	<b>(0.104)</b>	<b>(0.073)</b>
Variation	0.102	(0.317)	(0.507)	(0.104)	(0.073)

## **Operating Budget (including Transfer Payments)**

8. The total draft budget and the appropriation requirement for 2011/12 is summarised on page 5 of the summary budget booklet, with individual departmental operating budget totals detailed on pages 6 & 7 and transfer payments on pages 11 & 12.

9. The draft estimates of operating revenue, totalling £46.489M, show an increase of £4.145M on the original estimate for the current year. The main variances relate to £2.6M revenues from oil exploration activities, £0.6M increase in electricity prices, £0.5M higher MST (due to a full year of policy being in place), £0.3M increase in two fisheries licences rates and a number of other small increases. Variations in anticipated revenue from individual Directorates can be identified from page 8 of the summary budget booklet.
10. The draft estimates of operating expenditure (including internal recharges, transfer payments and fund transfers) total £46.387M. This is an increase of £3.043M on the original estimate for the current year. The main reasons for this are £1.2M higher fuel costs, £2.5M held in central reserves (including £1.7M re TDS/EDS/RDS, £400K for a pay award, £200K re training and £160K re departmental costs of electricity) which are partially offset by a £1M reduction in transfer payments (mainly due to the cessation of holiday credits and one year £nil subvention for FIDC). The individual variances have been considered previously by Members during the budget process but variations in anticipated expenditure on individual Directorates can be identified from page 9 of the summary budget booklet.

### **Transfers to Special Funds**

11. Fund Transfers are separately identified in the summary budget booklet (page 11). Sums of £3.862M are included in the draft estimates which is unchanged from the previous year.

### **Operating Surplus/(Deficit)**

12. If the draft estimates are approved without amendment, the annual budget surplus/(deficit) will be as follows:

	Estimate 2011/12 £M	Projection 2012/13 £M	Projection 2013/14 £M	Projection 2014/15 £M	Projection 2015/16 £M
Departmental revenue	46.489	44.914	43.803	44.175	44.258
Transfer Revenue	0.000	0.196	0.196	0.196	0.196
<b>Less Expenditure:</b>					
Departmental	(38.635)	(37.229)	(36.291)	(36.284)	(36.343)
Transfer Payments	(3.891)	(4.336)	(4.352)	(4.328)	(4.321)
<b>Surplus/(Deficit) before transfers</b>	<b>3.964</b>	<b>3.545</b>	<b>3.355</b>	<b>3.758</b>	<b>3.789</b>
Fund Transfers	(3.862)	(3.862)	(3.862)	(3.862)	(3.862)
<b>Operating Cash Surplus/(Deficit)</b>	<b>0.102</b>	<b>(0.317)</b>	<b>(0.507)</b>	<b>(0.104)</b>	<b>(0.073)</b>
Less Depreciation	(3.385)	(3.378)	(3.376)	(3.353)	(3.353)
<b>NET SURPLUS/(DEFICIT)</b>	<b>(3.283)</b>	<b>(3.696)</b>	<b>(3.883)</b>	<b>(3.456)</b>	<b>(3.425)</b>

## **Balance Sheet and Consolidated Fund**

13. A model has been developed to project the effects of budget decisions on the Government's balance sheet. Historically the budget exercise concentrated on the cash surplus or deficit and the balance on the Consolidated Fund. This approach ignored other important aspects of Government finances. For example, even with a consistently balanced budget the overall 'worth' of Government would decline if the annual investment in capital is less than the annual depreciation charge. Similarly, a deficit budget does not mean that the overall 'worth' of Government will decline. There are many other factors which the model now takes into account (Appendix B).
14. An analysis of the movements in the Consolidated Fund balance from 2006/07 is provided on page 13 of the summary budget booklet. It is projected that the Consolidated Fund multiple will remain in the region of 2.5 times for the period of the MTFP. Please note these figures do not include the potential positive position highlighted in SFC paper 10/11 since the final position is not known.

## **Appropriation Bill 2011**

15. A copy of the Appropriation Bill appears on pages 1 & 2 in the summary budget booklet. A summary of the proposed appropriation is as follows:

	£
Operating Budget	42,525,430
Less Internal Charges	(921,160)
Plus Transfers to Special Funds	<u>3,862,000</u>
	<u>45,466,270</u>

## **Capital Programme**

16. The proposed capital expenditure for 2011/12 is £10.0M. This is summarised by economic category in the summary budget booklet (page 10). Estimated available allocations from the current year's approvals amounting to £3.3M are included in this figure. Therefore a further £6.7M requires appropriation from the Capital Equalisation Fund for 2011/12. A draft Capital Equalisation Fund Order is included in the summary budget booklet (pages 3 and 4). This Order also takes into account other changes that are required to the 2010/11 original appropriation (see paragraph 19).
17. The current approved capital programme policy is currently to spend a maximum of £12M net of capital receipts over a three-year period. Currently, the net capital programme for the next three years totals £10.0M including estimated carryovers from the current year.
18. It should also be noted that greater effort has been dedicated to establishing the 2011/12 estimates than to subsequent years, despite the aspirations of the MTFP. The projections for future years are shown for financial planning purposes only. They are not approvals to spend at this stage and further work will be required on an annual basis to firm up the projections.

## **Capital Equalisation Fund**

19. A summary of the Fund allocation for the current financial year is shown below:

	£
Original 2010/11 capital expenditure	£9,295,460
Additional SFC approvals/virements	£1,254,200
Total approvals 2010/11	£10,549,660
2009/10 carry over	£4,052,790
2010/11 funding not required	(£1,029,070)
Total available funding 2010/11	£13,573,380
Capital Equalisation Fund Order 2010	£9,295,460
Capital Equalisation Fund Order 2009	£4,052,790
Amendment to 2010/11 appropriation required	£225,130

20. The actual amount available for reallocation at the end of the current financial year will depend on the eventual actual costs of individual schemes. This will be used to reduce the amount requested for approval in any future Capital Equalisation Fund Orders.
21. A Capital Equalisation Fund Order will be required to provide for the withdrawal of £6,737,550 from the Fund to finance capital expenditure during 2011/12 (see draft on pages 3 and 4 of summary budget booklet). After taking into account the adjusted 2010/11 appropriation above the net withdrawal from the Fund will be £6,962,680. The unspent approvals from the current year will also be automatically available to finance remaining elements from the current year's capital programme. An analysis of the projected movements in the Capital Equalisation Fund from 2006/07 is provided on page 13 of the summary budget booklet.

## **Budget Policy Amendments**

22. Standing Finance Committee on the 6<sup>th</sup> May 2011 approved a pay award of 3% (with a minimum payment of £450 per annum) and also approved pensions, fostering allowances and attendance allowance to increase by 3%. The following allowances will be affected:

### **a) Pensions**

	<b>Current Weekly Rate</b>	<b>Proposed Weekly Rate</b>
	£	£
Standard Rate	119.00	123.00
Married Couple's Supplement	67.00	69.00
Ex gratia	107.00	110.00

## b) Attendance and Fostering Allowances

	<b>Current Weekly Rate £</b>	<b>Proposed Weekly Rate £</b>
Level A Attendance Allowance	29.75	30.75
Level B Attendance Allowance	57.00	58.75
Level C Attendance Allowance	86.25	88.75
Fostering Allowance (daily rate)	30.55	31.50

23. SFC on the 6<sup>th</sup> May 2011 also agreed an increase in the electricity unit rate of 2p to 21p/unit due to the recent increases in the fuel price. It is recommended that this change is made the day after the change is announced at Legislative Assembly in line with the proposed legislative changes detailed in ExCo paper 135/11.

### **Financial Implications**

24. This report represents a summary of the projected financial position of FIG following a series of budget meetings. As such, the detailed financial implications are included in the various reports that have already been considered by Members. If all decisions and recommendations made so far are approved, the projected budget surpluses and net capital programme figures will be as shown below:

	<b>Budget Surplus/ (Deficit)</b>	<b>Net Capital Programme</b>
2011/12 Draft	101,650	7,688,410
2012/13 Projected	(317,440)	357,330
2013/14 Projected	(506,750)	1,951,330
2014/15 Projected	(103,740)	1,506,330
2015/16 Projected	(72,580)	1,486,330

### **Legal Implications**

25. The legal implications from the budget process are taken account of in the Draft Appropriation Bill and draft Capital Equalisation Fund Order in the Summary Budget Booklet attached, together with the Finance Bill 2011, which is the subject of a separate report on this agenda (paper 135/11).

### **Human Resource Implications**

26. Although there are a number of staffing adjustments that have been identified during the budget process which have been separately identified during the process, there are no direct HR implications arising from this report.

**Schedule of Amendments during SFC 6<sup>th</sup> May 2011**

				2011/12	2012/13	2013/14	2014/15	2015/16
<b>Surplus/(Deficit) from 6<sup>th</sup> May start provided to Members</b>				<b>(47,080)</b>	<b>(128,970)</b>	<b>(318,280)</b>	<b>84,730</b>	<b>115,890</b>
				<b>Deficit</b>	<b>Deficit</b>	<b>Deficit</b>	<b>Surplus</b>	<b>Surplus</b>
#	Movement	CC	Vote	2011/12	2012/13	2013/14	2014/15	2015/16
174A	Removal of Air Links budget until submitted as full proposal	0602	1883	(350,000)	-	-	-	-
175A	Removal of Gypsy Cove costs relating to unapproved capital proposal	0602	1883	(10,000)	(15,000)	(15,000)	(15,000)	(15,000)
74R	Increase KEMH MOU MOD increase to 5%	0201	0044	(10,570)	(10,570)	(10,570)	(10,570)	(10,570)
38R	Change refuse decreases to start 1st Jan 2012	0356	-	(8,480)	-	-	-	-
73R	Change commercial service charge to 1st Jan 2012 start	0356	TBA	21,400	-	-	-	-
66R	Increase electricity price to 21p	0355	-	(255,730)	(255,730)	(255,730)	(255,730)	(255,730)
67R	-offset by cost to FIG departments	0602	2000	69,770	69,770	69,770	69,770	69,770
180A	Add pay award reserve on basis of higher of 3% or £450 per annum	0602	1700	400,000	400,000	400,000	400,000	400,000
163A	Correction to figures for Senior Economist/Policy Officer Merger	0615	-	(5,120)	-	-	-	-
	Movements above			(148,730)	188,470	188,470	188,470	188,470
	<b>Current Surplus/(Deficit)</b>			<b>101,650</b>	<b>(317,440)</b>	<b>(506,750)</b>	<b>(103,740)</b>	<b>(72,580)</b>
				<b>Surplus</b>	<b>Deficit</b>	<b>Deficit</b>	<b>Deficit</b>	<b>Deficit</b>

**FORECAST BALANCE SHEET**

Appendix B

	Actual 2008/09 £000	Actual 2009/10 £000	Estimate 2010/11 £000	Proj. 2011/12 £000	Proj. 2012/13 £000	Proj. 2013/14 £000	Proj. 2014/15 £000	Proj. 2015/16 £000
<b>Fixed Assets</b>								
Tangible Fixed Assets	86,036	87,807	89,916	91,967	90,250	88,422	86,382	84,331
Investments – Consolidated Fund	67,491	73,559	72,910	73,358	73,404	73,272	73,550	73,849
<b>Total Fixed Assets and Investments</b>	<b>153,527</b>	<b>161,366</b>	<b>162,826</b>	<b>165,325</b>	<b>163,654</b>	<b>161,694</b>	<b>159,932</b>	<b>158,180</b>
<b>Debtors falling due after more than 1 year</b>	4,195	3,587	3,196	2,792	2,376	1,952	1,536	1,326
<b>Current Assets</b>								
Stocks	4,082	4,075	4,075	4,075	4,075	4,075	4,075	4,075
Debtors falling due within 1 year	6,233	7,015	7,018	7,031	7,043	7,050	7,043	6,837
Cash at bank and in hand	9,777	11,002	10,000	10,005	10,005	10,005	10,005	10,005
<b>Total Current Assets</b>	20,092	22,092	21,093	21,111	21,123	21,130	21,123	20,917
Creditors due within 1 year	(4,904)	(5,757)	(5,758)	(5,759)	(5,760)	(5,761)	(5,762)	(5,763)
<b>Net Current Assets</b>	15,188	16,335	15,335	15,352	15,363	15,369	15,361	15,154
<b>Total Assets Less Current Liabilities</b>	<b>172,910</b>	<b>181,288</b>	<b>181,357</b>	<b>183,469</b>	<b>181,394</b>	<b>179,015</b>	<b>176,828</b>	<b>174,660</b>
Creditors (amounts falling due after more than 1 year)	(388)	(349)	(309)	(268)	(227)	(184)	(141)	(96)
Provisions for liabilities and charges	(1,074)	(921)	-	-	-	-	-	-
<b>Total Net Assets</b>	<b>171,448</b>	<b>180,018</b>	<b>181,048</b>	<b>183,201</b>	<b>181,167</b>	<b>178,831</b>	<b>176,687</b>	<b>174,564</b>
<b>Financed by Taxpayers' Equity:</b>								
General Fund	171,448	180,018	181,048	183,201	181,167	178,831	176,687	174,564
<b>Taxpayer's Equity</b>	<b>171,448</b>	<b>180,018</b>	<b>181,048</b>	<b>183,201</b>	<b>181,167</b>	<b>178,831</b>	<b>176,687</b>	<b>174,564</b>
<b>Net Liquid Assets</b>	<b>85,412</b>	<b>92,211</b>	<b>91,132</b>	<b>91,234</b>	<b>90,916</b>	<b>90,409</b>	<b>90,306</b>	<b>90,233</b>
<b>RATIO</b>	<b>2.2</b>	<b>2.5</b>	<b>2.6</b>	<b>2.4</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>