

# EXECUTIVE COUNCIL

## PUBLIC

<b>Title:</b>	Budget Planning – 2018/19 onwards
<b>Paper Number:</b>	08/18
<b>Date:</b>	24 January 2018
<b>Responsible Director:</b>	Financial Secretary
<b>Report Author:</b>	Financial Secretary
<b>Portfolio Holder:</b>	MLA Roger Spink and MLA Roger Edwards
<b>Reason for paper:</b>	This paper is submitted to Executive Council: For policy update/information
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<b>Previous papers:</b>	194/16 – Budget Strategy (2017/18 onwards) 61/14 – Budget Strategy (2014/15 onwards) 263/13 – Budget Strategy 2014/15
<b>List of Documents:</b>	none

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### 1. Recommendations

Honourable Members are recommended to:

- a) approve the key budget principles to be used in preparing the 2018/19 budget in Appendix A.
- b) note the budget timetable in Appendix B;

### 2. Additional Budgetary Implications

None.

### 3. Executive Summary

- 3.1 The Finance & Audit Ordinance 1988 requires the Financial Secretary to prepare and lay before the Legislative Council estimates of revenues and expenditure of Government for

the following year (sch 7 i). The 2018/19 budget is scheduled to be laid at the Legislative Assembly of 29 May 2018.

3.2 The budget plan for 2018/19 features:

- The inclusion of a number of budget principles to be used for 2018/19 and be reviewed on an annual basis (Appendix A);
- A timetable (Appendix B);
- Maintaining a medium term financial plan (“MTFP”), and a capital plan.

#### 4. Background

##### Current Financial Position

4.1 The Standing Finance Committee meeting of 27/09/17 reported the 2016/17 operating budget outturn as having a £26M favourable surplus.

	<i>Original Estimate</i> £000	Provisional Outturn £000	Variance £000	
Departmental Revenue	59,039	80,618	21,579	Favourable
Departmental Expenditure	(49,292)	(48,837)	455	Favourable
Islands Plan Expenditure	(10,126)	(9,142)	984	Favourable
Social Investments	(1,468)	(1,468)	-	Neutral
Discontinued Activity *		(544)	(544)	Adverse
<b>MTFP Surplus/(Deficit)</b>	<b>(1,848)</b>	<b>20,627</b>	<b>22,474</b>	<b>Favourable</b>
Oil & Gas Revenue	2,316	4,416	2,100	Favourable
Oil & Gas Expenditure	(2,926)	(1,461)	1,465	Favourable
<b>LTFP Surplus/(Deficit)</b>	<b>(2,458)</b>	<b>23,582</b>	<b>26,040</b>	<b>Favourable</b>
Less Depreciation	(6,046)	(5,353)	693	Favourable
Net Operating Surplus/(Deficit)	(8,504)	18,229	26,733	Favourable

\* includes costs of separation relating to 30.6.17 project balances, plus net income in year

4.2 The balance of the Consolidated Fund and other realisable assets has increased from £85.4M at the end of financial year 2008/09 to £223M at the end of 2016/17. The reserves were at a level of 4.6 times operating expenditure.

4.3 Appendix C shows a summary of historic and projected income by type, and projections on the movement on the Consolidated Fund.

4.4 Income from Corporation Tax receipts and investment income has exceeded budget in recent years, whilst expenditure has been prudently managed. Falkland Islands Government has a robust balance sheet at present.

4.5 As at 30/09/17 there was a forecast surplus of £25M for the year to 30 June 2018.

### Policy Led Budget Planning

- 4.6 The 2018/19 budget planning exercise will reflect the priorities and support the objectives of the new Islands Plan<sup>1</sup>, the Economic Development Action Plan and the National Infrastructure Plan. Proposals for new programmes, projects and services, and/or for significant enhancements or reductions of services, will normally be supported by policy rationale outlining objectives and expected outcomes, submitted for prior ExCo consideration.

### Timetable

- 4.7 The budget timetable for 2018/19, including meeting dates is at Appendix B

### Budget Process

- 4.8 The work to prepare budgets across FIG, before submissions to the Budget Select Committee meetings is detailed at Appendix D.

### Improvement Reviews

- 4.9 There is an opportunity to undertake Director led improvement reviews of services. In 2018/19 a four year programme will be put together to review FIG services. As well as looking at the service quality, costs and investment requirements of individual services, there is also scope to undertake Government-wide cross cutting reviews of processes and activities. Examples include the recruitment process that affects all FIG departments, procurement/contract management and also administrative support.

### Subvention Bodies

- 4.10 Requests for subventions from FIDC, FIMCO, FITB and other bodies will be incorporated into the 2018/19 budget process. The funding requests will be reviewed assessed against FIG priorities and plans.

## **5. Options and Reasons for Recommending Relevant Option**

- 5.1 There are different ways for an organisation to prepare a budget. The approach outlined in this paper complies with Falkland Islands Legislation and Constitution, is largely based upon budget processes from previous years. The principle of stakeholder involvement in budget preparation is continued.

## **6. Resource Implications**

### 6.1 Financial Implications

- 6.2 There are no direct financial implications from the adoption of the recommended budget process in this report but there will be financial implications arising from the 2018/19 budget itself.

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<sup>1</sup> Prior to completion of the 2018-2021 new Islands Plan, Directorates will be guided by the 2014-18 Islands Plan and by discussions with Portfolio Holders on the priorities of the Legislative Assembly.

### 6.3 Human Resource Implications

6.4 There are no direct implications from the report itself, other than the amount of officer time taken up in the production of the budgets. However, there will be decisions made during the budget process that will have human resource implications.

### 6.5 Other Resource Implications

6.6 None

## **7. Legal Implications**

7.1 There are no legal implications arising from this paper. Compliance with the Finance & Audit Ordinance 1988 has been reviewed as part of this paper.

## **8. Environmental & Sustainability Implications**

8.1 None

## **9. Significant Risks**

9.1 Without a coherent budget plan, there is a risk that the Falkland Islands Government may not succeed in preparing a budget that is sustainable and directs financial resources in the most appropriate way. This risk can be mitigated by ensuring that decisions are made in accordance with priorities outlined in the Islands Plan and associated plans.

9.2 There are financial risks in terms of the potential for volatility in the main income streams that FIG depends upon to pay for services that are delivered. For example, Corporation Tax receipts, Fishing Licence income (and the absence of Refunds) and Investment income. Other financial risks include that of exchange rate movements, increases to commodity and supply prices and also any impact of Brexit.

9.3 Mitigating action has been undertaken by having an annual budget planning process that looks ahead for five years, and can be amended or reprioritised after each year. Excesses of income over expenditure in previous financial years has contributed to a healthy level of reserves for FIG.

9.4 It would be possible to amend spending in year for some projects if this was deemed necessary, and to plan different budgets in future years of the MTFP should income received be lower, or indeed higher.

9.5 On the expenditure side, financial risk exists if there is not the capacity to carry out the plans contained in the Operating Budget and the Capital Budgets. For example, some FIG departments have had a number of posts unfilled for some time. Also, when budgeting for projects there can sometimes be a risk of budget optimism about the start dates of the actual expenditure. For 2018/19, through CMT, FIG will monitor and review the progress of in year projects at a Programme level, and also the impact of previous years projects still in progress. Regular updates will be provided to MLAs.

## **10. Consultation**

10.1 The Chief Executive and Financial Secretary have discussed the proposed budget process with MLAs.

## **11. Communication**

11.1 A summarised version of the approved budget process will be communicated to Directors by Treasury memorandum.

## **Appendix A - Budget Principles – 2018/19 onwards**

The Budget Strategy for 2017/18 has been reviewed, and the principles from previous years have been incorporated into the 2018/19 budget process.

FIG continues to recognise that the main factors involved in setting the budget are:

- a) The need to operate public services at the level expected by the local community;
- b) The need to establish and support economic policies that encourage economic development and a sustainable future for the Falkland Islands;
- c) The need to provide social policy schemes such as pensions and improving the quality of life in the Falkland Islands.
- d) That the net expenditure plans for the five year term of the medium term financial plan (“MTFP”) reflects financial prudence and long term sustainability.

Budget principles:

### **Principle 1 – To seek to enhance the quality of life in the Falkland Islands – (amended from 2017/18)**

The successful and appropriate delivery of public services by Falkland Islands Government (including the outcomes of improvement reviews) and the achievement of the Economic Development Strategy will contribute to enhancing quality of life in the Falkland Islands.

### **Principle 2 – To encourage economic development in the Falkland Islands - (continue from 2017/18)**

The Economic Development Action Plan will be the mechanism to achieve this objective and specific deliverables. Input requirements will be reflected in the 2018/19 budget.

### **Principle 3 – To strengthen infrastructure within the Falkland Islands - (continue from 2017/18)**

FIG will review and refresh the National Infrastructure Plan and prioritise the capital programme accordingly. Aspects of the tax regime will also be reviewed to the extent that they impede or encourage investment by the private sector.

### **Principle 4 - “To invest in the long term financial sustainability of the Falkland Islands whilst managing variable income levels” (derived from “To spend within FIG’s means” –from 2017/18)**

Although deficit budgets can be created in the short term, there is a requirement to be financially sustainable in the long term for future generations.

Putting this principle into action:

1. Making realistic estimates for income (e.g. tax and fishing licenses), whilst acknowledging potential volatility;
2. Setting expenditure targets (operating and capital) that reflect long term sustainability when considering projected reserves;

3. Maintaining financial control – accounting officer responsibilities include ensuring that expenditure is within budget;
4. Ensuring a financial forecasting system is in place to check on the projected financial position for FIG in the future, and that this is regularly and clearly reported.

**Principle 4.1 - “To optimise income collection and investment returns” – (new)**

There are some additional areas that can be examined for the purpose of optimising revenue and cash to FIG, without undue cost or risk.

Putting this principle into action:

1. Reviewing workflow and resourcing of the corporation tax assessment & enquiry team and collecting tax debt due;
2. Reducing number of debtor days – by collecting balances due to FIG on time.
3. Optimising cash balances – ensuring liquidity whilst avoiding excessive cash with low rates of investment return.

**Principle 4.2 - To ensure that liabilities are assessed and appropriately accounted for (new)**

For example, the Retirement Pension Fund had a deficit of £144m at 31/12/16, offset by investments of £64m.

Putting this principle into action:

1. Pension liabilities to be quantified using actuarial expertise and consider IAS19 compliant financial reporting. Liability should be disclosed in financial statements, if appropriate to do so.
2. Develop a plan to either accept or mitigate the liabilities can be part of long term financial planning for FIG.
3. Consider any contingent liabilities and the extent to which these may crystallise into a liability in the future.

**Principle 5 – To work in partnership and collaborate with other organisations - (new)**

FIG will work with other organisations, including those within the private sector, to identify and develop opportunities to co-invest, share risk and leverage knowledge and capacity to deliver infrastructure and services for the Falkland Islands.

**Principle 6 - “To ensure that FIG services are fit for purpose” (new)**

FIG will implement Director-led reviews of services, in order to identify opportunities for improvements. In 2018/19, a four year programme will be put together to review FIG services. As well as looking at the service quality and costs of individual services, there is also scope to undertake cross cutting reviews of processes and activities that affect all of FIG (examples include the recruitment process that affects all FIG departments, procurement / contract management and administrative support.).

Additional ways of putting this principle into action:

1. Plan for future reviews of services or parts of services;
2. Include subvention bodies, by mutually agreeing outcomes and output targets as a condition of their annual grants;
3. FIG has many different departments, but across some of those departments there is a degree of common expenditure (e.g. training costs, recruitment costs). Consider selecting key areas for a cross departmental review.
4. Encourage Spend to Save initiatives at the budget setting stage and be open to pay back periods of several years.
5. Ask MLAs and members of staff to identify inefficiencies and potential areas for improvements.

**Principle 7 – No Public Sector Borrowing for operating purposes – (continue from 2017/18)**

The 1988 Finance & Audit Ordinance does not allow any borrowing by FIG without the approval of the UK Government.<sup>2</sup>

This principle does not impede the investigation of collaborative approaches to the funding of capital infrastructure investment.

**Principle 8 - A reasonable level of funds are held in uncommitted reserves – (continue from 2017/18)**

In recent years, a sum of at least 2.5 departmental spend has been considered to be a reasonable level of reserves.

Putting this principle into action:

1. Monitor the reserves level at all stages of the budget planning process;
2. Review whether 2.5 times departmental spend is appropriate or whether it should be changed.

**Principle 9 - An appropriate level of funding is provided to maintain efficient and effective public services – (continue from 2017/18)**

For time being, the Chief Executive will work to planning assumption that overall, current FIG operating services will not cost more in real terms, than the previous financial year. However, Directorates will have the opportunity during the budget process to make proposals for 'spend to save initiatives' or the provision of improved services.

The aim is to have a controlled start point from which to assess any proposed changes and have these visible in the budgeting process.

Putting this principle into action:

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<sup>2</sup> For major capital infrastructure projects the potential for a mix of different funders accords with economic development aims and avoiding an over reliance on government.

1. Provide flexibility for Directors to reallocate resources within their areas of delegation and for the Chief Executive to reallocate between Directorates;
2. Additional expenditure proposals to be presented separately.

Directors will be responsible for preparing budgets across their directorate, with the help of their heads of departments. Directors and budget holders need to be informed by their cautious understanding of future expenditure needs, but also to be encouraged to reallocate uncommitted funds within their Directorates as appropriate, subject to having had discussions with their relevant Committees / MLAs where there would be a major service shift.

SFC will generally not consider additional spending requests for the first six months of the financial year. This is to encourage departments and Chief Executive to look at possible solutions within existing budgets rather than asking for more funds, for example identifying areas of expected underspends.

The following principles can be summarised from the above:

**Principle 9.1 - Incremental budgeting is used for departmental budget preparation, as a means of identifying proposed changes, and is not intended to stifle change and innovation;**

**Principle 9.2 - SFC will generally not consider any additional requests for the first six months of the financial year, and virements should be sought instead.**

**Principle 10 - To ensure appropriate funding of FIG Special Funds – (continue from 2017/18)**

Putting this principle into action:

1. Pension liabilities to be quantified and acknowledged using appropriate actuarial reports and IAS19 compliant financial reporting – see principle 4.2;
2. Ensure that transfers from Consolidated Fund are made to ensure that Currency Fund, Capital Equalisation Fund and Insurance Fund are fully funded.
3. Report of fund balances and balance sheet in general to SFC meetings on a routine basis, as part of balance sheet reporting and also the movements in the funds. Otherwise, these funds are not as visible as they could be.
4. Reviewing whether the current size of the Insurance Fund is sufficient, based upon the excess on the Insurance policy held and the potential cost of replacement.

**Principle 11 - To ensure sustainable pension arrangements are in place – (continue from 2017/18)**

Putting this principle into action:

1. FIG Officers will develop an options paper for MLA consideration, outlining ways to address the pension fund deficit, links to social policies, and other options to encourage saving for retirement.

2. A visit by the actuaries Callund Consulting is scheduled for the end of January to present on the present position in relation to the Retirement Pension Fund. In particular, the actuaries will be presenting to Members on 24 January 2018.

## Appendix B – Budget Timetable 2018/19

<b><u>Budget timetable 2018/19 - CMT</u></b>		
Request to HR to commence preparation of schedule of baseline establishment details to Treasury (include establishment posts not yet recruited, gratuity, pensions, scale point of posts, contract end dates if applicable, and other variables affecting the actual cost of employing a post).		23/10/17
Budget approach to be agreed at CMT (contents of this paper). This will include alignment on what information on capital submissions should be provided to the MLA's.		30/10/17
Meeting with incoming Treasury MLA Portfolio holder to explain budget process.		Late Nov – early Dec
Budget Planning meeting.		29/11/17
Control sheet of Fees to be prepared – non legislative, legislative, UK driven. Establish links with Legislative Drafters.		30/11/17
Treasury issue budget spreadsheets to Directorates. This will include standard workbook template, detailed workbook (for material lines), spreadsheet detailing new operating proposals (to include details of new establishment posts) and cross departmental activity review (training, recruitment, IT assets).		30/11/17
Treasury send Capital Programme template out to Directorates for updating.		30/11/17
Subvention templates issued.		30/11/17
Treasury provide budget training to departments.		14/12/17
Directors consult portfolio holders on budget as background induction, and also any new proposals.		01/12/17 to 31/01/18
MLAs discuss any policy reviews that will be relevant to the 18/19 budget process.		01/12/17 to 31/01/18
Treasury to be available to assist Directors with their budget preparation.		01/12/17 to 31/01/18
Programme Manager to be available to assist Directors with Business Case Preparation (Operating & Capital).		01/12/17 to 31/01/18
Directorates submit high level new proposals for operating budgets (A, B, C) classifications.		12/01/18

	CMT discussion on high level proposals.	22/01/18
	Directors submit completed spreadsheets to Treasury (Operating and Capital), have reconciled all Establishment details and have prepared all required supporting documentation to Treasury to collate for CMT.	31/01/18
	Subvention bodies submission deadline.	31/01/18
	Treasury review all budgets for consistency with assumptions made and other known plans and the Corporate Plan draft.	01/02/18 to 05/03/18
	Chief Executive meets with individual Directors to assess budgets against Falkland Islands plans.	01/02/18 to 05/03/18
	The Chief Executive will lead a CMT discussion at which overall budget (including capital projects and prioritisation of posts) will be discussed.	05/03/18
	Budget summary prepared and issued	June 18
	Approved budgets sent to Directors	June 18
	Budget highlights	June 18
	Treasury prepare budget book	June 18
	<b><u>Legislative Process (Budget Select Committee) – 2018/19</u></b>	
	“Budget Strategy” – meeting with MLAs	11/12/17
	“Capital Programme” – Meeting with MLAs	13/12/17
	Approval of budget planning process, principles and initial assumptions.	24/01/18
	Opening of Budget Select Committee	25/01/18
	Budget principles, economic background and high level income forecasts discussed with MLA’s.	22/02/18
	Subventions organisations	01/03/18
	Operating Budgets, Capital proposals and Subvention bids reviewed by approved by MLAs with Chief Executive and Directors in attendance.	28/03/18 to 29/03/18
	Budget paper to ExCo describing any Policy implications from the budget process (e.g. fee increases and allowances), and also to approve establishment changes.	11/04/18

	BSC approval of Executive Council approved establishment changes.	19/04/18
	<i>Further scheduled sitting of the Budget Select Committee if required.</i>	02/05/18
	First reading of the Appropriation Bill 2018, the Capital Appropriation Bill 2018 or the Finance Bill 2018 before referral to the final Budget Select Committee meetings.	29/05/18
	Final scheduled sitting of the Budget Select Committee.	29/05/18
	Final scheduled sitting of the Budget Select Committee – if required.	30/05/18
	Final readings of the Appropriation Bill 2018, the Capital Appropriation Bill 2018 or the Finance Bill 2018.	01/06/18

## Appendix C - Current Financial Position

Income 2012-13 – 2018/19 - £'000's [2017/18 and 2018/19 are budgeted figures]

Revenue	Directorate	Name	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
0321-0070	Natural Resources	Fishing Licence Fees	21,592	21,809	21,750	14,655	20,803	17,438	17,438
		Illex Squid	10,524	10,552	11,242	3,244	10,998	14,438	14,438
		Loligo Squid	6,375	6,375	6,375	6,375	6,375		
		Restricted Finfish	1,453	1,435	980	1,575	1,021		
		Finfish, Hoki, Rockcod, Southern Blue Whiting, Redcod	1,203	1,134	1,013	1,390	880		
		Others	2,036	2,313	2,140	2,071	1,529	3,000	3,000
0609-0186-	Corporate Resources	Corporation Tax	38,942	18,281	7,736	11,299	20,499	8,000	8,195
0609-0185-	Corporate Resources	Personal tax	11,195	6,508	10,000	14,461	8,654	6,000	6,151
0603-0157-	Corporate Resources	Profit on Sale of Investments	2,000	4,320	3,852	4,986	7,416	2,959	2,960
0603-0155-	Corporate Resources	Interest/OVERSEAS Investments	3,197	3,796	3,866	3,907	4,689	3,493	3,493
0355-0115-	Public Services	Sale of Electricity - Private	2,160	2,135	2,137	2,076	2,104	2,068	2,068
0358-0105-	Public Services	Rents Received	1,008	1,125	1,257	1,306	1,353	1,498	1,498
0850-0179-	Executive Management	FIGO Travel Revenue	-101	656	0	451	1,300	0	0
0201-0044-	Health	Reim. from MOD - CSA	1,257	1,262	1,262	841	1,157	1,250	1,250
0300-0060-	Community Safety	Customs Duty	999	1,005	1,109	967	1,156	1,115	1,115
0300-0061-	Community Safety	Customs Services	1,168	1,687	1,589	883	1,083	1,402	1,402
0300-0059-	Community Safety	Passenger Levy	485	570	984	1,357	1,046	914	960
0620-0166-	Mineral Resources	Oil Licence Acreage Rents	839	730	761	796	906	775	748
0201-0189-	Health & Education	Medical Services Levy	1,616	1,015	1,274	1,562	889	270	0
0353-0088-	Public Services	Sale of Quarry Products (PUBLIC)	441	1,324	1,348	860	748	950	950
0603-0119-	Corporate Resources	MPA Wind Farm Recharge	0	0	0	316	632	0	0
0102-0005-	Central Services	Passenger Revenue	357	411	425	495	497	460	475
0551-0140-	Community Safety	Road Traffic Licences	315	340	377	384	392	350	350
0602-0188-	Corporate Resources	Land Rent	129	131	131	336	332	300	300
0357-0078-	Public Services	Service Water Charge	262	273	284	289	311	313	313
0201-0040-	Health	Hospital & Medical Charges	325	329	284	659	264	500	500
	Remaining	Operating Revenue	4,777	4,178	5,627	6,257	5,235	5,085	4,955
ALL	Internal Transfer		3,621	3,574	2,945	3,485	4,024	3,938	3,943
ALL	Fund Transfers - Revenue		0	0	279	104	368	0	0
ALL	Transfer Payments - Revenue		44	39	0	59	29	0	0
		<b>Total Revenue</b>	<b>96,627</b>	<b>75,501</b>	<b>69,276</b>	<b>72,791</b>	<b>85,887</b>	<b>59,079</b>	<b>59,064</b>

## Consolidated Fund

	Opening Unrestricted Reserves (NLA)	Operating Revenue	Dept. Expenditure	Island Plan Investments	Social Investments	Operating Surplus/ (Deficit) MIFP	Oil & Gas	Operating Surplus/ (Deficit) LIFP	Projected Capital To be funded	Other Gains/ Losses	Net Liquid Assets	Reserves to Dept spend ratio	
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M		
2008/09	Actual	90.8	41.9	(38.8)	(4.5)	(3.1)	(4.5)	0	(4.5)	(0.9)	85.4	2.2	
2009/10	Actual	85.4	43.8	(36.6)	(4.0)	(2.2)	1.0	0	1.0	5.8	92.2	2.5	
2010/11	Actual	92.2	55.2	(34.0)	(4.6)	(3.9)	12.8	6.5	19.3	(1.3)	110.2	3.2	
2011/12	Actual	110.2	54.6	(37.2)	(5.3)	(6.3)	5.9	5.6	11.5	(2.7)	119.0	3.2	
2012/13	Actual	119.0	60.2	(39.8)	(6.4)	(4.4)	9.5	26.3	35.8	8.4	163.2	4.1	
2013/14	Actual	163.2	64.5	(45.8)	(21.7)	(2.2)	(5.2)	11.0	5.8	3.4	172.4	3.8	
2014/15	Actual	172.4	69.3	(47.5)	(18.7)	(2.4)	0.6	0.6	0.6	2.5	175.5	3.7	
2015/16	Actual	175.5	72.8	(50.1)	(13.7)	0.0	9.0	9.0	9.0	3.6	188.1	3.8	
2016/17	Prov Outturn	188.1	80.2	(48.8)	(9.1)	(1.5)	20.8	2.9	23.7	11.4	223.2	4.6	
2017/18	Forecast	223.2	86.1	(52.6)	(5.9)	(1.5)	26.1	(0.8)	25.3	(20.2)	0.0	228.3	4.3
2018/19	Budget	228.3	59.1	(51.9)	(5.7)	(1.5)	(0.1)	(0.6)	(0.7)	(20.8)	0.0	206.9	4.0
2019/20	Budget	206.9	59.0	(51.8)	(4.9)	(1.2)	1.2	(0.3)	0.9	(9.0)	0.0	198.7	3.8
2020/21	Budget	198.7	59.3	(51.8)	(4.9)	(1.2)	1.4	(0.3)	1.1	(6.8)	0.0	193.1	3.7
2021/22	Budget	193.1	59.4	(51.7)	(5.0)	(1.2)	1.5	(0.3)	1.2	(5.6)	0.0	188.8	3.7

### Note

- 1) Opening Reserves of £223.2M as per SFC report 27/9/17
- 2) Above amounts excludes pensions liability of £82.2m as per 31/12/2016 actuarial review
- 3) 2017/18 Forecast reflects 2017/18 budget adjusted for £27m in additional Corporation Tax receipts

## Appendix D – Budget Preparation and Approval Process

1. A purpose of this Appendix is to explain how the 2018/19 budget is prepared, amended and approved, within the agreed timetable.
2. The sections below describe the process by which the 2018/19 budget will be prepared:
  - Governance Framework
  - Budget Governance Prior to Budget Select Committee Approval
  - Key Budget Planning Principles and Assumptions
  - Operating Budgets – Preparation & Governance
  - Capital Budgets – Preparation & Governance
  - Staff Establishment Approvals
  - Budget Select Committee Meetings 2018
  - Subventions
  - Fees and Charges
  - Legislative Process
3. Governance Framework
  - 3.1 The Finance & Audit Ordinance 1988 requires the Financial Secretary to prepare and lay before the Legislative Council estimates of revenues and expenditure of Government for the next (following) year (sch 7 i). The 2018/19 budget is scheduled to be laid at the Legislative Assembly of 29 May 2018.
  - 3.2 The estimates (budget) prepared must describe the ambit of the vote, the sum required for each vote, and have a named accounting officer for each vote. Financial Instructions specify that a vote represents the sum that is granted annually to each Director (as accounting officers) as part of the overall budget.
  - 3.3 The Falkland Islands Constitution Order 2008 (sec 83 (2)) states that the Chief Executive shall be the head of the public service and has the power to make appointments to public offices.
4. Budget Governance Prior to Budget Select Committee Approval
  - 4.1 The Financial Secretary and Chief Executive have established a process to ensure that a draft budget is available for a Budget Select Committee (“BSC”) meeting on 28-29 March 2018. The purpose of this meeting will be to enable MLA’s to scrutinise the spending plans and assumptions behind the preparation of the 2018/19 draft budget, and associated Medium Term Financial Plan (to 30 June 2023).
  - 4.2 Directors, as accounting officers, will prepare budgets on a Directorate basis and look at their departments within the context of a Directorate as a whole, as well as other corporate considerations. The aim should be to ensure that budgets should align with the priorities of the Islands Plan and Economic Development Strategy, rather than necessarily perpetuating an historic mix of costs in specific account codes within cost

centres. There is nothing to suggest that budgets have been passively carried forward from one year to the next, but in the absence of a “zero based budgeting” or “activity based budgeting” approach, then it is healthy for accounting officers to continue to reflect upon what is needed within their service areas, and how this then manifests itself as a budget request.

- 4.3 A key assumption is that the draft 2018-19 budget presented to the BSC meeting of 28-29 March 2018 will not be significantly greater than 2017/18 by Directorate, unless there is a matching of increased income or reductions of costs elsewhere. However, departments will have the opportunity to propose increases to their operating budgets where it can be demonstrated that net savings can be delivered over the course of the five year MTFP (‘spend to save’ initiatives) or service delivery can be improved.

## 5. Key Budget Planning Principles and Assumptions

- 5.1 In ExCo paper 61/14, a revised Budget Strategy was approved, to ensure that a number of Budget principles remained for the term of the previous assembly, but to be reviewed annually.
- 5.2 The budget principles to be used in 2018/19 are described in Appendix A.
- 5.3 Budget assumptions used by the Chief Executive and CMT in preparing the draft budget are will be determined by 5 March 2018 once initial submissions have been received and reviewed. Assumptions will be made around income (including: corporation tax, personal tax, investment income, fishing licence income, passenger levy, embarkation tax, oil acreage rents and fee charges relating to services delivered).

## 6. Operating Budgets – Preparation & Governance

- 6.1 Salary budgets will be prepared by Directorates, using corporate information. There will be central control over bids received for additional staffing. There will need to be visibility as to the mix of contractor posts, agency posts, consultants and permanent staff across FIG as a whole.
- 6.2 There is scope to use workforce information to help identify any efficiency opportunities, should they exist. Increment costs for those posts not at the top of the scale will be added, as well as the ability to add a cost of living pay award if one is recommended as part of the Budget Select Committee process. Directorate accounting officers will have access to this information to help them be aware of the existing resources within their areas, and will be required to report changes (e.g. planned post deletions) to finance. A centralised overview will help with overall corporate planning.
- 6.3 Directors will be able to reallocate non staff costs within their Directorates. Collaboration between Directorates will be encouraged by the Chief Executive. This may help move Government away from perpetuating budget lines purely because that is what the budget always has been (though no evidence to suggest this), and also free up and empower Directors within their areas of responsibility. As part of their responsibilities, Directors as accounting officers are required to ensure that their budgets are realistic and include known contractual commitments and other obligations.

- 6.4 Directors will be asked to put forward proposals for reallocation of resources where appropriate and spend to save initiatives. Payback for these bids should be within the five year lifespan of the Medium Term Financial Plan. Proposals for increased expenditure to support improved service delivery can be put forward for consideration by Members.
- 6.5 For 2018/19 the decision has been taken to avoid a full “zero based budgeting” exercise, as this could take up more staff time for limited gain. Instead there will be a programme of Director led service improvement reviews to take place over the next four years.
- 6.6 In addition, there is scope for cross departmental reviews for areas area of activity that are common to all Directorates (for example, recruitment). Lessons from any initial review work can then inform a rolling programme of reviews for the 2019/20 budget cycle and beyond.
- 6.7 Directors and MLAs will need to ensure that there are no surprises when it comes to what is actually contained in the budget proposals.
- 6.8 Directors will submit their draft budget packs to Finance by 31 January 2017, and present their budget for the next five years to colleagues at a CMT meeting on 5 March 2018. The Chief Executive will ensure that priorities identified within existing strategies and plans are used as a basis to accept proposals and reallocate financial resources as necessary. For example, the National Infrastructure Plan, existing approved capital spending decisions and actions in the Economic Development Plan are part of this.
- 6.9 All known new project proposals for the five years to 30 June 2023 will therefore need to be considered at the CMT meeting of 5 March 2018 at the latest. This is to ensure that there can be corporate challenge and prioritisation projects, and also to capture resource and capacity implications for the organisation as a whole. New project proposals will be required to have a planning document in a simple and consistent format suitable for a first “gateway” review.
- 6.10 There will be greater visibility of special projects. Account codes to be kept specific to what is being purchased, and to keep “projects” at Cost Centre level

## 7. Capital Budgets – Preparation & Governance

- 7.1 Finance staff will continue with presentational changes that will assist openness and transparency of the overall budget decision making process. For example, the Capital budget will differentiate between projects that are ‘value enhancing’ expenditures opposed to those that are repairs & maintenance in nature (e.g. MPA road repair).
- 7.2 A summary of Capital projects will be maintained by Treasury as during the 18/19 budget process. Each capital project will have a reference to any relevant Executive Council paper and approval. This will then reduce the scope for new projects to be started off that do not link to identified priorities (e.g. National Infrastructure Programme) or other policy decisions.
- 7.3 There will be an overall control total of budget spend, distinguishing between projects of a ‘value enhancing’ nature and projects of a ‘repairs and maintenance’ nature. However, what counts is the amount of overall resource required, compared to the overall level of

income received by FIG and the level of reserves required to ensure financial sustainability.

- 7.4 Directorates that do have any requests for Capital funding should submit these first in the form of the completed Capital Programme template plus completed EXCO papers (for those projects deemed necessary by CMT) to Treasury by 31 January 2018, followed by a presentation to a CMT meeting on 5 March 2018.
- 7.5 The Programme Manager will advise on the development of the business cases in terms of being able to articulate the requirement for investment and Treasury can assist with reviewing financial aspects. Any new project proposals will be required to have a planning document in a simple and consistent format suitable for a first “gateway” review.
- 7.6 All Capital proposals should include project development costs associated with the cost of implementation, as well as any on-going operating costs.
- 7.7 As a result of discussions between Chief Executive and the Corporate Management Team a draft Capital Programme for 2018/19 to 2022/23 will be prepared. Directors will revise their draft ExCo papers accordingly.
- 7.8 A summary paper for the Budget Select Committee will be prepared and put forward to the 28-29 March 2018 Budget Select Committee.
- 7.9 The Budget Select Committee will decide whether to approve the package of Capital works and whether any changes need to be made – either in prioritisation, inclusion or timing.

## 8. Staff Establishment Approvals

- 8.1 Treasury will obtain details of the 17/18 establishment from Human Resources. Directorates will prepare their establishment budgets using current known posts. The Directorate establishments will be populated with filled posts and vacant posts, and additional information added for known contract end dates, increments due for staff not at the top of the scale and other known changes that Human Resources control.
- 8.2 Treasury will update the central establishment 18/19 budget control sheet.
- 8.3 Directorates that wish to reallocate posts between departments or create new posts should document their proposal outlining the reason for the reallocation / new posts, as well as salary and grade details.
- 8.4 Budgets for 2018/19 will need to be realistic in terms of vacancies and the financial impact of either staff turnover or necessary handover periods.
- 8.5 The Chief Executive will meet with Directors and lead a CMT discussion on 5 March 2018 at which overall prioritisation of FIG posts will be discussed.

- 8.6 Any additional posts proposed by CMT will be included as part of the first budgets that will go to the Budget Select Committee of 28-29 March 2018.
- 8.7 On behalf of the Chief Executive, the Director of HR will prepare an ExCo paper summarising all approved posts. This paper will be cross checked by treasury for consistency with departmental budget submissions. This paper will be submitted to the Executive Council meeting planned for 11 April 2018.
- 8.8 Executive Council will approve establishment changes considered appropriate and refer the request for additional funding to support the posts to the Budget Select Committee of 19 April 2018 for approval.
- 8.9 The Budget Select Committee of 19 April 2018 will decide whether to approve the post and any stipulations on the period of appointment, contract terms etc.

## 9. Budget Select Committee Meetings 2018

- 9.1 The purpose of the Budget Select Committee is to enable an agreed budget to be submitted to the Legislative Assembly on 1 June 2018, and for this budget to be in accordance with any requirements of the Finance & Audit Ordinance 1988
- 9.2 For the 2018/19 Budget Process the draft budget will be submitted to the Budget Select Committee of 28-29 March 2018.
- 9.3 The 28-29 March 2018 Budget Select Committee is when the draft budget will be made available. This budget report will comprise:

- Analysis of budgeted income for Corporation Tax, Personal Tax, Fisheries – ITQ, Fisheries – Ilex, Customs – Harbour dues, Investment returns;
- Summary of changes to Retail Price Index over the past three years;
- Proposed changes to fees & charges, pay award, pensions increase, to be informed by changes in Retail Price Impact (and also increases in fees / salaries in previous years in relation to this);
- Information about balance sheet issues – e.g. strength of overall reserves.
- Summary of posts in the draft budget for 18/19, including any proposed changes from the 17/18 establishment;
- Departmental operating budgets with Directorate summary
- Capital budget proposals – in a consistent format between projects;
- Summary of changes to Balance sheet;
- Full narrative of results for any internal reviews.

## 10. Subventions

- 10.1 The BSC meeting of 28-29 March 2018 will be used to review the requests for Subventions that have been received. For 2018/19, there will be no Subvention requests for SAERI now that it is established as a free standing self-financing charity, and also from the Museum & National Trust who will be funded by Passenger Landing Fees from July 2018.

10.2 The timetable for Subventions will be for organisations (including corporations, such as FIDC, FIMCO and FITB) to submit their requests in required format to Treasury by 31 January 2018.

## 11. Fees and Charges

11.1 A baseline inflation figure will be set at a level to be advised by the Policy Unit. Directorates will be required to include provisional fee increases (if any) as part of the draft budget submission. Directorates will be required to consider whether their proposed level of activity, enables costs to be recovered from users in non-protected areas, to continue the “user pays” approach.

11.2 Treasury will maintain a control list of all fees and charges. The fees and charges can be categorised into: fees that must be reflected in legislation (e.g. Banking licence), no legislation required (e.g. electricity unit prices) and those fees determined by UK legislation (e.g. Civil Aviation charges).

11.3 The Public Accounts Committee has made some recommendations about the basis on which “user pays” charges are calculated and changed. The FIG response to the PAC report should also be consistent with what is proposed in the 2018/9 budget.

11.4 In terms of the timetable, the Budget Select Committee of 28-29 March 2018 will review fees and charges.

11.5 Proposed changes to Taxation allowances, reliefs and charges should be considered at the same time, and also any budget implications considered.

11.6 The ExCo meeting of 11 April 2018 will consider policy implications arising from the budget process.

## 12. Legislative Process

12.1 Treasury will be responsible for maintaining the Fees and charges control schedule and will work with the Legislative drafters on the Finance Bill 2018.

12.2 The following pieces of legislation will arise from the 2018/19 budget setting process:

- The Appropriation Bill 2018 – to authorise the withdrawal from the Consolidated Fund of money for the financial year ending 20/06/19
- The Capital Appropriation Bill 2018- to authorise the withdrawal from the Capital Equalisation Fund for the next financial year;
- The Finance Bill 2018 – to increase various allowances, benefits, charges, contributions, fees and penalties provided for under the laws of the Falkland Islands and to make new provision for certain new charges.

12.3 The above Bills will be read for the First time at the Legislative assembly of Tuesday 29 May 2018 at 09:00. The Bills will then be referred to the final Budget Select Committee meetings.

- 12.4 The final Budget Select Committee meetings are Tuesday 29 May 2018 at 14:00 (after Legislative Assembly) and Wednesday 30 May 2018 at 08:30. At these meetings the Budget Select Committee will reaffirm the proceedings of the Committee of the last four months. In the event of any amendments to the Appropriation Bill, the Capital Appropriation Bill or the Finance Bill following the Legislative Assembly of 29 May 2018, these would need to be processed.
- 12.5 Should there be any changes to the Appropriation Bill 2018, the Capital Appropriation Bill 2018 or the Finance Bill 2018 from the final Budget Select Committee meetings on Tuesday 29 May 2018 and Wednesday 30 May 2018, these changes will be made by Attorney General's Chambers.
- 12.6 Legislative Assembly then resumes at 09:45 on Friday 1 June 2018 and addresses the remaining stages of the Appropriation Bill 2018, the Capital Appropriation Bill 2018 and the Finance Bill 2018. The Financial Secretary will report back from the Budget Select Committee meetings of Tuesday 29 May 2018 and Wednesday 30 May 2018 and explain any policy changes and reasons for them.