

# EXECUTIVE COUNCIL

## PUBLIC

<b>Title:</b>	Budget Planning – 2019/20 onwards
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<b>Report Author:</b>	Financial Secretary
<b>Portfolio Holder:</b>	MLA Roger Spink and MLA Roger Edwards
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<b>Previous papers:</b>	08/18 – Budget Planning – 2018/19 onwards 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>	Appendix A: Key Budget Principles Appendix B: Budget Timetable

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### 1. Recommendations

Honourable Members are recommended to:

- a) approve the key budget principles to be used in preparing the 2019/20 budget in Appendix A.
- b) note the budget timetable for 2019/20 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 2019/20 budget is scheduled to be laid at the Legislative Assembly of 4 June 2019.

3.2 The budget plan for 2019/20 includes:

- The inclusion of a number of budget principles to be used for 2019/20 and be reviewed on an annual basis (Appendix A);
- A timetable (Appendix B);
- Preparing a medium term financial plan (“MTFP”), and a capital plan, to include any long term major capital investment.

## 4. Background

### Current Financial Position

4.1 The Standing Finance Committee meeting of 25/07/18 reported the 2017/18 operating budget a £38m surplus of income over expenditure (2016/17: £24m surplus).

4.2 The actual surplus of £38m exceeded the £34m surplus of operating income over expenditure that was assumed during the 2018/19 budget setting process<sup>1</sup>.

4.3 The balance of the Consolidated Fund and other realisable assets has increased from £172m at the end of financial year 2013/14 to £200m at 30/06/18. The reserves were at a level of 3.2 times 18/19 operating expenditure as at 30/06/18. FIG has a substantial capital investment programme of £112m over the five year period from 2018/19, which will reduce the level of reserve capacity that is in excess of the current principle of 2.5 times operating expenditure.

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

4.5 Income from Corporation Tax receipts and investment income has exceeded budget in recent years, whilst expenditure has been prudently managed.

4.6 As at 31/07/18 there was a forecast surplus of £11m for the year to 30 June 2019, which is in line with budget.

4.7 FIG income depends upon Fishing Licence income and tax receipts from the fishing industry. Fishing licence income to FIG in 2017/18 was £23m and Corporation Receipts from the direct fisheries sector amounted to £24m. In total, £47m of FIG income of £102m in 2017/18 related directly to Fishing industry activity. It should be noted that this figure excludes indirect benefits to the supply chain and the wider economy, as well as FIG income for services provided (e.g. harbour dues).

4.8 The current status of the Falkland Island fishery in terms of productivity and profitability is an indicator of the future, but with no guarantees. For example, the Ilex catch has an

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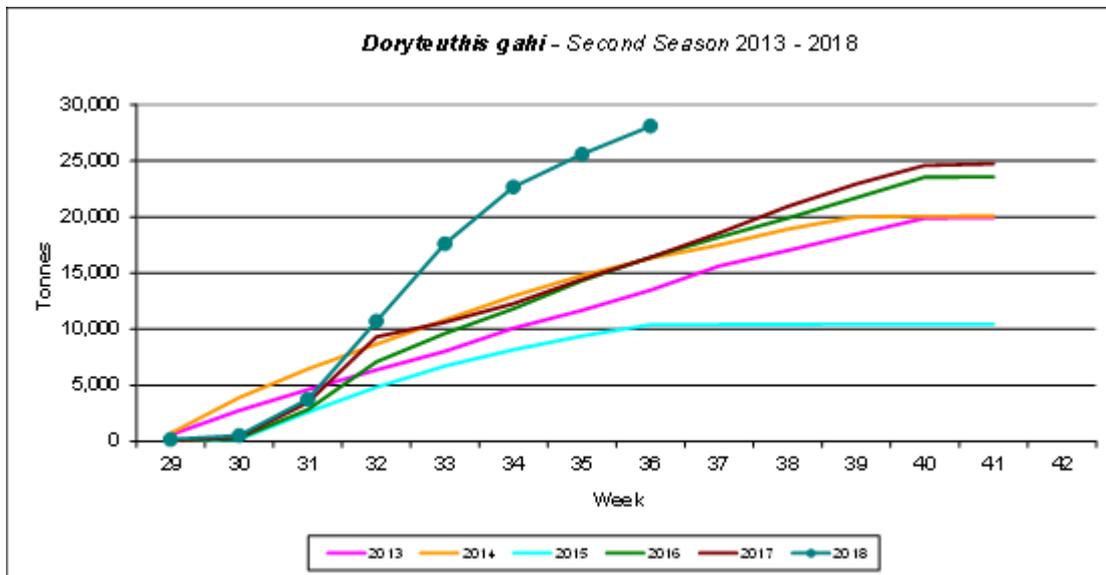
<sup>1</sup> page 17 of the 2018/19 Approved Estimates

impact upon actual B licence income, in accordance with a published formula which has the potential for a refund in the event of lower catches. Catches for *Ilex* can vary significantly from year to year.

4.9 Catches of *Ilex* for the last 5 years have been<sup>2</sup>:

Year	Tonnes
2018	54,384
2017	67,487
2016	2,360
2015	357,722
2014	306,111

4.10 In September 2018, the *Loligo* catches were reported by FIG Fisheries department to be higher than previous years:



4.11 The FIG Policy Unit produced a chart that shows changes in fish export prices per Kg to the EU (€/kg, as well as the price converted into £/kg) from 2013 up to May 2018:

<sup>2</sup> Source: ExCo paper 152/18 – Table 3



4.12 There is an upward trend in overall export prices to the EU, and increased catch volumes, but no certainty how this will impact FIG income in future financial years over the next five year period.

4.13 FIG mitigates against fluctuations in income by having an annual budget planning process that includes the principle of maintaining a certain level of reserves.

#### Policy Led Budget Planning

4.14 The 2019/20 budget planning exercise will reflect the priorities and support the objectives of the Islands Plan and the Economic Development Action Plan and the National Infrastructure Plan.

4.15 Proposals for new programmes, projects and services, and/or for significant enhancements or reductions of services, will be supported by stated objectives and expected outcomes, submitted for approval by the Budget Select Committee. Executive Council will approve policy changes and major investments / financial impacts after a concluded budget process.

#### Timetable

4.16 The budget timetable for 2019/20, including meeting dates is at Appendix B

#### Budget Process

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

### Improvement Reviews

- 4.18 There is an opportunity to undertake Director led improvement reviews of services. During this current year a 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.
- 4.19 The first Directorate to be reviewed has been Health and Social Services. The focus has been on three specific areas: workforce planning, business management and purchasing. Rather than focus on all aspects of service delivery, some specific areas were agreed for review and action.
- 4.20 An example of a decision made in the 2018/19 budget process was to centralise recruitment advertising decisions in HR. There is a new advertising portal which went live in 2018, and which in turn might enable better targeting and wider dissemination of job opportunities at lower cost overall.

### Subvention Bodies

- 4.21 Requests for subventions from FIDC, FIMCO, FITB and other bodies will be incorporated into the 2019/20 budget process.
- 4.22 Funding requests will be reviewed assessed against FIG priorities and plans.

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

- 5.1 The approach outlined in this paper complies with Falkland Islands Legislation and Constitution. There is no option available to avoid an annual budget. There are different ways to compile a budget. Having a “zero based” budget process will be difficult to effect successfully without suitable benchmarks, markers of success and flexibility of different ways of delivering public services. For this 2019/20 budget process the current incremental approach to budget setting will be maintained.
- 5.2 The principle of stakeholder involvement in budget preparation is continued, and this is reflected in the role of MLA Portfolio leads, the 2018-22 Islands Plan and on-going engagement with the wider community.

## **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. There will be financial implications arising from the 2019/20 budget itself, which will be the subject of future ExCo approval after the Budget Select Committee process has concluded.

### 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. Excess 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 Another risk with revenues is being too cautious. This would manifest itself as economic and social investment decisions not being made due to concerns about the ability of FIG to fund those investments. There is no easy middle point that achieves the correct balance between extreme caution and taking too much risk.

9.6 In terms of managing revenue risk, the practical steps that can be taken are:

- Make increased use of economic and policy information to be able to make defensible decisions;

- Having a fall-back position of sufficient financial reserves to fund operating costs where there is an absence of reserves;
- Staging investment decisions at different points in a five year plan, with the opportunity to defer or amend that decision if need be.

9.7 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.

9.8 Since the current financial year, 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 on 04/09/18.

## **11. Communication**

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

## **Appendix A - Budget Principles – 2019/20 onwards**

The Budget Strategy for 2018/19 has been reviewed, and the principles from previous years have been incorporated into the 2019/20 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**

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**

The Islands Plan and the Economic Development Action Plan will be the mechanism to achieve this objective and specific deliverables. Input requirements will be reflected in the 2019/20 budget.

### **Principle 3 – To strengthen infrastructure within the Falkland Islands**

In 2018/19 a significant capital investment programme was agreed, amounting to £110m over five years, with a weighting towards the first two years. Unbudgeted items include a port and a replacement power station, but these remain as critical pieces of infrastructure.

### **Principle 4 - “To invest in the long term financial sustainability of the Falkland Islands whilst managing variable income levels”**

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<sup>3</sup> estimates for income (in particular tax and fishing licenses<sup>4</sup>), whilst acknowledging potential volatility;

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<sup>3</sup> Realistic should not mean either excessively cautious or optimistic. Assumptions can be stated. It is important that any major investment decisions are underpinned by evidenced (as far as possible) income scenarios.

<sup>4</sup> An action from 2018/19 was to amend the assumption about Ilex licence refund potential from increasing the budgeted income, although there does always remain the possibility of a full refund having to be given.

2. Setting expenditure targets (operating and capital) that reflect long term sustainability when considering projected reserves<sup>5</sup>;
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”**

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**

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. Liabilities 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<sup>6</sup> and the extent to which these may crystallise into a liability in the future, and seek to set aside funds to pay for these if possible.

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

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”**

There is an opportunity to undertake Director led improvement reviews of services. During this current year a programme will be put together to review FIG services. As well as looking

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<sup>5</sup> A decision to be made will be whether to include major infrastructure costs in the five year budget, and to identify how they should be funded.

<sup>6</sup> Depending upon the nature of the contingent liability, insurance can be a device to cover the risk of a financial liability arising.

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.

The first Directorate to be reviewed has been Health and Social Services. The focus has been on three specific areas: workforce planning, business management and purchasing. Rather than focus on all aspects of service delivery, some specific areas were agreed for review and action.

An example of decision made in the 2018/19 budget process was to centralise recruitment advertising decisions in HR. There is a new advertising portal which went live in 2018, and which in turn might enable better targeting and wider dissemination of job opportunities at lower cost overall.

Additional ways of putting this principle into action:

1. Identify scope for external assurance of service delivery<sup>7</sup> in areas that do not have this at present;
2. Encourage Spend to Save initiatives at the budget setting stage and be open to pay back periods of several years.
3. Ask MLAs and members of staff to identify inefficiencies and potential areas for improvements.

### **Principle 7 – No Public Sector Borrowing for operating purposes**

The 1988 Finance & Audit Ordinance does not allow any borrowing by FIG without the approval of the UK Government.<sup>8</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**

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

The 2019/20 budget process will need to confirm or otherwise what an appropriate ratio of reserves is.

Putting this principle into action:

1. Monitor the reserves level at all stages of the budget planning process<sup>9</sup>;

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<sup>7</sup> For example, RFIP is having review by independent consultants. Internal Audit has undergone a self-assessment and is seeking CPA funding for a review by the UK Government Internal Audit Agency.

<sup>8</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.

<sup>9</sup> During the 2018/19 Budget Select Committee meetings a useful device was a summary of the planned operating and capital budget for the next five years, and what the impact on unrestricted reserves (Consolidated Fund and Capital Equalisation Fund)

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**

There was a significant amount of growth in the 2018/19 budget, both in terms of posts (e.g. RFIP, teaching posts), and also for making resources available for policy initiatives (e.g. nursery provision, travel credit scheme, professional services framework to move on capital projects).

For time being, the Chief Executive will work to the 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:

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**

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**

Putting this principle into action:

1. An actuarial review on the Pensions (Old Scheme) fund as at 30/06/18 has been contracted and the results will inform the 2019/20 budget setting process;
2. An actuarial review of the Pensions Equalisation Fund will take place as at 31/12/18<sup>10</sup>, and provision results will need to be made available to inform the completion of the 2019/20 budget and medium term financial plan.

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<sup>10</sup> The Legislation requires an actuarial review every five years. This review comes only two years after the last one, and then have a review every three years. The liability is such, and the in-year costs to FIG so material, that the time and cost of an actuarial review is justified.

## Appendix B – Budget Timetable 2019/20

<b><u>Budget timetable 2019/20 - CMT</u></b>		
September SFC - Opening discussion on key issues MLA's would like addressed in 19/20 budget		26/09/2018
Budget approach to be discussed at CMT. This will include: review of 18/19 corporate risks, key assumptions, financial outlook for the medium / long term. Also, consistency in business cases and timetable.		15/10/2018
Receive from HR 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).		19/10/2018
Midyear Financial outturn as at 30/09/18 to be presented to SFC (and CMT also), to include CT forecast, capital forecast. Further discussion on key issues for 19/20 budget		24/10/2018
ExCo - budget planning paper - to include principles, but also economic trends, updated financial position		24/10/2018
Meeting with Treasury MLA Portfolio holder to explain budget process.		29/10/2018
Consultation plan / invite bids for small grants from voluntary sector - issue guidance		29/10/2018
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).		31/10/2018
Treasury send Capital Programme template out to Directorates for updating.		31/10/2018
Business Case Template out for completion also		31/10/2018
Subvention templates issued.		31/10/2018
Control sheet of Fees to be prepared – non legislative, legislative, UK driven. Establish links with Legislative Drafters.		31/10/2018
Directors consult portfolio holders on budget proposals.		01/11/18 to 18/01/19
MLAs discuss any policy reviews that will be relevant to the 19/20 budget process.		01/11/18 to 18/01/19
Treasury to be available to assist Directors with their budget preparation.		01/11/18 to 18/01/19
Programme Manager to be available to assist Directors with Business Case Preparation (Operating & Capital).		01/11/18 to 18/01/19
Treasury provide budget training to departments.		06/11/2018
Indicative / outline business cases for changes / new activities to be presented in summary at CMT		13/11/2018
Directorates to discuss any staffing proposals with HR with a cut-off date for any changes to be notified to Treasury. NB -		16/11/2018

staffing proposals to come to Treasury from HR, with one cut-off date.	
November SFC - Further discussion on key issues for 19/20 budget	28/11/2018
Face to face meetings with Subvention bodies - HoF, MA	Dec-18
Face to face meetings with Directorates - HoF, MA	Dec-18
Subvention bodies submission deadline.	14/01/2019
HR collation of new post proposals and report back to CMT	14/01/2019
CMT discussion on high level proposals.	14/01/2019
Programme manager to report on assessment of achievability of in year Capital Programme and impact on 19/20 and beyond	14/01/2019
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.	18/01/2019
Production of Draft Business Cases for review by CE / Programme Manager	18/01/2019
Treasury prepare Fees & Charges Summary	31/01/2019
Review of posts to confirm no changes since December 2018 - HR	31/01/2019
Chief Executive meets with individual Directors to assess budgets against Falkland Islands plans.	19/01/19 to 18/02/19
The Chief Executive will lead a CMT discussion at which overall budget (including capital projects and prioritisation of posts) will be confirmed.	19/02/2019
Communications Manager - inclusion in overall understanding of key policy / budget themes	19/02/2019
Double check Customs Motion and confirm with Customs	19/02/2019
A budget pack needs to be made available for MLAs in advance of first BSC meeting	19/02/2019
Business cases / policy proposals to be prepared by authors with intended redactions in Italics, with a BSC header, but in the format of an ExCo paper. These papers will be attached to the back of the 08/05/19 ExCo budget paper.	21/02/2019
Revise income budget for 2019/20, based upon aggregated feedback from fishing companies re taxable profits - HoT	28/02/2019
Communications / presentations prepared	May-19
Budget summary prepared and issued	Jun-19
Approved budgets sent to Directors	Jun-19
Treasury prepare budget book	Jun-19
<b><u>Legislative Process (Budget Select Committee) – 2019/20</u></b>	
“Budget Strategy” – meeting with MLAs, to include economic outlook, overview of capital programme, pensions - part of a SFC Exempt section meeting	26/09/2018
ExCo - budget planning paper - to include principles, but also economic trends, updated financial position	28/11/2018
Opening of Budget Select Committee	31/01/2019

BSC meeting 1 - Subventions organisation - make presentations.	07/02/2019
BSC meeting 2 - details of emerging themes and high level income forecasts discussed with MLA's.	14/02/2018
BSC meetings 3 - Operating Budgets, Capital proposals and Subvention bids reviewed by approved by MLAs with Chief Executive and Directors in attendance - 2 days	06/03/2019 & 07/03/2019
BSC meeting 4- Subventions organisation - make presentations.	13/03/2019
BSC - meeting 5 - Capital Budget Decisions	03/04/2019
BSC - meeting 6 - Finalisation of remaining issues and covering draft EXCO paper	17/04/2019
ExCo - budget paper deadline	24/04/2019
ExCo - Budget paper including any Policy / Investment implications from the budget process - business cases, policy papers, fee increases, changes to posts	08/05/2019
ExCo paper deadline for 03/06/19 meeting - if required.	16/05/2019
ExCo meeting	03/06/2019
Appropriation Bill 2018, the Capital Appropriation Bill 2019 or the Finance Bill 2019 before referral to the final Budget Select Committee meetings (see e-mail from CC - 05/06/18)	04/06/2019
BSC meeting - if required	04/06/2019
BSC - Final scheduled sitting of the Budget Select Committee – if required.	05/06/2019
Legislative Assembly (if required)	07/06/2019
FIRS feature - with MLA's	
Chamber of Commerce Meeting	
Public meeting	

## Appendix C - Current Financial Position

Income 2012-13 – 2019/20 - £'000's [2018/19 and 2019/20 are budgeted figures]

Revenue	Directorate	Dept	Name	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Trend
0321-0070-	Natural Resources	Fisheries	Fishing Licence Fees	21,592	21,809	21,750	14,655	20,803	22,880	19,322	19,322	
			Illex Squid	10,524	10,552	11,242	3,244	10,998	11,248	8,303	8,303	
			Loligo Squid	6,375	6,375	6,375	6,375	6,375	6,482			
			Restricted Finfish	1,453	1,435	980	1,575	1,021	1,450			
			Finfish, Hoki, Rockcod, Southern Blue Whiting, Redcod	1,203	1,134	1,013	1,390	880	1,172			
			Toothfish	754	1,059	858	931	346	1,473			
			Others	1,283	1,254	1,282	1,140	1,183	1,056	11,019	11,019	
0609-0186-	Corporate Resources	Taxation Department	Corporation Tax	38,942	18,281	7,736	11,299	20,499	31,717	20,500	12,000	
0609-0185-	Corporate Resources	Taxation Department	Personal tax	11,195	6,508	10,000	14,461	8,654	8,655	9,001	9,001	
0603-0157-	Corporate Resources	Investment Income & Public Debt	Profit on Sale of Investments	2,000	4,320	3,852	4,986	7,416	7,916	4,500	4,530	
0603-0155-	Corporate Resources	Investment Income & Public Debt	Interest/OVERSEAS Investments	3,197	3,796	3,866	3,907	4,689	4,991	3,000	3,000	
0851-0179-	Executive Management	FIGO	FIGO Travel Revenue	-101	656	0	451	1,300	3,807	3,780	3,780	
0355-0115-	Public Services	Public Services	Sale of Electricity - Private	2,160	2,135	2,137	2,076	2,104	2,141	2,220	2,220	
0358-0105-	Public Services	Public Services	Rents Received	1,008	1,125	1,257	1,306	1,353	1,458	1,498	1,498	
0300-0061-	Community Safety	Customs & Immigration	Customs Services	1,168	1,687	1,589	883	1,083	1,147	1,423	1,423	
0300-0059-	Community Safety	Customs & Immigration	Passenger Levy	485	570	984	1,357	1,046	1,068	1,226	1,257	
0620-0166-	Mineral Resources	Dept Of Mineral Resources	Oil Licence Acreage Rents	839	730	761	796	906	1,034	840	540	
0300-0060-	Community Safety	Customs & Immigration	Customs Duty	999	1,005	1,109	967	1,156	1,025	1,184	1,184	
0353-0088-	Public Services	Public Services	Sale of Quarry Products (PUBLIC)	441	1,324	1,348	860	748	919	900	900	
0201-0044-	Health	Health and Social Services	Reim. from MOD - CSA	1,257	1,262	1,262	841	1,157	908	1,199	1,199	
0603-0119-	Corporate Resources	Investment Income & Public Debt	MPA Wind Farm Recharge	0	0	0	316	632	790	632	632	
0102-0005-	Central Services	FIGAS	Passenger Revenue	357	411	425	495	497	560	510	510	
0201-0189-	Health & Education	Health and Social Services	Medical Services Levy	1,616	1,015	1,274	1,562	889	491	0	0	
0551-0140-	Community Safety	Police and Prisons	Road Traffic Licences	315	340	377	384	392	404	390	355	
0357-0078-	Public Services	Public Services	Service Water Charge	262	273	284	289	311	308	313	313	
0201-0040-	Health	Health and Social Services	Hospital & Medical Charges	325	329	284	659	264	255	452	452	
0602-0188-	Corporate Resources	Treasury	Land Rent	129	131	131	336	332	243	335	335	
0325-0072-	Natural Resources	Fisheries	Berthing Fees	269	175	209	221	206	215	200	200	
Remaining	Operating Revenue			4,117	3,511	5,086	5,773	4,746	3,725	3,772	3,455	
ALL	Internal Transfer			4,011	4,065	3,277	3,747	4,306	4,883	5,113	5,123	
ALL	Fund Transfers - Revenue			0	0	279	104	368	-46	210	480	
ALL	Transfer Payments - Revenue			44	39	0	59	29	9	20	20	
	<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>101,504</b>	<b>82,541</b>	<b>73,729</b>	
	Check			0	0	0	0	0	0	0	0	

### Unrestricted reserves and capital Investment<sup>11</sup>

\\fileserv4\FSDData\Treasury\Treasury Data\Budgets\2018-19 Budget\Working Papers\Budget summary showing CEF and ratio FINAL.xlsx

£m

2018/19 2019/20 2020/21 2021/22 2022/23

**Summary of the Operating Budget**

Operating Revenue

Corporation Tax	20.5	12.0	12.0	12.0	12.0
Fishing Licence Fees	19.3	19.3	19.3	19.3	19.3
Investment Revenue	8.5	8.5	8.6	8.7	8.8
Other Dept. Revenue	33.9	33.4	33.1	32.9	32.9
Oil Revenue	0.2	0.5	0.5	0.5	0.5
Total Operating Revenue	82.4	73.7	73.5	73.3	73.4

Operating Expenditure

Departmental Expenditure	60.9	60.5	60.2	59.9	60.0
Island Plan Investments	7.0	6.7	6.7	6.7	6.7
Pensions - FIG Contribution	3.0	3.0	3.0	3.0	3.0
Oil Expenditure	0.8	0.8	0.8	0.8	0.8

Total Expenditure (excl depn)	71.7	71.0	70.7	70.4	70.5
Operating Surplus/(Deficit)	10.8	2.7	2.8	2.9	3.0

**The Annual Operating Surplus / Deficit affects the level of Uncommitted Reserves**

Opening Consolidated Fund Balance	199.2	210.0	212.7	215.5	218.4
Operating Surplus/(Deficit) added to Consolidated Fund	10.8	2.7	2.8	2.9	3.0
Transfer to Capital Equalisation Fund					
Closing Consolidated Fund Balance	210.0	212.7	215.5	218.4	221.3

**Review the cover of Consolidated Fund over Departmental Expenditure:**

Departmental expenditure:	60.9	60.5	60.2	59.9	60.0
Adjust for MoD Flight payments	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)
Revised departmental expenditure	56.5	56.1	55.8	55.6	55.6

Ratio of Uncommitted Reserves to adjusted Departmental Expenditure	3.7	3.8	3.9	3.9	4.0
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**Summary of Capital (Project) Budgets**

Capital Income	0.2	0.3	0.3	0.2	0.1
Capital Expenditure	46.9	26.0	16.3	10.7	10.5
Net Capital Expenditure	46.7	25.7	16.1	10.5	10.4

Note: Budget principle - hould be 2.5 times the average spending for next 5 years

**Capital Expenditure is funded by the Capital Equalisation Fund ("CEF")**

a transfer will be made to the CEF each financial year to put aside money for planned spend.  
 Transfers from the Consolidated Fund to the CEF reduce the uncommitted reserves in the Consolidated Fund  
 The ratio of Uncommitted Reserves to adjusted departmental expenditure needs to be revised after transfers to the CEF

Opening Consolidated Fund Balance	199.2	184.2	170.9	163.2	155.8
Operating Surplus/(Deficit) added to Consolidated Fund	10.8	2.7	2.8	2.9	3.0
Transfer to Capital Equalisation Fund	(25.7)	(16.1)	(10.5)	(10.4)	(10.4)
Closing Consolidated Fund Balance	184.2	170.9	163.2	155.8	148.4

## Appendix D – Budget Preparation and Approval Process

1. A purpose of this Appendix is to explain how the 2019/20 budget is prepared, amended and approved, within the agreed timetable.
2. The sections below describe the process by which the 2019/20 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 2019/20 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 by 19/02/19 for the Budget Select Committee (“BSC”) meetings that include a discussion of emerging themes on 14/02/19, and then detailed discussion of operating and capital proposals on 06/03/19 and 07/03/19. The purpose of this meeting will be to enable MLA’s to scrutinise the spending plans and assumptions behind the preparation of the 2019/20 draft budget, and associated Medium Term Financial Plan (to 30 June 2024).
  - 4.2 There is scope for an early Budget Select Committee meeting to be open to the public (if they wished to attend the advertised meeting), so share at an early stage some of the

emerging themes and risks & opportunities. The most suitable date here would be the 14/02/19 BSC.

- 4.3 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.
- 4.4 A key assumption is that the draft 2019/20 budget presented to the BSC meeting of 06/03/19 and 07/03/19 will not be significantly greater than 2018/19 budgets 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 The budget principles to be used in 2019/20 are described in Appendix A.
- 5.2 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).
- 5.3 The income forecast is crucial and needs to strike a balance to prevent excessive caution impeding investment decisions, or not being sufficiently prudent. The budget principles help frame the level of risk appetite in terms of making income assumptions.

## 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 2019/20 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 Directors and MLAs will need to ensure that there are no surprises when it comes to what is actually contained in the budget proposals.
- 6.7 Any proposals for changes to staff posts should have been advised to the Director of HR by 16/11/2018. It is acknowledged that there are capital projects that may have implications for staffing levels, but as far as possible advance planning should take place, and the Director of HR is able to complete an initial staffing assessment to match the draft budgets that Treasury receive, but feeding back to Directorates as soon as possible.
- 6.8 Directors will submit their draft budget packs to Finance by 18/01/2019, and present their budget for the next five years to colleagues at a CMT meeting on 19/02/2019. 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 2024 will therefore need to be considered at the CMT meeting of 19/02/2019. 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. 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 a Budget Select Committee business case paper (for those projects deemed necessary by CMT) to Treasury by 18/01/2019.
- 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 2019/20 to 2023/24 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 17/04/19 Budget Select Committee meeting.
- 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 18/19 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 19/20 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. This needs to be with the Director of HR for review by 16/11/18.

- 8.4 Budgets for 2019/20 will need to be realistic in terms of vacancies and the financial impact of staff turnover or necessary handover periods, as well as addressing workforce planning issues such as succession and use of locums.
- 8.5 The Chief Executive will meet with Directors and lead a CMT discussion on 19/02/19 at which overall prioritisation of FIG posts will be discussed.
- 8.6 Any post changes proposed by CMT and agreed by the Chief Executive will be included as part of the budgets that will go to the Budget Select Committee of 06/03/19 to 07/03/19.
- 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 08/05/19 for approval. Before this, the Budget Select Committee of 17/04/19 will have confirmed the post, or other associated changes.

## 9. Budget Select Committee Meetings 2019

- 9.1 The purpose of the Budget Select Committee is to enable an agreed budget to be submitted to the Legislative Assembly on 04/06/19, and for this budget to be in accordance with any requirements of the Finance & Audit Ordinance 1988
- 9.2 For the 2019/20 Budget Process the draft budget will be submitted to the Budget Select Committee of 06/03/19 to 07/03/19.
- 9.3 The 14/02/19 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;
  - Income trends over the next five years, for example strength of CT receipts;
  - Impact of Brexit;
  - 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 07/02/19 will be used to review the requests for Subventions that have been received. For 2019/20, 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 14/01/19. Smaller organisations that have not bid for grants before will also be encouraged.

## 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 06/03/19 to 07/03/19 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 08/05/19 will consider policy and major investment implications arising from the budget process, having already been agreed by the Budget Select Committee meetings.

## 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 2019.

12.2 The following pieces of legislation will arise from the 2019/20 budget setting process:

- The Appropriation Bill 2019 – to authorise the withdrawal from the Consolidated Fund of money for the financial year ending 20/06/19
- The Capital Appropriation Bill 2019 - to authorise the withdrawal from the Capital Equalisation Fund for the next financial year;

- The Finance Bill 2019 – 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 4 June 2019 at 09:00. The Bills will then be referred to the final Budget Select Committee meetings should this be required. Should Members decide that they are content with the Bills as they stand and have no further amendments to be made, they may seek to suspend clause 65 (1) of the Legislative Assembly Standing Rules and Orders “When the annual Appropriation Bill has been read a second time, the Financial Secretary shall move that the Bill, and the draft Annual Estimates of Revenue and Expenditure shall be referred to a Select Committee and such Committee shall consist of the Chief Executive, the Financial Secretary and all the elected Members of the Assembly.” By virtue of clause 72 “Any of these Standing Rules and Orders may be suspended with the consent of the majority of elected Members present.” in order that the Bills may proceed to the second and third reading.

12.4 Should Members not agree to 12.3, then the final Budget Select Committee meetings are Tuesday 4 June 2019 at 14:00 (after Legislative Assembly) and Wednesday 5 June 2019 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 4 June 2019, 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 are Tuesday 4 June 2019 and Wednesday 5 June 2019, these changes will be made by Attorney General’s Chambers.

12.6 Legislative Assembly then resumes at 09:45 on Friday 7 June 2019 and addresses the remaining 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 4 June 2019 and Wednesday 5 June 2019 and explain any policy changes and reasons for them.