States of Jersey
States Assembly

États de Jersey
Assemblée des États

Public Accounts Committee

Report on the Financial Report and Accounts of the States of Jersey for the year ended 31st December 2011.

Presented to the States on 1st March 2013

P.A.C. 1/2013

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1. CHAIRMAN'S FOREWORD

1.1 2011 saw a shift change, not only in the political landscape of Ministerial posts, but also in the most senior post of the Civil Service. The resignation of the Chief Executive led to a change in leadership whereby the Deputy Chief Executive assumed the role of Acting Chief Executive whilst a suitable candidate for the post was found.

1.2 Many times over recent years, reports and discussions have been developed that identified issues surrounding the structure of both the Machinery of Government and Senior Management. Without addressing these fundamentals, there will continue to be blurred lines of accountability, responsibility and clarity in the effective and efficient use of public money.

1.3 Throughout this report, concerns are raised by the Committee over clarity of governance in various areas of expenditure. Due to the overwhelming amount of information produced in a language written for the C&AG, it is difficult for the Committee to ensure that "Value for Money" is being obtained within each particular area without further information which has caused delays to the completion of this review. The Committee have therefore decided that there is merit in carrying out separate reviews to allow further analyse in areas of concern, these being: Procurement, Grants and Subsidies and a Film Production Grant.

1.4 The examination of "Value for Money" does not rely solely on figures produced within a report. The Committee must ensure that public money is used in an efficient and effective manner to meet objectives and direction agreed by Government.

1.5 When assessing those figures against various frameworks, strategies and objectives, the direct correlation can become obscure. The use of differing accounting methods and interpretations allows misunderstanding and incorrect judgements to be made.

1.6 The use of public money must be transparent. A clear distinction needs to be available between the various service provisions and it is important that major costs to the Island, the bus service for example, are available. It is not acceptable to bury such an important item in a service line marked 'transport'.

1.7 During a time of recession there are many economic arguments that will prevail. The States of Jersey are arguably in a better position than most, however, there are calls to tighten belts and concerns that expenditure is too high for an Island of this size.

1.8 The duty of Public Representatives and in particular those accountable for providing the services to the public is to ensure value for money is relevant in all that they do. Communication between departments and the Government is a critical element to successful outcomes and in particular efficient and effective governance practice.

1.9 I owe thanks to all those departments who participated in our enquiries during this review and the members of the Public Accounts Committee for their time and commitment in producing this report. Also, I would like to acknowledge the progress that has been made by many within the public sector during these difficult times.

Deputy Tracey Vallois
Chairman
Public Accounts Committee

2. KEY FINDINGS

The Key findings are numbered according to their position in the report.

5.14 Key Finding

Carry forwards dilute the requirement for tight budgeting.

5.18 Key Finding

The current provision for carry forwards is overly generous

5.23 Key Finding

There is a communication problem between the Treasury and departments in relation to confirmation of carry forward figures.

5.27 Key Finding

Departmental contingency funds do not appear in the Financial Report and Accounts and are not transparent.

6.7 Key Finding

The lack of a Sports Strategy significantly reduces the ability to measure value for money in sports grants.

6.21 Key Finding

The quality of corporate governance and transparency of grants is irregular across States Departments.

6.24 Key Finding

Not all grants are recognisable within the States Financial Report and Accounts

6.37 Key Finding

There is no time limit on the ‘Transitional’ payments on milk

6.51 Key Finding

There are many questions requiring answers in order to establish the way forward for support for the dairy industry into the future.

7.9 Key Finding

Corporate Procurement Unit savings are not transparent because it has not been possible to establish the savings made by the Corporate Procurement Unit from the Report and Accounts 2011 or from simple enquiries with the Unit.

7.16 Key Finding

Areas of the States Information Services need updating.

7.22 Key Finding

Sixth Form Education is not value for money due to duplication of facilities.

8.12 Key Finding

The Public Accounts Committee recognises that the FRS17 calculation and the Actuarial Report 2010 are differing calculations for different purposes.

9.6 Key Finding

Fractures still exist in lines of responsibility and accountability at the highest levels of the States organisation.

9.14 Key Finding

Staff costs continue to rise despite the voluntary redundancies.

10.15 Key Finding

There is a need for a level of more detailed accounts from every department to provide the necessary background information to support the Financial Report and Accounts.

3. RECOMMENDATIONS

The recommendations are numbered according to their position in the report.

5.19 Carry Forward limits contained within Financial Directive 6.1 must be enforced by the Treasury Minister.

5.24 Departments and the Treasury must communicate more closely to ensure agreement on carry forward figures.

5.28 Every department of the States of Jersey must declare contingency funds within the Financial Report and Accounts.

6.8 Education, Sport and Culture must publish a Sports Strategy during 2013

9.7 The Chief Minister must review the lines of responsibility and accountability at the highest levels within the States of Jersey and report his findings to the States with recommendations to resolve the problems by the end of 2013.

9.15 The Chief Executive Officer of the States of Jersey should report back to the PAC by August 2013 with an analysis of why the cost of staff has not reduced and a plan to stop the increase.

10.16 All departments of the States of Jersey must publish accounts that provide sufficient information for the public to understand how taxpayer's money is being spent.

4. TERMS OF REFERENCE

4.1 Standing Orders of the States of Jersey requires the Public Accounts Committee to receive reports from the Comptroller and Auditor General(C&AG) on the results of the audit of the annual financial statement of the States and to report to the States on any significant issues arising from those reports. At the time of the publication of the States of Jersey 2011 Financial Report and Accounts, Jersey did not have a Comptroller and Auditor General. As there was a reasonable expectation that the recruitment process would take some time, the Committee decided to go ahead with the review into the 2011 Report and Accounts and to report any significant issues it found to the States in the absence of a C&AG.

4.2 This report reflects the findings and recommendations of the Committee.

4.3 The Public Accounts Committee agreed on the following Terms of Reference:

1. To consider the States of Jersey Financial Report and Accounts 2011 to establish:
   i. whether public funds have been applied economically, efficiently and effectively; and
   ii. whether the accounts represent value for money.

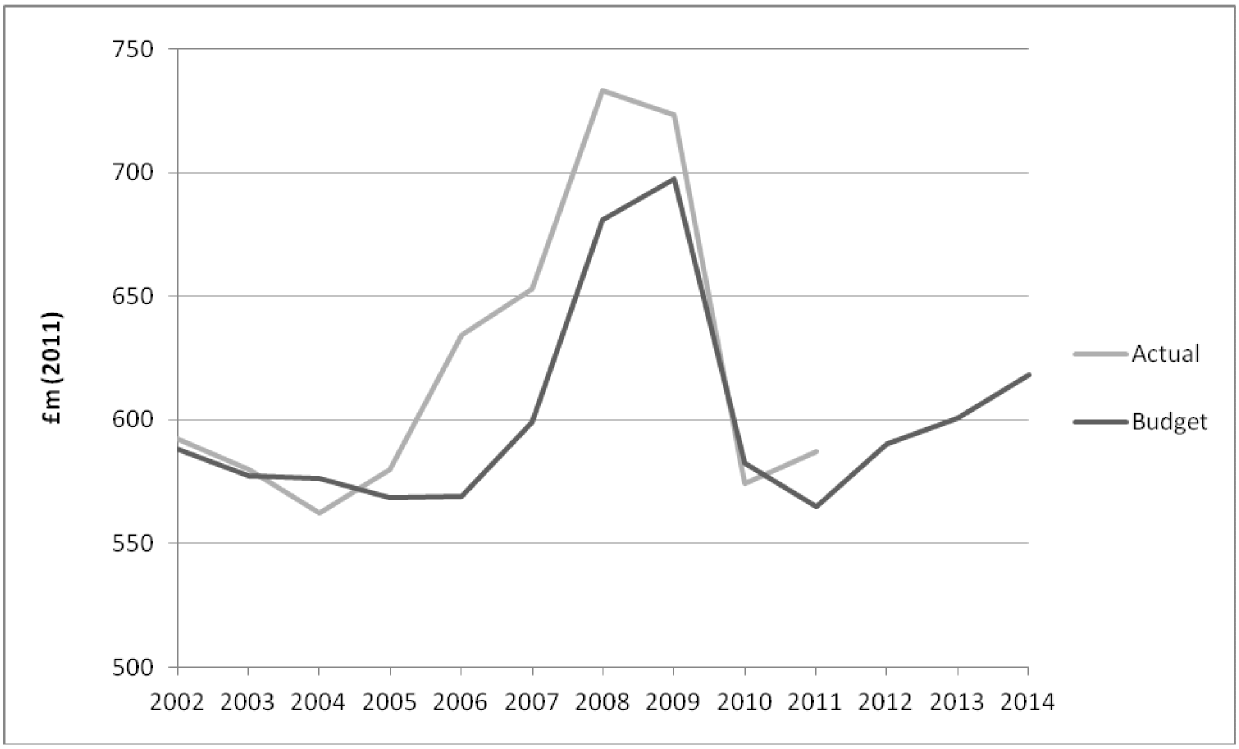
2. To establish if the issues identified in the Public Accounts Committee's reviews of previous States Accounts have been addressed.

3. To Report the findings of the review to the States of Jersey.

5. CARRY FORWARDS AND CONTINGENCIES

5.1 The forecasting of income has been a problem for the States of Jersey over an extended period. As shown in Figure 1, the differences between the budget and the actual income have been as much as 10%, with 2011 having a difference of 4%. The regularity with which the income exceeds the forecast suggests to the Committee that income has generally been underestimated to protect against overspending.

Figure 1. General Revenue Income at 2011 Prices



5.2 Accounting Officers (created by Article 37), are required, pursuant to Article 38 of the Public Finances (Jersey) Law 2005, to ensure that expenditure does not exceed the amount appropriated to his or her department by a head of expenditure and that the amount in question is used for the purpose for which it was appropriated.

5.3 Financial Direction 6.1 has been issued by the Treasurer of the States under Article 34 of the Public Finances (Jersey) Law 2005 to provide advice and assistance on the procedures which need to be followed by Accounting Officers when they seek to carry forward revenue balances. The direction applies to all States funded bodies and places responsibility for compliance on Accounting Officers. It lays out mandatory directions within which the carry forwards system is operated and relates to underspends, which are positive net balances.

5.4 In summary, carry forward limits are as follows:

Table 1: Summary of Carry Forward Limits[1].

Approved gross revenue head of expenditure.	
Over 3% (or £500,000 whichever is the larger)	Must have approval of the Minister for Treasury and Resources.
1-3%	Presumption of ability to carry forward but may be reallocated by the Council of Ministers on the recommendation of the Minister for Treasury and Resources.
Up to 1% (or £200,000 whichever Is the larger)	Automatic ability to carry forward

5.5 Financial Direction 6.1 also requires carry forwards to be stated within the Annual Financial Statements. The 2011 Financial Report and Accounts show these carry forwards by department under 'Reconciliation of 2011 Business Plan to Final Approved Budget'[2].

5.6 Central contingencies are catered for within Article 17 of the Public Finances (Jersey) Law 2005 (as from 1st January 2012). The Law makes no reference to departmental contingencies. The Financial Direction relating to central contingencies was published in December 2012. There is no requirement for a declaration of the contingencies held by Departments to be presented in the Annual Financial Statements.

5.7 When asked about departmental contingencies, the Chief Officer for Education, Sport and Culture stated:

> *"Well, we run 2 contingencies, a primary contingency and a secondary contingency, which are about £250,000 each."*[3]

5.8 This suggests that, "culturally" departments use contingencies and carry forwards in order to manage finances within their heads of expenditure.

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[1] Financial Direction 6.1
[2] Stated in Annex to Financial Report and Accounts 2011 under each Department
[3] Hearing 8th October 2012.

5.9 The combination of department contingency funds, carry forwards and legal responsibility may encourage Accounting Officers to overinflate expenditure and underestimate income. When this was discussed with the Chief Executive Officer, he stated:

> *"I think you are absolutely right saying that departments cannot overspend so there is a natural tendency to err on the side of caution which means that that leads to the carry forwards."*[4]

5.10 He also explained that, until recently, departments sought to ensure that any money not spent towards the end of the year was always spent by the end of the year so that they ended up with close to a zero balance. That requirement from Treasury, combined with the head of expenditure being based on that which was actually spent the previous year, created a 'spend it or lose it' culture. That meant a flurry of sudden expenditure by departments towards the end of the year to ensure the spending of their total budget.

5.11 This was recognised by the Council of Ministers to be somewhat at odds with the drive for value for money. In order to rectify this, the Chief Minister and Council of Ministers, in consultation with the Treasury, agreed to move from a point where underspends were previously considered unacceptable to one where underspends were acceptable. This was not a change in the Public Finances Law but simply reflected a different attitude on the part of the Treasury, which allowed some flexibility at year end for projects to be carried forward from one year to another and more importantly, prevented potentially wasteful end of year spending to reach a zero base as seen in the past.

5.12 The Committee is not convinced that the Council of Ministers has got its approval right on this. Accounting Officers should indeed be required not to overspend, and the requirement to roll money over for ongoing projects is accepted. The Committee judges that there needs to be a change of 'culture' to help seek to ensure that value for money is being actively pursued. Carry forwards (other than for ongoing correctly defined projects) dilute the requirement for tight budgeting.

5.13 From the point of view of the departments, there may be an argument in favour of the system of carry forwards. For example, a school makes savings and is allowed to carry forward the money for other purposes. Clearly that school would find that an incentive to make those savings. However, if this happens across all States departments, then there are never any real baseline savings and none of the individual good work is apparent to the public of the Island.

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[4] Public Hearing 2nd November 2012, page 22.

KEY FINDING

5.14 Carry forwards dilute the requirement for tight budgeting.

5.15 Table 1 shows that there is an automatic ability to carry forward 1% of the approved head of expenditure. That may prove an incentive to make savings within the department. This incentive becomes conditional on the approval of the Minister for Treasury and Resources and therefore diminishes, as the savings grow through 3%.

Table 2: Department Carry forwards

Department	2010 Net Revenue Expenditure: BP Basis	2010 Carry Forward into 2011	% of Head of Expenditure
Chief Ministers Department	£25,786,000	£960,000	3.72
Economic Development	£17,799,000	£1,504,000	8.4
Education Sport and Culture	£101,954,000	£2,628,000	2.6
Department of the Environment	£7,261,000	£433,000	5.9
Health and Social Services	£169,101,000	£3,527,000	2.1
Home Affairs	£48,633,000	£765,000	1.5
Housing	(£18,742,000)	£1,708,000	Not Comparable
Social Security	£162,967,000	None Listed.	0
Transport and Technical Services	£26,697,000	£372,000	1.4
Treasury and Resources	£22,804,000	£2,414,000	10.6

5.16 Table 2 shows that carry forwards into 2011 have been significant in some Departments. Accepting that any ongoing projects need the carry forward to take them through from one year to the next, some of the carry forwards are significant, not least, the Treasury and Resources Department, which carried forward 10.6% of net revenue expenditure.

5.17 The Committee wished to compare the carry forwards from 2010 into 2011 with those of 2011 into 2012. However there were significant differences in some cases between the carry forward figures supplied by the individual departments and the figures supplied by Treasury which has made that comparison impossible.

KEY FINDING

5.18 The current provision for carry forwards is overly generous.

RECOMMENDATION

5.19 Carry Forward limits contained within Financial Directive 6.1 must be enforced by the Treasury Minister.

5.20 The figures contained in Table 2 for the 2010 to 2011 carry forwards were obtained from the Financial Report and Accounts 2011. The carry forwards for 2011 to 2012 were provided directly from the departments in response to a request from the Committee (except TTS who did not respond to the request or reminders). It is normal practice for a draft of PAC reports to be sent to the Treasury to ensure factual accuracy. In this case, the Treasury contested some of the figures provided by the departments. The figures that differ are:

Table 3: Department Carry Forwards (Treasury Figures)

Department	2011 Carry Forward Into 2012	+/- 2010 Carry Forward
Chief Ministers Department	£1,062,832	+10%
Economic Development	£1,047,983	-31%
Health and Social Services	£1,318,000	-63%
Home Affairs	£1,494,335	+95%
Transport and Technical Services	£1,849,917	+395%
Treasury and Resources	£1,259,676	-47%

5.21 The difference in the figures is immaterial for the purposes of this report, however the Committee is interested in:

- why TTS have a 395% increase? (Is that the reason the Committee did not receive a reply?)
- why does the difference exist between the department and Treasury figures?

5.22 It appears that there are problems with communication between the Treasury and Departments in relation to carry forwards and the variations create interest. The Committee considers that further examination of carry forwards would not add value to this review but may chose to investigate carry forwards as a separate topic in the future.

KEY FINDING

5.23 There is a communication problem between the Treasury and departments in relation to confirmation of carry forward figures.

RECOMMENDATION

5.24 Departments and the Treasury must communicate more closely to ensure agreement on carry forward figures.

5.25 Any savings currently produced should be returned to central funds for deployment in areas under pressure, or retained at the discretion of the Treasurer of the States or Minister for Treasury and Resources.

5.26 There is another very worrying problem relating to departmental contingency funds. They are not declared in the States accounts. The Committee finds this to be completely unacceptable. If they exist, as clearly they do, they must be transparent and documented for what they are. At the moment, they are not visible. Department contingency funds need to be a line in the accounts to publicly show their existence and to justify their intended function.

KEY FINDING

5.27 Departmental contingency funds do not appear in the Financial Report and Accounts and are not transparent.

RECOMMENDATION

5.28 Every Department of the States of Jersey must declare contingency funds within the Financial Report and Accounts.

6. GRANTS

6.1 The Report and Accounts shows that £38 million[5] worth of grants were approved in 2011, which equates to £913 per household[6]. The Committee noted that a large proportion of grants were in the domain of the Education, Sport and Culture Department (ESC) or the Economic Development Department (EDD). It was therefore in those areas that questions were concentrated relating to value for money and governance.

Small Grants (under £100,000)

Education, Sport and Culture Department (ESC)

6.2 Many of the smaller sporting and leisure organisations in the Island would not be able to function without support from grants[7]. In relation to the ESC controlled grants, there are 88 service lines describing grants in the Report and Accounts, some of which relate to grants to multiple individuals etc.. Each organisation is required to submit an annual request for a grant which is considered on its merits. In most cases[8], the grant is brought to the attention of the Minister to determine whether or not the grant was to be provided.

6.3 At the present time, ESC grants support a whole range of "leisure" activities. The Committee was concerned that in the current financial circumstances, the criteria for the provision of grants should be re-examined. Whilst there may be an argument in relation to the general health of the population in supporting active sports, is it right for the public purse to be providing grants for individuals to travel in the pursuit of leisure activities?

6.4 The problem here seems to stem from the lack of a Sports Strategy. This was questioned by the Committee and the Department stated:

> *"The last Sport Strategy was from 2001-2006. The writing of a new strategy was put on hold when Education and Sport came under one department. It was intended that there would be a Strategy for the whole department but this proved to be impractical and now with the writing of the Education Green Paper it was decided to write a new Strategy for sport."*[9]

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[5] Page 157 of the Report and Accounts and Appendix A of the Annex to the accounts
[6] 41,595 Households. Jersey in Figures 2011.
[7] Hearing with ESC Chief Officer 8th October 2012 page 33
[8] Hearing with ESC Chief Officer 8th October 2012 page 33
[9] Email to Chairman from Chief Officer of ESC: Monday, November 19, 2012

6.5 The Department has backed that statement up by informing the Committee that the 2006 strategy has been rolled over year on year.[10] The Committee wondered if the direction was still appropriate and suitable for modern needs.

6.6 The absence of a Sports Strategy suggests at the very least, that there has been no direction, no measurement and no goals; any decision making to spend money on sport lacks the robustness normally associated with the spending of public money. The lack of measurement means that progress towards any aims of the Strategic Plan cannot be readily evidenced. Immediately prior to this report going to print, the Education Sport and Culture Department published a new Sports Strategy.

KEY FINDING

6.7 The lack of a Sports Strategy significantly reduces the ability to measure value for money in sports grants.

RECOMMENDATION

6.8 Education, Sport and Culture must publish a Sports Strategy during 2013.

6.9 The Committee questions the governance structure for monitoring what happens to grant money to ensure that it is spent on the purposes allocated. Whilst the amounts may be considered small on an individual basis, small grants in the ESC budget totalled £2 million in 2011. £1.4 million of that £2 million relate to nursery education which is in accordance with a States Decision. £172,000 relates to travel grants for sports associations.

6.10 Travel grants are multiples of £30 intended to subsidise the travel of people travelling to compete in national or regional events. It was established that the governance structure around the small grants is not as tight as it could be in some areas. Whilst entering into a series of service level agreements for these very small amounts is probably not practicable, a review of the way that sport and "leisure" are supported and funded is required. The Committee intends to proceed with such a review in the early part of 2013.

6.11 In cases where the grants were awarded to the larger associations, like the Advisory Council for Education, Sport and Culture or the Island Games Association, the ESC manages the administration. In other words, the Advisory Council has the power to allocate the grants, ESC then manages the administration of the allocation process for them, so the money goes directly to the recipient of the grant.

[10] Email to Committee 14th February 2013.

6.12 In the case of organisations not represented by those bodies, the money was paid to the individual clubs. This area of grant allocation is due for a complete review. It is historical and ESC has effectively continued the same process for a significant number of years. Institutions bid for the grants, explaining exactly what they are going to do with the money. There is no direct ESC involvement following the provision of the grant other than the completion of a form to show that the money has been spent in accordance with the provision. The Committee questions the level of accountability for the expenditure of public funds and will examine this area in the forthcoming review.

Economic Development Department (EDD)

6.13 Every year EDD undertakes a zero-based budgeting process through which all bids are assessed. Applications always exceed the amount of funds that are available for grant funding so decisions are subjected to a process of prioritisation[11]. Recommendations are made to the Minister regarding the level of grants that should be awarded.

6.14 Not all grants are discretionary. For example; the Single Area Payment is a fixed payment in the form of a defined sum per vergee, subject to certain conditions, where the business case is examined alongside the rural initiative by a panel that is brought together with a defined set of criteria, all of which is a function of the Rural Economy Strategy. Grants go only to land used for agriculture which meets a given criteria.

6.15 EDD also has a framework of agreements with the people who receive each of the grants. Effectively it is a contract, all of which is recorded on pro-formas and the process is wholly consistent with Financial Directions. All recipients of grants are required to report back to EDD showing progress of the subject of the grant. This post-grant evaluation is completed six months after the awarding of the grant. Financial Directions allow for a claw back process should the grant not be applied for the purpose allocated. (EDD have never had to resort to that process)

6.16 Whilst small grants (under £100,000) from EDD are recorded as being from as little as £35, they total over £2.1 million. The Committee maintained its interest in whether the grants offered value for money and noted that applications are assessed on the basis of the value they deliver against the strategic priorities that are set for EDD, both in the strategic plan and any other strategic documents, such as the Economic Growth Strategy.

Conclusions relating to small grants

[11] Hearing with Chief Officer from Economic Development. Page 3.

6.17 In summary, the Committee is not satisfied that there is sufficient corporate governance relating to small grants across States Departments. The amounts of money may generally be small individually, but overall small grants represent over £6.6 million of public money[12], or £158 per household.[13]

6.18 The Committee has resisted becoming involved in examining individual grants and has no wish to single out any one organisation as being more or less worthy of support than another. However, the evidence supplied by the Departments, which has been confidential in some cases, reveals areas of significant concern that will receive further, particular examination by the Committee in a future review or reviews.

6.19 In some cases, the governance systems that have been explained to the Committee are based on historical requirements and need a significant review and overhaul to bring the spending of public money in line with public expectations at this austere time. The Committee questioned the connection between the consideration of the grants and the fulfilment of the Strategic Plan.

6.20 Greater transparency is needed when dealing with public money. Decision making processes are different from department to department and from individual grant to individual grant. Standardisation and accountability must be built into a corporate system, which is capable of providing modern standards of governance to the consideration, application and monitoring of all grants across the States.

KEY FINDING

6.21 The quality of corporate governance and transparency of grants is irregular across States Departments.

<u>Larger Grants (Over £100,000)</u>

6.22 The larger grants provided by the States of Jersey total £31.2 million (£750 per household)[14].

<u>Education, Sport and Culture (ESC)</u>

6.23 ESC grants include, for example, payment to the fee-paying private schools and to Jersey Childcare Trust and total £6.7 million, (£161 per household)[15]. These sums are, in general, dictated on a 'per student basis'. However, listed away from the grants, in the main Report and

[12] Annex to Financial Report and Accounts Page 196.
[13] 41,595 households. Jersey in Figures 2011.
[14] 41,595 households. Jersey in Figures 2011.
[15] 41,595 households. Jersey in Figures 2011.

Accounts document[16] is a service line headed ‘social benefit payments’ in the sum of £8,022,000. Effectively these are higher education grants. The Committee does not question the use of this money but recognised a lack of transparency in the manner it was recorded. If social benefit payments are actually higher education grants, that is how they should be recorded in the relevant grant area of the report and accounts. If they are social benefit payments, perhaps Social Security should be responsible for them.

KEY FINDING

6.24 Not all grants are recognisable within the States Financial Report and Accounts

Economic Development Department (EDD)

6.25 Some of the EDD grants in excess of £100,000 are not discretionary. Jersey Competition and Regulatory Authority and the Jersey Gambling Commission are examples. In many cases, such as Jersey Finance Limited, larger grants are the subject of very significant business plan submissions, which are evaluated annually by EDD. Input and the outputs generated are individually assessed to decide whether or not those grants are going to deliver value for money. Recommendations are put to the Minister for Economic Development for final approval.

6.26 Under certain circumstances, loans may be considered to be more effective than grants in the future. The ability to make loans exists at the moment and they have been awarded in the past with agricultural loans for parts of the rural economy. The Committee was interested to hear that EDD are examining new and innovative areas in addition to the grant system such as ‘equity stakes in businesses’ (Innovation Fund). These areas take the Committee beyond its remit for this review but that may well stimulate the interest of the Economic Affairs Scrutiny Panel.

6.27 Current EDD requirements are based on the requirements of Financial Directives. Where the requirements are not met by the applicant, in relation to either the intended purpose for the money or the administrative necessities surrounding the process, grants may be discontinued or refused. The Committee is aware of at least one organisation which failed to provide the required documentation in 2011 and had the £90,000 grant withheld as a result until the governance requirements were fulfilled. That organisation eventually complied and the grant was paid. It has been noted that in 2012, the same organisation has failed to conform and again the grant has been withheld.

[16] Page 35 Report and Accounts 2011.

The Dairy Industry

6.28 In 2006, the States received a report from Promar International, "A Sustainable Dairy Industry in Jersey" which discussed some of the options available to the Island at that time. It explained that there was a desire within the States for the Island to maintain the, "brown cows in green fields" image portrayed for so long to the outside world. Following on from that document, Jersey made some significant decisions and now has a subsidised dairy industry with a new dairy.

6.29 As part of this review, the support provided to the dairy industry in 2011 by taxpayers was examined. Table 4, below, shows that the dairy industry received some £1.02 million from the taxpayer in 2011 (£24 per household)[17]. The figures were not obtainable directly from the Report and Accounts for 2011 and had to be requested from the Economic Development Department. The Committee was concerned with this lack of transparency in respect of such a significant area of support for the private sector.

TABLE 4: Total Dairy Related Payments 2006 -2011

Payment/Year	2006 £	2007 £	2008 £	2009 £	2010 £	2011 £
Quality Milk Payment (QMP)	646,506	679,615	537,796	520,102	510,204	498,093
Quality Milk Payment (roll up)			139,400	139,400		
RJA&HS Services (SLA)	225,468	223,780	222,098	227,652	233,343	266,000
Dairy Industry Costings Scheme (DICS)	3,280	3,440	9,000	9,000	9,000	9,000
Early Bull Proving Scheme	28,100	36,450	14,100	0	0	0
Over Thirty Months Scheme – FMD precautions	30,578	33,288	4,122	1,275	0	0
Single Area Payment (SAP) (Estimated on cow numbers and stocking rate)	282,492	308,534	263,520	264,535	263,736	243,592
Total support £	1,216,424	1,285,107	1,190,036	1,161,964	1,016,283	1,016,685
%	100	106	98	96	84	84

[17] 41,595 households. Jersey in Figures 2011.

QMP	Rate per Cow	SAP	Cows	Rate per Vergee
2006	£196[18]		3363	35.00
2007	£196		3571	36.00
2008	£185		3050	36.00
2009	£180		2979	37.00
2010	£180		2970	37.00
2011	£180		2890	35.12[19]

6.30 In total, every cow in the Island was subsidised to the value of over £351[20] in 2011, compared to £196 in 2006. This caused the Committee to recognise some particularly difficult questions needed answers:

- What does this subsidy do?
- Is it value for money?
- How is it governed on behalf of the taxpayer?
- What accountability arrangements are in place?
- How does the subsidy benefit, or otherwise, the people of Jersey not least through the price of milk in the shops?

6.31 The answers were not always straight forward or comfortable.

<u>What does this subsidy do?</u>

6.32 The dairy industry in Jersey has been through difficult times in recent years, like many other businesses. Unlike many other industries, there is more to this particular industry then simply the production of milk and related products. The Jersey cow is world famous and is of significant marketing value for the tourism industry and a traditional icon for the Island. It may be argued that Jersey would be a different place without the famous cow. This brings us back to the concept, in the 2006 report, of “brown cows in green fields”. The provision of the financial subsidy has ensured the continued employment of those in and connected with the industry, the continuation of an iconic symbol of the island and, arguably, the maintenance of the heritage of the Island. In addition, the subsidy sustains the production of perhaps the best milk product in the world, exports of which can only enhance the reputation of the Island.

[18] £196 per cow in 2006 was the figure supplied by EDD to the PAC in Nov 2012. In Feb 2013 EDD informed the Committee the figure was £361. This discrepancy will be dealt with in a review into grants being undertaken by the Committee.
[19] Figures supplied by EDD Nov 2012.
[20] Total Subsidy £1,016,685 divided by amount of cows 2890. Figures supplied by EDD Nov 291112.

6.33 This concept (brown cows in green fields) has a price. In order to protect the sales of Jersey milk in the Island, Jersey has licensed any outside (liquid) milk importation. There are no licenses in force at this time. This restriction on imports, such as UK milk, creates a monopoly on pricing. Outside suppliers are subject to the States licensing system.

Was this subsidy value for money?

6.34 To decide whether the subsidy was value for money, the Committee considered the definition of value for money and agreed that there were three considerations that needed to be met.

1. Was it delivered in a timely manner?
2. Was it within the budget available?
3. Does the subsidy do what it was intended to do?

1.Timely Manner.

6.35 The application of the grants, even though they are split into various areas, such as Single Area Payments, Quality Milk Payment and Dairy Service Support Payment, have been working well and provided the industry with workable solutions in difficult financial times. Any delays in the provision of the finances would have created insurmountable difficulties for many operators. It would appear that the provision of the grants has been delivered in a timely manner.

6.36 The Committee noticed that the Quality Milk Payment was a transitional payment and obtained no satisfactory answers when it attempted to establish how long that transitional period would be during hearings[21]. In February 2013 the Committee was informed that the Quality Milk Payment is to be reduced by 6.7% in years 2013, 2014 and 2015. Beyond that time, further work will be undertaken as appropriate at that time.

KEY FINDING

6.37 There is no time limit on the 'Transitional' payments on milk.

2. Within Budget Available

6.38 Economic Development's business plan for 2011 provided for Single Area Payments, Quality Milk Payment and Dairy Service Support Payments to cover grants to the Dairy Industry. The amounts paid in 2011 were within budget.

[21] Hearing with Chief Officer of Economic Development Page 9.

3. Doing what was intended

6.39 The application of almost £1 million per year along with the licensing system has arguably kept the industry alive. It has maintained the Islands farming traditions and perpetuated a near monopoly as described above. If those were the intentions, the subsidy does what it was intended to do.

6.40 The Committee noted information supplied in February 2013 that Economic Development are in the process of negotiating the de-regulation of the milk sector and as part of that process ensure that the trading arrangements associated with the subsequent successor body to the Jersey Milk Marketing Board are consistent with the Competition (Jersey) Law 2005, including Article 16 of the law that deals with undertakings with a dominant market position.[22]

How does the subsidy benefit the people of Jersey?

6.41 The Committee is clear that those working in the industry benefit from the subsidies. Farmers can run their farms and the Dairy can operate in the current financial environment, providing employment for many directly and others indirectly.

6.42 The Committee is also clear that the people of Jersey do not in the normal, recognised manner benefit from this closed market. Even though annual subsidies of around £1 million help to reduce the price of Jersey milk on Jersey shelves, restrictions on liquid milk imports arguably distorts competition.

6.43 Subsidies of close to £1 million per year would appear to be unsustainable. The Quality Milk Payment is a transitional support payment and, as can be seen from Table 3, is reducing year on year. The work being done by the Minister for Economic Development and his department on this reduction evidences the view of the Committee that the payments may be unsustainable.

6.44 A conclusion cannot be drawn at this point as there is another dimension to the considerations. The dairy industry is more to Jersey than simply another industry. It is heavily connected to and instrumental in, the maintenance of the Island’s heritage and traditions, it is the very look and feel of the island (brown cows in green fields). The Committee accepts that, sometimes, things are not value for money in the normally recognised manner. How much is the heritage of the Island worth?

[22] Response from EDD to factual checking of draft report.

6.45 Discussing whether removing the licensing system on imported milk or the £1 million subsidies would adversely impact on the future of the dairy industry and therefore the rural environment as it stands today. Consideration of whether competition strengthens industries or whether it is subsidised industries that, in the long run tend to fail, would take this review outside it's terms of reference.

6.46 The Committee will not condone any decision which would put the rural economy and countryside of the Island at risk but recognises the dilemma. The subsidies and licensing system may be far from ideal but the industry must be maintained until a better option becomes available.

6.47 There are some very political issues here. Arguably, it is a 'policy' issue for consideration elsewhere but is an issue that needs to be informed by an analysis of the figures, again, clearly outside the remit of this review.

6.48 Are the principles here beyond challenge? No they must not be. The States have looked long and hard at the support for this industry in the past, on numerous occasions. The Committee considers that there would be benefit from a complete strategic review of the industry, either by the Economic Development Department or perhaps fresh eyes from elsewhere, to establish if there are more appropriate ways forward. Given the new financial environment that the Island now finds itself in, alternatives must be examined. Strategic decisions must be made by the States as to the direction the Island wishes to, or perhaps can afford to take.[23]

6.49 As far as this review is concerned, the Committee notes that the full picture of grants and subsidies to the Dairy industry cannot be obtained from the Financial Report and Accounts 2011.

6.50 The Committee will be reviewing the system of grants and subsidies in the near future.

KEY FINDING

6.51 There are many questions requiring answers in order to establish the way forward for support for the dairy industry into the future.

6.52 Recommendations relating to grants will be reserved for the conclusion of the Public Accounts Committee review into grants.

[23] The above is discussed in significantly greater detail in the Promar International report for the States of Jersey, "A sustainable Dairy Industry in Jersey".Dec 2006 and numerous other documents since that time.

7. PROCUREMENT, INFORMATION SERVICES, SIXTH FORMS AND TOURISM

Procurement

7.1 The Corporate Procurement Unit cost the States £1.7 million in 2011[24] and had a target of savings to be made by removing the splintered approach of every department sourcing its own procurement.

7.2 The Chief Executive Officer of the States of Jersey informed the Committee that:

> *"it has proved to be quite challenging for departments to move from the individual savings and individual procurements to a corporate approach…"* [25]

7.3 The problems have revolved around the budget being held in the department. For example, Corporate Procurement obtains a contract that makes savings for travel or fuel or whatever the corporate element is. They then need to remove the relevant amount from the department budget. That is where the tension is.

7.4 The transformation towards working across the organisation and come up with better and stronger corporate procurement contracts has met with some resistance.

7.5 In addition, the Comprehensive Spending Review is a three year process that ran through 2011 and will continue through 2012 and 2013. The Treasurer and the Corporate Procurement Team are working with departments to make sure that those corporate procurement savings and targets are met.

7.6 The Committee received an assurance from the Chief Executive Officer that the intended savings from a Corporate Procurement Team will be met.

> *"…it is about just over halfway through its saving target at corporate level."*

7.7 These apparent Corporate Procurement savings are buried in contingencies and service lines of the Report and Accounts for 2011 and are not shown anywhere in the document. There is a complete lack of transparency and information available to the reader on progress.

[24] Page 80 Annex to Report and Accounts 2011.
[25] Public hearing with the Chief Executive Officer 2nd November 2012, page 18.

7.8 The Committee requested figures to show the savings made by the Corporate Procurement Unit but were provided repeatedly changing figures. It would be unreasonable to publish the chain of figures provided to this review. The Committee has therefore launched a review into the savings made, including the connection with the Comprehensive Savings Review. All discussion relating to procurement will be reserved for the report at the conclusion of that review.

KEY FINDING

7.9 Corporate Procurement Unit savings are not transparent because it has not been possible to establish the savings made by the Corporate Procurement Unit from the Report and Accounts 2011 or from simple enquiries with the Unit.

7.10 Recommendations relating to procurement will be reserved for the conclusion of the Public Accounts Committee review into procurement.

Information Services.

7.11 Information Services (I.S.) carried a budget of £10.1 million in 2011[26]. The public hearing with the Chief Officer of ESC revealed that the ESC I.S. system for the curriculum was completely separate from and maintained separately from central I.S.. The Committee was concerned that this represented a significant failure to centralise the I.S. systems. Questioning the Chief Executive Officer in that area provided some interesting answers for the Committee based on a historical legacy issue.

7.12 The way in which the I.S. function was procured in the past involved copper cable run underground from A to B to C, et cetera. This was very expensive in terms of the transmission of data from one building to another. As a result of that, not just Education but most departments had their own servers and their own networks because that was the cheapest method of transmitting data when the network was created.

7.13 That is no longer the case. Early in 2012 a contract was signed for a wide area network for the States that allows data transmission at a set cost across the whole organisation.

7.14 ESC still has its own contract, completely separate to the rest of the States I.S. structure. The Chef Executive Officer advised the Committee that a new States wide infrastructure is being put in place and is due for completion soon[27].

[26] Annex to report and Accounts 2011 page 18.
[27] Public Hearing with Chief Executive Officer 2nd November 2012.

"*Education have got their own with their contract but the discussion I have had with them is that once we have got all of this infrastructure in place, which is nearly there, as that contract comes up for renewal then we will start looking to the opportunity of moving it on to the States network system but obviously keeping some independence because of the security issues of the schools network versus the States but there are technical ways of doing that.*"

7.15 Once again, an issue that has been identified from the 2011 Report and Accounts by the Committee is currently being resolved by the department concerned and the Committee recognises the progress in that area. This is routine maintenance that should have been done some time ago. For an Island that is looking to diversify its industries, in particular, digital services, the States of Jersey systems are well behind the times. The Island needs an appropriate system that not only does what is required now but that is flexible enough to meet future demands. This is a prime example of an 'invest to save' area which has not had the necessary investment to establish a modern day approach to service delivery.

KEY FINDING

7.16 Areas of the States Information Services need updating.

Sixth Forms

7.17 During the hearings with the Chief Officer of Education, Sport and Culture, it became apparent that the financial arrangements of the sixth forms within the Islands schools appeared fractured and individual to each of the schools. There are 2,000 sixth form students across six providers. The financial solution would appear to be to integrate the timetables and facilities to reduce the need for multiple facilities and duplication of effort.

7.18 Two of the providers are private, two are fee-paying, with the remaining two being non-fee paying States providers, namely Hautlieu and Highlands but all are supported, to a greater or lesser extent, by taxpayers.

7.19 Since the mid 1990's there has been a charge at the fee paying schools for sixth form education. There could be resistance from parents paying for their children to attend fee paying schools where the child could spend 50% of their time at the non-fee paying schools. This is further complicated by the competition between schools resulting in differing standards for entry into the sixth form.

Mr. I. Ridgway:[28]

The barriers, as you see them, to prevent that benefit of the financial and education terms?

Chief Officer for Education, Sport and Culture:

Well, there is some significant barriers. … if [parents] have got a student at, for example, Victoria College, [who is] receiving over 50 per cent of the tuition at Hautlieu, why would the parents pay fees, because Hautlieu is free. So the competition between schools is a factor here, particularly the competition between fee-paying and non-fee paying schools.

7.20 These differences are both cultural and business driven, making full alignment into a single unified structure, delivering a unified educational product, unavailable at this time.

7.21 That does not mean that the problem should not be tackled. The provision for students to study the subjects of choice should not be hindered by the desires of private businesses and the physical separation of the study buildings. Education for over sixteens must not be compromised. These students represent the future of the Island and must be provided with every opportunity that is within the power of the States to provide.

KEY FINDING

7.22 Sixth Form Education is not value for money due to duplication of facilities.

Tourism

7.23 According to 'Jersey in Figures', there was an increase in total visitor numbers of 4,500 from 2010 to 2011. It would appear in this case, from the figures reproduced in Table 8, that re-allocating money has benefited not only the tourism industry but also the public purse.

Table 8: Tourism Heads of Expenditure.

Tourism	2010	2011[29]	Difference
Tourism, Marketing and Promotion	£7,237,000	£6,542,000	
Tourism Development Fund		£650,000	
Totals	£7,237,000	£7,192,000	£45,000

[28] Hearing with ESC 8th October 2012
[29] Financial Report and Accounts Annex 2010 page 26

7.24 The Committee noted that the 2011 annual report for Jersey Tourism, "A year in Review 2011" published different expenditure figures to those in the Financial Report and Accounts. This was put to the Chief Officer during the public hearing of 16th October 2012 and was found to be an error in the tourism document. The figures in Table 8 are the correct figures from the Financial Report and Accounts 2012.

8. PUBLIC EMPLOYEES CONTRIBUTORY RETIREMENT SCHEME

8.1 The Public Employees Contributory Retirement Scheme (PECRS) was the subject of several recommendations by the previous Public Accounts Committee based on the Financial Report and Accounts 2010, which revealed a deficit of £526,245,000[30]. The Financial Report and Accounts for 2011 revealed a deficit of £698,006,000[31]. However, throughout the 2011 document, the Treasurer of the States of Jersey has repeatedly stated that the deficits shown are the result of the FRS 17 accounting standard and do not reveal the true state of the fund. Details of the true valuation are contained within the PECRS Actuarial Report, which is undertaken every three years. The Actuarial Report for 2010, published on 10th July 2012[32], revealed a surplus of £40.6m.

8.2 This Committee noted that there was an opportunity for confusion relating to the figures presented and invited the Chairman of PECRS to attend a public hearing to provide a resolution.

8.3 The obligations of pension schemes are a whole series of payments that go well into the future. For the purpose of accounting standards an actuary has to put a capital value on those liabilities in respect of benefits accrued up to the date of the accounts. FRS 17 is an accounting standard designed to be consistent from one set of company accounts to another, and requires the use of a discount rate based on the yield on high quality AA-rated corporate bonds. Therefore, the discount rate basis is prescribed. So all FRS 17 valuations at a particular date will be using essentially the same discount rate.

8.4 Article 3(3) of the Public Employees (Retirement) (Jersey) Law 1967 requires the appointment of an Actuary to review the operation of the PECRS. Under Regulation 6(1) of the Public Employees (Contributory Retirement Scheme) (General) (Jersey) Regulations 1989 the Scheme's Committee of Management has obtained a report from the Actuary for the period to 31st December 2010.

8.5 The actuary made an estimate of the future investment return on the scheme's assets to be generated as extra return over the long-term. In 2010, the year of the valuation, the overall discount rate for the funding valuation was 6.75%, significantly higher than the yield on AA Corporate Bonds, which was 5.4% at 31st December 2010. To give some idea of the sensitivity

[30] Financial Report and Accounts 2010 page 117
[31] Financial Report and Accounts 2011 page 150
[32] R90 Public Employees Contributory Retirement Scheme (PECRS) Actuarial Valuation at 31st December 2010.

to changes in the discount rate, a 1 per cent difference adds 18 per cent to the value of the liabilities, which is why the discount rate assumption is so important.

8.6 There are two other points that significantly impact on the result of the respective valuations. FRS 17 only requires examination of liabilities up to the point of the valuation. So at 31st December 2011 the calculation asks, "What is the market value of the assets? What is the value of liabilities accrued to date and what is the difference?"

8.7 When the PECRS actuarial valuation is undertaken for funding purposes, it includes the future membership of existing members up to normal retirement with assumptions that some will retire early, some will leave and some will die. So there is a projection done for future liabilities as well as for the past.

8.8 There is also the agreement contained within P190/2005 in which the States confirmed responsibility for the past service liability which arose from the restructuring of the PECRS arrangements with effect from 1st January 1988. A ten point plan created the agreed pathway for repayment of the debt which existed then through to 31st December 2083.

8.9 Whilst the States see this debt as a liability to be met each year with a payment to PECRS, clearly for PECRS it is an asset, the regular income being available for use as appropriate for the scheme. In the States accounts the debt is recognised as an obligation at its capitalised value. In the PECRS actuarial valuation it is valued as an asset.

8.10 So the FRS 17 calculation in the Report and Accounts and the Actuarial Valuation are two quite different sets of calculations for different purposes.[33]

8.11 The Committee recognises the efforts within the Report and Accounts for 2011 to explain the differences between the two valuations and considers that to be an improvement on previous years where no explanation of a very large deficit figure was offered.

KEY FINDING

8.12 The Public Accounts Committee recognises that the FRS17 calculation and the Actuarial Report 2010 are differing calculations for different purposes.

[33] See public hearing with PECRS Chairman 2nd November 2012.

9. EXECUTIVE POWERS

Executive powers

> *"The review into the Machinery of Government currently being undertaken by a Sub-Committee of the Privileges and Procedures Committee must resolve the fractured lines of responsibility at the level of Chief Minister and Chief Executive Officer, because without clear lines of responsibility, there are no clear lines of accountability."*[34]

> *"There should be an independent review of the current structure of management within the States, using the weaknesses identified within this and other PAC reports as a basis for the work".*[35]

9.1 The above are quotes taken from previous PAC reports in recent times. Similar concerns may be found in numerous other documents which have examined the methods employed by senior management in the States of Jersey. Over time, discussion has revolved around issues such as:

- Corporation sole providing that responsibility or accountability for the overall States budget do not rest with:
  - The Chief Minister
  - The Council of Ministers
  - The Chief Executive or
  - The Corporate Management Board
- A Minister can transfer funds to another Minister, with the approval of the Treasury and Resources Minister.
- The States can make a decision without taking into account the impact on the budget

9.2 So the arguments have been rehearsed many times in the last two periods of Ministerial Government. This is nothing new.

9.3 In examining the Report and Accounts for 2011, the Committee has been unable to avoid asking these same questions once again. After all, this review is all about value for money and good

[34] PAC Report on the Accounts of the States Of Jersey for the year ended 31st December 2010(See 7.12) Presented to the States on 11th November 2011 P.A.C 3/2011
[35] PAC report, The States Control of Senior Management Remuneration. Presented to the States on 19th May 2011 P.A.C. 2/2011

governance of the public purse. As it turns out, it was worth the effort. A new and refreshing approach has been put to the Committee. Perhaps not entirely agreed with by the Committee, but it is new and the Committee finds that refreshing in itself. The new approach comes from the drive of the recently appointed Chief Executive Officer. When this was discussed in a public hearing[36], he said,

> *"…It is absolutely correct in saying that the way in which we are structured, with the corporation sole being with the respective Minister as opposed to the Chief Minister and the Council of Ministers and then down, makes a slightly unusually shaped organisational structure so you have to work in that way. I think if you try to fit it into what you would think is a normal executive structure ….you try to force fit then it is not surprising it does not work. If, on the other hand, you respect [Jersey's] slightly strange confederated type model and you make that model work, which is what I have been doing in the last 12-18 months….So far it has worked quite well...*

9.4 The success of management in the States of Jersey still rests on the relationships that exist between the Chief Executive, the individual Chief Officers and their respective Ministers. It is recognised that an area where tension still exists is the resolution of conflict.[37] However, management may no longer be a square peg being driven into a round hole as it appeared to be in the past. The new Chief Executive Officer recognises there are areas of concern and sees his role for the future as creating a proper performance management structure in the States.

> *"I want to build in 2013 a proper performance management structure for the organisation."*[38]

9.5 Clearly, future policies relating to management restructure are outside the remit of the PAC and this review. The Committee recognises that there are many options to consider before this problem is resolved[39] and that good governance can only be provided by solid lines of responsibility and accountability to the highest level of any organisation. It trusts that the Policy and Procedures Sub-Committee review into the Machinery of Government will examine the issues in sufficient depth to provide reconciliation for these long standing problems.

KEY FINDING

9.6 Fractures still exist in lines of responsibility and accountability at the highest levels of the States organisation.

[36] Public Hearing with Chief Executive Officer 2nd November 2012. Page 2.
[37] Public Hearing with Chief Executive Officer 2nd November 2012. Page 3.
[38] Public Hearing with Chief Executive Officer 2nd November 2012. Page 5.
[39] Public Hearing with Chief Executive Officer 2nd November 2012. Page 37.

RECOMMENDATION

9.7 The Chief Minister must review the lines of responsibility and accountability at the highest levels within the States of Jersey and report his findings to the States with recommendations to resolve the problems by the end of 2013.

Manpower

9.8 The major expenditure for the States of Jersey in any one year is the costs associated with staff.

Table 9: Staff costs and numbers.

	2010[40]	2011[41]
Total Staff Costs	£345,246,020	£348,432,000
FTE	6,265	6,196

9.9 The Comprehensive Spending Review drove and funded the voluntary redundancy of a significant number of staff through 2010 and 2011. The figures in Table 9 show a clear reduction in numbers, however they do not reflect a drop in the cost of the staff. The Committee recognizes that this may work its way through as time goes on but cannot avoid the question that is left hanging;

Did we pay off the lesser paid staff and keep the senior staff?

9.10 The 2011 accounts do not show a reduction in the cost of staff. The cost, which relates to almost half of the entire budget of the States, must be the most fertile ground for savings in the whole organisation.

9.11 Harsh though it may be, restructuring of staff numbers is a reality of life in these difficult economic times. Private businesses, even businesses where the States hold an interest, such as the JT Group, are prepared to reduce the size of their workforce in order to meet modern restructuring expectations and have made significant amounts of people redundant.

9.12 The argument that staff would move from the State's payroll onto State's Income Support payments may have some merit. However, should that be the drive behind the amount of staff employed in the organisation? The Committee feels not. That has certainly not been an argument driving restructuring in the public sectors in the United Kingdom and other countries.

[40] Report and Accounts 2010 page 84.
[41] Report and Accounts 2011 page 94.

9.13 It is time for a root and branch examination of exactly what it is that individual departments and staff actually do. The Committee would expect this action during a time of States reform. Being a Committee comprising of private members the PAC notes that in the private sector reform needs to be rapid or businesses become forced to give way to competition. The States do not have that imperative.

KEY FINDING

9.14 Staff costs continue to rise despite the voluntary redundancies.

RECOMMENDATION

9.15 The Chief Executive Officer of the States of Jersey should report back to the PAC by August 2013 with an analysis of why the cost of staff has not reduced and a plan to stop the increase.

10. INFORMATION AVAILABLE

10.1 This Committee has been to a large amount of effort to obtain sufficient information to be able to answer the simplest of questions. It could be said that even with the extra information obtained, in some cases, the Committee has reached, at best, a confused position. Information should be clear in the Report and Accounts and sufficient to be able to answer simple but high level questions.

10.2 In examining high level accounts such as the Financial Report and Accounts, it is necessary in some cases to be able to resolve issues such as

- what part of the Transport and Technical Services £5m net expenditure on 'Transport' represented the cost of the bus service in the Island?
- What part of the £12.8m spent on Waste Management related to dealing with Liquid Waste?
- What part of the £90m spent on Income Support did Social Security spend on Weekly Benefit?

10.3 There are many other examples of information being unavailable in such cases.

10.4 In mid October 2011, Social Security published R122/2011 entitled 'Social Security Department Minister's report & Financial Statements – 2010'. That document contained breakdowns of figures contained in the Financial Report and Accounts 2010 and allowed the Committee of the time to establish a fuller understanding of spending within all areas of the department. That particular document is available on the 'gov.je' web site although it is difficult to find. Interestingly, it is more easily available from a 'Google' search.

10.5 Social Security has not followed that document on a like for like basis (perhaps as a result of the lack of a Comptroller and Auditor General in the Island). In October 2012, 'R126/2012, Social Security Department Income Support 2011' was published, which provided a very useful breakdown of the service line "Income Support £90m" contained on page 67 of the Financial Report and Accounts 2011. For example, Income Support Weekly Benefit in 2011 was £66.9m, a very significant figure that is not specifically mentioned in the Report and Accounts. There is no information available relating to other expenditure of the Department connected with services such as the Dental Benefit Scheme and others which were listed in R122/2011.

10.6 There is a need for another layer of information down from the Financial Report and Accounts in order to be able to make sense of the figures.

10.7 The problem was highlighted in the previous Committee's report PAC 3/2011, "Report on the Accounts of the States of Jersey for the year ended 31st December 2010" which raised the question:

"*Who is this document's target audience?"*

10.8 That report recognized that the Financial Report and Accounts was not intended for the ordinary man in the street or even the average States Member. The document is intended for consumption at the highest levels within the financial organisation of the States of Jersey,[42] the target audience would appear to be the Comptroller and Auditor General.

10.9 PAC3/2011 questioned whether the document is suitable for the purposes of informing the States Members or members of the public and concluded that it was not. At that time the Treasurer of the States agreed with that and produced a leaflet to accompany the 2011 accounts giving a synopsis of the information. The Committee agrees with the production of the leaflet but notes that this does not deal with the problem of transparency and accessibility to information by States Members. The Accounts of the States must be made more transparent and accessible.

10.10 There needs to be publication of full accounts from individual departments to support the Financial Report and Accounts.

10.11 Whilst it may be argued that production of such a set of accounts may be an extravagance of time and money in the first instance, the Committee considers that having departmental accounts readily available would prevent the need for searching for information to satisfy questions from States Members, the PAC and members of the public. Significant amounts of time are invested in production of files of information to answer the questions Departments are asked.

10.12 The PAC request for information relating to the savings made by the Procurement Unit is an example. Staff spent time trying to establish the answers to the question and provided incorrect information. Time was spent by the Committee discussing how to respond. Time was spent at officer level scoping a review on the strength of the information provided and time was spent at

[42] Article 32 of the Public Finances (Jersey) Law 2005(1)(a) requires the Treasurer to prepare the Annual Financial Statement in respect of the accounts of the States. (1)(b) Requires the Treasurer to send the statement to the Comptroller and Auditor General for audit.

a meeting with the Treasurer of the States when the fault was discovered. In all, three sets of different figures were provided, wasting further time and making it impossible for the PAC to come to conclusions. That was the catalyst for the launch of a formal review into the Corporate Procurement Unit which the PAC is now undertaking. This again will cost time, effort and money to the highest levels of the organisation.

10.13 Providing information on a bespoke basis by every department cannot be value for money when completion of annual accounts to a given format would provide correct, detailed information of how Departments spend taxpayer's money. This information would be available to whoever needed it.

10.14 Without the publication of sufficient information to explain the spending of public money on services provided by every department, the Committee is interested know how the departments expect to cope with provision of financial information when the Freedom of Information becomes legislation in the Island.

KEY FINDING

10.15 There is a need for a level of more detailed accounts from every department to provide the necessary background information to support the Financial Report and Accounts.

RECOMMENDATION

10.16 All departments of the States of Jersey must publish accounts that provide sufficient information for the public to understand how taxpayer's money is being spent.

11 CONCLUSIONS

11.1 Carry Forward limits contained within Financial Directive 6.1 are not being enforced, the Treasury Department being amongst the largest offenders in 2011. This must be enforced by the Treasury Minister to ensure tight budgeting controls within departments.

11.2 Having a contingency fund within departments makes sense and allows Accounting Officers to deal with the unexpected or unplanned events which occur from time to time. However, there is nothing in the Financial Report and Accounts 2011 which shows that those sums of money exist. This is not acceptable and far from transparent. Every department of the States of Jersey must declare contingency funds within the Financial Report and Accounts.

11.3 There is no Sports Strategy. This makes any measurement to monitor standards or performance almost impossible. The Committee understands that Education, Sport and Culture now intend to publish a Sports Strategy during 2013.

11.4 Problems with the lines of responsibility and accountability at the highest levels within the States of Jersey have been recognised in many previous reports. Still nothing has been done to remedy the problems. It is now time that the Chief Executive Officer and the Chief Minister examine the problems and report their findings to the States with recommendations to resolve the problems by the end of 2013.

11.5 The cost of the staff within the States of Jersey keeps increasing. The Chief Executive of the States of Jersey must assume responsibility for a review and instigate methods of reducing the costs.

11.6 There have been many dozens of enquiries made by the Public Accounts Committee to form an understanding of the few areas dealt with in this report. In some cases, it has taken weeks of enquiries and in the case of Procurement, there are still unresolved issues. Both Procurement and Grants have raised enough problems for the Committee that separate reviews have been launched. What is clear is that the Financial Report and Accounts only gives, in most cases, the highest level of information. Simple questions to establish how money is being spent will find no answers there. The taxpayer increasingly wants to know how public money is spent. This information must be made available by all departments of the States of Jersey publishing full accounts. Interestingly, in many cases the States expect no less from outside organisations who receive taxpayer’s money.

11.7 However, in the main, the Committee acknowledges that public funds appear to have been applied economically, efficiently and effectively and that other than the specific areas mentioned in this report, the accounts represent value for money. (Term of Reference 1. Paragraph 4,3.)

11.8 The issues identified in the Public Accounts Committee's reviews of previous States Accounts have been found in many cases to be outdated or now not relevant due to changes in procedures or approaches by the departments. To establish the relevance of every issue previously raised has proved to be beyond the resources of the Committee at the current time. This will be looked at more closely in the future. (Term of Reference 2. Paragraph 4,3.)

12. COMMITTEE MEMBERSHIP

The membership of the Public Accounts Committee comprises:

States Members

Deputy Tracey Vallois (Chairman)

Senator Sarah Ferguson

Deputy Richard Rondel

Deputy Gerard Baudains

Independent Members

Steve Haigh BSc C.Dir

Ian Ridgway

John Mills CBE.

Officer Support: Mr M. Robbins

13. THE ROLE OF THE PUBLIC ACCOUNTS COMMITTEE

The primary function of the Public Accounts Committee is defined in Standing Orders[43] to review reports by the Comptroller and Auditor General and to report to the States upon any significant issues arising from those reports regarding :-

- The audit of the Annual Accounts of the States of Jersey
- Investigations into the economy, efficiency and effectiveness achieved in the use of resources by the States, States funded bodies, independently audited States bodies (apart from those that are companies owned and controlled by the States), and States aided independent bodies
- The adequacy of corporate governance arrangements within the States, States funded bodies, independently audited States bodies, and States aided independent bodies and
- to assess whether public funds have been applied for the purpose intended and whether extravagance and waste are being eradicated and sound financial practices applied throughout the administration of the States.

The Public Accounts Committee may also examine issues, other than those arising from the reports of the Comptroller and Auditor General.

The Public Accounts Committee represents a specialised area of scrutiny. Scrutiny examines policy whereas the Public Accounts Committee examines the use of States' resources in the furtherance of those policies. Consequently initial enquiries are made of Chief Officers rather than Ministers.

[43] Standing Orders of the States of Jersey 1st January 2006, No. 132.