STATES OF JERSEY

Public Accounts Committee

MONDAY, 30th JULY 2007

Panel:
Deputy S.C. Ferguson of St. Brelade (Chairman)
Senator J.L. Perchard
Connétable T.J. du Feu of St. Peter
Connétable D.J. Murphy of Grouville
Deputy A. Breckon of St. Saviour
Mr. R. Bignell
Advocate A. Ohlsson
Mr. C. Evans
Mr. A. Grimes
Mr. M. Magee

In attendance:
Mr. C. Swinson (Comptroller and Auditor General)
Mr. P. Monamy (Committee Clerk to the Public Accounts Committee)

Witnesses:
Mr. R. Bell (Controller of Social Security)
Mr. R. Lang (Director of Finance, Social Security Department)

Deputy S.C. Ferguson of St. Brelade (Chairman):
Right, if we can just go round the table.

Connétable T.J. du Feu of St. Peter:
Tom du Feu, Constable of St. Peter.

Connétable D.J. Murphy of Grouville:
Dan Murphy, Constable of Grouville.

Mr. R. Bignell:
Roger Bignell, independent member.

Advocate A. Ohlsson:
Alex Ohlsson, independent member.

Mr. M. Magee:
Martin Magee, independent member.

Deputy S.C. Ferguson:
Myself, Sarah Ferguson.

Mr. C. Swinson:

Chris Swinson, Auditor General.

Mr. P. Monamy:
Peter Monamy, States Greffe.

Senator J.L. Perchard:
Senator Jimmy Perchard.

Mr. A. Grimes:
Tony Grimes, independent member.

Mr. C. Evans:
Chris Evans, independent member.

Deputy A. Breckon of St. Saviour:
Deputy Alan Breckon.

Deputy S.C. Ferguson:
Right.

Mr. M. Magee:
Maybe if I can just kick-off with some questions, if I direct them to you, Richard? In the 2005 accounts, which were published in May last year, there was an estimated spend for Social Security of just under £85 million. Really just against this, why has that estimate risen so much within 7 months of those accounts being published? That is a legitimate question. I know there is some data in here with regards to 2006 that mentions some reasons, but it just seems to me that it is quite close to when the 2005 ones were published.

Mr. R. Bell (Controller of Social Security):
Sorry, yes.

Mr. M. Magee:
Just to repeat that, what I am saying is that if you go back one year, in 2005, it was basically saying that half-way through 2006 the spend that was in the accounts said it was going to be £85 million. It ended up being £100 million.

Mr. R. Bell:
Yes, sorry, I have not brought that document with me. Unless you have that one? Right, if I remember correctly one of the reasons for that will be principally supplementation, which no doubt you are going to move on to and ask me in greater detail. Other detail relating to that would have been the transfer for nominated welfare, those will be the principal 2 reasons for that increase.

Mr. M. Magee:
I understand they are the reasons, and the reasons are explained in the 2006 accounts. It was really me saying, to cut to the chase, if that was an estimate that was put in last year and it was out by £15 million- because we have an estimate that is set there for 2007 and we are 7 months through that - how legitimate is that estimate that we are looking at here? Because that is set in these accounts.

Mr. R. Bell:
Well, if we are talking about welfare, that is about the structuring or the restructuring of finances between the Parishes and the States. That was something that was not known or it was something that at

that point in time had not been built into the estimate, so there had not been the physical provision for the transfer of the budget. If we are talking about supplementation - and this is back to what I was just talking about - the reason that the estimation for 2006 was down was because the estimation at that point would have been very early in the day with regards to what supplementation is. If we come on to why was 2006 much higher than originally forecast, that is down to**…** and I have a rationale as to why 2006 spend was much higher than the budget that was set, but you asked a question specifically around the estimate. The estimate at that time that was in the accounts would have been lifted straight from the Business Plan. It is a matter of policy that you put the estimate, which is the budget that was set at that time, in the accounts.

Mr. M. Magee:
Is that policy …?

Mr. R. Bell:
Rather than a revised estimate.

Mr. M. Magee:
Is that policy not, then, misleading?

Mr. R. Bell:
It is, but it is a policy States-wide in that respect.

Mr. M. Magee:
Is there a natural follow-on to that, then? If you say as an example the States' contribution to the Social Security Fund panned-out being just under £57 million last year, does that mean that the estimate for 2007 - because it is a policy to put in a figure which is an old figure - could be wrong?

Mr. R. Bell:
2007.

Mr. M. Magee:
Because it is lower than what it actually…

Mr. R. Bell:
In the accounts 2007 will be that of the budget that has been set rather than an estimate of the outturn.

Deputy S.C. Ferguson:
So you reckon it is going to be significantly higher this year?

Mr. R. Bell:
The latest forecast**…**

Advocate A. Ohlsson:
So that column really should say 2007 voted, Richard?

Mr. R. Bell:
Yes.

Advocate A. Ohlsson:
Has that voted number been revised yet by any Ministerial decisions or carry-forwards?

Mr. R. Bell:
Has that voted amount been altered? No.

Advocate A. Ohlsson:
That £54 million for 2007, has that yet been revised for 2007?

Mr. R. Bell:
The voted amount - i.e. which would require a decision of the States or a decision of the Council of Ministers/Treasury Resources Minister - has not been changed. What is my understanding, or more than my understanding, is that we are soon to have a report on proposition seeking the States' approval for a supplementary vote for supplementation for 2007.

Deputy S.C. Ferguson:
So what do you reckon it is going to run at?

Mr. R. Bell:
Current estimate, and this is based upon 2006, an early estimate at that point in time for the first quarter is around £60 million.

Mr. M. Magee:
Sorry, is that plus £6 million on top of that figure?

Mr. R. Bell:
Well, plus 5 and a half, yes.

Mr. M. Magee:
So it is £60 million?

Mr. R. Bell:
Yes.

Mr. M. Magee:
Probably it is worthwhile, since we are on that topic… I know there has been a project ongoing to look into all this that you alluded to earlier on, Richard.

Mr. R. Bell:
Well, firstly it is probably worthwhile talking about 2006 and what happened in 2006. I can provide what I regard as quite a robust, high-level reconciliation between 2005 and 2006 which shows at high level why supplementation did go up, which is a product of increases in average earnings. At this point we only have the June 2006, we do not have the June 2007 figure. We have the June 2006 figure. A product of that, a product of what the cap - i.e. the earnings cap - went up by and a product of what we know from the Statistics Unit the numbers of people employed in 2006 went up as compared to 2005. When I put those through that calculation I come up with a variant of minus 0.9 per cent against what i actually came out at. That is to say what was the supplementation in 2005, applying those factors to supplementation in 2005, giving a figure for 2006 and applying factors from outside of the department rather than figures that come from inside the department. That points to a need to revise the forecasting tool which we go down the line of. What happens when I try and apply that same logic to other years is sometimes it works, from experience, and sometimes it does not. So, if you take the same formula and you apply it back in time does it work for every single year after that? The answer is no. One significant issue, which I have yet to get to the bottom of, is what happened in 2005. If you put together a forecast based upon 2004 or 2003 of what the 2005 figure is, it is £2½ million to £3 million short o

what was actually the case. When you apply what happened in the economy to that number it comes out low, which is part of the reason the forecast for 2006 came in low. Because - and this is a problem with the forecasting tool at the moment which we are trying to iron-out - at the time at which we were asked to forecast 2006… When I say "we", I was not there. What we do is we would look at the latest quarter's figures. The latest quarter's figures at that point in time were for the first quarter of 2005. What we should have been doing and what we are trying to do now that we have put together a longer-term tool is look at the underlying trend. 2005 was not what the trend was showing us. There is a steady proportion, when you look back, all the way back to 2002 - that is as early as we can go for any rationale - there is a steady percentage proportion of supplementation compared to contributions in the wider sense and in 2005 it dipped by 2 per cent, which explains the variation in 2005. But what we do not understand is why and what happened in 2005 for 2005 to be so low. But in terms of forecasting - sorry, revising what I expected 2006 to be - given the data in the economy we know now that we did not have in our grasp at that time, the figure comes within one per cent of what we would have forecast.

Senator J.L. Perchard:
Why is the figure you estimate, or been voted - we have agreed that is the new word, we should not say estimate - for 2007 £5½ million out then, if you have this new formula for calculating it?

Mr. R. Bell:
Because like I say, that figure is the amount voted. At the time of making that budget, which was at the time of submitting those figures, that would have been second quarter 2006.

Senator J.L. Perchard:
So we are going to get this every year?

Mr. R. Bell:
Well, we are, although I have to say 2006/2007 is the first time this… and when I say go back to 2002, it is between £½ million to £2 million year-in, year-out as you go back in the opposite direction, which is why it has not previously received - in my opinion - as much attention as it has now. When it was always under-spent but under-spent by quite significant sums there was no issue. Now it has flipped the other side and I think we need… and rightly so, even when it was under-spent we should have had the answer as to why it was so significantly under-spent. But what we are trying to do now, and this is similar to collecting tax, is to come up with a more robust forecast. But whatever you do you are never going to**…** whatever we do - and this figure is way-out because we have now revised the forecast, because it is again based predominantly in 2005 and the first quarter of 2006 - is not enough. What we want to do now is come up with a more robust tool for forecasting. We are working with the economic advisers to come up with that. What I have to say is I am sceptical that we will come up with a very good tool within certain tolerance ranges. We exceeded the tolerance ranges in the past but we are still going to be, I think, within bounds of plus or minus £2 million.

Senator J.L. Perchard:
You are talking 10 per cent. What could make it so variable?

Mr. R. Bell:
What makes it so variable in this case is that when you look at the employment numbers between 2005 and 2006, for the first time in several years they went up by more than one per cent. The employment numbers went up by 3 per cent. In addition to which the earnings cap went up - and this is the sort of thing where you need a board to write it all on - on top of which the earnings cap was increased by 5.3 per cent, which is a direct formula every year: we increase the earnings cap by whatever the previous June's average earnings was. That increased it by a further 5 per cent. What we think happened to average earnings - and the only figure we have on average earnings is average earnings for the whole of

the economy, not just for those who would have been supplemented - was it was 3.3 per cent. So it was less than the average earnings cap. In other words, more people would have been sucked into supplementation and on average they would have paid more. There are 3 things that prove it, if I do the high-level review. There was the increase in the number of jobs, i.e. increasing on average the number of people who would have been supplemented. There was the increase in average earnings, which was as a result of increasing the cap, and there was an increase in supplementation which is brought about by average earnings actually being less than where the cap went up by.

Senator J.L. Perchard:
Are you saying you are predicting a big blip in supplementation requirements on year one of implementing G.S.T. (Goods and Services Tax)?

Mr. R. Bell:
That we have to think through, and it depends how much G.S.T. hits round into increasing earnings. If G.S.T. results in a wage battle then it will.

Mr. A. Grimes:
Have you in the year had more people paying Social Security in 2006 than you had in 2005?

Mr. R. Bell:
Yes.

Mr. A. Grimes:
Is that coinciding with I.T.I.S. (Income Tax Instalment Scheme)?

Mr. R. Bell:
Is that coinciding? Well, that is…

Mr. A. Grimes:
There is also the issue, is there not, about short-termism in the calculation, because there may be a lot of itinerant workers - people who are here in the short-term and do not hang around all their life to collect their pension? So is the model overly aggressive, is the question?

Mr. R. Bell:
Well, there is a good question there: is the model overly aggressive? Probably not because you can only model it at high level anyway, and it is round figures. Is the system of supplementation overly generous? That is one of those areas we talk about in the accounts and we talk about in the business review coming forward with options to reduce the supplementation bill. I might come back to the principles of supplementation in a minute, but one of the options may be to say - but we have to explore this - for people who are coming into the Island, you only start to attract supplementation after you have been resident for a year. Because at the moment as soon as you start paying contributions you attract supplementation to your record. That could be one of the options whereby we would say this could reduce the supplementation bill by whatever it might be.

Mr. A. Grimes:
Do you know offhand how many additional people paid contributions in 2006 as against 2005?

Mr. R. Bell:
In 2006 approximately on average 1,000 more, so it went up from 55,000 to near 56,000.

Advocate A. Ohlsson:

So that is the 3 per cent increase in the workforce you are talking about?

Mr. R. Bell:
Well, what I have done instead of looking at these figures, which are entirely**…** when we asked the question internally we… well, that is about the number of contributors, which is an average figure. What we did was we took growth in the economy from figures provided elsewhere, and growth in wages from figures elsewhere, and did a ballpark estimate to see if this is right. These figures of contributors do not necessarily just relate to those who are earning. So it could be people who are non-employed as well as employed, but largely if you are non-employed you will either pay the full rate or you will pay a small income exemption which, therefore, does not give you the right to supplementation. What we did was look at the earners' figures, which would be the figures that attracted supplementation, as opposed to just the total number of contributors.

Advocate A. Ohlsson:
So is there a factor in 2006 other than growth in the economy that has affected the supplementation number, i.e. has I.T.I.S. and a second department identifying earners with the requirement to make a payment to the Comptroller, has that resulted in your department identifying more individuals in the Island?

Mr. R. Bell:
No, I am not aware that that has contributed to increasing the numbers. There was a theory going around when we first started in 2006 noticing a hike in contributions that there were people who were on our books, because like I say we are not aware of a low level of compliance in the sort of industries that people were bandying around as not paying contributions, because we already had compliance visits. Over a period of time I am told that compliance has been much greater than it ever used to be within, for example, the construction industry. So whether the introduction of I.T.I.S. led to an increase in contributions, there was a theory that said that people that were not on our books but were not paying tax were going to come to the attention of the tax authorities. They left the Island and were replaced by people who would accept lower wages. At this point in time… if that had been the case we would have just expected a peak in the first quarter or the second quarter of 2006 and from there on it would not have carried on growing, but it carried on growing which suggested that that was not a robust hypothesis and turned out to be an urban myth. Yet, when I talk about… I can put a justification for 2005 to 2006, I am a bit reluctant to say those are the only reasons. They are entirely consistent with the reasons because when I apply the same logic going back to certain other years it does not apply and almost to go back to those other years is digging a lot more information out of the system to say what other factors were in the economy at the time which may have meant that the figure would not have been the way you would have expected.

Mr. M. Magee:
Can we move on from supplementation to something else? **[Laughter]**

Mr. R. Bell:
It is one of my favourite topics. I have another thing to point out about supplementation. There has been a great deal of emphasis put upon supplementation, and rightly so because of the increase between 2005 and 2006, but also because of the quantum of supplementation. The quantum of supplementation is the decision that was taken all the way back to when supplementation first came about but was reconfirmed in 1996 when the States debated increases to contribution rates. At the time the States took the decision to increase, rightly, contribution rates by half a per cent each year over 5 years. The States also took the decision, in order to preserve the principle of funding of Social Security being one-third employee, one-third employer and one-third States - which turns out to be a taxpayer again by a different means - in order to do so when we were increasing rates we had to increase the earnings

ceiling. The States increased the earnings ceiling and my Minister has been asked the question about growth between 2002 and 2006, which is entirely in line with average earnings, which was 20 per cen over those 4 years. Yet in the 5 years between 1997 and 2002, when these increases to the caps took place, supplementation went up by 130 per cent in those years. It went from £21 million to£48 million. When we are looking at the quantum as opposed to the year-on-year increases of supplementation, it came about as a result of that decision in 1996 because it went up to roughly £50 million at that point. It stayed roughly static until we got to 2006.

Mr. M. Magee:
Could we move on to the native welfare and residential care expenditure? It is our second biggest cost and it is obviously a relatively new one within the department. I guess the thing when I read it was- apart from the fact that it is £12 million estimate for 2007, or not estimate, voted, in terms of it is no really a forecast - but it was just the responsibility for funding lies with you guys within Social Security but out in the Parishes for administration. So, to me, that would make it a quite difficult one to control money-wise because you are not involved with the flow-chain.

Mr. R. Bell:
It makes it impossible to control. When we talk about administration, control is out with the Parishes. We just have the bill and it just so happens that it was chosen to put it in the Social Security Department, which is right because that is where Income Support will be. I have no authority other than looking at the forecasts, and we do not have much in the way of a forecast going forward other than to base it on past amounts and past trends to say where it is going to go. At the point in time where I think it is going to go over the amount that is in the budget I will raise my hand and point it out and say, “We cannot achieve this.” - rather like I did within supplementation. I have no control by which to force Parishes to pay out a different amount for Parish welfare. I get an invoice at the end of every, typically, quarter.

Mr. M. Magee:
So this £12 million for this year, is that a robust estimate at this point being 7 months through the year?

Mr. R. Bell:
That is a**…** at the moment that is holding up. When we do our quarterly accounts for June we will know better. That estimate does include an increase for residential care that came about as a result of work the Treasury did with the Parishes back before the decision was taken to transfer funding across to make sure that the right amount was in there and there is an increased funding above and beyond normal inflation to pay for the 10 per cent or 11 per cent rises in residential care that is at the root of th problem within the Parish welfare and residential care budget.

Mr. A. Grimes:
Do you have any rights to audit Parishes in respect of the information… the invoices that they submit to you?

Mr. R. Bell:
The question of a right**…** it is not a right, if it even exists, that I push at this point in time. We are now 3 to 4 months away from Income Support. I have on at least one occasion questioned a figure because it appeared much higher. I clarified that situation but…

Mr. A. Grimes:
It will be overtaken by events.

Mr. R. Bell:
It will be by the time we get to the end of this year.

Deputy S.C. Ferguson:
Have the residential rates been pushed up by the fact that Health are now getting rid of some of their long-term residential beds, Leoville and McKinstry?

Mr. R. Bell:
I have no evidence to suggest that that is the case, no, because if Health are paying for it they have their own budget for residential care. That is entirely within their own budget. It is not in here. They have their own budget for residential care in those.

Deputy S.C. Ferguson:
Yes, but some of the people…

Mr. R. Bell:
I am not aware that that is leading to any increased charges but I would have to go all the way back to the Parishes to ask for cases of individual circumstances and the management information that is available is variable from Parish to Parish.

Deputy S.C. Ferguson:
It is probably exemplary in St. Peter and in Grouville. **[Laughter]**

The Connétable of Grouville:
I can assure you that the amount of research done into the costs of long-term healthcare within the Parishes is extremely deep because up until last year it was our money we were spending, so we made sure we kept a very, very tight rein on the residential care costs. I have a suspicion that the escalation is going to happen because there will be not the same amount of attention to detail in the future, and I am not being critical, it is just normal if a guy has just to tick a box and say this, that and the other they just go ahead. They do not have the incentive to check individually on each case, which we do or we have done in the past. I think you can look forward to an escalation in rates. Now, I did say I was not being critical!

Mr. M. Magee:
You as an accounting officer, it must be quite difficult to obviously monitor, to control something that is, as you have said, outwith your control.

The Connétable of Grouville:
This is where we win, because we had so much personal input to it; very responsible.

Mr. R. Bell:
There are undoubtedly strengths within the existing Parish system that will be replaced by other strengths within the Social Security system.

Senator J.L. Perchard:
What would they be? How can you protect against what Constable Murphy is suggesting may happen?

Mr. R. Bell:
I do not regard it as a ticking-the-box exercise. It is difficult to say. There are a number of different systems and a number of different ways across the States - across the Island rather - that are being exercised by 12 different organisations, different sets of rules and no doubt different approaches taken. We will have one approach and I hope it will be a robust and transparent approach. We are working with our partners in Health to ensure that only people who should be in residential care are in residential

care through a placement tool. We will move to the next stage of Income Support, which will include negotiation on an Island-wide basis of rates for residential care.

Senator J.L. Perchard:
So the Constable's assertion that we can expect to see a significant increase in…

Mr. R. Bell:
You can expect to see an increase in residential care regardless of whether the Parishes or us are involved.

Senator J.L. Perchard:
But not because it is not as efficient as the Parishes want. **[Laughter]**

The Connétable of Grouville:
Richard said what I hoped he would say, and that is that they are going to negotiate on an Island-wide basis which means that they have the strength of negotiation from a position of monopoly, virtually, so that they can then dictate the rates as opposed to us at the moment having to skate around looking for the best rates. They will be able to say: "Right, unless you deal with us you are out of business."

Senator J.L. Perchard:
Back-peddling hastily, Connétable.

The Connétable of Grouville:
I do not particularly like monopolies but I can see the advantages in this one.

Senator J.L. Perchard:
Watch this space.

The Connétable of St. Peter:
Would you accept that it is fair to say at this stage, prior to the actual full interpretation of Income Support, that the perceived funding figures which have been spoken about to date are going to be possible to really assess any form of accuracy and it is unlikely that the estimate or perceived funding figures are at the end of the day going to beat the cost that is going to be attributed to Income Support?

Mr. R. Bell:
In terms of what Income Support is going to cost we have developed a model by which… it is a bit like the answer I gave on supplementation, by which we can estimate the costs of Income Support. That is based upon a number of assumptions which at this point in time were rigorously testing so that at the point at which the States agree to the Income Support Scheme it is widely known what the risks are to the Income Support budget because there are various dynamics consequent to that and influences that come about as a result of the introduction of Income Support as it is different to the existing systems which could increase or decrease expenditure. We have gone for a model which we believe is robust yet there are risks within it. Largely, those are risks we cannot quantify at this stage. The thing I can guarantee is that the costs will not be the exact figure that will sit in the Business Plan, rather like I cannot guarantee that the costs will be exactly the figure that will be in supplementation or any of the other benefits which we multiply once you add them all together. So it will not be the same cost. We think we have got a robust model. We are now rigorously testing that model and will put together a paper that will identify the risks to the budget so that everyone knows what those risks are before they sign up to Income Support.

The Connétable of St. Peter:

Is there any advance work been done or due to be done on capping the residential side of care?

Mr. R. Bell:
At this point in time…

The Connétable of St. Peter:
Capping the increases; in other words, the annual increases or the ongoing increases which are being experienced. I am aware that in some cases rises have taken place as much as £300 a week.

Mr. R. Bell:
This is back to the issue…

The Connétable of St. Peter:
The same or really touching the same, but it has been spoken about, the possibility of a capping system.

Mr. R. Bell:
Well, certainly I do not want to be held to have been the Chief Officer that oversaw the move to residential care and huge cost rises to the public purse as a result of increases to residential care fees over and above what would be justified. As I say, we want to go to the stage whereby we negotiate a wide rate, essentially. We will have to take into account the different standards of the different homes, but it will have to be a standard tariff and stick to that standard tariff.

Mr. M. Magee:
Richard, can you go back to the overall 2006 position. Because I think my first reading of this when I saw the actual spend was just under £100 million and the amount voted was just under£100 million. I guess that looked quite good. This is a relatively first skim over it. I think when it is reflected back, and I went through a couple of other documents - last year's accounts and the Business Plan from last year - do you not think it is slightly false that in effect it looks as if your results have come in on budget? Could you see it has been a situation where an accounting officer who is in a position of trying to deliver something on target - on budget - that if it is just smoothed away by bringing in sums of money from other parts to bring it in on budget, to uneducated readers that is disingenuous?

Mr. R. Bell:
Disingenuous in terms of presentation or disingenuous in terms of going beyond our cap?

Mr. M. Magee:
I mean just… no, no, because I think in terms of… there are reasons in here as to what has happened, but in effect it is very, very rare to ever see an actual set of results that are brought in to the penny on budget.

Mr. R. Bell:
I did think it was £40 when I was looking at these previously rather than a penny on budget. We achieved that by being without a finance director for quite some time, which stressed me out.

Mr. M. Magee:
But you understand where I am coming from here?

Mr. R. Bell:
Yes. This is an issue that I can take some credit for it being at this state as opposed to the state it was previously at when I was in the Treasury. What happened in this voted column was that you would see that those figures on the right-hand side would be exactly the same as the figures on the left-hand side

because it took into account what we call inter-book transfers. So you have adjusted your voted amount to be the amount that was actually spent because otherwise the individual budget holder could not surely have had the authority to spend that amount of money. If you were to ask me I think what would be more useful in that column would be the original voted amount.

Mr. M. Magee:
Originally voted as opposed to finally voted?

Mr. R. Bell:
Yes. I would not see that issue and to me that is Treasury rather than me and for other bodies but, yes, I think a more meaningful comparison to the stakeholder - which in this case are States Members and the general public - would be to say what was the comparison against what was originally voted or originally budgeted.

The Connétable of Grouville:
This comes back then to the premises and you had a complete refurbishment, et cetera. How was that paid for?

Mr. R. Bell:
Premises are generally legally in the ownership of the general public. They are held within the Social Security Fund as opposed to being held within the States' domain. They are an asset or they are accounted for as an asset, the Social Security Fund. It is generally the case that when refurbishment of those assets is undertaken it is funded through the Social Security Fund as opposed to elsewhere. It is then recharged out in terms of rent where services that are provided by the States - as opposed to services that are provided through the Social Security Fund - there is a rent charged and paid for out of the Social Security States vote. I wrap myself in a mess when I talk about this because it touches upon an issue that I find quite challenging as a Controller, which is on the one hand to be the landlord and on the other hand to be the tenant.

The Connétable of Grouville:
Well, if you find it confusing, believe you me from over here it is even more confusing. I do not understand a word of it. I do not know what has happened here.

Mr. R. Bell:
Right. Let me just come at this again. The asset that is the building is not held in this set of accounts. The asset - the building - is in the Social Security Fund.

The Connétable of Grouville:
Who owns that building, Property Services?

Advocate A. Ohlsson:
Why?

The Connétable of Grouville:
The Fund owns the building?

Advocate A. Ohlsson:
Why is that, Richard? Is that because it is a good investment?

Mr. R. Bell:
Why does it continue to do so or why did it originally do so?

Advocate A. Ohlsson:
Both.

Mr. R. Bell:
I do not even know if I was born. It was originally gifted into the Fund is my understanding, or the predecessor Fund in actual fact at the time, to bring into existence the Social Security Fund at that point in time with premises from which to operate.

Advocate A. Ohlsson:
Why does it continue to be?

Mr. R. Bell:
Why does it continue to be? As opposed to being sold as an asset or transferred into States ownership?

Advocate A. Ohlsson:
What I do not understand is why… the Fund does not pay employees, does it?

Mr. R. Bell:
Yes.

Advocate A. Ohlsson:
It does?

Mr. R. Bell:
Yes. The Fund has a number of… this set of accounts is not a complete picture of the Social Security Department's activities.

Senator J.L. Perchard:
We would not expect it to be. **[Laughter]**

Advocate A. Ohlsson:
The Fund is an employer or meets some costs?

Mr. R. Bell:
No. Well, directly the States Employment Board is an employer, yes, but it does pay the wages for employees.

Advocate A. Ohlsson:
For some individual allocated staff or an allocation?

Mr. R. Bell:
Yes, or for a proportion of their time depending on how much of their time is taken up in the payment for administration of benefits that come from the Social Security Fund and how much of their time is taken up through exercising the duties within the Social Security voted amount.

Advocate A. Ohlsson:
So the true cost of your department is split between these accounts and the Fund accounts?

Mr. R. Bell:
And the Health Insurance Board accounts.

Advocate A. Ohlsson:
Three sets of accounts?

Mr. R. Bell:
Yes.

Advocate A. Ohlsson:
And for management purposes, do you operate a single operating…

Mr. R. Bell:
I have a management report that covers all activities together and individually splits them out.

Advocate A. Ohlsson:
Right.

Mr. R. Bell:
I have to say that this gentleman to my left is going to improve them beyond sight as to how they are at the moment, but it does… and I appreciate everyone else's confusion. It is the first question when you say we have got to make a £10,000 saving here, and you say, "Just go and do that" and someone says, "Well, do you realise it is not going to generate a £10,000 saving in the States?" because that employee or that service is provided through the Social Security Fund, which does not prevent you doing it but does prevent you from achieving the efficiency aims within the different pots.

Advocate A. Ohlsson:
Can you let us have the 3 sets, please?

Mr. R. Bell:
Yes.

The Connétable of St. Grouville:
I must admit I am utterly confused as to why that is a States building owned by the Social Security Fund and why it has not been moved into the Property Services Division.

Mr. R. Bell:
It is not a question of who administers the building; it is more a question of who has ownership of the building. The ownership of the building rests with the Social Security Fund. We had preliminary discussions around transferring the administration to Property Services and once Property Services is ready we will probably pick that up again with them to say, "Could you administer that building for and on behalf of the Fund?"

Advocate A. Ohlsson:
But surely the appropriate answer would be for the Fund to sell that building to the States and then you would be in a position as a tenant, as all other States departments are now or most are?

Mr. R. Bell:
I would not like to do that negotiation with myself with both hats on as the tenant and the landlord, but it would be a solution.

Mr. C. Swinson:
How does the building rate as an investment for the Fund by comparison to the other investments in the

Fund?

Mr. R. Bell:
Firstly, it is not an investment in the Social Security Reserve Fund. It is an asset of the Social… sorry, yes **[Laughter]**. Right, there are 3 funds… sorry, I will answer the question first. That would very much be dependent upon the performance in any one year of the Social Security Reserve Fund. At this point in time no one is paying any rent because it is a building site, but we had a rent review and it was paying a reasonable rent. I do not think as an investment it stacks up as well as over a 10-year period, for example - and this is just thoughts without looking at it in great detail - than the Social Security Reserve Fund. However, within the Social Security Reserve Fund at this point in time… sorry, the Social Security Reserve Fund is the buffer fund. It is what holds the £500 million figure, which is the investment to the Social Security Fund, if you like. At this point in time for the Social Security Reserve Fund we are actively looking at where we would invest that because at the moment we do not know whether to hold, as it does, 90 per cent of shares would be the right move. To say if it is… this sounds too Civil Service, but the Social Security Reserve Fund - its investment policy - is a responsibility of the Treasury and Resources Department.

The Connétable of Grouville:
So how do you value the building?

Mr. R. Bell:
We value the building at the moment based upon its historic cost because it is no longer an investment property… sorry, 2 buildings. We have 2 buildings side by side, Philip Le Feuvre House and Huguenot House. At the moment Philip Le Feuvre House is upon an historic cost basis because it is occupied by both the Fund and the States. Next door, Huguenot House used to be purely held for investment purposes. It is now partly occupied and will be partly occupied by the Social Security Department so transferred back to an historic cost basis.

The Connétable of Grouville:
It sounds a suitable case for Scrutiny, Chairman, I think.

Mr. M. Magee:
Is that part of the reason why… I was confused by manpower numbers because there are 114 people here and then I read the Business Plan had 43 F.T.E.s (full-time equivalents).

Mr. R. Bell:
The 43 is the F.T.E. that is responsible for the administration of the Social Security States-funded benefits, but I have a manpower cap that is for the whole of the Social Security Department.

Mr. M. Magee:
That is because the other two-thirds of the people were allocated to other things, were they?

Mr. R. Bell:
Yes.

Mr. M. Magee:
Performance measures: I know that you have got a few in this one because I look at… Again, one of my bugbears with other departments is that they tend to cherry-pick performance measures that look good in certain years and then they change in the following year so there is not much in the way of consistency. The 2 that you have picked in 2005 were turnaround days for dealing with disability benefits and family allowance and you have picked other different measures this year. Are these ones that have settled

down as being key measures in the accounts? So are these ones that you use internally as being K.P.I.s (key performance indicators), Richard?

Mr. R. Bell:
Internally there are a number of… within the balanced forecast there are a number of different performance indicators we use. Remember I introduced the fact that 2004 to 2005 saw a huge change in the business for social security: introduction of a new system, a new computer system and such like, and these were the ones that we had robust information on under the 2 slightly different systems. Are they a comprehensive set of performance indicators? I would say they are not. There is a more comprehensive set within the balanced scorecard but some of that data for comparative purposes is not as robust as the current year data, the 2007 data. Did that answer your question?

Mr. M. Magee:
Are these the ones that drive the business? Are they real performance measures that you are looking at that are key or are they just ones you have plucked to put in a set of accounts because you have been asked to by Treasury?

Mr. R. Bell:
They are not a comprehensive set and obviously there are performance measures that drive the business, but there are also numbers that really drive the business and that is the number of people who claim benefit and the number of people who get supplementation. Those are above and beyond the drivers of the business. We are talking about the performance of those of us who work in the department. They do tick certain boxes in terms of being performance measures but they are by no means a comprehensive set. The benefit turnaround is a huge step up, and it is nothing to do with me which is why I can say it. It is a huge step up from where benefit turnaround times were before the last business transformation and it is noticeable that when people do not get a cheque on their doormat the day they expect to there is a queue of people on the phone, which never used to be the case because these turnaround times were a multiple of these figures. So the way the business has transformed itself, bringing these turnaround times down - and this is through the door and then processed and back out - are highly commendable. I can say that because it is nothing to do with me. It was the previous administration that invested in technology to turn around transactions that could be turned around quickly and efficiently. There are other statistics that we use - I am trying to put my hands on those - that include costs of benefit, but in terms of performance measures there are measures out there that are more qualitative in estimating that would probably say if you split out the performance of the department from the performance of the policies, as it were, so if you took out long-term and you just say was Income Support successful, you might do that as an assessment of how many people are at risk of poverty over a 5-year period comparing one to the other. It would probably be a better measure of whether the money that was used was effective and that the policies were effective as opposed to these, which in many cases refer to a very small portion, very large in quantum - we are talking about £5-10 million- of investment in staff and services as opposed to benefit. But these performance measures do look at performance of the system we have as opposed to the performance of the whole budget that we have, which is probably a bit different to how we are compared to other States departments. If you look at the budget for Social Security, 95 per cent of it is from benefits or grants, which leaves the 5 per cent which is what I call th discretionary spend in the area that I have the authority to exercise control and increase or decrease. The spending of that £5 million is reflected in some of these performance measures, so this, if you like measures the performance of the staff but it is not comprehensive as opposed to measuring the performance of the amount we invest in social benefits. And we have some more of those within what we call the balanced score card. I do not know whether that is circulated at this point.

Mr. M. Magee:
We have heard it mentioned, Richard. We have not seen one but we know it exists.

Mr. R. Bell:
Right, I understand that. That is because we are trying to make sure it is right. I must add "not cherry-pick."

Mr. M. Magee:
Can I ask you a question on the U.K. G.A.A.P. (Generally Accepted Accounting Principles) just in terms of progress within your individual department? Are you working on an accruals basis now within these accounts or is it still cash-orientated?

Mr. R. Bell:
Two things. This is the Social Security Department's accounts which are the Social Security Fund, the Social Security Reserve Fund and the Health Insurance Fund. It has a G.A.A.P. audit undertaken and an opinion in respect of each of them. In the remainder of our areas I am not aware of an issue where we would be regarded as being far from G.A.A.P. compliant. Does this mean that we would have creditors in there, which is a sticking point for the rest of the States? We do not have property in these accounts; the only area that is challenging - and it is probably quite minor - would be in the case of inter-departmental transactions and they are probably so small as not to be material in this respect. So I would regard these accounts - it would be subject to audit to find that out - as not having an issue as far as G.A.A.P. is concerned. Do you have anything more to add?

Mr. R. Lang (Director of Finance, Social Security Department):
These are fully G.A.A.P. compliant.

Mr. R. Bell:
Yes.

Mr. M. Magee:
Can I ask one more final question, from me anyway? Manpower: I know I touched on the 43 versus 114. It is the freezing of the accounts - the reduction in manpower - represents an increase in vacancies. What does that mean? Manpower just says: "The reduction in manpower which is moving down from 115 to 114 represents an increase in vacancies." What does that actually mean?

Mr. R. Bell:
What does it actually mean? It would be the number of people who were employed because we had an increase in businesses.

Mr. M. Magee:
Sorry, it may be just me. Are we saying that you have got 114 people working for you but you should have 140 people working for you so your budgeted…

Mr. R. Bell:
It is unfortunate wording but we are only talking about a vacancy factor of about one in the department. It is not a huge sum.

Mr. M. Magee:
Okay. So this is one person, so it is not like health…

Mr. R. Bell:
No, no, it is not like we have got another 50 that we are not declaring.

Deputy S.C. Ferguson:
All right. Is there anything else from anybody? Thank you very much indeed for your time.

Mr. R. Bell:
Thank you. I am sorry if I did not help that much with supplementation, but I would be happy to come back to talk more about supplementation or even to provide you with a briefing note about supplementation.

Deputy S.C. Ferguson:
That would be helpful.

Mr. R. Bell:
Which might get some of the messages through that I did not get the opportunity to mention about.

Mr. A. Grimes:
You are going through a review, are you not, to look at how you minimise and mitigate that?

Mr. R. Bell:
Some of that comes back to the question of the fundamental principle of the size of the supplementation bill compared to the size of the total contribution bill. At the moment supplementation pays for less than a third. At the moment, the underlying principle is that it pays for a third. So, if we come to say what can we do to change this, one obvious way is to increase employer or employee contributions. That would result in reduced demand upon supplementation, but it would break back the fundamental principle that says it should be a third, a third, a third. It is entirely open for the States and the general public to say they want to change the balance between those 3 pots. That is ultimately what it comes down to. I can look at ways in which we can change the Social Insurance Scheme to potentially reduce the supplementation bill by increasing the contribution bill, but at the end of the day this comes down to either benefits change or contributions change through tinkering at the edges or through fundamental reform.

Advocate A. Ohlsson:
Presumably you have to look at the other side of it, which is accounts of the Fund to determine how funded the Fund is.

Mr. R. Bell:
Yes, well, that is exactly where it came from in the first place. The principle of a third, a third, a third comes from…

Advocate A. Ohlsson:
Average.

Mr. R. Bell:
Yes, wherever the States was at the time they decided to do so.

Advocate A. Ohlsson:
Yes, but the uplift in contributions came from an issue of funding of the Fund, did it not?

Mr. R. Bell:
Yes. But there are a number of pressures upon the Social Security Fund going forward. On our horizon there is a look for a long-term residential care scheme rather like they have in Guernsey where they increase their social security contribution so that everyone has an insurance - which is partly because we

have got residential care - an insurance scheme to pay for the £450 a week worth of residential care. That will add at the least 2 per cent to social security contributions. On top of that we have to increase them for pensions. Demographic: the first step provides a buffer but when we go further and beyond that we need to start increasing them within the next 5 years or before long we will be taking less money in than we have paying out already. So, those things also have to be built into…

Deputy S.C. Ferguson:
If we have a lot of people on minimum wage, does that throw the formula out so that the supplementation goes up again?

Mr. R. Bell:
If we have lots of people on minimum wage who were previously under minimum wage, then, no, that reduces the supplementation bill.

Deputy S.C. Ferguson:
But if they are on minimum wage and they have not been here before?

Mr. R. Bell:
And they have not been here before? But who was doing the job they were doing before they were here, as it were? It is the job and how much was paid for the job as opposed to the person who is doing the job.

Deputy S.C. Ferguson:
Well, for instance, the things we are hearing about certain construction firms where they used to employ Jersey workmen are now employing Polish workmen at minimum wage, so that in effect…

Mr. R. Bell:
And that was partly where we talked about whether I.T.I.S. had resulted in people who were paying higher wages. We have had an investigation during the year and revealed another practice that is actually minimising supplementation and that is practice where contracts are awarded to foreign companies who employ their existing employees who are from foreign jurisdictions and, therefore, pay Social Security contributions in those jurisdictions. They do not pay Social Security contributions here because they are paying there and these are short-term contracts. When I say short-term, a number of months. That means because they are in industries that typically would have attracted supplementation, they, therefore, are not attracting supplementation here. Those practices… on the one hand you look at it initially and you think, well, they should be paying Social Security contributions, and then you look at it on the other hand thinking, well, a good job they have not because the supplementation bill would have been high. There are practices that one appears to be increasing supplementation by but on the other hand are minimising supplementation as well.

Deputy S.C. Ferguson:
I think the briefing note will be very useful. Thank you very much indeed, both of you.

Mr. R. Bell:
Thank you.