

STATES OF JERSEY

Public Accounts Committee Hearing with Chief Executive and Deputy Treasurer of the States

MONDAY, 16th AUGUST 2010

Panel:

Senator B.E. Shenton (Chairman)
Connétable J.M. Refault of St. Peter (Vice-Chairman)
Senator J.L. Perchard
Senator A. Breckon
Mr. M. Magee
Mr. A. Fearn
Mr. K. Keen
Mr. C. Swinson

Witnesses:

The Chief Executive, Chief Minister's Department
Deputy Treasurer of the States
Head of Financial Accounting and Control

In attendance:

Ms. M. Pardoe (Scrutiny Officer)

[10:58]

Senator B.E. Shenton (Chairman):

Good morning. We said to the official media that they could take some pan shots before the meeting starts but we do not want any photography or recording taken while the hearing is underway. So if you have no objections to the official media taking some shots, because we will ... only a pan shot before the meeting but nothing during the meeting.

The Chief Executive:

I have no objection, no.

Senator B.E. Shenton:

Okay, that is fine. While we are doing that I will just get through the boring part which is where I have to notify you that the proceedings of the panel are covered by parliamentary privilege through Article 34 of the States of Jersey Law 2005 and the States of Jersey (Powers, Privileges and Immunities) (Scrutiny Panels, P.A.C. (Public Accounts Committee) P.P.C. (Privileges and Procedures Committee)) (Jersey)

Regulations 2006. Witnesses are protected from being sued or prosecuted for anything said during hearings unless they say something they know is untrue. This protection is given to witnesses to ensure that they can speak freely and openly to the panel when giving evidence without fear of legal action or although the immunity should obviously not be abused by making unsubstantiated statements about third parties who have no right of reply. The panel would like you to bear this in mind when answering questions. If we could just go around the table, if you could just give your name and title just to make sure we have got the sound recordings level.

[11:00]

The Chief Executive:

Good morning, I am Chief Executive to the Chief Minister and Council of Ministers.

Deputy Treasurer of the States:

Good morning, Deputy Treasurer of the States.

Head of Financial Accounting and Control.

I am Head of Financial Accounting and Control.

Mr. M. Magee:

I am Martin Magee, independent member.

Senator J.L. Perchard:

Senator Jim Perchard, member of the Public Accounts Committee.

Senator A. Breckon:

Senator Alan Breckon, member of the Public Accounts Committee.

Connétable J.M. Refault of St. Peter:

Constable John Refault, the Vice-Chairman of the Public Accounts Committee:

Senator B.E. Shenton:

Senator Ben Shenton, Chairman of the Public Accounts Committee.

Ms. M. Pardoe (Scrutiny Officer):

Mel Pardoe, Scrutiny Officer.

Mr. A. Fearn:

Alexander Fearn, independent member, Public Accounts Committee.

Mr. K. Keen:

Kevin Keen, independent member.

Mr. C. Swinson (Comptroller and Auditor General):

Chris Swinson, Comptroller and Auditor General.

Senator B.E. Shenton:

Okay, we will just wait for the people taking the photography to finish doing.

The Connétable of St. Peter:

They are not taking pictures of the public gallery?

Senator B.E. Shenton:

No, they are not. No.

The Chief Executive:

Do you mind if I remove my jacket?

Senator B.E. Shenton:

No, you may remove your jacket. It is rather warm in here, is it not? Thank you for attending this morning. The main reason is to review the financial report and accounts of the States of Jersey 2009. You were provided with a number of question areas where we were looking to ask questions. Part of the reason for this was so that you could become more fully prepared and we could get more out of the hearing. Just to start off with a fairly straightforward question. The financial forecast 2005-2010 gave a forecast net revenue expenditure of £478 million for 2009. Now, obviously the actual net revenue expenditure in 2009 was well over £100 million above this. Could you briefly give a synopsis given that you have been in the post for a number of years, why the revenue of the States of Jersey has increased by so much over such a relative short period of time against forecast?

Deputy Treasurer of the States:

Sorry, Senator, can we just clear what numbers we are referring to, if you are referring to some in the accounts?

Senator B.E. Shenton:

The 2009 forecast total States net revenue expenditure of £517.079 million which is taken from the States Business Plan 2006-2010, which I would be very surprised if you have brought with you. But obviously you know the 2009 accounts net revenue expenditure figure.

The Chief Executive:

The major reason for ... as you say I have not brought that particular document with me, but we have been very clear because we went into the comprehensive spending review process that the past trends in expenditure have always been that the forecast produced years before of the actual outturn spending has significantly understated the final approved and then the final actual spending.

Senator B.E. Shenton:

Why do you think it has consistently understated final approved and actual spending?

The Chief Executive:

There are two main reasons. The plans when made and presented to the States for subsequent years were increased for two main reasons, inflation does not always follow plan and there is some element or there has been some significant element of inflation creep particularly around the level of pay awards when they have finally been settled and in some other areas. The major reason is that the plans looking forward for years do not take account of the decision that the States tend to make in the year before finally agreeing the plan and there have been significant

increases in expenditure decided by the States year on year when the Business Plan has come before them.

Senator B.E. Shenton:

When I was coming to this meeting I was thinking of how do I pin the Chief Executive down to his responsibilities because we often have P.A.C. hearings where the ultimate person that is responsible for the overspend and so on is the States Assembly itself because the States Assembly approved higher budgets going forward than was originally envisaged. Going way back to your role profile when you were employed it says: “As Chair and through the Corporate Management Board ensure that the strategies, policies and decisions of the Council of Ministers are implemented and the government business, public services and Council’s decisions are discharged and delivered across the States effectively and efficiently taking into account available resources.” Now, going forward the key words there are “taking into account available resources”. Does this mean that your job is to deliver business plans going forward that are within the budget set by the revenue that the Island will receive? Is that saying that your role is to run the States in a manner where there will be no actual fiscal gaps going forward, or budget gaps going forward?

The Chief Executive:

I do not believe that is the case. Can I take the answer to this in two parts? Within the available resources if you place that within the context of the States of Jersey Law, the Public Finances (Jersey) Law, the available resources are those resources which are determined by the States to be available at any time. Those will be the resources determined in the Business Plan in the States year previous to the start of the Business Plan, with any additions to that being approved by the States by section 118 approvals, or in the year additions to that approved by the Treasury Minister and the Council of Ministers through underspends in the previous year brought forward. Those I believe are the available resources and those are particularly what accounting officers are required to deliver within and I believe that it what that section of the job description refers to. Going forward you will be aware that the Business Plan that is put before the States proposes a change to the way the States sets it forward budgets, which is to set a 3 year cash limit and then, as far as is possible, because the States will always retain to itself the discretion to review those cash limits, but then as far as possible the States departments and accounting officers must live within those 3 year cash limits. That is why cash limits as they are proposed include the provisions that would otherwise have been in previous years brought forward through section 118 requests.

Senator B.E. Shenton:

So your job you see is to spend the money that is allocated to you by the States effectively and efficiently, to quote from the role profile. Would you say that over the past 5 years that the spending of the States has been effective and efficient?

The Chief Executive:

My job as accounting officer of the Chief Minister’s Department is to provide the functions of the Chief Minister’s Department within the cash limit which is allocated to the Chief Minister’s Department. It is not necessarily to spend all those resources; it is to spend them as efficiently and effectively as possible in discharging those

functions. I believe we have done so in the Chief Minister's Department over the last five years.

Senator B.E. Shenton:

So effectively in your opinion is charged with controlling overall spending of the States of Jersey?

The Chief Executive:

That is an extremely good question. I think you now have to come back to the different laws and the interaction of those laws? The job description you have for me was put together in 2002 on the back of P.120 before the States had enacted the States of Jersey Law and the Public Finances (Jersey) Law, and there were some very specific changes made as those laws were enacted which undermined the ability of either the Chief Executive or the Council of Ministers to control or to be accountable for total spending in those terms. Under the States of Jersey Law the removal of collective responsibility from the Council of Ministers effectively made each Minister as a corporation independently responsible for their own political functions. The Public Finances (Jersey) Law, with the creation of accounting officers, each accounting officer being solely and personally responsible for the proper and effective control and spending of the resources within their cash limit denied the ability of any one individual or any one body to have total overall control unless that body is the States.

Senator B.E. Shenton:

You use the word "undermined", you are implying that the way we have set up ministerial government has led to no one, in effect, being in overall responsibility of total States spending. We passed to you a paper that the Comptroller and Auditor General prepared for the meeting. If members of the public want a copy of these papers afterwards I am sure we can circulate them. If you turn to page 6 what it shows is that the net revenue expenditure per head of population has accelerated quite markedly since ministerial government came on board. The first Business Plan prepared by ministerial government would have been the 2007 Business Plan. We now have a situation where the net revenue expenditure per head of population is 25 per cent more than the net revenue expenditure per head of population of Guernsey. Given that we are a larger jurisdiction and you would expect economies of scale from a larger jurisdiction, it does seem that spending is getting a little bit out of control. Are you saying that we need to look at ministerial government and look at the checks and balances in place and look at the lack of collective responsibility in other issues as a matter of urgency?

The Chief Executive:

No, I am not saying that. I used the words "undermine the ability" on the basis that if you were seeking the ability of anyone individual or any one group of individuals then those 2 laws have undermined that. I am not making that judgment because it was the States that decided that was how they wished the law to be stated and that is the States prerogative. I do not think I am here today to judge whether the States in making that decision made a correct decision or otherwise, that is for them. You will be aware that the proposals that ... I do accept that I have been advising the Council of Ministers on the comprehensive spending review and on the structure of spending going forward and the intent that there should be more control, and highlighting the

point that in the past the plans have, year on year, consistently increased by decisions, and proper decisions of the States. I am not here to say whether the States make good or bad decisions, the States decide here is a plan, they review it, they decide to increase it, that is the States decision.

Senator J.L. Perchard:

Would it be helpful though if the Treasurer of the States of Jersey could be held accountable for the overall spending of the States and not just that of his department?

The Chief Executive:

I think you are asking me for an opinion here and I would pass it back to you because at the end of the day it is a matter for the States to decide what sort of body they wish the States and the States organisation to be.

Senator J.L. Perchard:

We know that.

The Chief Executive:

The important point to make, though, is that if the States wishes the States organisation to be a corporate body run along more normal corporate lines where you would have a management board and a chief executive that would have those responsibilities and those accountabilities then to be held to those accounts, then you would have the Treasurer in a more normal role of a corporate treasurer. If that is the decision then really you should change the structure.

Senator J.L. Perchard:

I will rephrase my question. Would it be helpful to control expenditure in the total if the Treasurer was held accountable for the total expenditure for the States and rather than that of just his own department?

The Chief Executive:

I think - again, I am not trying to duck an issue - it is important that when you look at the control which is exercised by officers over the budgets that are within their responsibility, that control is exercised properly and the cash limits that have been set for those officers are not exceeded, indeed they are usually underspent in order to allow money to be brought forward, effectively saved up for other purposes. I regard that as good management of the States finances. So that is taking place, I think in a different corporate organisation you would have the board having more ability to move resources as pressures occurred within an entity rather than be confined by the preset cash limits. In that world you would be expecting the board, the Treasurer and the Chief Executive to have those responsibilities and to be held to that account, to be accountable for it.

[11:15]

Senator B.E. Shenton:

But you say the individual accounting officers are held accountable but in some ways you facilitate the fact that they can overspend. If we take the Home Affairs budget, for example, Home Affairs managed to spend exactly what their budget was.

Obviously this implies that they did overspend and had allocations from elsewhere. On that basis, how much did Home Affairs overspend?

Deputy Treasurer of the States:

The Home Affairs Department, along with every other department of the States, regularly forecasts their financial position for the end of the year and the monitoring of what in-year spend is incurred and what the likely pressures facing each delivery service area in each department is likely to be as the year progresses. The Home Affairs Department is no different to any other department, they did exactly that. That monitoring goes on and is presented to the Council of Ministers on a quarterly basis so that the Council of Ministers can view the States financial position as a whole so that there is an awareness of the issues that each individual minister and department faces. When doing that in 2009 the Council of Ministers was made aware of the Home Affairs financial position in respect of the court and case costs and pressures that Home Affairs were facing, and Home Affairs was challenged to minimise their expenditure as much as possible. At the same time the Council of Ministers agreed that a transfer would be made for no more than absolutely necessary for the Home Affairs Department in terms of the spend they incurred. The Council of Ministers decided that they would transfer that amount and that amount only to the department. That is why it appears that the spend is exactly the same.

Senator B.E. Shenton:

So what was the actual overspend on Home Affairs?

The Chief Executive:

Again, if I can just say, I think the use of the word “overspend” is really not a helpful description because there has not been an overspend. Home Affairs spent within the cash limit approved by the States.

Senator B.E. Shenton:

To the penny. They spent to the penny the cash limit approved by the States.

The Chief Executive:

No, no. The 118 request provided an overall spend for the additional costs for the historic child abuse inquiry in particular, and that was then allocated across departments but only allocated to the extent that expenditure had occurred, not necessarily to the total forecast. So the point I am making is if the States approves a sum of money then it is an officer’s duty not to exceed that sum of money and therefore if the sum of money is increased by the States in my terms, in management terms, that does not imply an overspend. It would be an overspend had we spent, in addition to the sum that was approved.

Mr. M. Magee:

I guess the question is really, compared to what you thought it was going to be what was the extra amount that was pumped into the Home Affairs Department? I think that is what Ben’s question was.

Mr. A. Fearn:

Particularly bearing in mind, as you said, there was a continued process of review with the spending as you just outlined there, Deputy Treasurer.

Deputy Treasurer of the States:

I think the number you are referring to is £1.36 million. I am just trying to see if I can find the relevant pages in the accounts.

The Chief Executive:

2009 Business Plan for Home Affairs was £45.587 million; the final approved budget was £49.49 million. That is the figure that Home Affairs spent.

Deputy Treasurer of the States:

The additional funding that any department receives during the year can be found on the departmental pages. Home Affairs in particular, if you go to page 39 of the annexe to the accounts, you will see there is a small table on the right hand side, that details any additional funding that was approved or allocated to the department during the year.

Senator B.E. Shenton:

So this is where the Council of Ministers at the end of the year sit around the table and go Minister by Minister and say who has got some spare money to help bail out Home Affairs, is that ...?

Deputy Treasurer of the States:

No, if I have given that impression I do apologise. That is not really how it works. This list in this table goes from the original budget that members will recognise from the Business Plan through to the final budget that members will recognise from the accounts. It is that final budget that the outturn is measured against. So in terms of any changes from the original Business Plan, they are documented in that schedule. It may be worth just remembering that in terms of the timing, the original Business Plan is prepared in the preceding summer for debate in September, so there are necessarily sometimes changes that take place after that Business Plan has been set by the time you get to the year in question.

Senator B.E. Shenton:

So when was the additional net amount of £3,903,713 brokered for Home Affairs?

Deputy Treasurer of the States:

Each individual line on that table will be subject to separate decisions. They will all either have been decisions of the States or public ministerial decisions, depending on what the nature of the issue was.

Senator B.E. Shenton:

So the budget was increased, in some cases, by ministerial decision, is that what you are saying?

Deputy Treasurer of the States:

The overall budget cannot be increased by ministerial decision, it can only be transferred from one area to another.

Senator J.L. Perchard:

Quite important really, we have got nearly £4 million here identified, just under, how much of that was subject to 118 approval?

Deputy Treasurer of the States:

Senator, off the top of my head I would not know that but some of them are rather more obvious than others so there is the H.C.A.E. (Historic Child Abuse Enquiry) funding, which has got a P.83 reference. So that clearly was subject to a States decision. I could answer that question, or come back to you, and give you a break down of that.

Senator J.L. Perchard:

The court and case costs?

Deputy Treasurer of the States:

The court and case costs would have been --

Senator J.L. Perchard:

So that is the bulk of it, is it not? Yes.

Deputy Treasurer of the States:

Yes, but I really would want to ... to answer that question completely I would want to come back to you.

The Chief Executive:

But I think the point is you have the 3, which are the main items of additional decisions which is historic child abuse, Wiltshire Constabulary investigation and the court and case costs. Together you have got £4.3 million there. Those were the main items that were subject to external States decisions.

Senator J.L. Perchard:

Yes, but then you have also got the pay award reversal, which is nearly £500,000.

The Chief Executive:

If you remember that was a States decision as well.

Senator J.L. Perchard:

But that puts it back in credit.

The Chief Executive:

Yes, exactly. So if you go through where were the States taking decisions, on those 3 main lines, the pay award reversal, which if you remember was the subject of debate in the States in that June when the lower award was set. Then the other items there are technical adjustments between Departments, and they are technical adjustments as opposed to reallocating: "I have some underspend, have it." I am sure the Deputy Treasurer could explain those but they are money from one department for the same thing which is transferred into that other department's budget.

Mr. M. Magee:

I guess to answer the question what we are really saying is it was £45 million, £4 million was in effect voted by the politicians so we get £49 million.

The Chief Executive:

That is right and that is where it all comes from. That was the point I was trying to make.

Deputy Treasurer of the States:

Just to be clear, we do not have that detailed breakdown in front of us of exactly what was voted by the States and what was done through transfers and so on. For clarity I think it would be helpful ...

Senator B.E. Shenton:

I think the way it is done you have spent exactly on budget but we recently had a 118 request come to the States and, to be honest with you, you had already spent the money, the money had already been spent as the States Assembly ... well, part of it you had already spent the money, not the £6 million redundancy payments but certainly on court and case costs. The money had largely already been spent. It was a case ... I find it difficult that the accounting officers and the chief civil servants seem to put the blame on the States to a large extent whereas often with the States we are in a situation where we have to pass the 118 request because the money has already been spent.

Deputy Treasurer of the States:

I certainly I hope I did not say anything that suggested that I was blaming the States in any way or form. I hope what we are trying to convey is just the nature of how that figure for Home Affairs, in particular, has moved from the £45 million to the £49 million.

The Chief Executive:

I was just going to respond to the 118, which is not to do with these accounts but you did refer to it. The item that, if you like, was a pre-commitment was that expenditure had been committed against the court and case criminal offences compensation fund funding and that funding had then not materialised because there was a significant appeal in court. That was the reason that that 118 was put to the States. All of the other items within that were frankly discretionary items. There was a good case made for those items of discretionary spend, i.e. a redundancy fund to encourage people to commit to redundancy and reduce future States spending. But they were discretionary and had not been committed. So this was not a case of somebody over-committing a budget, it was that a source of funding for previous expenditure had disappeared as a result of an appeal case.

Senator B.E. Shenton:

Well, moving from a department that managed to spend exactly the right amount of money, Treasury and Resources Department has underspent by quite a considerable amount, £55.7 million compared to an original budget of £61 million. Why was there an underspend in Treasury and Resources?

Deputy Treasurer of the States:

That is probably for me. If I can just find my notes. I think as you have just said, Senator, the underspend was approximately £1.3 million on the Treasury and Resources Department.

Senator B.E. Shenton:

No, it was £61 million against £55.7 million.

Mr. M. Magee:

If you look at page 6, it has got the ... I think it is at the bottom.

Deputy Treasurer of the States:

If we could look at the annexe on page 79 of the accounts, you will see 2 ... if I can just take you to the bottom of the page, the last line on there is repayments and interest capital debt. This is the capital servicing that is earmarked to the Treasury and Resources Department which in effect is the equivalent to depreciation as charged on all States assets. It is non-cash. So it is there to reflect the consumption of the States assets on a year by year basis, equivalent to depreciation in the G.A.A.P. (Generally Accepted Accounting Principles) set of accounts. So it shows against the Treasury and Resources line; it shows there for convenience. It is not cash based; it does not reflect any level of cash expenditure. So that is a significant part of the underspend.

Senator B.E. Shenton:

So why the difference between actual and final approved budget?

Deputy Treasurer of the States:

It is a combination of things. A lower level of fixed assets than was originally envisaged. Forgive me, I cannot think of the ...

Senator B.E. Shenton:

Why did you not adjust the final approved budget?

[11:30]

Deputy Treasurer of the States:

Why did we adjust the final ...?

Senator B.E. Shenton:

No, given that it looked like it was going to come in well under, why did you not make adjustments to the final approved budget at some point?

Deputy Treasurer of the States:

For the capital servicing?

Senator B.E. Shenton:

Yes.

Deputy Treasurer of the States:

It is not something we would do because it is not money that gets spent in any way. There is no approval to physically spend that cash. Simply because we were going to underspend we would not change the final approved budget.

Mr. A. Fearn:

If I may, just for my benefit, you have explained a process whereby if there is a department that is going into overspend compared to the original estimate then there is a process by which it will go to the States and apply for additional funding. Is there a similar process if a department is underspending? Perhaps you can explain to me how that process works and whether, from an overall point of view, if you are saying the States are being non-efficient then I would expect to see an equivalent process that allows the States to be informed where there is a significant underspend.

Deputy Treasurer of the States:

Probably a good example of that is one of the propositions that went before the States last year which included the removal of pay award funding from departmental cash limits. The proposition put to the States was exactly that. There was a combination of issues in that proposition and the removal of funding for payroll across every department was included in that in exactly the way that you are describing. We would not do that for capital servicing because there is no cash ... there is no approval to deal with the cash so it would be a different scenario.

Mr. A. Fearn:

Yes, understood but where there is an actual real element of cash underspend, as opposed to this capital item that we are talking about here, for my benefit can you explain how that would ... the process?

Deputy Treasurer of the States:

Again, it would be reported to and monitored by the Council of Ministers and the Management Board on an ongoing basis. There are a number of options. One option is that the department underspends at the end of the year, which some of the departments have as you will see from the accounts. Another option is that with cost pressures that arise during the year, the Council of Ministers can consider whether it is appropriate to transfer funds to another department, and again they can consider whether it is appropriate to take that money back through a proposition to the States as they did for the pay award issue. So there are those 3 options available.

Senator J.L. Perchard:

How does that work on a practical basis? The Council of Ministers can consider transferring funds when you have no colleague that is ultimately responsible for the overall budgets of the States?

Deputy Treasurer of the States:

The only way that a transfer can take place is with the approval and agreement of both Ministers.

Senator J.L. Perchard:

So they sit in their coffee room and have a chat about it?

Deputy Treasurer of the States:

I would not describe it quite like that, no. They will be advised and informed by their accounting officers and other colleagues and obviously they will take a view on whether their responsibility or objectives of their department can still be met through that transfer.

Senator J.L. Perchard:

It is not really a very good process, is it? Somebody sitting around having a chat about how we can solve this problem. It is not a very efficient or centralised process. This silo mentality with regards to states expenditure and accountability still exists, ministerial government has not broken that down.

The Chief Executive:

Maybe I can describe the process perhaps a little better, and it has to be said that that is a process which is being improved and is one of the processes with the Treasury improvement programme which is being given more emphasis and more weight. Historically there would be a quarterly report presented to the Council of Ministers from the Treasurer which would be a compilation of the forecasts from the various departments taking account of known pressures, likely underspending, likely overspending and it would be brought together and that report would identify areas where there is a danger that a cash limit may be under pressure and the Council would be asked to consider allocating underspends from other areas to meet that, if appropriate, or in total if they were going to go back to the States. Before going back to the States we would look at the forecast level of underspend in order to make that a realistic proposition. That is the process. It happened --

Senator J.L. Perchard:

Who drives that? Is that you?

The Chief Executive:

Treasury used to present those quarterly reports but I, chairing the Corporate Management Board, would then take that on to the Council of Ministers, which I think is appropriate. The point is that the management board, however, have no ability to make any of those transfers, it goes to the Council of Ministers and transfers are made by formal ministerial decision. As I say, the part of the Treasury improvement plan is to move that to a point where we have monthly monitoring reports of that nature and that the Treasury plays a more intrusive role in that process so that there is more knowledge and understanding within the Treasury and between the Treasurer and the finance directors. So there is a true professional structure in place. That is a very important improvement. I think if we moved to the setting of 3-year cash limits and fixing them, and determining that is where you are so you do not go back and get more approvals you will have a much improved corporate, in that corporate sense, control function that you would expect to see in any organisation.

Senator J.L. Perchard:

Are you proposing to the Chief Minister some legislative changes that will support this new intrusive initiative?

The Chief Executive:

This is a professional piece of management, a professional piece of financial management and it is just taking place. It is happening with the support of the Council of Ministers but with the support of all the accounting officers and finance directors. You do not need legislation for that. You might if you were - and this would be a States decision - wishing to go to a system of 3-year fixed cash limits where there is no opportunity to amend the subsequent year as you go to it you would need a legislative change and you would need to change the Public Finances (Jersey)

Law. But I think this is a matter where the States would clearly have a view as to whether they would allow their prerogative in that sense to be vetted.

Mr. K. Keen:

Chief Executive, I think we know that we have got likely additional taxes having to be paid by the public in 2011 onwards. It seems to me that the main reason for that is that the States have overspent their strategic plan from 2006-2011. We have got little tables.

The Chief Executive:

I think I have a better graph here.

Mr. K. Keen:

Yes, probably. In the case of our healthy eating and all that we have a professional in Dr. Geller(?) who was qualified to give the Island advice about our eating habits or our exercise habits, and it seems to me that there is nobody that is prepared to give professional advice, independent advice, non-political advice about our spending habits. That to me, I would have thought, would have been the Treasurer's job to say: "If you carry on spending like this you threaten the economic base of the Island, the low tax structure of the Island if we just carry on like this." I just wondered what your view of the role of the Treasurer is, or your own role, about giving the Island some good advice about that rather than it being political.

The Chief Executive:

You have also missed another body. If you will remember the Minister for Treasury and Resources went to the States and with the States approval set up a Fiscal Policy Panel (FPP) of 3 independent experts. This was well before the U.K. (United Kingdom) decided to do something like this, as they recently have, and those 3 independent experts meet and they publish their report which is presented to all States Members and it offers exactly that advice so that we have that independent - because independent is important here - advice. They will be publishing their next report in early September, States Members and others are invited to receive that report, and that is a summary of that assessment.

Mr. K. Keen:

Right, so the answer then is we have had the advice but we have pretty much ignored it by the sound of it.

The Chief Executive:

The Fiscal Policy Panel and officers and officials offer lots of advice. Decisions are made by States Members.

Senator B.E. Shenton:

Yes, we quoted quite a bit from the panel's last report in our last P.A.C. proposition which, unfortunately, was rejected.

The Chief Executive:

I think it is worth saying, as I say, we have the graph. There is the graph, we made no secret of it, of how spending was growing when we look back at it. Helpfully the C. and A.G. (Comptroller and Auditor General) took the view that that is the genesis of

the proposals of the comprehensive spending review to restrain spending and to set future cash limits. So the advice of both F.P.P. (Fiscal Policy Panel), our economist and others is brought together in this advice and, frankly, I give that advice to the Council of Ministers and I stand by it.

Senator B.E. Shenton:

Okay, a couple of easy questions to break it up a little bit. On page 11 of the report and accounts, fines and other income, why have fines fallen from £2.5 million to £900,000?

Deputy Treasurer of the States:

This is not the fines element of that line, the fall in this area is to do with the other income which really is a technical accounting matter between the 2 years. There is some internal charges between different areas of the States which in 2008 were coded to the top line interest income and in 2009 were coded to other income.

Senator B.E. Shenton:

Okay, so it is more just ...

Mr. C. Swinson:

Could I just be clear that you have not left room for a misapprehension? Are you suggesting that the line was internal charges? These are external accounts so that should not be in total income.

Deputy Treasurer of the States:

These are external accounts but they are aggregated rather than consolidated at the moment. So this will not be a recurring problem once we get to 2010 with the G.A.A.P. accounts.

Senator B.E. Shenton:

We may come back to you for more detail on that. Moving further down the page then, if you look at table 9, it seems to imply that departmental income increased by a rate faster than inflation £109 million to £119 million, what was the main source of this income?

Deputy Treasurer of the States:

As you might expect there is quite a few things in there relating to various different departments. I can provide the committee with a list of this if it helps later on rather than just reading it.

Senator B.E. Shenton:

I think we are more interested in the generality of it, because this increase of between 6-7 per cent suggests that the States have been trying to maximise income for its services because obviously that way they can keep total expenditure at current levels and show a decrease in net revenue expenditure if you increase your revenue. Is this the case?

Deputy Treasurer of the States:

Okay, if I go through some of the headlines perhaps that will help the committee understand. One of the larger changes, just over £3 million, is a change that relates

back to the committee's report from last year to do with the way that social security account for staff costs. I do not know if members remember but in your report last year ... what we have done in this year's accounts is try to bring some additional clarity and transparency to that and ensure that all social security staff are charged to social security and then the recharge to the fund shows as income to the Social Security Department. So there is no change in the reality of what is happening in terms of those staff are still working on matters but in terms of the accounts the expenditure has been grossed up and the departmental income reflects the fact that those staff costs have been recharged to the fund. One of the other headlines is in health, you will recall that with the termination of the health agreement with the U.K. the U.K. Government used to pay monies to the Department of Health for U.K. visitors that were treated in the Island, the fact that the agreement ended meant that cost was funded through a cash limit in 2009 rather than income from the U.K. Housing, for example ...

Senator J.L. Perchard:

Sorry, you lost me there. How would that affect that bottom line figure of departmental income? I do not really understand the connection.

Deputy Treasurer of the States:

Departmental income previously would have included that, because it was income to the department for services the department provided.

Senator J.L. Perchard:

That would be a negative?

Deputy Treasurer of the States:

Yes, there is a whole host of ...

[11:45]

Senator J.L. Perchard:

It used to receive an income but it no longer receives an income.

Deputy Treasurer of the States:

There are some issues that have pushed income up and some that have reduced.

Senator B.E. Shenton:

Rather than spend too much time on this, could you provide the P.A.C. with a complete breakdown of that figure?

Deputy Treasurer of the States:

Absolutely.

Senator B.E. Shenton:

Would you say that ... I think it is the case in previous spending reviews that there has perhaps been a tendency of department's to try and raise revenue rather than reduce expenditure. Would you say that this is still the case?

Deputy Treasurer of the States:

I think the C.S.R. (Comprehensive Spending Review) process makes this very clear in terms of the objectives that have been set for delivering the savings. It cannot simply be raising the charges, that is absolutely crystal clear. So, no, I did not think that is the position.

Senator J.L. Perchard:

That is quite reasonable. I know it gets political but when you get Planning, who are the only authority that you can apply to, raising charges by up to 300 per cent for some particular categories it becomes very distasteful when people are bound to pay that. It is a bit of a worry but that is not a question for you gentlemen.

Senator B.E. Shenton:

Senator Perchard has mentioned Planning, the number of employees has fallen by 5.83 per cent but the average remuneration for staff has risen by 9.96 per cent. So you have a lower number of staff but a higher number of remuneration. Perhaps you could just run through that while we mention it.

Deputy Treasurer of the States:

Obviously this is a question that the Planning and Environment Department may well be better placed to give you the detail on. It might be worth me making just a couple of observations to help. The full-time equivalent figures in the accounts, which you will have seen in the notes, it is important to understand that they present a snapshot at the end of the year. So at 31st December that was the number of full-time equivalent staff employed in each department. The cost of staff for the year as presented in the accounts is exactly that, the cost of staff for the year. So a comparison of the number of staff relating to the total cost can sometimes be misleading because you could have a number of vacancies at the end of the year that were not there for the majority of the year, so you have got the cost without the F.T.E. (full-time equivalent). So the division of the 2 will not always be as helpful as it might otherwise be. I know particularly in the case of P. and E. (Planning and Environment) there were several employees who left during the year, including a director who left in November and so you would have 10-11 months of cost with no F.T.E. showing at the end of the year. So to get into those comparisons you really need to get to a level down beneath those numbers.

Senator B.E. Shenton:

Who is responsible for reviewing the staffing plans in Planning and other departments?

Deputy Treasurer of the States:

The full-time equivalent numbers and where they are deployed is contained within the business plan each year.

Senator B.E. Shenton:

Chief Executive, do you review them in your role, the individual department's staffing plans?

The Chief Executive:

Do I review individual department ... not in specific detail, no. However, if you look at the C.S.R. - and I keep coming back to that - we are looking specifically at major

departments with major reviews of staffing levels and structures and we are also looking at overall remuneration and terms and conditions of service as a specific issue and bringing all of that together.

Mr. K. Keen:

You sound very confident about the C.S.R., Chief Executive, do you believe it will deliver the £50 million worth of savings that are being put forward?

The Chief Executive:

I am not here to offer judgments upon States decisions at the end of the day. I am very confident that the C.S.R. is a good, proper and professional process and it will identify how £50 million, and potentially more, could be saved and the decisions that we will need to take them. It will attempt, in most instances, to ensure that those decisions are the ones that ... will attempt throughout to ensure those options are those which are least damaging for services. I personally believe that the options will be realistic and will be achievable.

Senator B.E. Shenton:

You will be fully supporting the C.S.R.?

The Chief Executive:

You asked about my responsibility, my responsibility is ...

Senator B.E. Shenton:

No, but I assume that you will be fully supporting ...

The Chief Executive:

That is what I was about to explain. My responsibility is to run the C.S.R. and to ensure that the Council of Ministers receives proper and thorough advice and that it aims to deliver the £50 million savings. That is my task, that is my responsibility and I will ensure that it does present that. If that is supporting, then yes. But if it is supporting political choices, today I am not here to talk about political choices.

Senator B.E. Shenton:

No but, with all due respect, your job is to make sure that the States is run effectively and efficiently.

The Chief Executive:

Yes.

Senator B.E. Shenton:

So surely a comprehensive spending review, you have to support that to undertake your role and you have to give opinions surely on where the most efficient savings can be made, and effective savings.

The Chief Executive:

That is entirely my job. If somebody decides that the C.S.R. is not to deliver £50 million but to deliver, say, £25 million because the political implications are deemed to be unacceptable, then it is my role to deliver the C.S.R. to that revised figure. I was asked if the C.S.R. can deliver £50 million and the answer is yes.

Senator B.E. Shenton:

Yes, but would it be totally unfair of me to say if we can save £50 million you have not been doing your job properly because if we can save £50 million the States have not been run effectively and efficiently by your job description?

The Chief Executive:

I think that would be unfair, yes.

Mr. M. Magee:

Could I move on? This is one probably for the Deputy Treasurer but could be for the Chief Executive as well. If you could to page 6 of the accounts, it is really just trying to highlight, I guess from my perspective, how does the forecasting process work within Treasury. Specifically the item that is catching my eye is the net income tax, because what we have got for income tax per year is that originally we thought we were going to receive £478 million and then the updated forecast, and I would be interested to know what time that that updated forecast was done, had £10 million more but overall just under £508 million was brought in, so £20 million more than the updated forecast. It is really, I think from the perspective of that is not something that was from 4 years ago and forecasting forward, that is from like 5 minutes ago in my eyes and it is just to know that I get some comfort that projections are robust, and that does not look as if projections were robust.

Deputy Treasurer of the States:

It is a very good question. To answer the first question, probably the easiest part, the updated forecast is done in mid-September, so that is when that is done and obviously the outturn is based on the end of December. The forecasting process is quite developed and takes into account as much information as we possibly know about the state of the economy and likely tax receipts that we are going to receive. There is a group that gets together to look at this, including economists, the thoughts of the Fiscal Policy Panel are taken into account, the feedback that the Comptroller of Income Tax and others receive from companies and the economy generally are taken into account and there is a process of forecasting at a level lower than you see here so it looks at individuals in terms of ... not individuals but salary and wage earners, it looks at partnerships, it looks at businesses to predict what those tax receipts might be. In this particular case this is obviously something that we have been acutely aware of and wanted to understand why there is that change in outturn rather late in the year. That is in no small part to ... there was a number of assessments done in the latter part of the year, the final quarter, 2 areas in particular generated a significant increase in tax, they were around some individuals largely 1(1)(k)s and (j) cats whose assessments ... the information from the assessments was only available in the last part of the year, and some partnerships who were making some quite significant increases of profits. Again, that was only available in the later part of 2009 to identify that. Those are the things that really drove that increase that was not predicted and we believe that certainly a portion of that increase is not likely to be recurring. A lot of it was one-off in 2009.

Senator J.L. Perchard:

So effectively we are talking about a 4 per cent error, with the formula you have just described it could have been 4 per cent down on income, which is probably more

worrying. We also tend to be a bit conservative with our forecasting, as you will know better than I, and we always seem to bring in a bit more than we forecast. Is it possible that we could be 4 per cent down next year on income over forecast?

Deputy Treasurer of the States:

I think it is important to understand that this is not an error; this is, by its very nature, a forecast. As Mr. Magee has highlighted, we have forecast for the year and we review it during the year and then obviously we have the outturn. We do make our best attempts to have a realistic forecast rather than an optimistic or pessimistic. By its very nature a forecast has to make some assumptions about the level of activity in the economy and likely tax receipts and so on. So the one ... you can say it is a forecast, it is not going to be 100 per cent accurate.

Senator J.L. Perchard:

But these errors - and I call them an error - in forecasting are much more palatable when one finds that there is an extra over and above the forecast available. It would be very unpalatable, particularly politically, if we found ourselves £20 million short on budget next year, for example.

Senator B.E. Shenton:

I think what Jim is trying to say is, is a 4 per cent deviation acceptable?

Deputy Treasurer of the States:

We try to get these forecasts as accurate and as reliable and as robust as possible. There is no guarantee for forecasts, by its very nature it is a forecast, we have to make assumptions on areas where there is a lack of certainty. We do our utmost to get them as accurate as possible but I cannot sit here and give you a guarantee that this year's forecast will be within 1 per cent, 2 per cent, 4 per cent or any other particular figure, all I can assure you is that it is a robust process and every effort is made to make it as reliable as possible.

Senator B.E. Shenton:

But there is a review of the Income Tax Department being undertaken at the moment, do you think this may lead to a more accurate forecast in the future?

Deputy Treasurer of the States:

We are certainly open to any suggestions that would help us improve the accuracy. Any opportunity that there is to get better information, to make the assumptions more robust and reliable, would be welcomed. We would welcome them and incorporate them into the process.

The Chief Executive:

It is important though to take account of all of the elements that go into tax. Personal tax is dependent on a number of people in the economy at any one time, on salary levels and changes in salary levels. Clearly the corporate tax is based on company's profits declared and it depends on the year of assessment. So these things can vary very considerably. I think the important point to recognise is that when you look historically at the forecast they tend to have underestimated in times of growth and underestimated the downturn in times of recession. They tend to cut a more middle

line. So it is entirely possible that in recession that is always a risk, and I think the point has been made that the risk is on the downside on the current estimates.

[12:00]

Mr. M. Magee:

I think really the point I was making is ... I know that forecasting is not easy. But the point I was really making here was forecasts with 3 months of the financial year to go and it is £20 million out, that was really the main point I was trying to make there. We are making lots of decisions going forward about G.S.T. (Goods and Services Tax) and social security and all sorts of thing just now and obviously that process has to be more robust.

Mr. A. Fearn:

If you could explain some of the reasons why ... in regards to the (j) cats and 1(1)(k)s, can you outline some of the changes that you make to the forecast as a result of that information that came through in 2009, if any?

Deputy Treasurer of the States:

I can give you an overview. There is as level of detail around the forecasting which you will probably need to talk to the Comptroller of Income Tax to get a better picture, but for any changes of this nature or any other nature that come along, whenever there is any new information, that is incorporated into the forecasting process and not only in terms of what impact does that have this year but what impact does it have on the tax base going forward. So for all these changes that we have identified there are 2 questions. One is what does it mean for the tax receipts this year and the second is how much of that occurs into following years, because there are peaks and troughs in these inevitably and there are so many variables, the number of people on the Island, the number of businesses and so on. So I hope that gives you an overview of it.

Mr. A. Fearn:

So with regards to these issues, have communications between yourselves and the Tax Department, for example, been changed or ... It seems to me that ... I go back to the reason that you gave which was around the tax income on certain individuals in the economy so what has changed now to take account of maybe a better forecasting next time around, to avoid this repeat of those numbers suddenly being added to the income?

Deputy Treasurer of the States:

What I can say, as with all these things, there are some things that you can learn from and make a change to a process to improve the process to give a better outcome, not everything is predictable. Where we find something and there an improvement we can make to deliver a better outcome in the future then we incorporate that. So where there are issues that have resulted from the identification of this change this year that we can incorporate into the process and change the process, we will do. That is not always possible nor does not always mean there is not something else that can happen in the future.

Senator B.E. Shenton:

Why did you sign off the accounts, Deputy Treasurer?

Deputy Treasurer of the States:

I signed off the accounts because it was delegated to me by the Interim Treasurer of the States to do so.

Senator B.E. Shenton:

Why did not the Interim Treasurer feel that he could sign them off?

Deputy Treasurer of the States:

To be honest, that is probably a question better asked of the Interim Treasurer than myself.

Senator B.E. Shenton:

You did not ask him? When he asked you to sign off you did not ask him why he could not sign them?

Deputy Treasurer of the States:

I absolutely did and he explained it to me and I can tell you exactly why but I thought you would probably want to ask him directly. Perhaps I could read out the exact reason so I do not misquote him: "I make this delegation because I believe it is not appropriate for me to sign the States 2009 accounts and letter of representation as I was not working at the States of Jersey for any part of 2009 and therefore I have no understanding or knowledge of the accounting transactions and other financial activities that took place during this period."

Senator B.E. Shenton:

Do you think that is acceptable? One assumes that the new Treasurer will sign off the accounts next year; he will not have been working during 2010. Will you sign them off next year?

The Chief Executive:

I think it is best if I answer this one. The acting Treasurer did go on to say, and it is important to know, that he confirms there are no reasons he is aware of that would impact on the truth or fairness of the 2009 accounts, would impact on the auditors' opinion of the accounts or should prevent the Deputy Treasurer from signing the accounts. So he makes those statements.

Senator B.E. Shenton:

The Interim Treasurer has not signed the 2009 accounts and he will not sign the 2010, so where is accountability once he has moved away?

The Chief Executive:

We are currently, as you know, seeking to recruit a permanent Treasurer and we expect that permanent Treasurer, if all goes well, to be in place by the turn of the year. The Treasurer clearly will not have been in place during 2010 but we would expect the Treasurer to take all of the necessary steps to assure himself so that he can sign the accounts, because it would be only appropriate for the permanent Treasurer to sign the 2010 accounts. The judgment was taken that we have an Interim Treasurer in place who was recruited initially, if you remember, to run the Treasury improvement plan

and to improve financial management and reporting and forecasting processes. We felt that it would not be a good use of his time to divert him into having sufficient background knowledge and understanding to when he was appointed as Interim Treasurer to then sign the accounts. That would not have been good use of his time. The Deputy Treasurer has all the necessary skills, expertise and ability to do so and that knowledge and we felt in this instance it was appropriate that a permanent Treasurer, when appointed, should sign the next set of accounts.

Senator B.E. Shenton:

Turning to the statement of accounting policies on page 37, Deputy Treasurer, as you did sign the accounts, the second paragraph from the bottom: “The Public Employees’ Contribution Retirement Scheme and Teachers’ Superannuation Fund, while final salary schemes, are not conventional defined benefit schemes as the employer is not responsible for meeting any ongoing deficiency in these schemes.” Can you expand on what that statement means?

The Chief Executive:

Perhaps I should deal with that.

Senator B.E. Shenton:

I would like the Deputy Treasurer to because he signed off the accounts.

Deputy Treasurer of the States:

The accounting for pension schemes in the States accounts for 2009 was on the same basis as previous years. The accounting for both of these pension schemes has been subject to some discussion with States auditors on the most appropriate treatment. They are not the same structure as a U.K. public sector pension scheme and I am sure you will be aware that there is a set of scheme rules which govern the operation of the schemes and what happens if the schemes go into deficit and so on. The accounting policies that we have reflect the schemes and the way the schemes work. We review these every year and particularly this year we reviewed them again and specifically asked the States auditors for their opinion on whether we were accounting for them appropriately in accordance with the scheme rules and that our policies do reflect the schemes and the financial implications of the schemes on the States accounts. We have accounted for them on that basis so you will see what we recognise is we recognise the past service liability for the schemes in the States accounts and we make disclosures under F.R.S. (Financial Reporting Standard) 17 of the financial position of the schemes but we only recognise the past service liability in the States accounts.

Senator B.E. Shenton:

So, as Interim Treasurer, hand on heart you believe that the employer is not responsible for meeting any ongoing deficiency in the scheme?

Deputy Treasurer of the States:

As Deputy Treasurer that is my understanding and I have sought advice from the States auditors that we have interpreted that appropriately.

Senator B.E. Shenton:

On page 38 it talks about the teachers' scheme. In the second paragraph it implies that the teachers' scheme mirrors the P.E.C.R. (Public Employees' Contribution Retirement) scheme. Is this the case?

Deputy Treasurer of the States:

My understanding is that the scheme rules of the teachers' scheme do mirror the P.E.C.R. scheme. I am not an expert on the 2 individual schemes and all their operations but I do believe that the teachers' scheme rules were set up to mirror P.E.C.R.S. There may be some minor differences.

Senator B.E. Shenton:

Has it been agreed yet like P.E.C.R.S. that the States has no obligation to make with any deficiency?

Deputy Treasurer of the States:

The past service liability for the teachers' scheme has not been formally agreed as it stands, no, and that is made clear in the accounts, I believe.

Senator B.E. Shenton:

Provision has not been recognised but has there been agreement on the current liability?

Deputy Treasurer of the States:

In terms of the teachers' scheme the past service liability is recognised in the accounts to mirror the agreement reached with the P.E.C.R.S. committee of management. That is done on the basis of taking a prudent view of the likely nature of that liability but there is no formal agreement around that yet.

Senator B.E. Shenton:

What needs to be done with the teachers' scheme to bring it in line with the P.E.C.R. scheme?

Deputy Treasurer of the States:

In terms of the past service liability, that is a matter that is being considered at the moment, being discussed between Employee Relations and Treasury and the board of management before taking that forward. Initially it will go to the States Employment Board for their view.

Senator B.E. Shenton:

We have looked at this on the P.A.C. and we found a certain amount of procrastination by the previous Minister for Education that meant that this issue had not been sorted out and made the taxpayers' liability considerably higher than it should have been. The reconstruction took place more than 3 years ago. Why has it taken so long to resolve this issue?

Deputy Treasurer of the States:

You will have to forgive me because I am not aware of the history going back to your point about the Minister for Education. In terms of looking at the past service liability debt this is a matter that the board of management for the teachers' scheme has raised with the Treasury and the employer. The employer is currently considering this. It

has necessitated some advice from the States Actuary on what the board of management is discussing. It needs a thorough and proper consideration before any advice is given.

Senator B.E. Shenton:

But surely the lack of action means that you run the risk that the post-2007 liability may end up on the taxpayer rather than on the scheme itself.

Deputy Treasurer of the States:

The scheme rules are in operation and have been in operation for some time.

Senator B.E. Shenton:

You have no concerns as Treasurer that this liability may fall back on you?

Deputy Treasurer of the States:

I am not sure I am in a place to answer that, to be honest. This is not something that normally falls within my remit. What I can answer questions on is the accounts and what we have reflected in the accounts. I am not sure I can venture too much else.

Senator B.E. Shenton:

Maybe I had better ask the Chief Executive. With something like this that is dragging on and is taking a long time to resolve do you have a timeframe with regard to issues to get them sorted out?

The Chief Executive:

There is and there are ongoing negotiations. I can let you have a note on that timeframe if you would like. I do not have it in my head today. I can talk to you about the P.E.C.R.S. if that would help, because I think that comparison is valid.

Senator J.L. Perchard:

You do say in the accounts that the Teachers' Superannuation Fund scheme generally mirrors that of the P.E.C.R. scheme and you have outlined that. Would it be fair to say that the post-reconstruction liability for the Teachers' Superannuation Fund will not be a liability to the States and the taxpayer?

The Chief Executive:

As the decision has been taken to date, yes.

Senator J.L. Perchard:

That is generally accepted?

The Chief Executive:

That I believe is generally accepted.

Senator J.L. Perchard:

Details to be arranged?

The Chief Executive:

Details to be defined.

Senator J.L. Perchard:

In that effect it mirrors the ...

The Chief Executive:

That is the post-setting up.

Senator J.L. Perchard:

The 2007 negotiation, the line in the sand that took place in 1997 with the P.E.C.R.S. fund.

The Chief Executive:

My understanding is that the same political intention applies to teachers as it does to P.E.C.R.S.

Senator J.L. Perchard:

You are clear on that?

The Chief Executive:

Yes.

[12:15]

Mr. K. Keen:

Deputy Treasurer, could I come back to you on the actual quantum of the teachers' past service liability? It is on page 40. The P.E.C.R.S. pre-87 liability I think it moved by about £100 million last year, if I recall rightly, and this year it has moved by £24 million to the negative but the teachers' liability is just £103 million. Are there any differences in the way this liability is calculated from P.E.C.R.S. pre-87?

Deputy Treasurer of the States:

Yes. With the P.E.C.R.S. pre-87 liability there is a formal agreement that is documented between the employer and the committee of management and that agreement leads to an actuarial assessment of value that you see in the accounts. That is all based around the formal agreement that is in place. As we have said, there is not a formal agreement in place for the teachers' scheme so this is an assessment of this liability based on the last actuarial valuation of the scheme. So it is absolutely an estimate.

Mr. K. Keen:

Given that obviously pension schemes are getting more expensive, you did not think it proved that your original assessment might need revision in the year?

Mr. C. Swinson:

If I have understood correctly, the point about the P.E.C.R.S. liability is that the ultimate cash liability is not changing. What is changing is the current actuarial valuation of the future obligation. So it is not a change in P.E.C.R.S. case in an assessment of what in the end will be paid. It is merely a change in the present value of that scheme and in the case of J.T.S.F. (Jersey Teachers' Superannuation Fund) that same actuarial valuation of future cash payments is not performed in the same way.

Head of Financial Accounting and Control:

Just to add there, we do go back to the actuary who did the valuation for the schoolteachers and came up with that figure of £103 million and confirm that there is nothing to change that estimate. So it is not that we have just ignored it because there is no change. We have asked for a confirmation that there is a good reason but it is a different basis to the calculation of service, as the Auditor General has explained.

Mr. K. Keen:

I would have just thought the present value would have changed, given that it has changed on the other one.

Mr. C. Swinson:

It would do but it is a difference in the treatment of the 2 figures, which you have quite correctly pointed your finger at.

Senator B.E. Shenton:

Could I turn to page 46 of the notes to the accounts, which is the remuneration of senior employees. How many of the employees shown in the table receive a bonus or performance award as part of their total remuneration package?

Deputy Treasurer of the States:

I am not aware that any do.

Senator B.E. Shenton:

No one receives one?

Deputy Treasurer of the States:

None that I am aware of.

Senator B.E. Shenton:

No one at all. You do not give as much detail in these accounts as a local authority, for example, or a corporate entity would give in respect of their accounts. For example, you do not give the value of pension for all senior employees. Is this something that you could look to introduce going forward?

Deputy Treasurer of the States:

It is one of the things that the committee is probably aware of in terms of the move to G.A.A.P. that we are looking at and the final adoption is in the final stages of consideration at the moment, but the type of report you are referring to would be one of the things in that, yes.

Senator B.E. Shenton:

So it will include the value of pension?

Deputy Treasurer of the States:

A normal report of that nature would, yes.

Senator B.E. Shenton:

Would it be banded or would it be individual job descriptions?

Deputy Treasurer of the States:

Forgive me, I cannot remember off the top of my head.

Senator B.E. Shenton:

A local authority would give individual job descriptions.

Head of Financial Accounting and Control:

We are seeking to finalise the plans for a remuneration report before next year and we would look to mirror the U.K.'s position. That is still in discussion. We are expecting to issue that.

Senator B.E. Shenton:

In discussion with who?

Head of Financial Accounting and Control:

Just internally. We are going through a process at the moment of looking at how the accounts will look next year, which is obviously going to be very different, and one of the things I am hoping to do in the next few weeks is to finalise that format and then we will finalise the reporting manual, which I think the P.A.C. has already seen and the Comptroller and Auditor General has already seen.

Senator B.E. Shenton:

So who would ultimately decide what the format is?

Deputy Treasurer of the States:

The accounting standards that we adopt is ultimately a decision for the Minister and he will decide. I think it might help the committee just to remind ourselves that the approach we have adopted in the move to G.A.A.P. is to follow the U.K. central government's standards for doing this in terms of the content and the presentation of the accounts.

Mr. C. Swinson:

As a matter of information, Chairman, the central government practice on the mainland is to show for all of the senior officials in the department, line by line by name, the remuneration received in the period, together with any performance-related pay, together with increases in the value of pension entitlements during that period.

Senator B.E. Shenton:

So this will be the standard that you are going to look at?

Mr. K. Keen:

So G.A.A.P. incorporates things that are not just G.A.A.P. in a way really, is what you are saying, is it?

Mr. C. Swinson:

The public sector reporting requirement, which as far as they are concerned is to be G.A.A.P., does include that, yes.

Senator B.E. Shenton:

How much money was paid in total settlements to departures of senior employees?

Deputy Treasurer of the States:

I do not know off the top of my head.

Senator B.E. Shenton:

When we have asked in the States as politicians to do with specific employees we have always been told that this is a matter of confidentiality in respect to the person concerned but surely it would not stop you producing a total figure in the accounts for money paid out in this way.

Deputy Treasurer of the States:

Any underlying information is there. We would have to take advice on whether we were publishing something that was confidential or not but I really am afraid I just do not know the answer to that question.

Senator B.E. Shenton:

If we wrote to you and asked you that question would you provide the information?

Deputy Treasurer of the States:

I would answer the question, yes.

Senator B.E. Shenton:

The same with regard to how much was paid to people on gardening leave or subject to a disciplinary?

Deputy Treasurer of the States:

I would do my utmost to answer the question as long as it was appropriate to do so, yes.

Senator J.L. Perchard:

The H.R. (human resources) function of the Chief Minister's Department will ultimately be responsible for negotiating the confidential agreement of a settlement to terminate an employee's contract and by the very nature it is an agreement between 2 parties. Do you not accept that it is in the public interest that this information is made available as to what the settlement agreement is in order to ensure that the public interest is properly represented rather than it be confidential? As I say, the 2 parties, of which H.R. is one of them, have to come to this agreement so why do we insist on confidentiality when terminating employment contracts?

The Chief Executive:

The terms of any termination agreement will depend on the individual and specific circumstances and would be the result, if there were a negotiation, of a negotiated process, advised by both parties' legal advisers, and we would abide by that.

Senator J.L. Perchard:

The agreement is made between 2 parties of which we are one. Why do we agree to be confidential as to the levels of funds made available for termination?

The Chief Executive:

I think you have defined it: by definition agreement is between 2 parties and it is what those 2 parties are able to agree. If one party would not agree to something unless there is a confidentiality agreement then you could not have an agreement, so it is a matter of that decision.

Mr. M. Magee:

I guess putting it in a corporate context if you made somebody redundant or they left the business then you would need to disclose that as compensation for loss of office, if that happened in a normal P.L.C. (public limited company) sense. So, even though it might be confidential it is going to be out there in the public.

Senator J.L. Perchard:

That is right. This is the very point.

Mr. M. Magee:

It is much the same for local councils where that is part of your new drafting of your reports for next year.

The Chief Executive:

We will have to rely on legal advice on that.

Senator B.E. Shenton:

If we jump around a little bit and turn to page 85, which is the statement on internal control. This is probably a question for the Chief Executive. What do you see as the key strategic risks identified by the C.M.B. (Corporate Management Board)?

The Chief Executive:

The key strategic risks. We do have a risk document, we have identified them. I have not brought it with me so I am working from memory.

Senator B.E. Shenton:

You can provide it?

The Chief Executive:

I can provide it to you. It depends which year you were looking at. If you are looking as at now clearly the key risk is one we were talking about before around the Comprehensive Spending Review and the States' ability to maintain its revenues and services at the same time as protecting the Island's economy and the Island's future and sustainability. That tops the list, I can tell you.

Senator B.E. Shenton:

That is the key risk at the top of the list. How does the Corporate Management Board seek to mitigate or guard against this risk?

The Chief Executive:

That one as at now to ensure that we provide the best advice we can to Ministers and Members of the States about the implications of their decisions - and we were talking about that before - and also to ensure that those options are realistic and practical and achievable. I can give you other highlights if you want but alternatively I can send you a note on it.

The Connétable of St. Peter:

Just coming back to what you were saying there, Chief Executive: do you have a contingency? Do you think there is a call for any contingency, for example, if these risks are not mitigated? Do you have any fallback positions in your mind?

The Chief Executive:

It depends which risks we are talking. The whole issue about mitigation ...

The Connétable of St. Peter:

The C.S.R. specifically.

The Chief Executive:

The problem I have today talking about C.S.R., to be honest, is that C.S.R. is a 2-part process. There is a technical and there is an officer process which results in advice and then there is a political decision-making process. I have difficulty today in an open session, quite rightly, moving into making judgments or passing advice about the political process. That would be wrong and not appropriate and I think there needs to be lots of contingencies built in around that.

The Connétable of St. Peter:

So, basically, you are thinking of contingencies as well then?

The Chief Executive:

We need contingencies throughout the whole process and it has to be a long run and deliverable process. If we think we have all of the answers today for 2013 then I think we are making the mistake we sometimes make about the business plan. We set a business plan in June for the next year, 6 months before the year started plan to the end of the year, and yet we do it in great detail. That is demanded. If we try and do that same level of detail for 3 years then inevitably it will be wrong at the end and it will force people to focus on decisions that are probably not the right decisions at that point. What we need to do around C.S.R. is to highlight the significant and big decisions that need to be made, and they are very clear in front of us around employment levels, remuneration levels and level of service, and set a clear direction for that and a determination to deliver. I think this brings us back to the points earlier about the determination to deliver and the belief in it.

Senator B.E. Shenton:

I am still a little bit unclear as to your role and responsibilities. If you were running this as a corporate you might turn round and say: "We should not be running car park activities because it is not core business, we do not run them efficiently enough." But if I was to say to you: "Should we be running car park activities?" you would probably turn round to me and say: "That is a States decision." Surely, officially running the States also goes down to should we be running the car parks and decisions of that nature.

[12:30]

The Chief Executive:

There are clearly elements in that of efficiency, absolutely right, and here is where you get the mix between efficiency and policy decisions, political decisions.

Senator B.E. Shenton:

But the staff of the car parks are obviously remunerated at States levels. That could imply that we are charging the public too much for car parking because we are not running it as efficiently as we could.

The Chief Executive:

You can posit all sorts of questions like that and I think in another forum, another place, I would be very happy to discuss them with you but I am not sure that these are questions which are appropriate for me to answer now.

Senator B.E. Shenton:

I was trying to understand where your role is, because the States make all the decisions. Are you an adviser rather than a manager?

The Chief Executive:

I have fundamentally 3 roles. I am the adviser to the Council of Ministers on matters where the Council of Ministers needs to take decisions and actions and I am their adviser. When charged to do so - I am not trying to pass responsibility but that is important, when charged to do so - I am responsible for implementing those decisions. I regard that as a key role. I am the accounting officer for the Chief Minister's Department and therefore the adviser to the Chief Minister, an accounting officer in all senses for the Chief Minister's Department, and that is another role. I am the Chairman of the Corporate Management Board which, as I have explained to you, is not a board in the normal corporate sense of a board for an organisation. It is the board of the chief officers for the departments. I believe you have seen the role of the Corporate Management Board which is itself to provide corporate advice through me to the Council of Ministers to ensure that departments do co-ordinate their work and do work together and as far as possible avoid, as we have said, a silo mentality creeping in, and in that same role on behalf of the States Employment Board to implement their employment decisions and their employment practices.

Senator B.E. Shenton:

Whose decision is it ultimately to decide whether the car parks should be run commercially or should be in effect subsidised?

The Chief Executive:

As things stand at the moment, given the employment implications of that and the political implications of that - they could be significant in terms of industrial relations and policy decisions - it would be the responsibility of the Minister for Transport and Technical Services but he would, I know, wish to consult and work with the States Employment Board.

The Connétable of St. Peter:

Are you not moving up one level there to the Minister? Should not the chief officer have a role to play in that at T.T.S. (Transport and Technical Services)?

The Chief Executive:

I think you are getting to the nub of the complexity of the decision making and where responsibilities lie and who does have that responsibility and accountability, which exists at many different levels and depends on the implications, frankly, of decisions as well as the legal structure of those decisions. I think questions about who would wish to be responsible and accountable for what are another set of discussions.

Mr. M. Magee:

Can I just make a comment on that, Chief Executive? This is something that has not been in for very long and it does not seem as if it is working particularly well because there are lots of, I guess, if you had a white sheet of paper you would not do it this way, is the message I am getting. Do you have views on how you could change it then? Is that not something you could push forward to try and make this work better?

The Chief Executive:

I have lots of personal views and I can offer lots of advice and I can offer lots of professional advice to the appropriate people in the appropriate bodies. Ultimately the States has determined that they wish to have the style and a structure of government as it is now in place and they have put in place the laws to make that happen, particularly the States of Jersey Law, the States Employment Law and the Public Finances (Jersey) Law. Those 3 laws together create the structure that we are working within and they are an implementation of a States' desire and a set of States' decisions.

Mr. M. Magee:

Probably when they did that they did not know what the outcomes would be, so therefore why can you not change it?

The Chief Executive:

I do not think I would wish to suggest that. I would say that the key decisions which have created this structure were debated at great length in the States when these decisions were made and alternative views were put forward by different proponents of different sides and the decisions were made after that thorough debate and with the advice about the implications of those decisions when they were taken by the States and you have what you have as a result of it.

Mr. A. Fearn:

If I can maybe word it another way, with regards to the Corporate Management Board their responsibility, as defined in the profile, is being the efficient management and execution of government business. So, hearing your description about providing advice to the Council of Ministers, if the current arrangement you feel would have a conflict between what is currently going on and the efficient management and execution of government business how would you manage that? Is that something that you feed back as advice to the Council of Ministers?

The Chief Executive:

Here is a thought. Efficiency is probably not a totally objective construct. You have to consider and define efficiency in the context in which you operate, which in any society is different. Jersey is a specific society and through the States has determined that it wishes to have a certain style of government and certain style of organisation and I interpret efficiency in that context, and that is how I interpret it. Whether that

style of government should be changed and if as a result of it you could have a much more efficient organisation and if you created something along the lines of a multinational corporate structure or a major corporate structure then you might have a very different nature of efficiency but you might also have some very significantly different service-based decisions and a very significantly different service structure. At the end of the day, the Island has decided it wants a certain structure and that is what we deliver.

Senator B.E. Shenton:

So you are responsible for the overall efficiency of the States but you are not responsible for any individual constituent parts and the efficiency thereof?

The Chief Executive:

I am responsible for the efficiency within the context as I have just described it.

Senator J.L. Perchard:

You have described that there are boundaries and you have hinted that the boundaries are restricting real drives towards efficiency. That is understandable and you have to tread a fine line between political will and doing your best to create efficiencies within these boundaries. Will the same apply with those undertaking the Comprehensive Spending Review? Will they recognise the restrictive boundaries in place or will they try and propose a structure that cuts through them? Are we going to get value for money out of the C.S.R.?

The Chief Executive:

You will get value for money out of the C.S.R., yes.

Senator J.L. Perchard:

Chief Executive, try and come with me on this one. Will those undertaking the C.S.R. be restricted by these boundaries that you feel are restricting you in providing true efficiency?

The Chief Executive:

I am trying to come with you and I am trying to be as helpful as I possibly can today. The point I am making is that what some people would regard as efficiency others would not and you have to look at the decisions made about the structure of services. I do not want to go into any particular area but I have heard debates, for example, when we introduced early years nursery care. There were a lot of discussions and debates about whether that should be fully funded by the States, whether there should be means-tested benefit structures, how much of it should be private, how much of it should be public, how much be set in the context of the States schools. I am sure if you had approached this as an efficiency expert and an organisational management expert you probably would not have arrived at the universal public-funded structure that we have.

Senator B.E. Shenton:

Is that the advice that you gave?

The Chief Executive:

No, that was not the advice. I am saying that if you were a hard-nosed efficiency drive person you might not have arrived at that conclusion, might not, but that has to be overlaid by what the public want, as evidenced by the politicians who were elected, and those choices have to be made to reflect all of that.

Senator B.E. Shenton:

What was the advice you gave on that?

The Chief Executive:

I do not remember specifically. I would have to go back and have a look. The point I am making is you can have a publicly-driven organisation that fulfils the public will and does it as efficiently as it can or you can have an organisation that is driven tooth and claw by efficiency and it will look very different.

Senator J.L. Perchard:

So, the C.S.R. will not recognise these boundaries that the States have imposed. They will cut through that, will they? For example, the States' decision on early years education, will the C.S.R. ignore that decision and say this is the way to ... No?

The Chief Executive:

No, because at the end of the day the point I am making is the C.S.R. has to be a decision made and accepted by the States. It will be promoted to the States by the Council of Ministers and it is individual Ministers who are responsible for, as corporation sole, the policy structure and the policies that they promote. Whatever comes forward will come forward through that structure. The Minister for Treasury has, if you remember, created this structure of major reviews and has put in place a steering group for each of those reviews which has a significant independent person chairing that review and ultimately that review will publish its report which will identify options and ways forward.

Senator J.L. Perchard:

Options like privatising car parks, could that be in the C.S.R. or do they feel restricted by the policy, the Minister for Transport and Technical Services?

The Chief Executive:

I do not know on that specific.

Senator J.L. Perchard:

It is pretty disappointing if they do not challenge policies.

The Chief Executive:

No, there is a lot of challenge taking place but if you are asking me to ...

Senator J.L. Perchard:

There will be? They need to challenge policies.

Senator B.E. Shenton:

Going back to early years, your job then is to make sure that the decisions of the States are implemented. The decision of the States on early years was 20 hours free and the Minister decided to give 30 hours free in the public nurseries, which is not

particularly efficient. Where do you come in on a decision like that where the Minister decides to go beyond the policy agreed by the States?

The Chief Executive:

The Minister is free to make that decision and that is the policy that is implemented.

Senator B.E. Shenton:

Even if it is inefficient you have no say in that?

The Chief Executive:

It is not my job to take a view on that.

Mr. K. Keen:

Chief Executive, it seems to me that it is possible from time to time that Ministers do not take the advice that they are given by their chief officers. Do you think there would be any benefit in the advice of chief officers being published so that politicians were not just being straight political: "There is an election coming and I need a few votes" type of thing? Do you think that by publishing your own advice people will say: "That is independent advice from a professional" that would keep the politicians a bit more honest, if that is not a ... **[Laughter]**

The Chief Executive:

I think when you look at ministerial decisions you will see that the officer advice is appended to those decisions and the Minister does not always follow it, and that is clear. So when you look at the ministerial decision-making structure what you have described occurs.

Mr. K. Keen:

Providing it is a technical ministerial decision, I suppose, rather than a more strategic ...

The Chief Executive:

Exactly, that is the nature of these decisions. These are significant ministerial decisions, the advice is published, the decision is noted. Your questions today are all entirely appropriate questions, as they obviously would be, but the decision ultimately around the kind of organisation you want has to follow this public will in the States.

[12:45]

Senator B.E. Shenton:

We are moving towards the end of the time anyway but I think the P.A.C. is concerned with the growth in expenditure over the last few years which seems to mirror ministerial government. You cannot help but draw a conclusion that there are weaknesses in ministerial government whereby there is not any overall financial control because of the silo mentality and the lack of ability of anyone to pull everyone together and knock their heads together. I think it is all right to turn round and blame the politicians because the politicians ... well, not blame the politicians but point the fingers at the politicians but at the end of the day the civil servants, and especially the highly paid civil servants, are in place to make sure the States is run effectively and efficiently. If changes do have to be made to the whole process then personally I

would like to see the civil service and the senior officers be a little bit more vocal where they see weaknesses and not use the phrase: "It is not for me to say" or "You would have to ask the Minister" all the time. That is just my own observation from the hearing. Has anyone else got any comments?

Senator J.L. Perchard:

Just one question that you did answer. I wondered if you could make sure because the answer was not quite specific. It was about page 46 and the question was how many employees shown in the table receive a bonus or performance award and you said I think, Deputy Treasurer: "None to my knowledge." Would you be able to confirm, on page 46, how many?

Deputy Treasurer of the States:

Absolutely, I can.

Senator B.E. Shenton:

There were a number of questions which we have not had time to ask you today so we will, if you do not mind, just put them in writing. Some of them are quite technical answers anyway so it is probably better for a written forum than an oral one. Anyone else?

The Chief Executive:

Chairman, could I just say one thing? You made quite a statement saying that I and potentially others are blaming politicians. We are not and I am not. I was describing the structure of government we exist in and trying to make it clear who is responsible for which decisions. That is not a matter of blame; that is a fact of where the law says the decision-making responsibility lies and where the functions of the civil service and senior officers sit. That is the point I really want to make. I understand the point you made but in pursuing that you do need to understand - and I offer you no view one way or another about it - that if you pursue the view you have you will fundamentally change the structure of the States and the roles and responsibilities in the States and that does need to be followed through and all of the implications of that very carefully considered.

Senator B.E. Shenton:

I take on board what you say and I think with any new system, as we have with ministerial government, you do have unintended consequences of decisions that have been made, including the decision, as you mentioned, about not having collective responsibility among the Council of Ministers. When I was on the Council of Ministers that was something that did not work particularly well and in fact you got major decisions coming forward which may have been a 5:4 vote. So out of 53 Members of the States you got 5 people saying that this should be policy and that becomes the policy of the Island. It is not satisfactory. Thank you very much for coming along.

[12:49]