

2019.03.26

8 Deputy R.J. Ward of the Minister for Treasury and Resources regarding the allowance for depreciation within the accounts of the States of Jersey: [OQ.81/2019]

Given that figure 3.1 of the recent report from the Fiscal Policy Panel, *Advice for the 2020-23 Government Plan*, provides annual figures for depreciation of approximately £50 million, will the Minister explain in which fund the money for depreciation is kept and will she advise whether the amount accounted for in the years to date has been spent and whether underspends for depreciation are carried forward?

Deputy S.J. Pinel of St. Clement (The Minister for Treasury and Resources):

I thank the Deputy for his very complicated question. Depreciation is not a cash expense, so there is no fund. It is the internationally accepted way to recognise the cost of assets, such as schools, or the health estate, over their full and useful lives. It complies with the recommendations of the Comptroller and Auditor General and the Fiscal Policy Panel. The States of Jersey has been accounting for depreciation in this way for a number of years. However, following the recommendation of the F.P.P. in 2015, our financial planning model now includes depreciation in total expenditure, recognising the need for investment in replacing our asset portfolio. As depreciation is not a cash expense, doing this ensures income exceeds expenditure, which provides cash each year to reinvest via our capital programme. The amount allocated for depreciation does not form part of the cash budget and any underspends of budgets allocated for depreciation cannot be carried forward. The total amount budgeted for depreciation over the last 3 years was £46 million in 2016, £42 million in 2017 and £48 million in 2018.

3.8.1 Deputy R.J. Ward:

It is very interesting that this is not a cash sum, but it seems to be the sum that puts the States' accounts into deficit each year and significantly into deficit repeatedly. Is money physically being spent on repairing buildings, for example and let us look at the way Fort Regent has been left? If not, if it is not a cash sum, where on earth is that cash going, because it does not make sense in terms of having this as an expenditure on our accounts, but it not being a cash sum, or is it just an accountancy trick?

[10:30]

Deputy S.J. Pinel:

It is not an accountancy trick at all. As I said in my opening remarks, it is an internationally recognised way of dealing with accounting and money has been spent on infrastructure. As the Members and the public will be aware, not enough has been spent on Fort Regent and it is obviously going to cost a lot more than any of the depreciation budget would counter for.

The Deputy Bailiff:

That was the supplementary allocated, Deputy, so we come on now to question ...

Deputy M. Tadier:

Sorry, was that the first supplementary, or the final supplementary? I thought that ...

The Deputy Bailiff:

Generally, I work on the basis that if there is nobody in line wishing to ask a question, then the first supplementary is the supplementary, because the final supplementary follows on. If that is not

understood by Members, though, we have enough time to continue and if you wish to ask a supplementary question. I will allow it.

3.8.2 Deputy M. Tadier:

I just worked on the assumption that there would be 2. Yes, thank you for allowing the question. Can I ask the Minister that while accounting is an important issue, the big issue that we have seen in Jersey is that sufficient funds are not put away, in the first place, to pay for depreciation and the consequences of maintenance of buildings - Fort Regent and the former Andium Homes' stock are 2 very good examples of that - can she confirm that, in future, the lesson has been learned and that monies will be put aside specifically to pay for maintenance and, in the case of Fort Regent, for the removal of buildings, *et cetera*?

Deputy S.J. Pinel:

The depreciation factor has been included in the accounts for a number of years, but not publicly recorded as depreciation until the last M.T.F.P. (Medium Term Financial Plan). As I have also mentioned in answer to the Deputy asking the question, the amount put aside for any infrastructure has got to be spread across the whole infrastructure and nowhere near the amount that Fort Regent requires, as Deputy Tadier has asked, is available.

3.8.3 Deputy R.J. Ward:

We seem to be getting a picture that depreciation is a theoretical spend and an accountancy procedure, whether internationally, or not. Does that mean that if it is depreciation, which is a theoretical spend, sending us into deficit, that we also have a theoretical deficit and not necessarily a real one?

Deputy S.J. Pinel:

I understand, possibly, that the deficit the Deputy is alluding to is the £30 million to £40 million deficit projected for 2020 and it is a forecast deficit; until we get to 2020 we will not have the actual figures, but the forecast deficit is £30 million to £40 million.