

STATES OF JERSEY

Public Accounts Committee

MONDAY, 20th APRIL 2009

Panel:

Senator B.E. Shenton (Chairman)
Connétable J.M. Refault of St. Peter
Connétable A.S. Crowcroft of St. Helier
Deputy T.A. Vallois of St. Saviour
Mr. A. Fearn
Mr. K. Keen
Mr. M.P. Magee
Mr. P.J.D. Ryan

Witness:

Senator P.F.C. Ozouf (The Minister for Treasury and Resources)

In attendance:

Ms. A. Heuston (Committee Clerk)

Senator B.E. Shenton (Chairman):

Senator Ozouf, welcome. I am meant to read out a scrutiny panel thing but I am not sure whether I will read it to you; you have heard it 3 times already.

Senator P.F.C. Ozouf (The Minister for Treasury and Resources):

I suppose it is somewhat unusual that you are calling a Minister to attend before the P.A.C. (Public Accounts Committee) but if you need to read it then read it away.

Senator B.E. Shenton:

I can do if you want. 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 Regulations 2006. Witnesses are protected from being sued or prosecuted for anything said during hearings unless they say something they know to be 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, although the immunity should obviously not be abused by making unsubstantiated statements about third parties who have no right to reply. The panel would like you to bear this in mind when answering questions. Now, you are correct, it is a little bit unusual to ask the Minister along but it is not unheard of. Certainly I was having a look at the U.K. (United Kingdom) P.A.C. and they do ask the Ministers along from time to time. The focus of the P.A.C. is very much the implementation with the Minister who is very much more responsible for the policy. But we felt that it would be useful to bring you along today to get your views on the situation, because I think it was you that asked the Comptroller and Auditor General to produce the report; to also ascertain what you are doing as Treasury Minister to improve the situation, if you believe that improvement is required; and also to find out whether you are happy with the current arrangements in as much as the exchange rate risk is still very much unhedged. So can I first ask you a very basic question is what made you ask the C.A.G. (Comptroller and Auditor General) to do the report in the first place?

Senator P.F.C. Ozouf:

I think it was within a matter of hours of me being appointed as Treasury Minister that I became aware, because of direct communication with the Treasurer, that there was an exposure to an exchange rate risk which was not envisaged by, I think, any Minister previously and certainly not by the decision of the States which did indicate that the exchange rate would have been eliminated. Clearly there was an issue and I felt that it was appropriate that the whole issue, including the Treasury's handling of it, was properly reviewed. You also indicated that it would be an issue which you would want to look into as Chairman of the P.A.C. The C.A.G.'s report is clear that there has been a failing within the Treasury Department in terms of implementing, what I was clear to be, a clear political decision. I have to say that I regard that as an isolated failure - for the avoidance of any doubt - in the Treasury. I think the Treasury have got a fine track record of managing public finances and getting the Island into where it finds itself today, in unprecedented difficult economic climates but the Island finances remain strong and robust. I find everything within the Treasury to be well managed. There has been an isolated failure here and I am dealing with that, as you will be aware, in the normal disciplinary process.

Obviously since having been appointed as Treasury Minister I have also reviewed the policies generally in relation to exchange rate exposures in this regard but also I have ... and perhaps we will come on to discuss some of that. There are obviously policy issues as opposed to implementation issues. But there are issues which I am considering on a policy level. For example, I have extended the remit of the Investment Sub-Committee. I am giving consideration to increasing the resources available for the management of States investments generally. I also, of course, have reviewed the policy that is currently in place in respect of the exposure and how we are going to deal with that.

Senator B.E. Shenton:

You mention that you knew within hours of taking over as Treasury Minister, so one assumes that someone knew that we have got a problem here and told you we have got a problem. Was it the outgoing Treasury Minister or was it one of the staff?

Senator P.F.C. Ozouf:

It was the Treasurer, but let us be absolutely clear there is a clear decision made by politicians that the exposure should be eliminated. That is what the States report says. As politicians we set policy and we then hand over that decision for implementation and for processing by the appropriate department. I am absolutely clear that, while I have effectively called in the subsequent exposure to States risk and euros, my job is twofold. My job is, first of all, to hold the department to account for implementation and, as I deem necessary at a policy level, to pull up a decision that I think is being made at an operational level and take responsibility for that politically.

Senator B.E. Shenton:

So within hours of taking office, the Treasury says to you: "We have got a major problem here with regard the euro exchange rate risk" and you say: "Then we call in ...". So one assumes that the previous Treasury Minister was well aware of the problems that were in place at that time?

Senator P.F.C. Ozouf:

Let us be clear. The previous Treasury Minister gave clear instructions that the matter would be eliminated and that is what is contained within his report. I think it is absolutely right that he left that over for officers to implement. Of course, as a new Treasury Minister I am going to ask more questions about the area and ask whether or not there are any issues which the department themselves is handling. This was the first issue which I was made aware of the department was handling. In fact, as you know, it is contained in the detail of the report, the department made some decisions and the Treasurer himself made some decisions in the light of that. Those were not political decisions. They must be issues of implementation by the department.

Connétable A.S. Crowcroft of St. Helier:

Can I just follow the thread here because as a new Minister of Treasury and Resources, would it be your style to, as you say, hand over the implementation of a decision like this of this kind of magnitude for this kind of project in future or would you expect some kind of ongoing political oversight of the procurement process?

Senator P.F.C. Ozouf:

I think, Connétable, we need to be absolutely clear as to the role that we have as Ministers and the roles that we have for our department. My job is clearly to hold my department to account to ensure that decisions are implemented. I am not going to do the job of the Treasurer and I am not going to do the job of Treasury officials. I would clearly be failing in my duty in not holding the department to account for implementing political decisions. There is a very different issue there, of course, of making policy decisions. We have a dual role as Ministers. I am ultimately responsible for the Treasury. If I identify a failure then I will not take responsibility for that failure because that is the department's responsibility. I am clearly failing if I have been alerted to something and not done anything about it. Clearly I have identified that there was a problem in fairly early course and, as things have emerged, only after I have received a proper report. I did not know the full circumstances, as none of us knew the full circumstances of it.

The Connétable of St. Helier:

The Council of Ministers had never at any stage discussed these problems ... between the July approval of P.73 and the end of the year, the Council of Minister did not discuss this matter?

Senator P.F.C. Ozouf:

I think that the answer, to the best of my knowledge and belief, is that there was no formal Council of Ministers discussions but, as we all know, not all decisions are made at a Council of Ministers meeting. There will obviously be ongoing daily communication with ministerial colleagues on different issues. Of the fact that there was a serious issue in relation to the delayed commencement of the new incinerator plant and of the fact that there was significant political discussion about the importance of getting on with it, there is no doubt. There was. Indeed, I find it a matter of great regret for the public that we are in this situation at all but faced with an incinerator that is now costing us tens of millions of pounds more if political decisions would not have been made months earlier, notwithstanding the issue of the exchange rate. The incinerator could have been procured, as I think we know, for tens of millions of pounds cheaper if decisions would have been made earlier. States Members obviously chose - which was one of the issues for officers - to revisit that decision so very many times. The threat of that revisiting has cost the taxpayer a lot of money and there are clearly lessons to be learnt on that.

Connétable J.M. Refault of St. Peter:

Minister, the gap between the old House and the new House coming in at the beginning of December, do you think something fell between the 2 stools of the 2 Houses? As you say, when you took over within days we were aware of the States exposure and that the euro had not been hedged. When was that first identified and was there any reason why your ministerial predecessor did not do that himself?

Senator P.F.C. Ozouf:

I am very clear that a political decision and ministerial position was that the exchange rate should be eliminated. I do not think that there is any blame that can land on the shoulders of the previous Treasury Minister. I am clear that he gave clear instructions. That is what he explained to the States in terms of

the risk should be eliminated. I think that we have been ... and that is why we are here and that is why we have a Comptroller and Auditor General's report. On this occasion there has been an isolated case of not having implemented a political decision.

The Connétable of St. Peter:

Sorry, but when you say you do not think that any blame falls upon the shoulder of the previous Treasury Minister, certainly on the one hand to say that he has identified the problem and put in place the necessary procedures for the department to eliminate the exposure but if he has not pursued that to ensure that things are happening he cannot delegate his accountability. He can delegate his responsibility but he still remains accountable for the fact that it was not done while he was still in the chair as the Treasury Minister.

Senator P.F.C. Ozouf:

A Minister passes over responsibility. A Minister sets policy and then hands over the implementation of that policy to a department. A Minister will hold as appropriate the department as you will do - that is the job of the Public Accounts Committee - to hold officials responsible for implementing that.

Senator B.E. Shenton:

Sorry, can I interrupt you there? He passes that on to his department or he passes the responsibility on to his Chief Officer?

Senator P.F.C. Ozouf:

For the avoidance of any doubt, we have set up a Public Finances Law and we now have the legal definition of accounting officer and accounting officers are ultimately responsible in the same way that a Minister cannot shift the responsibility on to an Assistant Minister. The department, read "accounting officer".

The Connétable of St. Helier:

Which this case was the chief executive of T.T.S. (Transport and Technical Services), not the Treasurer.
Is that right?

Senator P.F.C. Ozouf:

There there are real issues and I heard the evidence that the Treasurer gave you on ... there are some clear issues falling between 2 departmental stools there. That is absolutely clear and certainly corrective action going forward is that there should be absolute clarity of whose responsibility it is in terms of a particular capital project. On this occasion it is quite clear that there was a shared responsibility. I offer no criticism to the accounting officer of T.T.S. for this matter because clearly I think, as far as the exchange rate issues were concerned, that fell within the remit of the Treasury and Resources Department. But going forward there is a lesson that where there is a shared responsibility there needs to be absolute clarity for the avoidance of doubt.

Senator B.E. Shenton:

But where you have shared responsibility surely the natural progression is then up the line, so the Chief Executive of the States of Jersey.

Senator P.F.C. Ozouf:

I do not think that automatically follows. I think that certainly as far as the legal responsibility for the Treasurer of the States is concerned there is a reporting line to the Chief Executive of the States of Jersey but the Treasurer of the States reports to the Treasury Minister.

Senator B.E. Shenton:

You cannot have a situation where no one is responsible because it is all blurred.

Senator P.F.C. Ozouf:

No, there were 2 people that were responsible. I think you can debate where the responsibilities for the individual issues lay between the accounting officers of Treasury and T.T.S. I do not think it follows

that you can suggest that there is a responsibility going up the line.

Senator B.E. Shenton:

If the contract was being signed tomorrow, would you expect your Chief Officer to take more of a hands-on approach going forward?

Senator P.F.C. Ozouf:

I think that there are lessons that can be learnt on this issue and clearly that is the matter which I am giving consideration to.

Senator B.E. Shenton:

So you would believe that your Chief Officer ... I am talking about if we were signing a new capital contract tomorrow, would you expect your Chief Officer to take a more hands-on approach?

Senator P.F.C. Ozouf:

I cannot answer that question really because I ...

Senator B.E. Shenton:

Just as well I am not signing a project tomorrow then, is it not?

Senator P.F.C. Ozouf:

No, because I will deal with each project that comes before me and each ministerial decision on a case-by-case basis. It is clear it is always the case, with the benefit of hindsight, that one has observations that you can do things differently. As far as the Treasury is concerned, the way that it manages capital projects is significantly better than was the case in years when we had capital overspends, et cetera. There now are almost, I would say, watertight procedures in place to deal with capital overspends, and that is a result of errors having been identified and corrective action being taken.

Senator B.E. Shenton:

You made an announcement when the Comptroller and Auditor General's report came out that the department was taking disciplinary action against a number of individuals. Obviously we do not want to know specifics of what that action is or anything. But what exactly does it mean "disciplinary action against a number of individuals"?

Senator P.F.C. Ozouf:

These are the normal H.R. (Human Resources) procedures that are in place to deal with the case of a failure of an individual or a collection of individuals. You would not expect me to be commenting on those H.R. matters in a public forum. Those are H.R. issues which are dealt internally within the organisation and they are currently underway.

Senator B.E. Shenton:

Subject to there may be appeals, when do you expect this process to be finalised?

Senator P.F.C. Ozouf:

In a matter of weeks.

The Connétable of St. Peter:

Sorry, Minister, can I come back again to this gap that exists? It was passed through the States on 11th July, the P.73, and at that time it was agreed that the euro exposure would be eliminated or hedged or whatever the advice was at that time. On 14th November was the date the contract was signed and that was the due date that should have been in place to eliminate the exposure to the euro funds. You say you became aware of that once you became the Treasury Minister. That is probably 3 to 4 weeks after that period, because the new States were formed on 8th December and you were elected the week after to your current position. So in that 3 to 4-week period, the previous Minister - I am coming to the previous Minister - what did he do to redress the fact that it had not been hedged on 14th November some weeks earlier?

Senator P.F.C. Ozouf:

I cannot answer for the previous Minister, clearly, but I would repeat very clearly that this was an issue of officer implementation. Even until a number of days after my tenure as Treasury Minister, I would not be expected to make decisions which were clearly a matter for officer implementation.

The Connétable of St. Helier:

The Minister for Treasury and Resources ... and he can answer for himself; obviously if we need to we can ask him. But it does seem to me that on 14th November he took a collateral ministerial decision, following the Minister of T.T.S., to release the funding. Now he must have had advice from his officers that the situation had changed from the decision taken by the States back in July. I am just curious why.

Senator P.F.C. Ozouf:

I think it is obvious that there was a requirement to draw down additional monies from the risk reserve and for the risk reserve that we have in the overall capital programme. That ministerial decision was to draw down a further amount of money from the Treasury's overall capital programme. It was clear that in the period of time between the States decision and the signing of the contract there was a deterioration in the exchange rate.

The Connétable of St. Helier:

But the decision did not include fixing the rate as reported, as the States were told would happen on that day. I mean, clearly, States Members when they vote on a report and proposition expect what is in the report to be carried out. It is interesting that on the Hansard there is no discussion of exchange rate problems in the debate because it is so black and white in the report that this is what will happen when the contract is signed.

Senator P.F.C. Ozouf:

I think it is clear that the States ... I think that that was clearly what was in States Members minds.

Analysis of the wording of that - and of course it was not in the proposition, it was in the report - it does say as I recall "it is envisaged that". Clearly "envisaged that", I am not going to go back to the States now and seek a decision to expose the States to a currency risk because clearly we are using our best endeavours to manage the risk as appropriate, based upon the circumstances.

The Connétable of St. Helier:

There is no "envisaged". It says: "The exchange risk will be eliminated upon the signing of the contract."

Senator P.F.C. Ozouf:

Yes, there is another reference to "envisaged".

The Connétable of St. Helier:

It did not happen. Again, it is a question we really ought to put to the previous Senator.

Senator P.F.C. Ozouf:

That is in a report, is it not?

The Connétable of St. Helier:

Yes.

Senator P.F.C. Ozouf:

It is not in the proposition, and I think we all know the status of a report as opposed to a proposition. But, clearly, it was in everybody's mind, including the Treasury Minister's mind, that the risk would be eliminated until a pretty late on date.

The Connétable of St. Peter:

Can you tell me, the strategy that is now in place (of the Treasury advisers) of earlier on today, when

was that put in place? The accounts strategy?

Senator P.F.C. Ozouf:

Well you have the Comptroller and Auditor General's report and you will be aware of advice that was taken by Hewitts on 17th December and you will be no doubt advised, or I can advise you, of subsequent advice that has been taken as recently as last week in respect of overall hedging.

The Connétable of St. Peter:

But the strategy itself which Ian Black told us earlier on is in place, a decision was made at some date when that was put in place by the Treasury Department. That would have been under your watch, I would guess.

Senator P.F.C. Ozouf:

Clearly an officer-driven approach of which I was made aware, as I am now currently aware, and have indeed asked for further polices to be formally signed off and certainly the extension of the remit of the Investment Sub-Committee which has recently met.

The Connétable of St. Peter:

I think you are starting to come to my point of view with regards to the previous Minister. You have put in place the necessary measures to ensure that you were informed about how things were going. Did he not do the same when he knew that the hedging had not taken place? If he did not, what is he doing about his accountability in this matter?

Senator P.F.C. Ozouf:

I do not think that you can assume from anything that I have said of any criticism of the previous Treasury Minister.

The Connétable of St. Peter:

No, no it is my view, I accept that.

Senator P.F.C. Ozouf:

He is very well able to account for himself. We are clearly dealing with a changed situation whereby an exchange rate risk was not eliminated and therefore a different policy approach would need to be taken in recent weeks, particularly having regard to the extreme volatility of markets.

Senator B.E. Shenton:

Are you happy with the current approach which is very much leave your downside open?

Senator P.F.C. Ozouf:

I am, yes.

Senator B.E. Shenton:

So you think there is nothing wrong with just: "Have a meeting if it hits 105"?

Senator P.F.C. Ozouf:

I would not characterise the Treasury approach as simply having a meeting, Chairman. If you will read the advice that we based the policy on on 17th December, the comment on sterling, it clearly says that the matter will be kept under review. It clearly also comes to a conclusion as to the likelihood of the euro rate reaching parity against the pound. I am also, and you will also, be aware of the cost of putting in place any further protection for the States at this time. The cost of taking any sort of derivative option clearly outweighs the views of the market.

Senator B.E. Shenton:

So Hewitts have been retained as providing ongoing advice for this matter and are keeping the department under review, keeping the matters under review?

Senator P.F.C. Ozouf:

All matters of exposure in terms of investments are kept under review, and I have expanded the remit of the Investment Sub-Committee in order to ensure that that is the case.

Senator B.E. Shenton:

Has the Treasurer of the States taken much greater responsibility for this now? Is he monitoring this day to day?

Senator P.F.C. Ozouf:

I would not expect the Treasurer of the States to monitor this on a ...

Senator B.E. Shenton:

But just keeping a handle on what is happening day to day?

Senator P.F.C. Ozouf:

I am confident and satisfied with the policy in place, based upon the circumstances that we find ourselves in the market. Also, I would draw your attention to the fact that the Comptroller and Auditor General himself has in his own report said that he did not believe that the approach taken on the policy was not unreasonable. I have to say that I took comfort from the fact that the Comptroller and Auditor General himself had reviewed the position and reviewed the policy in place on 17th December and seemed to have opined upon it in a positive way.

Mr. A. Fearn:

Senator, if I may go on to your existing proposal for protecting the currency exposure, could you just remind me specifically of what that is and what steps ... you have referred to the extension of responsibilities of the Investment Sub-Committee, that might be helpful for my benefit to understand specifically what those extended responsibilities are in light of the F.X. (foreign exchange) and the hedging issue we were just discussing.

Senator P.F.C. Ozouf:

First of all, I made it clear when I stood for the position of Treasury Minister that I was going to look at the whole area of policymaking and policy decision-making on the States of Jersey investments. That includes the utility companies, I am reviewing the investment strategies, the strategic reserve and other associated decisions that must be made or should be made politically. I am considering whether or not we should further enhance the way in which the Minister takes advice by having a wider board of bringing in expertise in order for there to be 8 or 10 pairs of eyes on important decisions. That is something that I am working on and I have just allocated funding in order to further put new arrangements potentially in place. As an interim step there is an Investment Sub-Committee, which is something that has been in existence since the old days of the Finance and Economics Committee, which sits formally to receive investment advice from the States investment advisers in relation to the strategic reserve and indeed sits with the Social Security Minister for the Social Security reserve fund. It sits regularly in order to advise and then I sign off policies. I have extended the remit which previously was not extended to States of Jersey currency exposure. I have extended the remit of that sub-committee upon advice from the Treasurer to include that. As I say, I am not expecting the States of Jersey to go out and get another capital project with a significant euro exposure and I do not think that we should be having a euro exposure in the first place but nevertheless the issue has been flagged up of other euro revenues that States of Jersey has, and it is appropriate that there is an appropriate policy in place for that.

Mr. A. Fearn:

So in relation to the point around the provision of advice, I did note earlier from the Treasurer, Mr. Black, that the mandate who was providing the advice - Hewitts, I believe - still does not cover the specific provision of advice in relation to F.X. currency movements. Is that due to the reason that there is a procurement review going on with regards to the provision of investment advisers to the States? Is that something that is likely to be done on an interim basis until that review is completed?

Senator P.F.C. Ozouf:

I am quite clear that we are in an interim arrangement as far as ... I have all the advice from Hewitts here which has been copied to me; it has been discussed with me. I am not a currency expert; I do not profess to have any experience or expertise in market knowledge, whether it be stock markets or currencies. Ministers have to act upon advice. I am satisfied that Hewitts is suitably well qualified - and the individuals who I have met - who I have spent 2 days with in sub-committee session discussing and gaining an understanding of what they do and raising my own confidence levels. My Assistant Minister also sits on this sub-committee, both of my Assistant Ministers do, and I am satisfied on the advice. I certainly understand it and I am satisfied that the policy is appropriate in the circumstances that we find ourselves in. Maybe your Chairman has another view on whether or not the advice is right but Ministers have to ask for advice and then rely upon it.

The Connétable of St. Helier:

With your new tendered advisers, will you be setting out a more formal process for obtaining advice? It does seem, on having heard Royal London Asset Management, that they perhaps were not entirely sure they were being asked advice but the Treasury team seem to think they were? It does seem there needs to be clear rules of engagement as far as getting advice goes.

Senator P.F.C. Ozouf:

I think it is absolutely clear. I think the word "advice" needs to be properly interpreted. The Comptroller and Auditor General has used the word "advice". It is clear that Royal London Asset Management - and I reviewed their performance only, I think, 3 weeks ago - have done a great job for the States of Jersey in terms of managing cash resources. They save the taxpayer and ensure that the taxpayer is getting excellent value and a proper return on taxpayers' funds that are held overnight.

The Connétable of St. Helier:

Also the parish of St. Helier, as well, I might add.

Senator P.F.C. Ozouf:

Well that is good to hear that you are satisfied with them too. They are execution-only individuals. They are not there to give advice. What is clear is that there was a failure in the Treasury to deal with this specific issue. I am not going to repeat all of the issues that are in the Comptroller and Auditor General's report and I do not think it is, if I may say, necessarily a worthwhile activity for the P.A.C. to revisit. I think some of the clear conclusions that have been made in the C.A.G.'s report, failings have occurred and we need to deal with those issues. As far as a, perhaps, misinterpretation of R.L.A.M.'s (Royal London Asset Management) advice versus opinion (which I think they were giving an opinion on their own view) they were not giving the Treasury Department currency advice.

Mr. A. Fearn:

I think that is an important point. I think that they were giving a view, and had been asked to give a view, and within the finance industry there is a significant difference between a business giving a view versus a business giving specific advice, which brings me back to the importance of the mandate point. I think the other concern that other practitioners in the industry would have is around the protection of downside risk. I would strongly request that that downside point that the Chairman did raise is revisited. It is something that is very important with regards to moving into that advice once again.

Senator P.F.C. Ozouf:

I agree with that. I have to say that my own interpretation of the advice and the matter of keeping it under review is very much that in the event of a changed circumstances and a rapidly falling euro rate, then one would, upon advice, lock out the downside risk. I think it is clear.

Senator B.E. Shenton:

Yes. You see, that is why I have a problem, this is just an open-ended ... this is not a strategy at all. It says: "Should the rate fall below 105 immediate advice to be taken on whether to lock in any funds at that rate to prevent further loss." One assumes that advice would be taken from Hewitts.

Senator P.F.C. Ozouf:

Well, I am not sure you are right, Chairman. It does say ...

Senator B.E. Shenton:

Who would the advice be taken from? It does not say.

Senator P.F.C. Ozouf:

It continues to be taken from Hewitts and it is clear ...

Senator B.E. Shenton:

From Hewitts. So Hewitts are giving you a strategy that says: "Come back and ask us again if it goes to 105"?

Senator P.F.C. Ozouf:

But there is an ongoing dialogue with our States investment advisers, and putting in place the arrangement of having the sub-committee dealing with the expanded remit of currency will mean that there is a trigger for a discussion.

Senator B.E. Shenton:

Yes, why 105? Is there any particular reason? Is that a point from an actuarial chart, is it just a round number, is it ...?

Senator P.F.C. Ozouf:

You raised the issue of 105, I did not.

Senator B.E. Shenton:

No, that is what Hewitts have said: "We will give you more advice if it hits 105."

Senator P.F.C. Ozouf:

Can you point me to the ...?

Senator B.E. Shenton:

Page 59.

Senator P.F.C. Ozouf:

Of the Comptroller and Auditor General's report?

Senator B.E. Shenton:

Yes.

Senator P.F.C. Ozouf:

Yes, I am looking at my policy that is in place now. I think it is clear that matters will be kept under continual review. That is what the advice is.

Senator B.E. Shenton:

But is under review with no stop losses not a little bit loose?

Senator P.F.C. Ozouf:

If one is going to be really pedantic here, I would also draw your attention to the fact that the latest advice that I have in relation to dealing with all of the States currency exposure is draft advice which will be discussed by the Investment Sub-Committee to give that 4 and 6 eyes and 8 eyes principle, and no doubt these important issues that you raise will be raised in my Investment Sub-Committee. But the strategy at the moment is a correct one. If you are saying that the strategy would need to be revisited going forward in the event of a changed circumstances, then I cannot but agree and that is why it is being dealt with by the Investment Sub-Committee.

Senator B.E. Shenton:

Can you just remind me who is on the Investment Sub-Committee?

Senator P.F.C. Ozouf:

Myself, 2 Assistant Ministers, the Treasurer of the States and the advisers and officials.

Senator B.E. Shenton:

You say “the advisers”, who are the advisers?

Senator P.F.C. Ozouf:

The advisers to the Investment Sub-Committee are Hewitt.

Senator B.E. Shenton:

The Investment Sub-Committee consists of Hewitt that were ...

Senator P.F.C. Ozouf:

No, they are the advisers; they are not members. They are the advisers to the Investment Sub-Committee.

Senator B.E. Shenton:

Who out of the sub-committee has investment qualifications, specific investment qualifications?

Senator P.F.C. Ozouf:

Chairman, it is important that when a Minister takes advice, he is there to challenge that advice but the advisers are Hewitt.

Senator B.E. Shenton:

So you all just follow what ...

Senator P.F.C. Ozouf:

Now, the fact that both of my Assistant Ministers are members that are experienced in financial services matters and have other occupations in financial services, I do not think is important. I think it is important that a Minister, in my case, is satisfied with the advisers. As far as the States investment advisers are concerned, their track record I think speaks for themselves.

Senator B.E. Shenton:

So the advisers' advice on 16th December was: "Should the rate fall below 105 take advice."

Senator P.F.C. Ozouf:

I am dealing with the policy that is in place now and the strategy that is in place now.

Senator B.E. Shenton:

Okay.

Mr. K. Keen:

Minister, you are not persuaded by Mr. Swinson's comment on page 8 paragraph 24 wherein ... as you say, he does agree with your strategy ...

Senator P.F.C. Ozouf:

Could you just draw me the reference?

Mr. K. Keen:

Sorry, it is paragraph 24 on page 8 and I think it really is relevant to this thing about some sort of stop loss on it: "However, Treasury and Resources should have also considered purchasing call options to ensure that if the exchange rate moves unfavourably ..." So I read that as Mr. Swinson is really taking that point on about some sort of bottom to the States exposure.

Senator P.F.C. Ozouf:

Under paragraph 26, I would argue that the Comptroller and Auditor General has further explained why it is absolutely right that there was not a clear, justified case. He says: "Although action could have been taken to eliminate downside risk (i.e. to eliminate the States exposure to further unfavourable movements in the exchange rate), it is not clear that the costs that would have been incurred would have been justifiable." I think the Comptroller and Auditor General has made exactly the same assessment that we have. If you would like me to give you an analysis of the costs of completely eliminating that risk, I am advised that to eliminate the risk for a 2-year period would have cost something of the order of 8 per cent or 3 per cent or 4 per cent. I did not want to be in the position of having an exposure on currency risk but the costs of closing that out would have outweighed the risk in the view of investment advisers (and is the house view of Barclays, as I understand, and other organisations) of where the exchange rate was going to go. So, yes, of course you can eliminate risk but it comes, on this occasion, at a considerable cost and the Comptroller and Auditor General, I think, very clearly says that in paragraph 26 that those costs would have not been justified.

The Connétable of St. Peter:

So, moving on and coming back again, Minister, I still remain troubled with the timeline. The previous House had debate on 11th July; decisions were made then to hedge it. We then entered a period in early autumn where it was quite evident that the euro was in freefall, or was going to be in freefall. It was well forecasted this was happening and yet nobody flagged up that this was going to be an exposure, albeit there had been a States agreement that the amount of money would be locked out - the amount of euro exposure would be locked out - on 14th November on the signing of the contract. I just feel that a prudent Treasury Department or whomever ... and I think I do come to the Treasury Department and the Treasury Minister only because I cannot see an operational department like Transport and Technical Services, although they have an accounting officer, that he would be sufficiently au fait with the financial markets to make any decisions regarding hedging and locking out funds. So we go through a period where we know that the euro is falling, but we have not yet signed off and we do nothing about it and we wait until the second week of December when the new Treasury Minister comes into place for

anything to be done about looking forward to controlling the risk. I find it very difficult to accept that the Government are quite happy, in the full and certain knowledge that the euro was in freefall, just to sit back and wait and see where it bottoms out, bearing in mind the extent of exposure that we have with that. I suppose my question to you is, would you condone that sitting back and waiting to see?

Senator P.F.C. Ozouf:

I am clear that the political policy was to eliminate the risk, and the previous Treasury Minister believed, I think, that that was being done. I was alerted to the fact that it was not completely closed out and the rest of the actions that have been taken subsequently are clear. I cannot really add more than that. Ministers also have to rely upon their departments to implement a political decision. On this occasion it was not done.

The Connétable of St. Peter:

Thank you for that. Again, coming back, I still maintain that as the Minister he still has accountability to ensure that policies put in place are being effected, and if he has not checked on that, then he remains accountable for that. This is merely, in my view, procedural opinion.

Senator P.F.C. Ozouf:

But we have a clear separation of responsibility in our Public Finances Law. Ministers are responsible for policy; accounting officers are responsible for implementation. It is very unusual that you are effectively asking a Treasury Minister to ... we are almost sort of ... not trespassing but we are entering into implementation territory. You, as the Public Accounts Committee, hold accounting officers to account, as I do our accounting officers for implementation. If there are lessons to be learnt then ...

The Connétable of St. Peter:

Except in holding them to account, would it not be a good idea to say to your accounting officer: "Are things going ahead as per the policy I gave you last week?" You are not interfering in the operational aspect of the department; you are just ensuring that your ministerial decision is being enacted upon.

Senator P.F.C. Ozouf:

I think that if you - and I am sure you are - were to be aware of the huge scale of decisions that the Treasury and the Treasury Minister are responsible for, it is simply not possible for there to be a questioning of the implementation of each individual policy. At the time of this particular ... if you look at the diary engagements of the Treasury Minister and the Treasurer on or around the time of this whole set of actions, you will see some of the scale of the other issues that they were dealing with which were substantial, material, and commanding of their time.

The Connétable of St. Peter:

Absolutely. I certainly accept that. But equally this is the highest value contract the States of Jersey have ever drawn on, and I would expect as a member of the public of Jersey (and I am sure there are many more like me out there), far closer control of this really exceptionally high-value project that the States were engaging in.

Senator P.F.C. Ozouf:

I have no more comment about that.

The Connétable of St. Peter:

Thank you.

Senator B.E. Shenton:

Can I just move back to the role of the accounting officer? You mentioned that the accounting officer was responsible for the implementation of policy, so in this case there was very much an accounting officer responsible for implementation. Is this a level of accountability that can be passed down or does it stay with the accounting officer if something goes wrong?

Senator P.F.C. Ozouf:

I am absolutely clear that it is the accounting officer that is accountable in law and I, as Treasury Minister, can only appoint an alternative accounting officer. There are 2 accounting officers, as you will be aware, within the Treasury Department. The head of Property Services is the accounting officer for Property and, just as a Minister cannot not take responsibility for his actions, that must follow that it is the same thing for the accounting officer. But what I would say is that in judging me, or judging the Treasurer, you have to judge their approach in dealing with something that has been brought to their attention. We are all responsible, and we are all accountable for the individual decisions, but it is in the handling of matters that one also is accountable for.

Senator B.E. Shenton:

Well, that is it, you seem to have had a completely different response to the problem to your predecessor. I do not want to go back but you were told of the matter as a matter of urgency, you said you were told within the first couple of hours of taking office, and you immediately got on the case and started ...

Senator P.F.C. Ozouf:

It would be wrong to characterise my actions as “getting on the case”, that would be entirely wrong: being appraised of what was going on. We all have our different ways of running our ministerial positions, and I am a fairly hands-on, perhaps too hands-on, Minister.

Senator B.E. Shenton:

Anyone ...? No? Thank you very much, Philip, for coming along today.