

# STATES OF JERSEY

## Public Accounts Committee

TUESDAY, 22nd JULY 2008

**Panel:**

Deputy S.C. Ferguson of St. Brelade (Chairman)

Deputy J.G. Reed of St. Ouen

Deputy A. Breckon of St. Saviour

Senator L. Norman

Connétable D.J. Murphy of Grouville

Deputy R.G. Le Hérissier of St. Saviour

Mr. C. Swinson

Mr. M. Magee

Mr. R. Bignell

**Witnesses:**

Mr. I. Black (Treasurer of the States)

Mr. J. Turner (Deputy Treasurer of the States)

**Deputy S.C. Ferguson of St. Brelade (Chairman):**

Welcome to this hearing of the P.A.C. (Public Accounts Committee) about the States accounts. What would you describe as the highlights of the year?

**Mr. I. Black:**

Well, the obvious one that was announced in the accounts was the level of increase in States spending was the lowest in quite some time, at least 20 years, and at the same time the income was greater than anticipated for the year, the accounts revealed. So the good news was that the States had a surplus last year, rather than a small deficit anticipated. I think from my point of view the really good news as a result of those things, if they carry forward in our forecast, is that our fiscal strategy should be on target.

Now that the States have agreed Zero/Ten, 20 per cent means 20 per cent, G.S.T. (Goods and Services Tax) and I.T.I.S. (Income Tax Instalment Scheme), it should be - once Zero/Ten hits us next year - that the States should be back in balance in its finances. So things are going to plan, really, that it was anticipated that a surplus be built up through phasing in new tax measures in advance of the move to Zero/Ten. It is now looking like it will be in balance. States spending is higher than originally planned for that period, but conversely, economic growth seems to have contributed a higher proportion than was expected. The 2 things have cancelled each other out and the States are still predicted to lose about £86 million from the move to Zero/Ten, but the measures that have been put in place should fill that.

**Mr. M. Magee:**

Just touching on the first item there, just the net general revenue rose from £526 million to £559 million against the budget. Perhaps you could just take us through, giving items in that one as to why there was quite a difference between the out turn and the budget.

**Mr. I. Black:**

Just take us through; you are talking about ...?

**Mr. M. Magee:**

For net general revenue.

**Mr. I. Black:**

If you point us to a page.

**Deputy S.C. Ferguson:**

Page 7, P.11.

**Mr. I. Black:**

Sorry, Martin, if you start through your figures again.

**Mr. M. Magee:**

Yes. So obviously we saw that revenue £5.3 million up to £559 million, really just sort of take us through - obviously you set yourselves a budget of £513 million - how you over-performed against that.

**Mr. I. Black:**

There were 2 reasons for it, primarily through income tax revenue has been greater than anticipated and stamp duty revenues has been greater than anticipated were the major causes. If I go through those one at a time, income tax was a result of growth in revenues from personal taxation, that we had more taxpayers on the database so there were more people paying tax, and of those on that database, average earnings increased, so we received a double benefit of higher earnings than we anticipated and more taxpayers. Why there were more taxpayers is harder to say. It could be that there were more people working on the Island; it could also be as a result of I.T.I.S. coming in we are capturing more people than previously. We do not know exactly, and so far as we have succeeded in comparing with the Social Security database, it looks like there is a combination of the 2, so economic growth in the Island leads to more workers and that also linked to higher average earnings, and it also looks like we have caught more people than we budgeted for through the introduction of I.T.I.S., people that previously were not paying tax that we have now caught.

**Mr. M. Magee:**

I think my main point is something you were just dealing with: there seems to be a systematic under-budgeting of revenues in terms of income, because obviously if you look at tax in 2006, when you said it was £526 million, and you struck your budget of £530 million around about the time, and that would have been on the rebound screen, so it was going back the way when in fact there was probably a rising trend. So it just looks as if there is this intentionally striking of a soft target, I guess, for income tax, and that could lead on to other decisions based on forecast.

**Mr. I. Black:**

I think we have done some analysis on this a while ago, and people keep on asking this question about forecasting tax revenues. In fact, I have to say that an alternative panel is looking at it at the moment, the Corporate Services Panel. They have commissioned an expert to look at our forecasting. I mean, I would not want to pre-empt his outcomes, but our experience is that because so much of our tax revenues - and it shows up, I think, on the page before the one we are talking to - comes from company taxation, and that is extraordinarily volatile. It is extremely hard to predict our tax revenues, I would say, compared to other jurisdictions. But in addition to that, I do not think we consistently underestimate. I think if you look back, you will find that when Jersey is in a time of economic boom, we underestimate tax revenues, and when Jersey is in a time of recession, we over-estimate tax revenues. That is not too surprising because we do not know what the future is going to hold. So, for instance,

recently we have been estimating tax revenues for next year, and if you people here can tell me what the economy of Jersey is going to be looking at next year, you are wiser than me. What we have done is after having 2 good years of growth, we have gone for prudent, stable revenues assumptions, but if Jersey goes into recession, we will have over-estimated; if Jersey has growth next year, we will have under-estimated. So I think if you look back, we do not consistently under-estimate income tax revenues, I think we tend to under-estimate them in times of growth.

**Deputy S.C. Ferguson:**

But you should have a fair feeling for 2009 by now, surely?

**Mr. I. Black:**

Company tax revenues, we work on quite a major time lag, so yes, we can be quite good on that basis. Personal tax revenues we get a one-year time lag, so once we get close to it, we do come in within, I think 3 per cent is Malcolm's target, and we tend to do that on those forecasts.

**Deputy S.C. Ferguson:**

If you are getting I.T.I.S., you should have a good idea of what is coming in on personal tax.

**Mr. I. Black:**

Yes, we should. As I say, the growth in our tax revenues, I mean the companies one, was very, very close in the event. The salaried and wage earners, last year we brought in I.T.I.S., so we had no experience in this year 2007 on which to base it, so it really was finger in the air. We should get much better now and, as I say, there was economic growth higher than anticipated.

**Mr. M. Magee:**

Can I just check on a definition from you in terms of net general revenue, how that is calculated, because it is net of what, I guess is the question. It does not jump out at me when I was looking at it.

**Mr. J. Turner:**

It is net of provision for unpaid income tax, so the net income tax figure that is published in the budget is net of what we expect not to collect, so it is the net figure of uncollected.

**Deputy J.G. Reed of St. Ouen:**

Sorry, can you just explain the difference between gross and net? Gross would be ...

**Mr. J. Turner:**

Gross would be all the income tax that the assessments were raised for, and the net is making an allowance for the fact that some of those will not pay.

**Deputy R.G. Le Hérissier of St. Saviour:**

What is the percentage difference usually between the 2, Jason?

**Mr. J. Turner:**

I do not know off the top of my head.

**Mr. I. Black:**

Oh, gosh. No, I would have to look up that figure for you.

**The Deputy of St. Ouen:**

But surely, I mean, by netting as you are doing, that is a method of under-estimating overall income, is it not?

**Mr. J. Turner:**

No, because we are making an assessment of the fact that there will be a default rate on income tax assessments.

**Deputy S.C. Ferguson:**

Why do you not put it in the accounts?

**Mr. J. Turner:**

It is in the accounts.

**Deputy S.C. Ferguson:**

In a form where it is easier to read? You know, the general public is not going to dig through, and even politicians are not going to dig through to that extent.

**Mr. J. Turner:**

We have tried to make it clearer than it has been previously, while retaining the ability to compare the figures in here to the budget statement and the Business Plan. The budget has net figures in. If every figure in here were gross, then clearly you could not make that straight comparison to the budget. As I say, we have tried to be explicit, and we did explicitly put a note in here saying that that was the difference. If you give me a second, I can find the table.

**Deputy S.C. Ferguson:**

There is nothing to stop you. I mean, you talk about general revenue income on page 3, so why do you not just in table 1 put: "General revenue income less provision for uncollected tax"? Quite simple. This is page 4; page 4 is the table. Simplest thing in the world, just one extra line. It would make it much easier for people.

**Mr. J. Turner:**

We could do. As with all these things, it is a balance between the level of detail and trying to make it easier to read, but as always I think it is fair to say we are willing and happy to try and make the format more understandable as each year goes by.

**Deputy S.C. Ferguson:**

Yes, because as I say, on page 3 you do talk about general revenue income, and then suddenly it becomes net. Anyway.

**Mr. I. Black:**

We are open to ideas and improvements, but it does ...

**Deputy S.C. Ferguson:**

Oh well, there is idea one.

**Mr. I. Black:**

Well, thank you, but this book is now a formidable size, I mean, partly as a result of constructive suggestions you made last year, and there comes a point when you wonder how many people are going to work their way through these things. There is always a trade-off between trying to keep it simple so people can grasp it easily, and complexity so people can see all the detail. I am sure whatever we do, we will get it wrong, but we are open to ideas.

**Mr. M. Magee:**

Could we possibly just ask Jason to provide that difference, just so we know what the difference between the gross and net is?

**Mr. J. Turner:**

Yes, absolutely.

**Mr. I. Black:**

Is it not shown on that page?

**Mr. J. Turner:**

There is a note to it on page XX. It does not say the amount, though, but I can easily provide that information.

**Mr. M. Magee:**

Okay, thanks.

**Deputy S.C. Ferguson:**

Yes, net revenue expenditure, on page 7. Alan, 2.5.

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

You mentioned some of the tax changes and the increase in revenue. Can I ask you, what do you think is the limit of the population on their tax tolerance?

**Mr. I. Black:**

That is a political question and I have no view on that whatsoever.

**Deputy A. Breckon:**

Well, you have said about the fiscal policies in place, so it is related to the fiscal policy, I would suggest, so what are the plans for the fiscal policy on tax in the population which raises revenue? So that is not a political question.

**Mr. I. Black:**

The fiscal strategy, as I say, has been approved by the States. It has now been implemented; well, even Zero/Ten has been agreed. What I can say is on the basis of these accounts and on our forecasts, if the States manages to control its expenditure at the forecast level, then there is no need for additional taxes at the moment, other than perhaps environmental taxes, if the States and the public want environmental expenditure on things such as waste recycling and transport strategy.

**Deputy A. Breckon:**

Do you recognise that there is a transfer of taxation to individuals from company within that?

**Mr. I. Black:**

Absolutely, yes. That is the whole thrust behind the fiscal strategy was in order to comply with international initiatives on harmful taxation, and really, more importantly, because of competitive pressures on our corporate tax revenues, the plan was to reduce the corporate tax rate from 20 per cent to 0 per cent general rate and 10 per cent for finance companies. The only way you can meet that, there were 3 options: either through economic growth, through cutting services or through increase in personal taxation. In the end, the States went for a balance of those 3 things.

**Deputy S.C. Ferguson:**

Can I just go back to the net general revenue income? If we dealt with gross on that, we would have a

gross figure for general revenue income; we would have a gross figure for departmental income, and then we would take away provision for tax and the departmental expenditure. Now, that is going to be quite a different figure than the 3.3 per cent in your press release, is it not?

**Mr. I. Black:**

Yes, all things being equal, I guess it would be £10 million difference. I am looking at that page 7, so departmental income at £13 million higher than budget, so I guess - I have not done the calculation - that expenditure would be 2 per cent higher, if you did it that way.

**Deputy S.C. Ferguson:**

All right, so we are talking 5 per cent actual expenditure?

**Mr. I. Black:**

Well, I have not done the full analysis of the reason for that, because I suppose the answers are in departments, but I suspect that there is one overriding reason for that, which is that we brought in the D.T.C.F. (Drug Trafficking Confiscation Fund) and C.O.C.F. (Criminal Offences Confiscation Fund) income and expenditure into the accounts in this year. That is correct, is it not?

**Mr. J. Turner:**

Yes.

**Deputy S.C. Ferguson:**

But you have not shown them separately.

**Mr. I. Black:**

We will have shown the income, there is an income line, and we will have shown the expenditure in the expenditure, which is quite correct. So while you are right, we have shown States spending higher, if you were comparing on a like for like basis and put in that expenditure and that income in previous years, it might not have been so large. I have not done the piece of work, but ...

**Mr. C. Swinson:**

Being terribly boring, the footnote in this corner, it does not affect the expenditure; it might affect the income. If you look at the department expenditure line, as the Chairman is saying, you would get the sort of percentage increase she was referring to.

**Mr. I. Black:**

Yes, you would, but I have not checked whether the expenditure from those funds was at a much higher level than previous years, but if it was not, the change in State spending ...

**Mr. C. Swinson:**

There is no evidence that it was different in type at all.

**Mr. I. Black:**

So if you were to restate previous years on a similar basis, I guess there would not have been an increase in States spending of higher than the figure shown in the accounts.

**Mr. C. Swinson:**

There is no evidence that the spending is different in time, and taking the adjustment in so that you look at the increase in expenditure was taken account of.

**Mr. I. Black:**

You have lost me on your point.

**Deputy S.C. Ferguson:**

Perhaps you would like to restate them and give them to us.

**Mr. C. Swinson:**

Unless you are saying that when you brought in the income for this year, you did not change the comparatives.

**Mr. J. Turner:**

Did we change the comparatives?

**Mr. C. Swinson:**

It would be an odd thing to do.

**Mr. J. Turner:**

Did we change the comparatives in respect of the income from D.T.C.F. and C.O.C.F. for last year?

**Mr. C. Swinson:**

Yes.

**Mr. J. Turner:**

No, we did not.

**Mr. C. Swinson:**

You did not change the expenditure either?

**Mr. J. Turner:**

No, we have not restated last year's income expenditure in respect of income from those 2.

**Mr. C. Swinson:**

So that your percentage comparison is a nonsense anyway, because they only make sense if you have restated and so you have them on a common basis.

**Mr. I. Black:**

No, from a net expenditure basis, it is consistent. It is only if we move to your basis it would be inconsistent. Yes, it must be.

**Deputy S.C. Ferguson:**

No, if you did not put them in last year and you did this year ...

**Mr. I. Black:**

If the expenditure from the C.O.C.F. was £5 million and the income was £5 million, then the last year, there would have been nothing in the accounts. This year, there would have been £5 million income, £5 million expenditure, net effect on departmental income zero, same as the year before. It does not change things. It changes them only if we do the analysis you wanted to do, which is gross it up.

**Deputy S.C. Ferguson:**

Yes.

**Mr. C. Swinson:**

The point is that the reader cannot interpret the expenditure line without knowing what you have just been saying.

**Mr. I. Black:**

I see what you are saying, but I am not sure I fully agree with the point. What would be helpful was if we did the information the way you requested and also did a restatement of the previous year, and I suspect when we do that, you will find that the increase in State spending was around about that 3.3 per cent, but we will ...

**The Deputy of St. Ouen:**

I think that what would help us is that to avoid using what some might term as misleading information when making claims against States spending, when clearly on page 7 gross departmental expenditure exceeded that budgeted and the only reason why you have been able to basically claim the level as the lowest rise in 20 years is that for various reasons, which I am not sure if we have time to go into today, departmental income was estimated to be £90 million and, in fact, they generated £103 million. Now, it is only by using this netting method that you almost disguise the expenditure increases that are actually happening.

**Mr. I. Black:**

I understand the point being made and you may be right, but I think we need to do the analysis in the way I have said. I suspect for the reasons that will become clear, which is we did not restate previous years on a comparable basis, that you may not be right. We have to do the piece of work first before anyone can come to a conclusion on this.

**The Deputy of St. Ouen:**

But you cannot argue; these are your figures on table 2 of page 7 of the accounts. I mean, it is clear that the 2007 budget figures are laid out, the actual for 2007 and the actual for 2006. So, you know, you can see ...

**Deputy S.C. Ferguson:**

The actual has gone up 4.3 per cent.

**Mr. I. Black:**

I will try and explain. If there was £10 million expenditure has come from C.O.C.F. every year, what we did as requested in 2007 was we showed £10 million in the expenditure of the States and we showed £10 million income from the C.O.C.F. If that same £10 million had been spent, as I suspect in that example, in all previous years, it is not an increase in States spending. It is just more transparently shown ...

**Deputy S.C. Ferguson:**

I think James' point is that if you take the gross departmental expenditure, then year on year - forget all the D.T.C.F., C.O.C.F. and so on - it is up 4.3 per cent, not 3.3.

**Mr. I. Black:**

I understand the point you are making, but with all due respect I think we need to do the figures before you can draw the conclusion that I think you appear to be coming to.

**Deputy S.C. Ferguson:**

Well, 559 to 583 is 4.3 per cent.

**Mr. I. Black:**

If all that happens is expenditure you were previously incurring outside the accounts you then showed in the accounts, your spending has not increased. That is what I suspect is the major contributor here. You have not increased, you are still spending the same amount, you are just showing it in the accounts.

**Deputy S.C. Ferguson:**

You are obviously showing it to confuse us. We would appreciate the reconciliation.

**Mr. I. Black:**

Okay, I do understand the point you are making. You may be correct. I suspect the conclusion you are drawing may not be right, but we will do the work and then ...

**Deputy S.C. Ferguson:**

Well, if that is not right, then the 3.3 is not right either.

**Mr. I. Black:**

No, no.

**Deputy S.C. Ferguson:**

Alan, next one?

**Deputy A. Breckon:**

Could I ask you about the interest the States have in companies such as Jersey Telecom and whether you think the returns and the investment is effective?

**Mr. I. Black:**

That is a good question. The Treasury and Resources Department on behalf of the States exercises the shareholder control over these companies and we do exercise it in an increasingly active way. To give you an example of Jersey Telecom, we meet with the directors of the company on a regular basis. We ask for their business plan. We work on a "no surprises" policy. We agree with them targets for the company. We monitor on a regular basis their performance. The general aim we are working towards is that the return of these companies is in accordance with benchmarks for similar performing companies in the market. We are moving increasingly towards that with the companies. We are going to do more work as a result of the proposals in the efficiency review that we undertake some work to see if we can increase returns in these companies.

**The Deputy of St. Ouen:**

So who determines when special dividends are paid?

**Mr. I. Black:**

The shareholder, so the Treasury Minister.

**The Deputy of St. Ouen:**

So the Treasury Minister can determine that he will choose not to take a dividend on one particular year and delay taking that dividend until a moment in time that one could argue suits him?

**Mr. I. Black:**

Yes, I guess he could, but at the moment the only special dividends I can recall have been specifically tagged to the disposal of assets by companies. So there is no sign of deferring dividends in the way you say.

**The Deputy of St. Ouen:**

So you are suggesting that we should not expect any further special dividends in the next 3 years from our companies such as Jersey Telecom, Jersey Post?

**Mr. I. Black:**

Not off the top of my head. In fact, if anything, because of competitive pressures, the profitability of these companies is now under pressure.

**The Deputy of St. Ouen:**

It depends whether, presumably, they are going to want to invest in capital assets or, you know, further invest in their business?

**Mr. I. Black:**

Absolutely, and that is part of the business planning process that we agree with the company.

**The Deputy of St. Ouen:**

Thank you.

**Mr. M. Magee:**

Probably just to help with background, if you took Jersey Electricity as an example, we decided that we were selling a property 2 years ago because we had Broad Street then at the time. It was not driven by any pressure from our largest shareholder. Chris can concur because he is obviously one of our board members. We decided it was the right thing to sell because of migration of new businesses to the waterfront, so it was a business commercial decision and we dividended that £7 million back to shareholders. So, therefore, the States got a bit of that. But it was not through pressure from the States of Jersey for us to sell at that point in time. But I think the States of Jersey might have more influence over, say, like a Jersey Telecom where there is 100 per cent ownership. It may be slightly different.

**Deputy A. Breckon:**

Can I ask you, on the same line it has combined in there, "Dividends and internal returns". Could you tell us what "internal returns" are?

**Mr. I. Black:**

Cash.

**Mr. J. Turner:**

It is returns from the traders such as the Harbours Department where they make a return to the States.

**Mr. I. Black:**

Sorry, can you give us the page?

**Deputy A. Breckon:**

That is on page XI, the bottom table. It is the third line in that bottom table.

**The Deputy of St. Ouen:**

Could you briefly explain to us, we see there the European Savings Tax Directive administration income has increased by 143 per cent over the 2006 figure and by 46 per cent over the budgeted figure. This is on page XI. Can you give us some form of explanation about why the massive difference?

**Mr. I. Black:**

Yes, from memory. It should have been a question you asked of the Comptroller of Income Tax, but the E.U. (European Union) Savings Directive is agreement that either ... for money held on deposit in

Jersey, people who do so can elect either to have exchange of information with their home jurisdiction or, alternatively, they can agree to withholding tax which is shared 50/50 with the home jurisdiction. So those people who choose withholding tax, Jersey benefits from half the tax withheld. Now, under the Savings Directive that rate of withholding tax is being jacked up deliberately to kill off this option. I cannot remember how it grows, 10 or 15 per cent I think it grows, might go 10, 20, 30, but it grows to a very high level eventually. So we are in a short-lived windfall period where we are benefiting from withholding tax. Once that rate gets very high, people will either repatriate their funds or go for exchange of information and that revenue will drop down to nothing.

**The Deputy of St. Ouen:**

So are you suggesting that when you are creating and forecasting the financial position regarding overall income that you are unable to acknowledge this additional income derived from this?

**Mr. I. Black:**

No, the Comptroller of Income Tax does his best at estimating what the figure will be, but you can imagine that it is quite a hard figure to estimate because it depends on a whole load of things. It depends on the number of people with deposits in Jersey, whether every individual, what decision they take regarding exchange of information or withholding tax, and how they will react to a hiking up of that rate. That combination of factors, I guess, makes it extremely difficult to estimate. All we know is that it is going to diminish to nothing within a few years.

**The Deputy of St. Ouen:**

Thank you. I would like to move on to XII and it is a question to do with capital servicing. Do you have an estimate of the likely level of that charge following the introduction of U.K. (United Kingdom) G.A.A.P. (generally accepted accounting principles) accounts and how will this change?

**Mr. J. Turner:**

The short answer is no, we do not know an estimate of that at the moment. It is obviously dependent on the valuation of the States assets, which is an exercise which is nearing completion as we speak. There are valuations of States property that are underway for both the States general property, housing property, harbours and airport along with the valuations of plant and equipment of the departments. Once we have that information, and that information includes the values estimating remaining lives and the such like, once we have those values our next job is then to estimate what we think the equivalent number under U.K. G.A.A.P. will be. We are expecting it to be higher than the capital servicing figure.

**The Deputy of St. Ouen:**

Yes, I am not asking you to guess, but I presume you have considered, bearing in mind your comments, that the current figure is relatively low in comparison to what it might be. What is the estimated capital servicing figure that one would expect based on the knowledge you presently have regarding sort of overall property values and so on?

**Deputy S.C. Ferguson:**

You mean depreciation?

**The Deputy of St. Ouen:**

Yes.

**Mr. I. Black:**

I think the short answer is we do not know. We suspect it will be significantly higher.

**Mr. J. Turner:**

Yes, it would just be a guess at the moment because we do not have the values.

**The Deputy of St. Ouen:**

I understood that work had been done and carried out to determine it?

**Mr. J. Turner:**

Work is underway as we speak and nearing completion. We have some information. We know the value of some particular assets where the valuation has been completed, but we do not have all of them. Obviously without all that information, you are working with partial data.

**Mr. I. Black:**

We are absolutely on the cusp here. We have been doing a piece of work through Drivers Jonas where they are valuing the property. I understand they provided a provisional report to Property Holdings. We have not seen the final report yet.

**The Deputy of St. Ouen:**

No, because I am sure we have been led to believe somewhere along the line that we now have in our possession a complete asset register of all our property.

**Mr. I. Black:**

Property Holdings is within my department. I understand from discussions with David Flowers that he has received various draft versions of the valuation from Drivers Jonas. It was actually due at the end of last month, end of June, so we are now overdue by a few weeks. We were expecting it by the end of June in order for this very exercise that you are talking about. We have not received it yet.

**Deputy S.C. Ferguson:**

What sort of capital servicing were you doing then with regard to property? What sort of level were you doing?

**Mr. J. Turner:**

It is part of this figure in here.

**Deputy S.C. Ferguson:**

Yes, I just wondered which part, how much part?

**Mr. J. Turner:**

Off the top of my head I have no idea.

**Deputy S.C. Ferguson:**

That would be a useful figure, thank you.

**The Deputy of St. Ouen:**

Can I just ask what would be the effect of an increased capital servicing amount on the accounts?

**Mr. I. Black:**

Increased depreciation charge.

**The Deputy of St. Ouen:**

Sorry?

**Mr. I. Black:**

Increased depreciation charge. The depreciation charge is higher than this amount is what you are saying?

**Deputy S.C. Ferguson:**

Yes, changes to depreciation charge, yes.

**The Deputy of St. Ouen:**

All right.

**Mr. I. Black:**

Do you want to answer that?

**Mr. J. Turner:**

All other things being equal, it would take ... if I can refer you to the income and expenditure account on page XXVIII, all other things being equal you will see there is a figure there of capital servicing costing the States £47 million. That figure will go up by the value of the ... by the additional amount of depreciation. So that would reduce the States surplus overall.

**Deputy S.C. Ferguson:**

Yes. Are you going to set up a sinking fund for substantial capital expenditures that we might need to do in the future? Like a new incinerator?

**Mr. J. Turner:**

We are in the midst of working through how the budgeting ... how we could implement a budgeting regime to mirror G.A.A.P. accounting and that is one of the very questions that we are trying to address to establish the best way to deal with the funding of major capital purchases in the future. So we do not have the conclusion to that at the moment but we are trying to work out the best mechanism to administer that through.

**Mr. I. Black:**

It is fair to say it is one of the reasons we are doing this, is to make sure we make proper provision for the replacement of our capital assets.

**Deputy S.C. Ferguson:**

Yes, which would be ... really, the basic one I suppose, the old Yorkshire principle, the housewife principle: save up.

**Mr. I. Black:**

Yes.

**Deputy S.C. Ferguson:**

Sinking funds. Right. Dan?

**Connétable D.J. Murphy of Grouville:**

Yes. Moving on to housing, the table of capital expenditure suggesting that the expenditure to date on Le Squez, the redevelopment of the housing ...

**Mr. I. Black:**

Which page, again? It just helps us if we can keep ...

**The Connétable of Grouville:**

It is in the capital expenditure table, page 15. The actual amount voted for this was £3.6 million and yet the total spent to date is £7.9 million. Is there a slight overspend here or ...? I note that there is a note where it says that the provision for inflation has been allocated to the Squez redevelopment but until the programme is completed this amount will not be transferred. I find that very difficult to understand. Are you putting in a provision for inflation which cannot be transferred?

**Mr. I. Black:**

I have to say I would have to look into that. I think what it is saying is we have made adequate provision for inflation on this and all that has happened is at the date of the accounts we had not transferred it across.

**Deputy S.C. Ferguson:**

Yes, but surely £3.6 million to £7.9 million is somewhat more than inflation?

**Mr. I. Black:**

Yes, and I do not have the answer offhand so ... I am sure there is a good explanation, at least I hope so. [Laughter] But I will find out and let you know.

**The Connétable of Grouville:**

I did note that in the actual Housing Report that Le Squez, some 40 houses were being sold off at the same time as the redevelopment was taking place. I do not know if they have juxtaposed some figures somewhere that would have an effect on the sale of the houses financing(?) or repurchase of them?

**Mr. I. Black:**

Sorry, I do not have the answer to that. As I say, I am sure there is one but I will find out and get back to you.

**The Connétable of Grouville:**

Yes, right. Okay. So we have to wait on that.

**Deputy S.C. Ferguson:**

But basically, if you will excuse me, what really does bother us is the fact that we voted £3.6 million and we spent £7.9 million. You know, what is controlling this? Where are the controls?

**Mr. I. Black:**

I take your point. All I can say is I will find out. I do not know sufficient about this individual scheme offhand but I can find out.

**Deputy S.C. Ferguson:**

Yes, please, because it concerns us.

**Mr. I. Black:**

I can see this causing concern.

**The Connétable of Grouville:**

I think we have to wait for an explanation, do we not, really?

**Mr. I. Black:**

Yes, I mean, I ...

**The Connétable of Grouville:**

It might be something completely ... I do not know.

**Mr. I. Black:**

Yes. Either it is okay or it is not, but we will find out either way.

**Senator L. Norman:**

Slightly surprising that no one picked it up but ...

**The Connétable of Grouville:**

Yes, that is right. Can you provide the Committee with a complete list of the unspent capital approvals and how far they carry forward when they are unspent? For instance, if you get capital approval in one year for £3 million, only £1 million is spent, how long would you continue carrying that forward?

**Mr. I. Black:**

Yes, we can provide you with a list of unspent capital approvals, and the answer is generally they are left open until the scheme is complete and the last claim is received and signed off. So it can be quite a period of time after the effective completion of the scheme.

**The Connétable of Grouville:**

So basically it goes up to the completion of the scheme or whether it is decided not to pursue the project any further?

**Mr. I. Black:**

It is when you know the very last bill is paid, you shut the capital vote down.

**Deputy S.C. Ferguson:**

Is a particular department handling this, part of your department?

**Mr. I. Black:**

Well, in the past it always used to be left to the individual department in the capital scheme because until relatively recently ... and a lot of these capital schemes come in that category. They were being dealt with by the Education Department or the Health Department. Now these all come under Property Holdings and in answer to your question who would answer these questions, it would be the person who deals with capital across the States. It is Ray Foster who works in Property Holdings. He is the one I will ask the answer to that Le Squez question and also will provide the other information you have asked for.

**Deputy S.C. Ferguson:**

They did not come to you and say: "We are 100 per cent overspent"?

**Mr. I. Black:**

No, they did not so I am presuming there is no problem with this scheme because otherwise he would have flagged that up.

**The Deputy of St. Ouen:**

Are you not the accounting officer for the Treasury and Resources Department?

**Mr. I. Black:**

For Property Holdings, it is David Flowers.

**The Deputy of St. Ouen:**

So you are saying that David Flowers does not come under your control?

**Mr. I. Black:**

No, unusually because it was intended and still is intended that Property Holdings be set up as a trading organisation and that is in next year's plan, David Flowers as an accounting officer.

**The Connétable of Grouville:**

But this is Housing?

**Mr. I. Black:**

Because he is controlling all capital schemes. Well, if it is a straight Housing scheme, Housing uniquely, it still sits outside Property Holdings, so that would be the Housing Department.

**Deputy S.C. Ferguson:**

And Housing did not come to you and say: "We are going to be that much overspent"?

**Mr. I. Black:**

No.

**The Connétable of Grouville:**

This takes me off the mainstream, and that is can you see an advantage, perhaps, in Housing being amalgamated into Jersey Property Holdings at some later stage?

**Mr. I. Black:**

When Property Holdings was set up it was intended to cover all States properties and 3 areas were specifically excluded at the time. That was the harbours, the airport and Housing. All 3 were excluded because the intention at the time was all of them be set up as standalone agencies. So there was a States decision at the time to incorporate the airport and the harbours and there was an intention, which is still being progressed, to consider Housing being some standalone unit, an arm's length organisation. If that happens, then I think they should continue to manage their own capital. If not, I would have thought it is better dealt with under Property Holdings.

**The Connétable of Grouville:**

I do not particularly have an opinion; I am asking for yours, really, as to whether from a treasurer's point of view you would prefer to have it in one box rather than ...?

**Mr. I. Black:**

Well, that is my opinion. If it is going to move outside the States' direct activities, then they should deal with their own capital. If it turns out this is an interim arrangement and Housing is going to stay part of the States for ever, then I would have thought it should come within Property Holdings. But that is personal opinion.

**Deputy S.C. Ferguson:**

But if we return to unspent capital approvals, what happens at the end of the period? If the States approve capital expenditure and we decide not to do it, does it finally fall off the list and go back into the consolidated fund or at least off the ...? What have we got sitting in there that ...?

**Mr. I. Black:**

I cannot recall a scheme that did not proceed.

**Deputy S.C. Ferguson:**

Like Belle Vue, for instance. That fell off the list. It goes back then into the pool?

**Mr. I. Black:**

I do not ... do you know the accounting entries offhand?

**Mr. J. Turner:**

To transfer out of that capital vote would require a ministerial decision, I believe. If it is ... we would have to look at that particular case. I cannot ...

**Deputy S.C. Ferguson:**

In that case, if we could have a list of the unspent capital approvals and a comment as to whether any of them are, in fact, not going to be pursued.

**Mr. J. Turner:**

I think that would give the answer.

**Mr. I. Black:**

Yes, happy to do so.

**Deputy S.C. Ferguson:**

Super. Len?

**Senator L. Norman:**

Turning to the trading fund on page XVI, do you have a feel on the level of return achieved by the trading fund, harbours, airport, car parks in particular?

**Mr. I. Black:**

I think it depends on your political objectives. If you think that, for instance, the airport is a strategic asset that is there to provide low-cost ... airlines coming in at the lowest possible rate, then you are not going to get much of a return on your asset so it may be you get no return on your assets. On the other hand, if you think they are a business, then it would seem to me that in order ... you generally expect a reasonable return on the assets employed. The airport in recent years has made no return on its assets. Indeed, the States has made a decision which has just been put into effect to meet the cost of its capital spending, all its below ground works, to the extent of £28 million. So it is actually a business at the moment that makes a - you could say - negative return on its assets. That is a political decision.

**Senator L. Norman:**

Any others? Harbours, car parks? Is there any pressure put on them at all to be commercial, that it is wholly a political decision, and then is there a recognition of return on capital employed?

**Mr. I. Black:**

I personally think that it is a useful thing to keep some rigour in investment decisions that there should be a reasonable return, but I am aware of different views. There are some people that would say ... I am aware there are representatives of lots of utilities sitting round the table here. There are some who might even say that, you know, given very high rises in fuel prices, the electricity company should not increase its prices and the shareholder should take a hit. Personally, I do not subscribe to that view, but this is the political environment in which we work.

**Senator L. Norman:**

But has there actually been a political decision which will have ... I mean, your view seems to be that the States take the view that these are not really commercial enterprises at all but just should ...

**Mr. I. Black:**

That would beg the question why does the States own these enterprises?

**Senator L. Norman:**

Well, why do they own them?

**Mr. I. Black:**

I do not know.

**Senator L. Norman:**

It seems to be what you are saying there is more rigour, more definition about what the States is looking for, what Treasury is looking for, from the companies in which we hold shares, either 100 per cent or 50 per cent plus, than what we are looking for from our own trading operations which are not limited liability companies.

**Mr. I. Black:**

I am not sure that that is the case. What I think I would probably agree with you on is we do not have a very explicit policy on why we own these companies and hence what return we should be seeking from them.

**Senator L. Norman:**

I think we know why we own them. I think what we do not know ...

**Mr. I. Black:**

Well, why do we own Jersey Telecom?

**Senator L. Norman:**

Historic. At least, I mean, you would accept the States do have a financial objective in terms of owning all of Jersey Telecom, a financial objective in owning part of J.E.C. (Jersey Electric Company), part of Jersey Water?

**Mr. I. Black:**

The policy the Minister is pursuing is to seek a reasonable return on assets.

**Senator L. Norman:**

For those companies?

**Mr. I. Black:**

Yes.

**Senator L. Norman:**

So what is his policy regarding the trading funds?

**Mr. I. Black:**

There is not a clear policy. Many years ago the airport ceased to make a return. The harbours only made a nominal return for many years. That appears to be the current policy.

**Senator L. Norman:**

So what you are saying, there is no policy so we might as well stick to the suggestion that there might be, but that is something for us at another time?

**Mr. I. Black:**

Possibly.

**Senator L. Norman:**

Yes. Just talking briefly about the presentation of the report and accounts, your Minister or whoever wrote his introduction for him referred to improvements in content and format. Could you point these out to me, please?

**Mr. J. Turner:**

This Committee has made a number of comments and suggestions over previous years about the content and format of the accounts which, along with best practice, we have tried to incorporate into this year's accounts. It is an iterative process and I would hope that they continue to improve and become more useful. What we tried to do in the Treasurer's Report is deal with some of the issues that occurred in previous years about reconciling the figures in the Treasurer's Report to the accounts and have greater clarity over what the figures are saying. Clearly, we still have areas where we can improve on, as you have said on net general revenue income. In terms of the accounts the income and expenditure account format has changed this year. If you look at expenditure, there is a greater level of detail there. On page 28 again, we see in previous years we just had one line for expenditure so we have said: "Expenditure £683 million". That would have previously said ... would have had one line which says: "Expenditure £683 million." So we have broken that down to try and provide some more information there. There are 3 additional notes to the accounts this year which follow on a couple of pages later on page 32. You will see a note that analyses income in more detail. On page 33 you will see a note that analyses the expenditure in more detail. Then moving on, on page XLI, note 6 - our numbering is not as good as it could be - you will see there is rental analysis there which analyses income and expenditure over the main departments and other areas. This is the move to the accounts being more towards G.A.A.P. where that kind of segmental analysis is more standard. There are various other minor things in there. We have included a glossary of terms this year which hopefully helps the reader understand the accounts and what various terminology means. I am sure there are other changes in there that I could draw your attention to, but rather than going on and on ...

**Deputy S.C. Ferguson:**

Super, thank you. James?

**The Deputy of St. Ouen:**

Yes. I am pleased you mentioned G.A.A.P because it certainly has been a pet project and topic not only for this Committee but Audit Commission and Shadow P.A.C. We have been promised at various different times different dates for the States accounts to be fully G.A.A.P. compliant. So can you bring us up to date on what progress has been made to this moment in time and then, following that, maybe indicate when we are likely to see our accounts completely G.A.A.P. compliant?

**Mr. J. Turner:**

If I go through the main work streams associated with the project, I will just briefly tell you where each one is. The first main piece of work is on the accounting standards. The approach we have taken is to look at what the U.K. Government does because clearly just taking U.K. G.A.A.P., which is designed and intended for the private sector, you need to have an appreciation that the public sector is slightly different. We have looked at what the U.K. Government has done and have based some proposed standards on exactly that with minimal changes. Those are currently out for consultation. Indeed, we briefed the chair of the Committee I think just before it went out for consultation. That consultation is due to end at the end of this month, after which time we will collate the various responses that we have had. The Minister will then have to consider those. The final stage in that process before the Minister

considers them for approval is to ask the Comptroller and Auditor General for his view on the final draft. Following that, hopefully we will have a clear set of G.A.A.P.-based standards that the Minister will consider and then through a ministerial order direct the States to follow.

**The Deputy of St. Ouen:**

Right. So that process will ... the timescale will be?

**Mr. J. Turner:**

The timescale for that is by autumn of this year that the Minister should have considered them and made the order, but that is obviously dependent on as yet unknowns in terms of the final comments that may come in.

**The Deputy of St. Ouen:**

In the meantime, obviously other work is progressing?

**Mr. J. Turner:**

In the meantime there is a lot of other work progressing, not least the valuation of all the fixed assets that we were talking about earlier. That comprises a number of elements. Property valuation is obviously the major one. There is also a valuation of the States plant and equipment which is hugely varied, including scanners and so on at the hospital, equipment at T.T.S. (Transport and Technical Services), equipment at harbours, the airports, so there is a whole range of assets there, some of which we have had to have externally valued to get a fair value, some of which have been done internally by appropriately qualified people. That valuation process should come to a conclusion very shortly. As Ian said earlier, it is slightly behind schedule in terms of the property valuation. The plant and equipment valuation is on schedule. That should leave us in a position where we have a set of accounting standards that we will follow for 2009, so when you receive the 2009 accounts you will have the first set of G.A.A.P.-based information. That will have to be presented alongside conditional information in this format because this is the way the States have voted money for 2009. So 2009 will be a transition year where we present information in the old format and new format. An essential element of G.A.A.P. is to be able to compare one year with another and obviously as 2009 will be the first year we are going to produce this information, we will not have any comparators for 2008. So 2009 will establish the first set of numbers and then going into 2010 we will have a complete set of information with prior year comparators.

**The Deputy of St. Ouen:**

So 2010 is absolutely the target and the date where we will have full G.A.A.P. compliance?

**Mr. I. Black:**

Well, 2009 we will have G.A.A.P. accounts but only 2010 we will have comparators.

**Mr. J. Turner:**

There is one or 2 relatively minor but important exceptions to that that are very explicitly made in the consultation paperwork around things such as infrastructure assets where there is no recognised single way of accounting for infrastructure assets at the moment even with the U.K. Different parts of government in the U.K. account for infrastructure assets in different ways, so rather than sitting here trying to make something up from scratch we are waiting to see what the U.K. does with their accounting for infrastructure assets along with developments in international standards so that we can pick up a set of standards that have already gone through the process to get to the point where they are sufficiently robust that they can be used. Because what we clearly have not got the resources to do here is to make up accounting standards from scratch.

**Mr. I. Black:**

The scale of this task is enormous and I think we underestimated it, but it does not take ... if you just think of the scale of value in every single States asset, every single department, every bit of plant, and by T.T.S., all the sewers ultimately in the roads, this is a massive task. I think certainly we underestimated the scale of the task but we have come up with a proper project plan. We are saying that we will deliver on those dates. We have had an independent review of the project plan and our progress and it says we are on target. So far as ... I mean, I cannot say definitively, but as far as we can work out, we will be the first small jurisdiction in the world to have G.A.A.P. accounts and we cannot find another one that has done it. So there has been an inference that we have been dragging our heels; in fact, we are ahead of the game and I think the U.K. has been at this 10 years and they still have not produced whole of government accounts. I think we will be ahead of them possibly.

**Mr. J. Turner:**

In some respects we will be ahead of them, yes.

**The Deputy of St. Ouen:**

Well, you could argue that, I mean, we are an offshore financial centre, we have all the financial brains over here, we should know things like how much our property is worth and the infrastructure costs and so on and so forth. It is basic management and accounting that we are talking about here. We are not talking about something, you know, that is more than that. In fairness, I hear what you are saying and please do not think I am having a go at you, it is just the frustration that over many, many years the same questions have been asked, certain promises have been given, and we are still yet to realise that point.

**Mr. I. Black:**

Okay. I accept your frustration, but we have got a project plan, we are going to deliver on the dates we said and we will be the first. Guernsey and the Isle of Man are nowhere near, they do not even have firm plans to do it at the moment. We are ahead of the game here.

**Mr. M. Magee:**

Could I ask a follow-on question? G.A.A.P. accounting to most people around this table and people listening sounds really boring and it is technical accounting. I think my main query is do you have a feel for the scale of the adjustments? Because even though they might not be fully considered, it would be interesting to know that obviously the whole shape of the accounts is likely to change and, following on from what you said last year, you want to set up the departmental budgets to be in a similar format so that you do not get all this reconciliation hassle that you have. So you could at the end of the day have something that is a massive surplus or a massive deficit compared to what you have at the moment. You know, where does that place you in terms of fiscal policy? Because if you have a big hole does that mean you increase taxes; if you have a big surplus, do you reconsider what you have in place for 20 means 20, et cetera? To me there is a big picture here about G.A.A.P. accounting, not just "let us get this in a different shape".

**Mr. I. Black:**

We do not what the figures are going to produce, but obviously capital is a big one, the depreciation charge is the big one. There is probably some stuff around maintenance of assets and impairment somewhere here. It will probably turn current surpluses into deficits. How we deal with that we are only just starting to think about. I really ... you know, the idea of this is to give information to informed decision-making. You are asking me what decisions you will take. I think we need to know the challenges before we start thinking about what to do with them.

**Mr. M. Magee:**

I guess it is comforting to know that you are considering that because you understand the

consequences ...

**Mr. I. Black:**

We have given it some thought already but we do not have any answers.

**Mr. J. Turner:**

The other dimension that it may be worth just mentioning is the standards that are out for consultation at the moment propose the consolidation of Social Security as part of the States, which obviously will have a significant impact on the accounts.

**Mr. I. Black:**

That is a very big issue. It is such a big one that no other country that we are aware of has put Social Security in the accounts. Oh, has New Zealand? No. New Zealand, possibly.

**Deputy S.C. Ferguson:**

This is the Social Security Reserve Fund?

**Mr. I. Black:**

Yes, which is not ...

**Deputy S.C. Ferguson:**

A Social Security fund?

**Mr. I. Black:**

Well, in simple terms it is not a fully funded scheme but neither is any state pension scheme in the world, and if you started to put that liability into accounts it would be fairly major. But we are not going to do it.

**Deputy S.C. Ferguson:**

Right, okay.

**Mr. R. Bignell:**

Changing the subject, Ian, in your report you say that the Public Finances (Jersey) Law 2005 gives you the ability to issue financial directions. I just wondered what progress has been made and how content you are with what has been issued so far.

**Mr. I. Black:**

Before the new Public Finances Law came into effect we tried to identify what directions needed to be issued and we came up with a very extensive list. What we did initially was put in place directions for the most important things. They are in place. They are generally working. We have found that some of the directions have needed improvement, so we are doing a major rewrite at the moment of, for instance, the one on procurement. We found that the one on capital needs looking at again. It is not fundamentally flawed but it needs updating. We are working through a programme of issuing the sort of second tier financial directions currently.

**Mr. J. Turner:**

That is exactly right. The way we approach planning for financial directions is by considering the risks to financial control in the States environment. We consider those risks taking the views of finance directors and others, including the Chief Internal Auditor, from across the States, assess where we think the biggest risks are and then design some controls around those risks and try and manage or mitigate them. There is an ongoing programme to do that.

**Mr. R. Bignell:**

Has there been any inconsistency? Because in talking to both the Chief Internal Auditor and the States Auditor, they were saying there seemed to be some that were too prescriptive and some which were not prescriptive enough. There seemed to be inconsistencies.

**Mr. I. Black:**

Yes, and we are reviewing that at the moment. We feel we should ... it has been quite a learning process for us to move to the accounting officer concept where in the past it was the Treasury just told people to do something. Instead now we have the accounting officer personally responsible. They are interested in making sure they do things properly so we think we have to be less prescriptive. We need to talk about the principles and what they need to do and go lighter on the how, and they are the rewrites we are doing. Procurement is a very good example of that. It says exactly how you should go about buying something and people can find ways round it at times. What we are going to do is drop the prescriptive bit and just say: "It is your responsibility to ensure we get value for money on these things" and then give guidance to accounting officers. So we are making those changes but generally I think the financial directions are fit for purpose apart from those 2 or 3 we are working on at the moment.

**Deputy S.C. Ferguson:**

Can you afford to be less prescriptive on procurement when people like Health are playing ducks and drakes with the system?

**Mr. I. Black:**

That is because we have been very prescriptive that when you are extremely prescriptive people find ways of meeting the letter of the law but not the spirit. If you move away from prescription to outcomes and say what it is you are intending to achieve, it is less easy.

**Deputy S.C. Ferguson:**

As I understand it, they were not using the suppliers with the States contract, you know, where the States have set up a contract.

**Mr. I. Black:**

Yes. Well, I do not know that. Yes, I have seen a recent report that said that some departments were not complying, but some of those departments have used one of the reasons for not complying, which is the difficulty of complying with the current financial direction. Hence we are rewriting it. We are also looking at putting in place an assurance framework that then ensures compliance. It is a piece of work that we kicked off recently.

**Deputy R.G. Le Hérissier:**

When you make a statement like: "Procurement must be in line with value for money principles", Ian, how at the end of the day will you know if procurement has been carried out according to those principles?

**Mr. I. Black:**

I do not actually have the revised direction in front of me, but we have a Director of Procurement who is expert in what constitutes best practice and that direction will say: "In order to achieve best practice you have to do this ..." I am out of my area of knowledge here, but it may be that generally E.U. codes on procurement represent best practice so it shall say: "Best practice will be a department that follows E.U. standards on this." If a department does not, they will have to have a reason why not.

**Mr. R. Bignell:**

Another obvious strength with the new law is the identification of accounting officers and responsibilities, and it also says in your report a responsibility for sound system of internal control. But the downside seems to be that we have now got lots of parallel systems of internal control running around departments even though we are quite a small organisation. I wonder if you had a view on that and whether accounting directions could be used to kind of standardise internal controls.

**Mr. J. Turner:**

The financial directions in themselves are our standard system of internal control that applies to everybody across the States. That is one of the reasons that we are reviewing them and trying to get the level of prescription right. Because if you do make it too prescriptive then you do end up with some anomalies occurring because once you get down to that kind of level it is not always an appropriate control for every department in every environment to follow. So what we are trying to do is get the level right where we can know that we have an effective system of control that applies to everybody across the States but with sufficient flexibility to enable any department to work within it so that that accounting officer can design or have a sufficient level of comfort that the controls are working in his department and they are appropriate to his service that he is providing. So it is about getting a balance, but the financial directions themselves are the mechanism that gives us that standard control across the States.

**The Deputy of St. Ouen:**

But presumably equally the objective is to ... as much as you have control within the department, there is, if you like, the central control as well, is there not?

**Mr. J. Turner:**

Yes, and that is what we enact through the financial directions. So where the financial directions issue ... so it effectively has 2 sections. It has a section that says: "You shall do this" and there is no option, it is mandatory. Then there is a section where it talks about best practice and guidance. So there is a split there to say: "You have to do this, there is no option, and 9 times out of 10 we would also expect you to do this, but you retain a level of flexibility to make sure it fits with your business."

**Mr. R. Bignell:**

Where in your view are controls weak at the moment?

**Mr. J. Turner:**

I think procurement is the biggest area where the financial direction will benefit from the review it is going through at the moment. It is not necessarily a weakness. I think it is the case that when the ... the financial direction as it stands is actually 2 or 3 financial directions that were written at different times. A good example is there is a financial direction on procuring goods over the internet because when that became commonplace there needed to be a control over it. But now we have moved on and what we need is a direction that covers all procurement and is not specific to if I buy it on the internet or if I buy it using a credit card or if I buy it on an order or if I buy it using petty cash. There needs to be one way of buying things.

**Mr. R. Bignell:**

Any other areas?

**Mr. J. Turner:**

Not that come to mind. As I say, there is a schedule. We have gone through this process and considered where the risks are and we do have a prioritised programme of where we are reviewing and implementing new financial directions. So the schedule on that list is the areas that are basically saying to us ...

**Mr. R. Bignell:**

Including the ones that Pricewaterhouse picked up in their report? Because they identified some weaknesses; for example, lack of consistency between departments on intra-departmental transactions.

**Mr. J. Turner:**

Yes, that is one particular area that I am looking at at the moment and is actually part of the move to G.A.A.P. But we will pick that up and introduce a consistent approach to it.

**Mr. I. Black:**

You must have consistency in order to produce G.A.A.P. accounts.

**Deputy S.C. Ferguson:**

So where are you going to have it in the financial directions to stop the departments ever changing the comparators for the accounts? I understand they were stopped in their tracks but apparently there was a certain amount of rejigging of comparators at last year's end.

**Mr. J. Turner:**

You will see that there are no restatements in ...

**Deputy S.C. Ferguson:**

No, but apparently there were a number of departments that thought it would be nice if we just sort of moved this round a bit.

**Mr. J. Turner:**

I think, to be fair, they wanted to make those restatements because they felt that making the restatement made the numbers more meaningful. The financial direction that prevents that, off the top of my head it is 5.2, which is the financial direction which directs how departments prepare their yearend figures, and in that it says, for example, that the column headed up "2007 Business Plan" has to be exactly the same as the 2007 Business Plan and it cannot be restated or changed for any reason. So that is the direction that says that.

**Deputy S.C. Ferguson:**

I was led to understand, though, that it was the external auditors that picked this up.

**Mr. J. Turner:**

Yes, that is largely due to the timing of the audit. To ensure that the audit can be completed by the end of May, they have to commence the audit in departments before the final draft of the accounts and the detailed drafting of the department's pages to go in the annex to the accounts has been finalised. So there is just a timing issue there which is very difficult to get around unless we either employ more staff to do the accounts or delay the timing.

**Mr. I. Black:**

Sarah is saying that they picked up something that we did not; they actually looked at them before we got them. [Laughter]

**Deputy S.C. Ferguson:**

That is a nice quality check for you. Yes, so anything else on the controls ...?

**Deputy R.G. Le Hérissier:**

Okay. Moving to Jersey Property Holdings, Ian and Jason, what steps have you taken to deal with the

difficulties that appear to have been experienced in establishing Jersey Property Holdings? Because obviously it is technically part of your department, part of the broader Treasury remit.

**Mr. I. Black:**

Yes. Well, Jersey Property Holdings has been established. It has been set up. It is operating. The progress was slower than anticipated and much of it was to do with agreeing with departments the amounts to be transferred into Jersey Property Holdings. Indeed, the final major transfer only happened earlier this year.

**Deputy R.G. Le Hérissier:**

Do you think there are things you could have learnt from that or that you have learnt, Ian?

**Mr. I. Black:**

I am not sure if you had your time again if you could do anything better. It is a behavioural thing, is it not, that when departments are transferring responsibility for looking after their buildings to someone else and the budgets, they will tend to try and transfer the maximum amount of buildings and the minimum amount of budget.

**Deputy S.C. Ferguson:**

Yes, but given the fact that the Minister could have made a decision and actually said: "Okay, folks, move it" do you regret not having organised that when it was within your power?

**Mr. I. Black:**

I do not want to get into discussion about different departments.

**Deputy S.C. Ferguson:**

No, but some of the departments played ducks and drakes.

**Mr. I. Black:**

Well, I am referring to personal experience of one or more difficult transfers, and it is very easy to say: "You should transfer the amount across" but what is the amount you transfer across? Is it the previous year's budget? Is it the previous year's actual? When a department can demonstrate that the previous year's budget was much higher than the budget for the previous 10 years or the actual was different for the previous years, what is the figure? What you found is it was very, very hard - because I was involved in the calculations - to say: "This is the definitive figure." It is easy to say and less easy to actually do. I think in the end we probably erred on the side of generosity with the departments and transferred slightly less than they had had in previous times. But at the end of the day, this is just moving the deckchairs around, really.

**Deputy S.C. Ferguson:**

Given the fact that they had under-maintained their properties ...

**Mr. I. Black:**

I know.

**Deputy S.C. Ferguson:**

... was it perhaps the correct thing to be generous with the department rather than realistic? I mean, could the internal auditor not have gone in and done a study for you?

**Mr. I. Black:**

We did do, we did send in Treasury people to try and arbitrate and come to a fair conclusion, but I

would say based on the one that I got involved in it is so much harder than you think because there is not a definitive answer. At the end of the day it occurred to me ... I mean, the learning point from this is that the States - and I mean the States as a whole and all departments - have been under-maintaining their assets for years. If they should have been spending, say, £6 million a year and they had been spending £3 million a year, and what you found yourself haggling was whether they transfer across £2.8 million or £3 million, it is actually not going to make the world a better place arguing about the £200,000. The important issue is to get the money across, get the thing up and running and deal with the challenges. The challenges now are not the £200,000 but the under-funding of millions.

**Deputy S.C. Ferguson:**

Yes, but the fact that in effect you imposed the savings on Property Holdings but part of the budget on which the savings were being made remained with the department; therefore, the departments were just getting a cash injection free from, you know ... free for nothing.

**Mr. I. Black:**

I understand what you are saying and it is a complicated story. At the end of the day, if you try and take money, if a department has been under-maintaining its buildings and you try to take the proper amount that it should have budgeted, what you are actually doing is cutting essential frontline services. I mean, there was no free money here and the tension was the departments were feeling the squeeze on their frontline services, hence were fighting quite hard to not over-transfer the maintenance budgets. I am not sure that it ... I understand what you are saying, but I am not sure it is a constructive use of everyone's time to be spending as much time as we did trying to haggle on transfers. I think it is better just to move the money across and try and deal with the issue.

**Deputy S.C. Ferguson:**

Yes, it would have been much easier to get Terry to do a ministerial decision: "This is it, folks, bang."

**Mr. I. Black:**

Yes, well, of course, you could have, but how much was that amount going to be? Because it could have been arbitrary, it could have been arbitrarily too much or arbitrarily too little.

**Deputy S.C. Ferguson:**

Well, the department would have said too little, you would have said too much, and fixed a figure in the middle. Anyway ...

**Deputy R.G. Le Hérissier:**

Yes. It strikes me, Ian, from the way you have described it, of course, you have sort of institutionalised this massive under-spend. So is it realistic to ask whether Jersey Property Holdings now have a proper maintenance budget or is the situation you describe prior simply going to carry on?

**Mr. I. Black:**

Sorry, I do not accept the phrase you used, I have "institutionalised" the under-spend. What I am saying is ... and the example I gave is not a mile from the truth of there was a department that had been spending round about £3 million on building maintenance and we agreed a transfer of £2.8 million in the end or something. What they should have been spending was £6 million. It did not institutionalise the difference between 6 and 3, which is the challenge. I decided that our lives are too short to keep on arguing about, say, £200,000, which was not a definitive figure anyway. Why I agree with you is there is a challenge on the historic under-funding of States properties.

**Deputy S.C. Ferguson:**

Has J.P.H. (Jersey Property Holdings) got a sufficient budget, an appropriate budget?

**Mr. I. Black:**

To maintain States properties on a sustainable basis?

**Deputy S.C. Ferguson:**

Well, on the one hand to sustain them, and on the other hand to bring them up from the standard that they have fallen into?

**Mr. I. Black:**

I do not have the definitive figures yet, but I am pretty sure that the answer to that is going to be no, they have not.

**Deputy R.G. Le Hérissier:**

Will they end up - in a way they have - like Housing, who have basically decided to deal with this problem by selling off a proportion of their estate? Do you think this is what we are going to end up with?

**Mr. I. Black:**

Okay. Forgive me a bit of a lead-in on this, but how have we got to this point? We have got to this point because we have quite rightly identified that you needed to have a dedicated department responsible for looking after buildings because the traditional way was not working. We set up that department. We appointed a highly competent director of that department. We have commissioned 2 reviews, one by Drivers Jonas to value the buildings, another one by ... the name I cannot remember ... what is its name? Is it Drake and Kannemeyer ... on a condition survey. I have not seen, as we speak, either of those 2 pieces of work. I understand they are both just about done. They are probably going to identify that we have a significant challenge in under-funding of maintenance of States buildings. It was right that we got ourselves to this point and, you know, there is nothing I can do about the past, all I can do is make sure we understand the present. The answers to this are not easy. It strikes me that if there is a significant under-funding of the maintenance of States buildings, there is only a limited number of options to deal with it. One of them is to increase taxes to pay for it. Another one might be to cut other services to pay for your maintenance. Another might be, though I accept it is not a sustainable answer in the long term, to dispose of surplus assets and use that to bring your remaining assets up to scratch. I accept what you are doing here is you are robbing your balance sheet in order to increase your short-term spending, but realistically it is what you or I might do if we were in that situation. If we found we had inherited 2 houses, both of whom were in a terrible state, we might decide to sell one to bring the other up to scratch. It may be that is what we are forced to do.

**Deputy S.C. Ferguson:**

We did a bit of juggling with figures on a sort of global basis and came up with something in the order ... well, it was Chris, actually. We came up with something in the order of £100 million to bring properties up to a reasonable level and probably £15 million a year for proper ongoing maintenance. What does that sound like to you?

**Mr. I. Black:**

I am not going to guess at figures. We will know very soon within a number of months, 3 months or so, what the shortfall is. It is likely to be fairly significant. What we are doing is the Corporate Management Board are receiving a first report on this this week, initial report, and they will be then addressing over the next few months how to deal with it when they know the scale of the problem. But yes, it is likely to be a fairly significant amount but with no easy answer.

**The Deputy of St. Ouen:**

I presume you are not advocating utilising capital funds for revenue expenditure? Or capital receipts?

**Mr. I. Black:**

That is generally not sustainable in the long term, so as a matter of principle, no, but putting yourself between a rock and a hard place, there may be times when I think it could be justified.

**The Deputy of St. Ouen:**

I thought the commitments had been actually made to ensure that capital receipts were not used for future ongoing revenue expenditure?

**Mr. I. Black:**

But, forgive me, it may be a bad analogy and it literally just came off the top of my head to come up with that one I just gave, which is inherit 2 houses in a terrible state. What would you do? **[Laughter]**

**The Deputy of St. Ouen:**

Can I give you some advice if you need it at a later date? **[Laughter]** What I would like to touch on is on insurers. I would like to know, first of all, who is responsible for ensuring that the States arrange appropriate insurance cover for their fiscal risks and liabilities?

**Mr. I. Black:**

Insurances currently are undertaken by the Treasury on behalf of all States departments.

**The Deputy of St. Ouen:**

So it is the Treasury that is responsible?

**Mr. I. Black:**

Yes, we provide it as a service to departments.

**The Deputy of St. Ouen:**

Who is responsible, therefore, for deciding how much of the risks of the States are covered by what I would term as commercial insurance and how much might be self-insured?

**Mr. I. Black:**

We in the Treasury do it in consultation with departments and particularly in discussion with the finance directors.

**The Deputy of St. Ouen:**

Right. So if you are asked as a rough ballpark figure, a general figure in percentages terms, how much of our assets would be covered through commercial insurance against the self-funding or self-insured?

**Mr. I. Black:**

The vast majority of them.

**The Deputy of St. Ouen:**

As in 80 per cent or more?

**Mr. I. Black:**

I do not have the figures in front ... higher than that, I would guess.

**Deputy S.C. Ferguson:**

Sorry, looking at the risks we have got, you are saying something like 80 per cent are covered by

insurance and only about 20 per cent are self-insured?

**Mr. I. Black:**

We have got 3 ways of dealing with insurance. We have like on your car insurance where you meet the first part of any claim yourself.

**Deputy S.C. Ferguson:**

You have an excess, yes.

**Mr. I. Black:**

Yes, an excess which is relatively low. Departments can cope with that. Over and above that, we have something we call the I.D.F. (Insurance Deductible Fund) which is self-insurance, which is a fund we have been building up generally to self-insure. I would have to go away and tell you what ... have you got the limits there, Jason? Here is one we prepared earlier. We can give you this, but we have the Insurance Deductible Fund but generally it takes claims ... glancing down, there are some properties of up to £100,000 and then over that we have external commercial insurance. So on that sort of basis ...

**Deputy S.C. Ferguson:**

What limit does that go up to, then?

**Mr. I. Black:**

The whole value of the States assets so ...

**Deputy S.C. Ferguson:**

So you are saying we do not have any self-insured? Only that bit in the middle?

**Mr. I. Black:**

Only that I.D.F. bit in the middle.

**Deputy S.C. Ferguson:**

So where do you keep that fund?

**Mr. I. Black:**

We keep it in this fund in the Treasury.

**The Deputy of St. Ouen:**

They are described in the accounts.

**Deputy S.C. Ferguson:**

Where is it in the balance sheet?

**Mr. J. Turner:**

It is within the consolidated fund.

**Deputy S.C. Ferguson:**

It is a subdivision?

**Mr. J. Turner:**

It is an earmarked amount.

**Deputy S.C. Ferguson:**

It is hypothecated?

**Mr. I. Black:**

Yes.

**Deputy S.C. Ferguson:**

I am a little confused - I am sorry, James - about the amount of the risk that is covered by commercial insurance. You know, you are saying that it is up to the total value of States assets?

**Mr. I. Black:**

Yes.

**Deputy S.C. Ferguson:**

What about sort of contingent liability sort of things, risks? For instance, the airport? You know, the public liability insurance at the airport is £250 million. If you had an incident like you had in the Canarys a few years ago where 2 planes ran into each other, the cost of that would probably be about £600 million. So where is that covered in the insurance?

**Mr. I. Black:**

You are outside ... I am not prepared for this, it is outside my direct area of expertise, but what I can say is that we have advisers on insurance we employ and obviously there is a straight trade-off between cover and premiums you pay. There are some things that it is worth insuring for and some things not. We could cover against absolutely everything. We could make the States risk free. You would be paying millions of pounds in premium a year to do that. Whether it is worthwhile to, you know, if someone came back and said: "I will give you a quote of £1 million a year for insurance" against that risk you have just suggested there, it is a matter of judgment whether it is worth going and taxing the people of Jersey an extra £1 million or whether you say that things ...

**Deputy S.C. Ferguson:**

I suppose it would be sort of third layer at Lloyds or something like that, would it not? Because the insurance at the airport used to be done directly with Lloyds, did it not?

**Mr. I. Black:**

What we do ... yes, we do not do that now.

**Deputy S.C. Ferguson:**

It was done in 2 or 3 layers.

**Mr. I. Black:**

We do it all through these brokers who work on our behalf and take it out to the market. I mean, we can look at any ... we can tell you the insurances we have and you can look at it, but I suppose the only thing I would say is we do get expert advice as to the level of cover and the cost of the premiums and it is always a matter of judgment.

**The Deputy of St. Ouen:**

Where do you seek this advice and who makes that final judgment?

**Mr. I. Black:**

I wish you had not asked me that because we have just changed our broker. I do not know if I should name who they are in the public arena anyway but ...

**Deputy S.C. Ferguson:**

Write it down on a piece of paper. [Laughter]

**Mr. I. Black:**

Well, it could be I cannot remember who it is but ...

**The Deputy of St. Ouen:**

Is it an international broker?

**Mr. I. Black:**

Yes.

**The Deputy of St. Ouen:**

That has dealt with large assets?

**Mr. I. Black:**

This is a world-class organisation.

**The Deputy of St. Ouen:**

Right. And he will advise ... [Interruption]

**Deputy S.C. Ferguson:**

We cannot advertise.

**Mr. I. Black:**

We will let you know.

**The Deputy of St. Ouen:**

So they will advise on the risks and provision for those risks?

**Mr. I. Black:**

They advise on the risks. They advise on the ... they go out into the market and they tell us when is a good time to go and re-tender. They advise on the level of risks we should carry ourselves and they advise on things we should be insuring for. They keep track of claims and our history, our claims history.

**The Deputy of St. Ouen:**

Who makes the ultimate decision? So you seek advice and then ...?

**Mr. I. Black:**

We seek advice and we make the decision.

**The Deputy of St. Ouen:**

The Treasury?

**Mr. I. Black:**

Yes.

**Deputy S.C. Ferguson:**

So, okay, we have the assets insured. Public liability insurance overall?

**Mr. I. Black:**

That is again done through us on advice from ...

**Deputy S.C. Ferguson:**

What are we sort of looking at? I mean, is it sufficient to cover, say, the incinerator blowing up?

**Mr. I. Black:**

I am really not prepared for this and so whatever information you want on this I will happily provide our insurance cover.

**The Deputy of St. Ouen:**

It would be useful because we did ask a similar question to the accounting officer for Property Holdings yesterday and he was not clear ...

**Mr. I. Black:**

I can tell you ...

**The Deputy of St. Ouen:**

... on what insurance cover that we had.

**Mr. I. Black:**

As it happens, I can tell you what property insurance is because I just happen to have it with me today. I can give you that.

**Deputy S.C. Ferguson:**

Okay.

**The Deputy of St. Ouen:**

Is the cost of overall insurance premium covered in these accounts?

**Mr. I. Black:**

Yes.

**The Deputy of St. Ouen:**

Identified under that title?

**Mr. J. Turner:**

If you look at the Treasury and Resources page ...

**Mr. I. Black:**

I have it, page 54.

**Mr. J. Turner:**

Third figure up is the one we are looking at, 2503 is the actual 2007 figure.

**The Deputy of St. Ouen:**

So it is page 54?

**Mr. J. Turner:**

Yes, towards the bottom.

**The Deputy of St. Ouen:**

So it is the total figure that we are paying?

**Mr. I. Black:**

I think I would have to do more work. I have a feeling that is centrally funded insurance including public indemnity. I have a feeling departments on top of that pay other insurance premiums, but we can get the figure.

**The Deputy of St. Ouen:**

Yes, it would be useful to have a reconciliation of the insurance premiums and who is contributing.

**Deputy S.C. Ferguson:**

Yes, but I am still concerned about the public liability. How much do we have in ...?

**Mr. I. Black:**

If you think it is worth looking at, it might be something that is worth a proper review.

**Deputy S.C. Ferguson:**

How much have we got in the I.D.F. fund, then?

**Mr. I. Black:**

Again ...

**Mr. J. Turner:**

Yes. No, I cannot remember the number but we can easily provide that with the other information on insurances.

**Deputy S.C. Ferguson:**

Yes. So you assess whether the reserves are adequate to cover all the risks?

**Mr. I. Black:**

Again, the brokers give us advice on that as well, on the balance between the level of risk we are taking versus the balance on the fund. The aim is increasingly ... as the fund grows, because the premium paid by departments goes into that fund, as the fund grows they will advise us that we can take on greater risk, do greater self-insurance.

**Deputy S.C. Ferguson:**

Yes, but if it is ring-fenced how much is there? I think that is a valid question.

**Mr. I. Black:**

Okay.

**Deputy S.C. Ferguson:**

Yes. Now, the auditor's report to management referred to the loss of £2,500 in the Treasury in the course of destruction. Do you have any idea how the controls were relaxed to enable this to happen and what steps have you taken to make sure it does not recur?

**Mr. I. Black:**

First of all, we in the Treasury were aware of the problem ourselves first. We commissioned an internal audit review and the external audit has commented on that review. It did not come up as part of the external audit. This was in the course of notes that reach the end of their life, we destroy them. We

have a highly sophisticated machine in the Treasury that checks that they are real notes against the computer scanner and then shreds them and then accounts that it has shredded them. Because obviously you do not want people to put them in their pockets instead of saying they have been shredded. It became clear one day that there was £2,500 unaccounted for. We could not reconcile it with what the machine said had been shredded with what had gone. It happened at the time the machine broke down, so we believe it could be that the machine just did not count properly. So it is still our belief that the money was shredded and just the machine did not say that it had shredded it. But what this exposed was that while we do control the money really tightly in this area, on the basis of the actual money going to the shredding room at any one time, we do not count the money in and count out, so we cannot say exactly what happened to that £2,500 on that day. It could be they did not actually go missing. We have looked at our procedures. We have tightened up and we do have really rigorous count ins, count outs now, so we have tightened up the controls. We have also asked for a second audit review, because we had to ask for an audit review first of all when we identified the problem. We tightened up the controls and we have asked for ... we have had a second internal audit review now that says they are fine.

**Deputy S.C. Ferguson:**

Yes, but you had a bit of trouble with people having 2 keys and all this sort of thing.

**Mr. I. Black:**

Yes.

**Deputy S.C. Ferguson:**

And access to the vault being a lot easier than it should have been. Or access to the notes.

**Mr. I. Black:**

Certainly we have tightened up procedures, yes.

**Deputy S.C. Ferguson:**

So you are fairly certain that you have only lost £2,500?

**Mr. I. Black:**

Yes, because we would know overall if money went missing. The problem was that because we did not do a daily count in accounting to the destroying room that we cannot be exactly sure where the £2,500 went missing. What we know is the overall controls were absolutely fine.

**Deputy S.C. Ferguson:**

Right. The other comment in the ISO260 Report made various comments and observations regarding controls within the Income Tax Department and the adequacy of the arrangements for I.T. (information technology) management within that department. Yes, we discussed it with Malcolm yesterday, but what steps have you taken to ensure that the risks implicit in the circumstances reported by P.W.C. (PricewaterhouseCoopers) are properly managed?

**Mr. I. Black:**

Well, every single one of the items that they raise we commit to coming back with an action plan or the management response, and we will do this one. What we have done is we have appointed a new finance director who looks after the Treasury and other departments, and they are working with Income Tax at the moment to see if we can have greater division of responsibilities there.

**Deputy S.C. Ferguson:**

Right. Anything else, gentlemen? I just have one last question. Last year you said it was your job to

ensure that all departments had procedures in place to keep their expenditure within amounts voted by the States.

**Mr. I. Black:**

Yes.

**Deputy S.C. Ferguson:**

At the I.O.D. (Institute of Directors) conference, John Boothman said: "It is the duty of the Treasurer to control expenditure, not just to keep score." At a hearing on 9th April earlier this year, you said: "I am not criticising anybody, but we have a political system here inherently incapable of proper financial management." [Laughter] In last year's Business Plan debate ...

**Mr. I. Black:**

Some things you wish you had never said. [Laughter]

**Deputy S.C. Ferguson:**

In last year's Business Plan debate, Deputy Reed's amendment imposed limits, cash limits. The States Members all voted for that. So if we are showing the way, why are you not following us?

**Mr. I. Black:**

I am not sure I understand the very last bit of the question there.

**Deputy S.C. Ferguson:**

Well, you said it was all our fault. [Laughter] We have done something about it. Why are you not doing something?

**Mr. I. Black:**

I genuinely believe that standards of financial management in the States and in States departments have come a very long way in recent years, and I think compared to others we are pretty good now. There is always room for improvement. I think the things we talked about today, the standard of financial controls, the arrangements we have; we have good, competent finance directors in departments. We are improving the information that is provided in departments. I think we are doing pretty well. What bothers me is ... I know I am talking on record, but I can see signs now of the pips starting to squeak in departments. I think for the expectations of delivery they are fairly strapped for resources, and I think the problem now is departments are running bigger and bigger risks. When your finances are fairly generous you can cope with things. When the finances get really tight, pips start squeaking and I think we are getting quite close to that. I think, to be honest, the building maintenance thing is sort of symptomatic of that, is if you are really strapped for money and you have to do hip operations, well, you cut the building maintenance budget. That is what people will do. So I think that is the challenge. I think we have our act together pretty well in my finance profession and I take responsibility for that. I have got to say you were not party to that discussion but it is worth looking at the context in which it was said. What I made great play, I was not blaming politicians, I was saying we had a political structure where there are difficulties prioritising expenditure. Because I am not saying we should have political parties, but if we have not got an empowered Council of Ministers and we have a system where any States Member can bring a proposal to the States that is looked at on its own merits, well, it is a system that is fundamentally incapable of prioritising because every issue is looked at on its individual merits. No one says there is an opportunity cost to this which is either that States spending increases or something else ceases. They just look at the merits of something in its own right. So that is what I was commenting on. I was not criticising anybody.

**Deputy S.C. Ferguson:**

No, but last year you said: “All I can do is tell politicians that if they spend at this level they will have structural deficits and they will need to increase taxes.”

**Mr. I. Black:**

I think ...

**Deputy S.C. Ferguson:**

“That is the limit of my job, I think.”

**Mr. I. Black:**

Yes, and I stand by that comment.

**Deputy S.C. Ferguson:**

But when the C. and A.G. (Comptroller and Auditor General) has come up with some ... and we can slag him off all we like because he is not here. When he comes up with suggestions, we do detect a note amongst the people that we have already spoken to that we detect a note of foot-dragging as to, you know: “This is a way of reducing expenditure but we do not think we will do it at the moment.”

**Mr. I. Black:**

I am in danger of upsetting you again, but what he did ...

**Deputy S.C. Ferguson:**

That is all right, nothing upsets me.

**Mr. I. Black:**

What he did say was a lot of those savings did require political decisions and, you know, there were things like Closing a Primary School.

**Deputy S.C. Ferguson:**

Charge for instruments?

**Mr. I. Black:**

Yes, and ...

**Deputy S.C. Ferguson:**

“Why should I pay for somebody else’s little dear to wail on a violin?” **[Laughter]**

**Mr. I. Black:**

I mean, it could be that charging for instrumental music tuition is abhorrent to some States Members. They think it is a ... they think it is terrible. So there is nothing we can do as officers to deliver on that. But I will not get into “us and them”. It is our job to run efficient services and it is up to you to make some tricky political decisions.

**Deputy S.C. Ferguson:**

Well, thank you for your time. We will look forward to the information and all the bits and pieces we have asked for, and we look forward to a management letter next year which says you are all absolutely wonderful.

**Mr. I. Black:**

That is never going to happen because they have to justify their fee. **[Laughter]** Okay. We seek improvement every year.

