

# STATES OF JERSEY

## Corporate Services Annual Business Plan Sub-Panel

WEDNESDAY, 9th APRIL 2008

**Panel:**

Deputy P.J.D. Ryan of St. Helier (Chairman)

Deputy C.H. Egré of St. Peter

Connétable J.L.S. Gallichan of Trinity

Connétable D.J. Murphy of Grouville

Connétable P.F.M. Hanning of St. Saviour

**Witnesses:**

Senator T.A. Le Sueur (The Minister for Treasury and Resources)

Mr. I. Black (Treasurer of the States)

**In Attendance:**

Mr. R. Mann (Adviser)

Miss S. Power (Scrutiny Officer)

Mr. M. Haden (Scrutiny Officer)

**Deputy P.J.D. Ryan of St. Helier (Chairman):**

Good morning. Welcome to Corporate Services public hearing principally about your department, Senator, and your various unfunded spending pressures and various other things. Could we start with the G.S.T. (Goods and Services Tax) allowance, £400,000 per annum?

**Senator T.A. Le Sueur (The Minister for Treasury and Resources):**

All right.

**Deputy P.J.D. Ryan:**

Can you give us an idea of how you reached this amount, this sum, of the calculations?

**Senator T.A. Le Sueur:**

Effectively, it was done I think on the -- I will not say on the back of a beer mat, but it was done pretty much on an ad hoc basis in a short time just to get an order of magnitude of what I thought the number of people that would be in between the Income Support situation and the income tax net, and looked at the maximum that any one person -- on the basis of what G.S.T. we have to add to the Income Support level, which is I think something between £50 and £100 per household, just used that figure by the estimate of the number of households I thought might be involved in this gap between the middle,

multiplied the 2 together and added something like 20 per cent for administration. It was as crude as that. Since then, I think the Treasury have probably tried to refine it a little bit more, and so I will now let the Treasurer give you how he gets to a more accurate forecast, which probably comes out somewhere in the same sort of order.

**Mr. I. Black (Treasurer of the States):**

The calculation is a factor of 2 figures, which is the amount you pay per household multiplied by the number of households who will benefit. Regarding the former, what we did was we looked at the Household Expenditure Survey, identified the elements that were going to be subject to G.S.T., took the group that is going to be within the quintile generally these people are going to be in, which was somewhere between the second and the third, from memory, and multiplied out on average what the amount would be that they would suffer in G.S.T. So that was the calculation. Sadly, I did not bring the figures with me, but I have got them and I can provide them to you. The other figure that is a far more difficult one is the number of households who will benefit from this payment because, by definition, we do not know. If we do not know who is not paying tax and who is not receiving benefits, which we do not know because they are not in any system, then you cannot know exactly how many there are. We have attempted to estimate it by various approaches. The in and out of all these calculations is that we are pretty confident that, by chance as much as judgment, the amount we have provided is going to be about right. We have attacked it now from 3 different directions. But there is this thing about you do not know exactly how many households will benefit from this.

**Deputy P.J.D. Ryan:**

So by doing it in 3 different ways you have come back to roughly the same amount?

**Senator T.A. Le Sueur:**

I think it is 2 different ways.

**Mr. I. Black:**

Yes, that is right, it is, actually. It is 2, not 3, you are right. We do not know, but I would be astonished if the figure is very different from the one we have come up with. I think we are looking in a very --

**Deputy C.H. Egré of St. Peter:**

What way in the long term will we have which will enable us to put a far better figure on this? You know, we will not know what the figure is.

**Senator T.A. Le Sueur:**

I think the answer is experience, in the same way as we are -- Social Security is reckoning on, what, spending £1.9 million to upgrade Income Support to take account of G.S.T. based on their figures of the

number of people claiming Income Support and the band they are in. I suspect that figure could vary by 100,000 either way as well, maybe more, because with any of these things you forecast and it just depends on how accurate the information that you feed into it is and whether people's circumstances change between the time you start your forecast and the actual time you start paying. So I think there is always going to be an element of uncertainty, but experience helps you refine that.

**Deputy P.J.D. Ryan:**

Have you sort of looked at the total extra administrative burden of all of these little schemes?

**Mr. I. Black:**

Yes. Of all the little schemes? Not of all the little --

**Deputy P.J.D. Ryan:**

To ameliorate the zero-rating of G.S.T. on food?

**Senator T.A. Le Sueur:**

We are looking at 2 schemes, effectively. One is this £400,000 and the other is the additional Income Support which Social Security will provide for those on low income support.

**Deputy P.J.D. Ryan:**

I suppose you have the increase in tax allowances.

**Senator T.A. Le Sueur:**

Increase in tax allowances, but increase in tax allowances is a mathematical calculation. It does not provide any additional people in the tax office. Income Support, again, is not greatly of benefit apart from maybe a very small amount of additional secretarial staff sending out a new bit of paper or re-calculating an amount. It does not require, I am sure, any additional permanent staff at Social Security. This arrangement for the 'in-between' lot again will be an add-on to Social Security which, I do not know, might need an extra half a person. So, overall, I would not say it is staff-intensive by any means.

**Mr. I. Black:**

The interim scheme is the most difficult of the 3 and --

**Deputy P.J.D. Ryan:**

Do you create -- sorry.

**Mr. I. Black:**

Well, the only thing I was going to say -- and I did send you that email I do not know if I shared with

my Minister, actually, from memory, but the more you think about it, the more you wonder about the policy objectives of this scheme because the inference behind the scheme is that you have got aligned objectives for your tax and benefit systems. As I point out in the email, I am sure we think that is the case but actually when you look at it, for various policy reasons we use the tax system for reasons other than to make a contribution based on your ability to pay. The big things I mention in the email I sent you were incentives to save and assistance with house purchase which, of course, does not exist in the U.K. (United Kingdom) and many other places now. Because of that, it is a fact we are going to have some fairly strange outcomes if we just apply the policy of people who do not pay tax and people who do not receive benefits get extra support from the States. We are going to find people on quite high incomes getting a cheque. The reason for that is because they have a decent size mortgage and they also have decent sized savings into approved schemes. So, I mean, we know that people in Jersey can be earning £45,000 and not paying tax. I am not sure if politically we want to be writing out extra cheques to people earning £45,000 a year, whether it is equitable or right, but nevertheless that is the States agreement at the moment; hence that is what we may end up doing.

**Deputy P.J.D. Ryan:**

Trying to -- you know, we are not here to discuss in any detail the politics of what happened in that debate. I say that immediately, but nevertheless, would you agree that it was a politically led motive to pay this rather than a fully thought through policy decision?

**Senator T.A. Le Sueur:**

Yes, I have to agree with that. I sensed at the time of the debate that there was a general feeling that something needed to be done for the people who were in between. Now, I think nobody at that stage came up with any particular solution; in fact, we had not thought of a solution before that debate, but certainly I just sensed that that was the mood of the House. Now, to defer any decision while we try to resolve the issue would have been one way out but, thinking through it, we just came up with what we felt was a pragmatic solution that there was this fair group of people, irrespective of whether philosophically they deserved to be paid or not, identify them and find a solution which was relatively cost effective.

**Mr. I. Black:**

My final comment on this, behind all this there is something rational, which is about integration of the tax and benefit system, and that probably is something -- to mention a new initiative, that probably is something that merits looking at, but it is going to be quite challenging to do so because it will start raising issues like whether you should provide mortgage interest relief, but if there is something behind this -- there was a real point behind this, which is a fair approach to people regardless of whether they receive assistance from the States or pay taxes, as you should really integrate the 2 things, should you not? But if you do that, you have to have a single set of objectives, which could be quite challenging.

**Deputy P.J.D. Ryan:**

Yes. Would you agree with the statement that the more you introduce these little schemes the more you -- you try and cure one problem, but you actually create one at either end of it? It is almost that you were on a never-ending spiral.

**Senator T.A. Le Sueur:**

Yes. I can recall 10 or 15 years ago former Deputy Crespel suggesting that we should have negative income tax, also that we should have a smooth transition between income -- between the benefit system and income tax. I think Colin Powell did a paper on that one pointing out the difficulties of doing that. That was certainly not helped by the fact that in those days we had a committee system. I recall when I was first on Social Security, family allowance used to cut out when income tax thresholds cut in, which was far better(?) on married couples and that seemed to work quite happily. Then we had a bit of a boom time and someone put up income tax thresholds. Social Security could not afford to put up the family allowance by the same level, it would not even have been appropriate to do so, and you started to get a mismatch. But there was never any real alignment. It was purely by chance, I think, that at one stage they were together.

**Deputy P.J.D. Ryan:**

Aligned. So I think -- are you making out a case in very general terms that we should look at aligning the Social Security policies with the taxation policies? I suspect you might be.

**Senator T.A. Le Sueur:**

It is a nice theoretical idea. I think it would be worth looking at, but I do not under-estimate the difficulties of trying to do that. I mean, I think in a way this little exercise about the people in the gap has highlighted one of the problems that you have on the one hand a household-based system and, on the other, you have a personal-based system. So unless you -- you have to decide fundamentally are you going to treat everyone as individuals or everyone as households or, if not, how do you try to untangle that mess?

**Deputy P.J.D. Ryan:**

Okay.

**Senator T.A. Le Sueur:**

So it is not a simple answer and I think, going on to maybe another issue later on, if we had a tax strategist I would want him to be doing other things first rather than trying to resolve this one, which I think will take quite a lot of resolution.

**Deputy P.J.D. Ryan:**

Okay. Anybody else?

**Mr. I. Black:**

You will have a scheme. It will be -- for the reasons I have said, it is going to have to be fairly rough and ready and based on averages. You can only make -- unless everyone collects their G.S.T. receipts for the year and then hands them in at Social Security, it has got to be an average sort of payment. So it will not be the right amount; it will be a single annual payment that will be made by Social Security. It will probably be -- it has to be made, I guess, by people on application because, by definition, we do not know who they are. We will do a cross-check between Social Security and income tax. Obviously they will not will not be paying any tax. We have an aspiration to make a single payment a year and it will probably be late September, or October.

**Deputy P.J.D. Ryan:**

The payment is to a household?

**Mr. I. Black:**

Yes. We have actually so far managed to overcome that problem of having different definitions in the tax law and Social Security for households, but fortunately from our point of view it sort of works.

**Deputy P.J.D. Ryan:**

What would happen if a household came along, the lead person in the household came along to the Social Security Department at the end of a year or at the point they needed to and presented you with a load of G.S.T. receipts for food that came to considerably more than the payment?

**Mr. I. Black:**

You just cannot deal with that. Administratively you would employ armies of people because obviously that --

**Deputy P.J.D. Ryan:**

So what would you do?

**Mr. I. Black:**

That would be open to fraud, would it not? They could be collecting the next door neighbour's receipts.

**Deputy P.J.D. Ryan:**

Yes, exactly. It would be. But what would happen? They would not get the payment?

**Mr. I. Black:**

Nothing. What we will do is we will work out for this group we are looking at -- let us just say for discussion it is the second quintile or something in incomes in Jersey. We will say -- and I am making up all these figures. Let us say that someone of an income of whatever, £16,000 to £24,000 is that group. We will say: "Well, the average is £20,000. The Household Expenditure Survey tells you someone earning £20,000 spends X thousand a year on food, X thousand on fuel, such and such, and 3 per cent on that amounts to £151 [or whatever it is] and that is the amount we will pay to all those people." It will be a single amount for the whole of the people in that category. By definition it will be too much for some and it will be too little for others, but --

**Deputy P.J.D. Ryan:**

Right, so the larger households with 5 children, granny and grandpa living in ...

**Mr. I. Black:**

Well, they cannot spend more than their income so it -- you know, it cannot be way off. The worst it can be is it is based on the spend of £20,000 and actually their spend was £24,000. So it is at the very most -- because G.S.T. is not on everything, it could be 2 per cent on £4,000, whatever that may be, which is quite a small figure. You cannot -- but even then, you have people earning £24,000, some of whom will actually spend £15,000 and some of whom will spend £24,000 so ...

**Senator T.A. Le Sueur:**

I think most of the people in that category by obligation they have to spend all they earn. They do not have any opportunity to save. Now, since G.S.T. applies effectively across the board, some may spend more on electricity and gas than they do on food and vice versa, but since they are paying 3 per cent on **[Interruption]** the other as well it is going to even out broadly in the long run. Any difference is going to be between what they spend on non-G.S.T.-able goods and what they can on G.S.T.-able. The only one in that respect of any consequence is their rent.

**Deputy P.J.D. Ryan:**

Okay. Do you think that the States Members when we debated this zero-rating on food were aware that your hastily put together scheme to cover these people in the middle -- do you think the States Members were aware that it would result ultimately in an increase in spending request from your department? Because there was not a lot really discussed about that from my memory and there may have been an assumption that it would be found from within -- either from within existing budgets or from the G.S.T. revenues itself in the same way as the Income Support came from G.S.T. revenues.

**Senator T.A. Le Sueur:**

Of course, here we have a far broader issue about States spending which may be an interesting place at

which to start. Because we could have done the scheme, which the States agreed, to spend an extra £400,000, or we could have done an arrangement which Senator Shenton was proposing which would have reduced our revenues by £3 million. Now, one of them does not increase States spending but which one ends up with the more favourable financial result to the States at the end of the day? Clearly the one which, perversely, increases spending. So if you are looking purely at spending, I do not think States Members were focusing on the fact that the business plan spending would go up from £520.1 million to £520.5 million because in the great scheme of things £400,000 does not sound a vast amount. I think they were more concerned about the fact that this was a better way of doing things than spending £3 million perhaps and no good effort, but you would have to ask 53 people if you wanted to get the answer to that one.

**Deputy P.J.D. Ryan:**

Yes. I suppose the only thing which is again linked to what you have just said is that there are many occasions when you have said in the States that the States should not make decisions on an ad hoc basis.

**Senator T.A. Le Sueur:**

Agreed.

**Deputy P.J.D. Ryan:**

Yet you are the leader and other members of the Council of Ministers are leaders in saying: "Discipline, discipline, discipline. Properly thought through, properly researched, properly presented decision take." Yet on this particular occasion it was very much an ad hoc for political reasons decision that you proposed or set of circumstances that you proposed. How do you feel about that? What would you say to that?

**Senator T.A. Le Sueur:**

I would say, quite simply, that I approached a decision which I thought was far more financially sensible in that it was better use of States funding. Yes, it would have been nice to have more time to think it out and analyse it and put all the pros and cons down on paper, but politics does not always work that way. Sometimes we have to make decisions relatively quickly and the same will be true in any -- in business or in life. You make decisions which perhaps have not been properly thought out but seem to be the best thing at the time, and certainly in that particular case I would stand by that decision. I still think it is the best thing to do.

**Deputy P.J.D. Ryan:**

I was going to ask you that. Would you -- now that you have looked at it a bit more carefully, in hindsight do you feel it would have been better to have not proposed this extra £400,000, taken your chances and been robust and said: "There will always be a problem in the middle no matter what you



do. There will always be a problem somewhere, somehow, with any system. The principle of keeping G.S.T. simple and not zero-rating food holds good no matter what.” Do you feel in hindsight that you might have been better to have done that?

**Senator T.A. Le Sueur:**

I think politics is a matter of the logical and the practical.

**Mr. I. Black:**

Logical, sorry? [Laughter]

**Senator T.A. Le Sueur:**

At the end of the day I think you just have to try to sense the mood of the public and the mood of the House and do something which is not fundamentally against your principles. Now, I sensed that the mood of the House at that time and the mood of the public was that something needed to be done for that group in the middle. I think I could have spent 12 months researching different ways of doing it, but if that was the mood I do not think any solution would have been any better or worse than what we have come up with. So, you know, I would not change my mind. I would do the same again.

**Deputy P.J.D. Ryan:**

Okay. Any other questions in this area? Okay, I think we will move on. I would like to talk about your -- and you did refer to it a second ago, your fiscal adviser, strategic fiscal adviser, and your request for support from Scrutiny for this £200,000 increase in the cash limit to cover this.

**Senator T.A. Le Sueur:**

I would not have said support; I think that Scrutiny need to examine it and consider in your view whether it is a good use of money, if you like on the same basis as we just discussed: are we spending £200,000 a year to increase the administration burden of the States or are we spending £200,000 a year in the reasonable expectation that we can generate new sources of revenue which can yield far more than the cost of that tax strategist? If that tax strategist does nothing but add to the administrative burden then I would not expect you necessarily to be waving your hands in favour of such a job. If you believe that there is merit in investing for benefit in the longer term, then you might well do that and that is the choice that the panel has to make. All I would say is that I believe the tax climate internationally is such that we cannot rely on simple local domestic taxation policy to see us into the future in the best, most commercial way. We need to have an eye to the broader international picture. We do not have the time or the expertise nor the resources within the tax office to do that, nor can we re-juggle activities within the tax office to free up staff or free up posts in order to fund that. Therefore, the only solution that I can see is to put in additional expertise in a relatively new area almost, in a way, like an economic investment on the basis that it should bring in a return. It is not always easy to quantify that return

because to what extent would that business have happened whether we had a tax strategist or not? I think I would answer that one by saying if we have a tax strategist who would tell us: “Yes, you need a new intellectual property law”, for example, and that that law needs to be structured in such a way that it makes it attractive to some people to fund -- or to operate in Jersey because the international effect will be that and, therefore, we will get tax revenue, we will get additional staff with expertise and they will be paying tax and so on and, therefore, there is positive advantage to doing that. That is, if you like, rather a long-winded and hopefully practical example of where a tax strategist could add value, but clearly what we are doing is adding to States expenditure and possibly -hopefully - adding even more to States income.

**The Deputy of St. Peter:**

Looking at the job description for this tax strategist, it is a very comprehensive and very high-powered C.V. (curriculum vitae) that will meet that requirement. Certainly in the short term one can see benefits, but somebody in this position, surely there is a possibility after 2 years or 2½ years that they may be offered a position from the other side of the tax divide and would end up being of detriment, the overall detriment, to the States because they would be in a position to offer advice based on 2½ years of experience of operating within the States network.

**Senator T.A. Le Sueur:**

I certainly would not see that because I think we are moving away from the question of tax advisers trying to find ways of taking tax out of the States to a way of ensuring that the Island economy can take up opportunities of adding to its economic output, if you like, by having new products. But remember that we are in the move towards Zero/Ten and that the opportunities for tax planning in terms of corporate taxes are going to be relatively small because unless you are in the finance sector you are not going to be paying corporate taxes. What you are going to be doing is paying more personal taxes and going to be paying consumption taxes. But from the tax adviser’s point of view, whether they are working for the States or working for a commercial organisation in the Island, their objective is going to be, surely, to increase the throughput of business into the Island from those particular activities.

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

Yes, well, actually that was my question, the basis of my question, but what I was trying to say is that you are looking for a real high-flyer here, somebody who can take on situations like leading negotiations, leading teams, leading very, very highly qualified teams over here as well. Do you not think this might be better done by the financial services or by J.F.S.C. (Jersey Financial Services Commission), whatever, instead of being taken on by the Treasury?

**Senator T.A. Le Sueur:**

It certainly would not be done by J.F.S.C.

**The Connétable of Grouville:**

Because I am worried along the lines that you saw it in the 1970s and 1980s yourself, that you hired in guys to do all this work for us and everything else, and as soon as they were established, had their feet under the table and got chummy with a few people, they were off. You know, you found they were working for Pricewaterhouse or somebody else. We were left holding the baby. I mean, I agree with your idea that, you know, having a good tax expert here working for the other side will obviously increase business, but they already have those to some extent working out of London, so I do doubt the wisdom to some extent of allowing ourselves to be perhaps led down a road which might lead to a blank wall at the end.

**Senator T.A. Le Sueur:**

I do not think it will lead to a blank wall because part of our fiscal strategy, remember, is to increase economic growth by £20 million. Now, you do not increase economic growth unless you can generate new business activities and you do not generate new business activities unless you have the right climate in which to do that. So I do not see that this is a -- going towards a blank wall. I think it is probably one of the key ways in which you generate that extra £20 million. So whether, in fact, it should be done in conjunction with Economic Development as part of a joint remit with them, I would not be averse to that, but I certainly do not think it can be done by J.F.S.C. who is a regulator.

**Mr. I. Black:**

No, that is a non-starter, I think, of the regulator doing it. That is the only point I would make, is I accept the points both of you make about the risks of this job, but I have spent quite a lot of time thinking through the alternatives. That one you mention is an interesting idea, but I do not think the regulator could do it. My concern on this is this is a high powered job and these people in Jersey are paid very large sums of money. Can the States compete with that? But I tried to think about the alternatives and the only alternative I came up with is we actually buy in the service on a consultancy basis. Now, there are 2 problems with that. One is you still need to have an intelligent client. You still need -- when you are commissioning a piece of work you need someone to come up with the terms of reference of what it is you are after, so you end up having 2 people: the person doing the commissioning and the consultant doing the work. Also, we have been accused in the past of making extensive use of people involved in the private sector on taxes for advice on Zero/Ten and the like, and, you know, the thing we get is: "Well, these people are an interest group. They are going to give you advice which is of benefit to them. How do you make sure you are getting advice which is representing the interests of the Island?" Well, the only way you can do that is having someone on your side, your employee. I mean, we are open to ideas if you suggest any better ways of doing it.

**Deputy P.J.D. Ryan:**

Yes, we have traditionally done --

**The Connétable of Grouville:**

I was just going to finish it off by saying that I notice that -- this is not your department, really, it is the Chief Minister's Department have saved £80,000 on expenses of O.X.E.R.A. (Oxford Economic Research Associates) O.X.E.R.A. were -- on the Zero/Ten front their budget was cut down by £80,000 which was immediately shifted sideways somewhere else, as usual. But I would have thought somewhere on those lines that £80,000 perhaps might have been earmarked for something like this, in which case you would not have had such a contentious situation arising. I am very glad to see that Ian is still with us, by the way, and has not been headhunted yet!

**Deputy P.J.D. Ryan:**

But O.X.E.R.A. have in the past, and others have, in fact, done it because I have read the long reports which looked at lots and lots of different taxes of various kinds as part of the fiscal strategy build-up of information in the background. You are suggesting a departure from that model, are you?

**Mr. I. Black:**

Yes. The --

**Deputy P.J.D. Ryan:**

Sorry, let me ask a question. One, are you asking -- are you seeking a departure from that general policy? We will look into the funding of O.X.E.R.A. in a minute, if you do not mind, of how it has been funded in the past, but I think you are suggesting (a) a departure from that ... and I have forgotten what (b) was. So, carry on, I will think again.

**Senator T.A. Le Sueur:**

Yes, I do not know if that was a general policy. I think at the time the States had very little in the way of economic advice. Colin Powell had moved on to being Chief Executive or whatever it was in those days. We did not have a Dougie Peedle in those days. We did not really have any economic advice and it was a question of did we want to buy it in from O.X.E.R.A., which I think the original contract was something like £300,000 or £400,000 a year retainer. Ultimately we decided that we would be better to have an economic adviser like Dougie Peedle. Now that Dougie Peedle is in place -- now that the economic adviser is in place, the use of O.X.E.R.A. has reduced considerably. I think, yes, you could do it by bringing in consultants, but then you have to, as the Treasurer said, monitor those consultants, give them terms of reference, make sure they keep to those terms of reference, set up working arrangements with them, and that requires somebody on the Island as well. So it is not a question of you simply give a tax adviser a blank sheet of paper and say: "Tell us what you think the Island can do." You have to give them some sort of steer as to what you want from them. So I do not think it is a question of either/or; it

is a question, if you like, if you have consultants, consultants and ... Ultimately, I think we are better off with the in-house person but it may well be that from time to time, just as the department of the Economic Adviser still refers particular issues to O.X.E.R.A., that any tax strategist here would still refer particular activities to one firm of consultants or advisers or another.

**Deputy P.J.D. Ryan:**

Well, that was my (b) which I had forgotten, which was that even when you have this guy, are you not then going to have to -- when you have identified particular areas that you want a deeper analysis -- or are you -- you know, you would have to go to outside high-powered consultants.

**Mr. I. Black:**

We must be buying in -- this person must be commissioning for specific highly technical issues from outside work. I mean, that is generally one of the dividers in my mind, is when you have a highly specific task and you can say to someone: "This is exactly what I want, can you go and do it?" that is what you can contract out. When you are doing something that involves policy development or general research that is hard to define a task, that is generally done in-house. So, yes, I think you are going to end up -- it depends how skilled this person is and how deep their expertise. You are undoubtedly -- they are going to be buying in some work occasionally.

**Deputy P.J.D. Ryan:**

Does this not -- sorry, I will come to you, Dan, in a second. Does this whole area not really fall into the category of the Economic Adviser anyway? Should he not be looking at what is happening in the world in taxation generally?

**Senator T.A. Le Sueur:**

Certainly, with all due respect to our Economic Adviser, I do not think his skills are in the area of fiscal expertise.

**Mr. I. Black:**

O.X.E.R.A. were very good at this, but O.X.E.R.A. kept on coming back to us and saying: "We are economists, we are not tax experts. We can tell you general principles but we cannot tell you how exactly to design a tax to deal with so and so."

**Senator T.A. Le Sueur:**

When we were talking about G.S.T. we also commissioned John Whiting from PricewaterhouseCoopers in London to give an overview of our fiscal strategy, recognising that O.X.E.R.A. did not necessarily have all the fiscal answers.

**Deputy P.J.D. Ryan:**

Dan?

**The Connétable of Grouville:**

Yes, I was just going to say that assuming this chap is coming in, you are going to have to pay him lots of money, £150,000, £200,000 a year, one supposes. How much do you anticipate that the whole department would then cost, i.e. he is going to have to have assistants, a secretary, he is going to have to have back-up staff. What do you think is the ballpark figure for the whole package?

**Senator T.A. Le Sueur:**

Whatever the ballpark figure, the £200,000 has to cover the whole package.

**Mr. I. Black:**

That is the full marginal cost of this.

**The Connétable of Grouville:**

That is going to cover secretarial ...?

**Senator T.A. Le Sueur:**

Individual, secretary, desk, office, heat and light, the lot.

**Connétable J.L.S. Gallichan of Trinity:**

It is a bit ambitious, I think.

**The Deputy of St. Peter:**

How did you come to that figure of £200,000, then, with the current climate that we would understand these people might be paid?

**Senator T.A. Le Sueur:**

Well, I think with that job description, like any job description, I suppose, is the ideal envelope of everything which the ideal applicant might have.

**The Deputy of St. Peter:**

Pretty broad.

**Senator T.A. Le Sueur:**

Pretty broad. The reality is that most applicants would probably be able to do 60, 70, 80 per cent of that job. To get the ideal one who has nothing to do at the moment and is looking for a job is pretty

optimistic. So the chances are you are going to get someone who is a bit more of a general practitioner but with a fair degree of expertise. In comparison with maybe what the Comptroller of Income Tax is earning, the sort of person you are going to have here is someone who has a fair idea of the general overview, can give you a lot of advice but will not have top level advice on every particular aspect of every international tax matter. So I suppose, you know, I would not want to put a figure on his or her salary but it certainly would not be the whole of the £200,000. I would say it would be somewhere over 50 per cent but perhaps not too much over 50 per cent, and in addition to that, that leaves space for them to have some administrative support. But remember, there is administration within the department already and it may well be that one can shuffle the organisation around, that you do not need a personal secretary just for that person. There may be scope within the organisation to share one or to share other resources. The fact is that £200,000 is bad enough to try to find. If I had to try to find £300,000 or £400,000 it is an even bigger battle. I think £200,000 is the minimum figure below which it is not worth going.

**The Deputy of St. Peter:**

I think that is the point that we make.

**Deputy P.J.D. Ryan:**

I have a feeling for this now, getting a little feeling for this, which seems to me that what you are looking for is someone to provide -- well, let me go all the way through. Someone to provide focus on fiscal research internationally simply because the 3 or 4 or 5 people at very senior level within the Treasury and possibly the Chief Minister's Department and possibly E.D.D. (Economic Development Department) as well are too busy to be able to give it the kind of focus that it should really be given. It is not that you are not capable of it; I have a feeling -- you know, I have the greatest respect for you, Mr. Treasurer, and I think that if you were to be taken off your normal day-to-day duties and said: "Right, do that" you would be very good at it. I think the same, you know, with respect to other people within the top echelons of the Treasury and the Chief Minister's Department would also be equally capable of carrying out this function but you simply cannot because you cannot give it the focus that it should really be given.

**Mr. I. Black:**

It is a combination of 2 things. You are absolutely right, we all do a lot of this and we do it on the edge of our desk. But there is lots of this stuff that just is not done at all, like research, like finding out the latest --

**Deputy P.J.D. Ryan:**

I mean, the very fact that you know that it is not being done says to me that you know it should be done and you know what it is, so you could direct but you do not have the time to.

**Mr. I. Black:**

It is a pure matter of resource.

**Deputy P.J.D. Ryan:**

Yes, so it is a matter of resource at a very high level.

**Mr. I. Black:**

Yes.

**Deputy P.J.D. Ryan:**

I think this may have cross references to what the C. and A.G. (Comptroller and Auditor General) is doing about the overall funding of smaller departments, which would include the Treasury as a "smaller" department.

**Senator T.A. Le Sueur:**

Well, I think, you know, I recognise this and in the funding -- or in the bid for this tax strategist I am not sure if it is actually shown on the paper but I put down "Treasury/E.D.D./Chief Minister's Department." It was really, I felt, a sort of cross-departmental activity, but clearly anything to do with taxation ultimately sits with the Treasury because that is the nature of things.

**Deputy P.J.D. Ryan:**

You see, Jersey, if we look at Jersey Finance for a minute -- sorry, I do not mean to -- are there any other -- I seem to be -- before I ask the question --

**The Connétable of Trinity:**

No, I think in general it is a good idea personally but I would say it is just a matter of who -- you know, as you say, you cannot get more than £200,000 anyway, so it would be tricky to find the amount of money you might need for this.

**Deputy P.J.D. Ryan:**

Jersey Finance, that I have some experience of, found that they became much more focused as an organisation when they employed a technical director specifically to concentrate on the legislation and the ... very similar job to this in many ways but obviously in the narrower field of the financial services industry in general. They found that gave them huge focus but that particular person within Jersey Finance, I mean, maybe we are not talking about something too dissimilar from that level.

**Mr. I. Black:**



The thought when you mention the person, who I know quite well, is that person often raises these issues with us, you know, says: "What about what we are doing about the 90-day rule or what about -- and you, the States, should be doing something about this." So, yes, there are similarities. That is an industry promotional body. They are inappropriate; they could not do this because they are looking after their self-interest.

**Deputy P.J.D. Ryan:**

No, I am not suggesting that but I am saying there are parallels in the kind of research and focus that you need to ...

**Mr. I. Black:**

There are similarities, yes.

**Senator T.A. Le Sueur:**

Yes.

**Deputy P.J.D. Ryan:**

Okay. Any further questions on this area? Okay, shall we move on because I am aware ... I do not want to spend too much time looking at the Property Holdings -- the structural deficit in this budget of large amounts of money, £4 million to £6.5 million per annum, because much work is being done in other areas which overlap with this, I think, and the discussions on this.

**The Connétable of Grouville:**

Can I just say something here? We are not letting you off the hook there. What we are saying is basically that this will surely come under the aegis of the J.E.B. (Jersey Enterprise Board) situation when J.E.B. -- when we go to Scrutiny on that one then we are going to be looking at this particular area of the backlog of repairs, renews and things like that and how they are going to affect the overall concept.

**Senator T.A. Le Sueur:**

Yes, I dare say you may but I would not see it as particularly relevant to J.E.B. It is going to happen whether J.E.B. existed or not. We have this --

**The Connétable of Grouville:**

Well, that is right, yes, that is what I am saying, but with the J.E.B. review coming up it gives us a chance to take on board the situation with regard to the backlog in repairs.

**Senator T.A. Le Sueur:**

I cannot tell you what terms of reference you use for the J.E.B. review, but I think you should look at -- well, I think that the difficulty with funding -- or under-funding of States infrastructure is a fundamental issue which we would want to look at under the business plan perhaps or under G.A.A.P. (generally accepted accounting principles) accounting maybe and the need when we move to full G.A.A.P. accounting of how that will fit in. I think one cannot look to J.E.B. or anything else as a source of ongoing funding for a maintenance shortfall and simply hope that that solves the problem by itself any more than saying you can solve a problem permanently by selling off £6 million of the States assets a year. I think one could kid yourself if you are not careful into saying that J.E.B. is the solution for the property maintenance issue.

**The Connétable of Grouville:**

No, not for us. This is what we think you are doing.

**Senator T.A. Le Sueur:**

Oh, right.

**The Connétable of Grouville:**

We have to work out what you are doing, not what we are doing. We are going to be digging in to find out exactly how these --

**Senator T.A. Le Sueur:**

I do not think --

**Deputy P.J.D. Ryan:**

I think I know the answer to this question, but nevertheless let us hear your answer for the sake of -- for the record. Why do you think this has happened? Why do you think we have grown to a position where we just simply are not spending enough money on maintaining our assets?

**Mr. I. Black:**

My answer to that is it is not unique to Jersey. Governments almost everywhere do the same thing. Politically it is not a high priority and when you do resource constraint, when push comes to shove, you know, and you are a health service, what are you going to spend the money on, hip operations or repairing the building? Hip operations always triumph. So what we find now is health has a quite inadequate budget to maintain its buildings. Property Holdings was an excellent idea and a way of addressing that, which, as you say, will take that building maintenance issue away from health so they cannot --

**Deputy P.J.D. Ryan:**

Not do it.

**Mr. I. Black:**

-- have the discretion. But, inevitably, what you found when you have done that is the base was --

**The Connétable of Trinity:**

Where does the money come from?

**Mr. I. Black:**

-- to use a quite strong word there, was very low. That is our challenge we have to deal with, but all Property Holdings is doing -- setting up is identifying that is the situation where we are starting from.

**The Connétable of Trinity:**

The problem is, though, if you do not ever put money aside to do maintenance, you end up with this problem, do you not?

**Mr. I. Black:**

It comes back and bites you.

**The Connétable of Trinity:**

It comes back and bites you, and so there is no --

**Mr. I. Black:**

But that is in the long term, of course, and we tend to think short term.

**Senator T.A. Le Sueur:**

To think short term.

**The Connétable of Grouville:**

I hate to bring it up, but the roads, for a start. I mean, we are up to £33 million backlog there now.

**Mr. I. Black:**

Wherever I turn at the moment, social rented housing, the airport, the harbour, the roads, the sewers, the sea defences, all States property, everywhere you look.

**Deputy P.J.D. Ryan:**

Can we just focus on one or 2 things to do with this for a moment? The transfer of outstanding property resources which was supposed to happen, what progress have you made in transferring those resources?

**Mr. I. Black:**

There is only one that -- everywhere is transferred now. There is not -- there is only one where the figures have not actually been signed off as we speak.

**Deputy P.J.D. Ryan:**

Which one is that?

**Mr. I. Black:**

That is health. In fact --

**Deputy P.J.D. Ryan:**

But is that a large one?

**Mr. I. Black:**

It is the biggest one, I think.

**Deputy P.J.D. Ryan:**

Could you quantify that for us in total?

**Mr. I. Black:**

You cannot quantify it because we have not agreed the figure. That sounds a bit of a flippant remark but actually we have just agreed the figure --

**Deputy P.J.D. Ryan:**

Percentage? Approximate percentages of the total?

**Mr. I. Black:**

I think, no, I would have to give you the figures. We can give you the figures.

**Deputy P.J.D. Ryan:**

Okay, perhaps we could have that later.

**Mr. I. Black:**

But we hope to finalise it within a week or 2. I mean, that is how close it is to final resolution.

**Deputy P.J.D. Ryan:**

One week or 2?

**Mr. I. Black:**

Yes, it is that close.

**Deputy P.J.D. Ryan:**

Okay.

**Mr. I. Black:**

No, you can hold me to that because that is where we are.

**Deputy P.J.D. Ryan:**

What other specific pressures have been placed on the maintenance expenditure just because of this delay? Are there any extra specific pressures that have resulted because of this delay?

**Mr. I. Black:**

No, what has happened is that -- and some of your other questions you gave us about the Treasury budget and pressures link into it. We actually -- the efficiency savings, you asked a question about is the States delivering on efficiency savings, and the answer to that is they have been top-sliced off departments' budgets. This has been top-sliced off the Treasury budget, Property Holdings, so if the money is not transferred they get absolutely caught by this. Can you imagine the whole thing -- and, again, the figures I make up. They may be told that: "You have got £10 million will be transferred in and you make a saving on that, an efficiency saving, of half a million pounds." If only £5 million is transferred in, they still have to make a saving of half a million pounds. So they have to make double, you know, on that analogy, double the saving now to get -- and it is actually not possible, it is not feasible. So what they have had to do is cut back on building maintenance.

**Deputy P.J.D. Ryan:**

So you are saying that the efficiency saving commitments are being -- in this particular area are being counter-productive?

**Mr. I. Black:**

No, what it has done is --

**Senator T.A. Le Sueur:**

Probably they are in the end, yes.

**Mr. I. Black:**

Well, it has wonderfully provided a focus and the excellent use is it forces everyone to address these

things in the end, things that might have taken for ever.

**Deputy P.J.D. Ryan:**

But you cannot get the departments to transfer sensible amounts of money across, basically?

**Mr. I. Black:**

There is a behavioural problem there, is there not?

**Deputy P.J.D. Ryan:**

There is a behavioural problem, yes, because they are trying to retain the money on their own budgets.

**Mr. I. Black:**

Yes, and these things are not clear cut.

**Senator T.A. Le Sueur:**

Of course, even that budget, if they transfer the full amount of what they were spending the previous year, they were still under-spending what they should have been spending anyway.

**Deputy P.J.D. Ryan:**

Why can the corporate machine that we have put in place in the Council of Ministers not turn round and say: "You will, you will transfer this, we are doing it"? Why do we not have that strength? I thought this was what ministerial government was all about. Did you not?

**Senator T.A. Le Sueur:**

You still have this balance between what Ministers can do and what States Members have the right to do, and the Minister in the end will say: "No, sorry, I cannot afford to give you that, I am going to take it to the States."

**Deputy P.J.D. Ryan:**

Why do you not, in fact, go to the States in the first place?

**Mr. I. Black:**

Can I just go back? What you said -- what you said is a fair challenge and this is just a real world and we are going through a cultural change. If somebody says, you know, to you: "I want you to give up some of your budget for a purpose" as people --

**Deputy P.J.D. Ryan:**

So if Corporate Services Scrutiny Panel were to put a long and detailed proposition into the States for

debate on the basis of: "Right, this is what we think the transfers should be to Property Holdings" --

**Mr. I. Black:**

Well, you will not do that and I have to say --

**Deputy P.J.D. Ryan:**

I am not suggesting we would but I am hypothesising.

**Mr. I. Black:**

One of the reasons the process has been -- 2 reasons it has been so long and tortured. One is that the money spent year on year is never the same. It goes like that, the nature of building maintenance, so how do you work out what the base is? The department says it is that figure and Property Holdings say it is that figure. You have that problem and also departments -- the way the States have worked on property maintenance is all departments know they have under-budgeted for it, for this hip operation issue. What they do, which is the carry forward issue, is they -- if they have any money left at the end of the year they tend then to spend that on the building maintenance because it is a one-off nature.

**Deputy P.J.D. Ryan:**

Yes, but if I were the Chief Minister I would come in over the top of that and say: "Right, with the assistance of the Treasury who are the financial advisers for the States, just do it."

**Mr. I. Black:**

Just do it. Well, by week after next we will have, okay.

**The Deputy of St. Peter:**

I think the point that I would make is what we have just discussed is not sustainable. We have all been looking at this -- and you mentioned £30 million for roads, now £33 million. We were talking about the expense on the hospital. It is just not sustainable because one day it will fall down and then we will have no place to have hip operations.

**Mr. I. Black:**

Well, we are getting to the stage now where --

**Deputy P.J.D. Ryan:**

You are losing patience!

**Mr. I. Black:**

Not quite that bad, but it is matters of health and safety issues. That money you have is absolutely now

just being focused on dealing with health and safety issues, making sure that the States is not prosecuted for not adequately maintaining its assets.

**Connétable P.F.M. Hanning of St. Saviour:**

Can I just ask, this has gone on for a long time. People have been aware of this for a long time. Surely this as an issue should have been raised a long time ago and been focused on? Because all you have done is make a problem worse and worse by ignoring it.

**Senator T.A. Le Sueur:**

I think until one had a Property Holdings Department no one was going to focus on it.

**Mr. I. Black:**

It could never be dealt with.

**Senator T.A. Le Sueur:**

It was not top of health priority; it was not top of education priorities. It was, I suppose, fairly high up on T.T.S. (Transport and Technical Services) priorities but they were strapped because everyone said: "Sorry, you have to manage with what you have" and also they had a rolling programme with some money still in the kitty, so they were working on carry forwards for quite a while. But we have all, I think, said at one time or another: "Yes, that is something we need to look at one day but first we have to do this or that or the other."

**Mr. I. Black:**

We cannot do anything about the past. What we can do is we can do something about the present and the future. I think we are doing all the right things. We have now set up a Property Holdings Department. We are producing proper accounts that will actually show that we are not providing for our assets properly. What that does not do is give you the answers, and the answers are tough. One answer is --

**The Connétable of St. Saviour:**

Realistically, what you are saying is that you have highlighted the fact that you have not been producing proper accounts in the past because the money has not been put aside, it has not been earmarked for the correct thing?

**Mr. I. Black:**

Yes.

**The Connétable of St. Saviour:**



So there have been failings in the past?

**Mr. I. Black:**

Yes.

**Deputy P.J.D. Ryan:**

I am conscious of the time. Do you have -- and I am also conscious that the Chief Minister is ill so we have more time -- we have more time and I am going to ask you whether you can -- there are still some things we would like to go into if you have more time.

**Senator T.A. Le Sueur:**

Unfortunately, I have another meeting at 11.30 a.m. but I can spend another 10 minutes.

**Deputy P.J.D. Ryan:**

Okay. Well, let us crack on and see how we go.

**Mr. I. Black:**

Can I just finish that one? I mean, just giving you advice as politicians, at the end of the day I can only think of 2 possible solutions to this. One is you spend more on maintenance and the other one is you are absolutely ruthless and get rid of assets. We are not very good on dealing with assets. We hang on to them thinking they are an asset. Actually, a lot of the assets the States has are liabilities and you should only --

**The Deputy of St. Peter:**

But again, this is a -- I would see this as the role of Property Holdings to deal with the issue as you have described.

**Mr. I. Black:**

Yes. We should only hold those assets we need to provide services to the public, but that is not what we do at the moment. We sort of think assets are the family silver and you should hang on to them for grim death regardless of whether you actually need them to provide your core functions.

**The Connétable of Trinity:**

Correct. Are we still going to -- we are not going to have a farce like we had a couple of years -- about 18 months ago when you bring all the properties you think you would like to sell and you bring it to the States Assembly and we all have our own idea of which one we should retain and which one -- because that was a farce.

**Mr. I. Black:**

My favourite one was Oxford Road. I mean, it is a wonderful example of having a liability that you tried to find a use for rather than do what you should have done, which was sell.

**The Connétable of Trinity:**

Yes, but that was a Le Seelleur property, though.

**Senator T.A. Le Sueur:**

Yes.

**Deputy P.J.D. Ryan:**

Just on a more sort of practical level, the essential work, the absolutely essential work, have you re-prioritised it during this twilight zone time?

**Mr. I. Black:**

Yes.

**Senator T.A. Le Sueur:**

Yes.

**Deputy P.J.D. Ryan:**

So could you give us some examples of how that has been -- the work has been re-prioritised or ...?

**Mr. I. Black:**

Well, the briefing that I have from Property Holdings is quite simply their absolute priority has been given to satisfy health and safety requirements and statutory regulations and other work has been cut back. One of the people who have suffered from this has been Education, Sport and Culture. The level of spend there is cut back to health and safety requirements.

**Deputy P.J.D. Ryan:**

Okay. So we have got disposal of surplus property. What is happening there with property sales targets?

**Senator T.A. Le Sueur:**

Targets have been exceeded. They were, I suppose, fairly light targets. They were targets which had been built up over a period of time and we have probably taken a few easy hits and put a few in the bag so we are ahead of target at the moment. But if we are going to continue and try to catch up on some of this backlog we need to dispose of some more properties for 2 reasons: partly in order to generate that

revenue but also if you think in terms of accounting and putting in depreciation as a percentage of total asset value, the more assets you have the more depreciation you need to provide. Now, if those assets are being put to maximum use that is fine; if the assets are just sitting there redundant or under-utilised should we be hanging on to them? So that is another good reason for disposing of them or making better use of them. I think an example ... St. Saviour's Hospital is a huge building which I say is under-utilised. If we are not going to sell the building, then at least make better use of it. If by making better use of it we can free up space elsewhere and dispose of that, that is fine. But let us not under-utilise property in 2 or 3 different areas, let us try to consolidate.

**Deputy P.J.D. Ryan:**

I am going to call -- we have looked at the Property Holdings things and there is a huge issue there, as we are well aware: £4 million to £6.5 million per annum, but I feel sure that there is going to be a lot more discussion and analysis of this, so I think I am going to put it on one side at the moment.

**Senator T.A. Le Sueur:**

Okay, no, you can come back to it.

**Deputy P.J.D. Ryan:**

That is not because we -- I feel absolutely certain that we are going to come back to this one time and time again, it is going to run and run, this one, but I would like to put it on to one side at the moment because of the time. I would like to talk about something which is far more urgent, and that is this proposed contingency provision, and cut right to the chase on that. How much do you think you are going to need, first, or how much are you proposing that goes into this contingency fund?

**Senator T.A. Le Sueur:**

I am not proposing anything goes into the contingency fund because I am proposing that the States sticks to the spending target agreed by the States last September. It is not for the Council of Ministers to propose a change to that. What I was pointing out is the fact that without a contingency fund we may well be faced with expenditure that we have no means of funding but has to be funded.

**Deputy P.J.D. Ryan:**

I am unclear as to whether you are in favour of starting a contingency fund, therefore, from what you have just said.

**Senator T.A. Le Sueur:**

I suppose I am in favour of setting a realistic budget and I suppose I would prefer not to have been constrained to a spending limit that the States imposed on the Council of Ministers last September.

**Deputy P.J.D. Ryan:**

During the business plan?

**Senator T.A. Le Sueur:**

In the business plan.

**Deputy P.J.D. Ryan:**

So you are saying that -- I think you are saying that one of the consequences of agreeing to that is that we should really have a contingency fund, therefore, are you?

**Senator T.A. Le Sueur:**

In terms of consequence because what you would be saying -- implying by that is that that contingency fund should have been part of the overall plan agreed by the States last September. The time to decide whether we have a contingency fund should have been last September, not this week.

**Deputy P.J.D. Ryan:**

Okay. What are you --

**The Connétable of Trinity:**

That would have been in your business plan as a total?

**Senator T.A. Le Sueur:**

That would have been in the business plan as a total and then I think the danger there is that if you put it in the business plan last September, Ministers try to use it between now and then and add to their spending, maybe I will put £200,000 to a tax strategist and so on, so we end up this time of the year with still nothing in the contingency fund and still the same pressure so it --

**Deputy P.J.D. Ryan:**

Excuse me for accusing you of playing cat and mouse with us here a little bit, I am still not quite sure whether you are in favour of the establishment of a contingency fund or not.

**Senator T.A. Le Sueur:**

I think ... that is because I am not sure [Laughter]. I cannot see a perfect solution to this. I know that there are pressures from time to time which are unexpected. We had one, for example, with pandemic flu. I am happy to go to the States with a proposition to advocate spending --

**Deputy P.J.D. Ryan:**

Yes, you could go at any time to the -- I am right in thinking that you can go at any time to the States

with a proposition to add some money to the spending plans for something which comes out of the woodwork, so to speak?

**Senator T.A. Le Sueur:**

Which is unforeseen.

**Deputy P.J.D. Ryan:**

Which is unforeseen, and you are quite happy with that situation?

**Senator T.A. Le Sueur:**

Yes, that is within the Public Finances Law and it is a realistic -- we can never plan for the unexpected.

**Deputy P.J.D. Ryan:**

Exactly.

**Senator T.A. Le Sueur:**

But I think there are other things which I can say are not totally unexpected but for which we have not provided.

**Mr. I. Black:**

Shall I come in? As a professional I have to say when you are running a country, which you are here, with a vast array of services in an uncertain world, the unexpected will happen. All I can say for certain is something this year is going to turn up and something next year is going to turn up. Well, there are 2 ways of dealing with it. You either -- related to your household expenditure, you either put aside a sum of money to deal with the unexpected knowing it will happen, or you know that every year you end up spending more than you said you were going to spend. It seems to me they are your options.

**Deputy P.J.D. Ryan:**

So you are effectively saying, I think, or pre-preparing a future debate position that might say in a future business plan that -- in a similar way to what happened last September if you are going to tie us to this then inevitably it is going to be broken and do not then complain that you keep putting the spending plans up because --

**Mr. I. Black:**

I am not a politician and I am not going to say how you get from one place to another. All I am saying is the point I have just made, that the unexpected will happen. Either you say that we are going to end up spending more than we said or we put a sum aside for it. Now, putting a sum aside for it, there are 2 ways you can put a sum aside. You can actually add that contingency to what you currently spend or,

alternatively - this is an alternative - you could create the contingency within what you are already allocating, but to do that you would have to cut some services and that is a political decision.

**Deputy P.J.D. Ryan:**

What would happen to the contingency at the end of the year if it was unspent?

**Senator T.A. Le Sueur:**

It would presumably roll forward or put it back into the consolidated fund.

**Mr. I. Black:**

I mean, no decision has been made on that. It is an interesting point. I express an opinion. One option is it could just result in a States under-spend. It just --

**Deputy P.J.D. Ryan:**

Yes, and you tend to use your under-spends.

**Mr. I. Black:**

No, no, no, I am not saying it would be carried forward and spent. It could just be, as the Minister has said, returned to the consolidated fund and would it not be nice for once if the States actually --

**Senator T.A. Le Sueur:**

Got some money back.

**Deputy P.J.D. Ryan:**

So every year your contingency fund starts again from zero?

**Senator T.A. Le Sueur:**

Starts again from zero.

**Deputy P.J.D. Ryan:**

It is a zero-based budget?

**Mr. I. Black:**

Yes.

**The Connétable of Grouville:**

I mean, it would not be then earmarked for something like, you know, where they are knocking £80,000 off the O.X.E.R.A. bill, all of a sudden it has disappeared, £20,000 has gone somewhere and £60,000

has gone to something else. Instead of knocking £80,000 off O.X.E.R.A. and saying: "Right, now this is £80,000 back into the kitty", no, it found its way to another home.

**Senator T.A. Le Sueur:**

One of the drawbacks that I -- why I am fairly hesitant about the contingency fund is who has the authority to draw on that fund and what are the rules under which --

**The Deputy of St. Peter:**

Yes, and what is the definitive term as "the unexpected"? Because that is very important because an unexpected contingency could be what has happened recently at Haut de la Garenne. It could be a major problem with the harbour. That is something which is unforeseen. The danger --

**Mr. I. Black:**

Sea walls, Haut de la Garenne inquiry.

**The Deputy of St. Peter:**

-- is where that bar sits because even you have mentioned earlier on that there are certain things that we would -- that could be deemed as the unexpected which actually were expected and that you cannot have that interference with that sort of fund.

**Senator T.A. Le Sueur:**

That is what I said, so who decides?

**The Connétable of Trinity:**

So in the case of the sea walls, then, that has come out of the blue. Do Technical Services have to find that out of their budget now to repair the sea walls? They have no money to do it if they are short of money?

**Senator T.A. Le Sueur:**

I would say effectively yes because that is the situation. You know that there is a maintenance programme for sea walls and there is a maintenance programme for roads and so on. Sometimes you will have to spend more in one year than another. What you need to do is to set a realistic base budget for each of those activities.

**The Deputy of St. Peter:**

But surely in what you have already told us, in repair work and maintenance the budget has never been realistic or has been misspent?

**Senator T.A. Le Sueur:**

Right, but in that case it is questionable whether you could use the contingency fund to top up what was an under-budgeted expense in the first place.

**The Deputy of St. Peter:**

But it is the unexpected event we are talking about.

**The Connétable of St. Saviour:**

With the greatest respect the unexpected event will happen every 20 years.

**Senator T.A. Le Sueur:**

Because sea walls to me is a very good one because to what extent is that an unexpected event? It does not happen every year, certainly, but --

**The Deputy of St. Peter:**

It is a risk, it is a known risk.

**Senator T.A. Le Sueur:**

It is a known risk. It has happened in the past and it will, no doubt, happen again in the future.

**The Connétable of Trinity:**

But maybe not for 40 years.

**The Connétable of St. Saviour:**

It will. It is going to happen probably every 20 years.

**Deputy P.J.D. Ryan:**

Can we insure for it? Are we insured for that?

**Senator T.A. Le Sueur:**

You probably could do and it would probably cost you a premium of --

**Deputy P.J.D. Ryan:**

Too much, a lot of money.

**The Connétable of Grouville:**

£250,000 a year.



**Senator T.A. Le Sueur:**

So either way there is no free lunch on these things.

**Deputy P.J.D. Ryan:**

No, of course there is not.

**Senator T.A. Le Sueur:**

So who decides whether that is expected or unexpected? It is very comfortable, particularly at the start of the year, to say: "Oh, that is unexpected, take it out of the contingency fund" and by I would say the second week in January [Aside] [Laughter] -- certainly before you are halfway through the year you will have had enough demand --

**The Deputy of St. Peter:**

But surely there must be simple ways of defining it. I mean, there is a difference between -- there is a difference between acts of gods and acts of politicians.

**Mr. I. Black:**

The answer to that is no, there is not a simple way of defining it because certainly I have been here long enough to remember when we had the general reserve and all it does is create a bidding culture because, let us be honest, every department, every year, something unexpected happens to them. When you have a pot, rather than absorb it themselves, the first thing they do is go and bid for it. Everyone does it: officers do it, the Council of Ministers will be doing it, States Members will do it. Something will come along and a States Member will say, you know: "This has come up" and bring a proposition to the States and suggest that we take it out of the contingency fund to do and the States will probably agree to it. So this is the downside of a contingency fund. You have to define it extraordinarily tightly. I mean, to give you some examples, Haut de la Garenne seems to me a true example of an additional bit of spending that you could not possibly have foreseen, is an extra and the department could not absorb. Sea walls I would say actually is by its nature -- there is a budget there that they have a rolling programme and they simply re-prioritise, not something that goes in there. Pandemic flu seems to me something you do charge there, but you have to really define it tightly. So there are risks to creating this because it does create a bidding culture and dipping into pots. On the other hand, I think it is the norm in most sovereign countries to have a contingency fund because the unforeseen will happen.

**Deputy P.J.D. Ryan:**

How would it be different to the general reserve, then? Because the general reserve was -- you know, how would you -- just in this definition as you were saying, the definition of what it can be used for? Is that the only difference?

**Senator T.A. Le Sueur:**

Not particularly different. It is a question who sets the rules for how you can draw down on the fund. If we did set up a clear set of rules --

**Deputy P.J.D. Ryan:**

Sorry, but does it highlight something slightly more structural in the way that we run our business?

**Mr. I. Black:**

Yes.

**Senator T.A. Le Sueur:**

Yes.

**Deputy P.J.D. Ryan:**

We have seen it with Property Holdings and the transfer of -- or the lack of transfer of the right budgets across for maintenance on property, and I suppose this is very close to your home and heart because I am going to say there are question marks around the level of corporate financial control, the strength of corporate financial control, in the set-up that we have. Any comments in that area? I mean, because it could be said that, you know, okay, let us have a contingency fund and we will be absolutely ruthless as a treasury, as a corporate treasury, on -- you know, you are really going to have to make a very, very good case.

**Mr. I. Black:**

I am not criticising anybody but we have a political system here inherently incapable of proper financial management. I say that as --

**Deputy P.J.D. Ryan:**

That is a very sweeping and serious statement. **[Laughter]**

**Mr. I. Black:**

Well, because we have not got --

**Deputy P.J.D. Ryan:**

What do we do to fix it?

**Mr. I. Black:**

It is very difficult because I am not saying I know the answers, but it is fairly unique to have -- you have the Council of Ministers notionally responsible for financial control but actually it is the States

individual Members who are responsible. Those States Members have a general desire to control spending but in the particular [inaudible]<sup>[1]</sup> ... If we have a system that struggles to deal with it, you cannot [inaudible]<sup>[2]</sup> accountability in this system, can you?

**Senator T.A. Le Sueur:**

I would love to carry on this discussion, it is getting interesting --

**Deputy P.J.D. Ryan:**

I am sure we will return to it at some stage.

**Senator T.A. Le Sueur:**

-- but I do have another meeting I am late for so I will --

**Deputy P.J.D. Ryan:**

Okay. Well, thank you very much for your time this morning. I think we have enough to make our comment about the specific funding pressures that there are.

**Senator T.A. Le Sueur:**

But if you want me to come back for another meeting I am quite happy to do so. I know time is against you in the same way that time is always against many ... it is the nature of things.

**Deputy P.J.D. Ryan:**

All right. Well, thank you very much for your time this morning.

**Senator T.A. Le Sueur:**

Thank you.

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<sup>[1]</sup> Subsequent clarification: ...may also favour new spending initiatives.

<sup>[2]</sup> Subsequent clarification: ... prioritise spending or pin down