

STATES OF JERSEY

Public Accounts Committee

MONDAY, 20th APRIL 2009

Panel:

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

Witness:

Mr. I. Black (Treasurer of the States, Treasury and Resources Department)

In attendance:

Ms. A. Heuston (Committee Clerk)

Senator B.E. Shenton (Chairman):

Right, it is 12.45 p.m. I would like to welcome everyone to this Public Accounts Committee public hearing. Ian, thank you very much for coming along today, I take it you can hear us adequately?

Mr. I. Black (Treasurer of the States, Treasury and Resources Department):

Yes, I can.

Senator B.E. Shenton:

It is a little bit echoey but thank you for coming along. I have to read you a little bit of housekeeping before I start. The proceedings of the panel are covered by parliamentary privilege through Article 34 of the States of Jersey Law 2005 and the States of Jersey Powers and Privileges Immunities, (Jersey) Regulation 2006, and witnesses are protected from being sued or prosecuted by anything said during hearings unless they say something they know to be untrue. This protection is given to witnesses to

ensure that they can speak freely and openly to the panel when giving evidence, without fear of legal action, although the immunity should obviously not be abused by making unsubstantiated statements about third parties who have no right of reply. The panel would like you to bear this in mind when answering. I think, to kick the hearing off, what I would like you to do is just give us your title, your responsibilities and a little bit about your background as the States Treasurer.

Mr. I. Black:

Okay. My name is Ian Black. I am Treasurer of the States. My areas of responsibility cover the areas you would traditionally call the treasury, which include exchequer functions such as payment of all the States bills and receipts of all the States incomes, looking after States investments; what we call our corporate finance functions which are the States strategic and business planning, producing the States annual budget, States financial forecasting and projections of expenditure; the States accounts and that includes responsibility for the States financial systems and for producing regular management information. We are also the advisers to the States. There will be a Treasury comment on all propositions with a financial implication. We are also financial advisers to the Council of Ministers, as well as the Treasury Minister. We also, obviously, appear before scrutiny panels of this sort and we answer States questions. In addition to that, my responsibilities cover the internal audit of States expenditure. In addition to that, it covers the procurement function for the whole of the States of Jersey. It has been centralised under my time as Treasurer, and my responsibilities also now include the States Property Holdings Department which runs all the States property assets. Finally, in addition to that, I have got responsibility for States fiscal and economic policies, so that is the policies related to tax and spending, so I have been at the heart of the fiscal strategy, the design of the Zero/Ten proposals, the G.S.T. (goods and services tax), I.T.I.S. (income tax instalment system), 20 Means 20, and there have been things in that area. I am also responsible for the integration of States fiscal policies with economic policy, which is, for instance, the anti-inflation strategy comes through the Treasury Department.

Senator B.E. Shenton:

Right. That is an extraordinarily wide mandate. How do you manage the department to make sure that

all those various different aspects of responsibility are carried out?

Mr. I. Black:

Well obviously I cannot do everything, but what I believe I am is primarily a strategic manager and I have a team of staff below me to undertake the detailed functions, for instance, the Comptroller of Income Tax to do the day-to-day administration of income tax.

Senator B.E. Shenton:

Right, and do you have weekly meetings with this management team that you ...?

Mr. I. Black:

I have regular monthly meetings with my management team. In addition to that, I have a regular cycle of - I think it is every 2 weeks - I meet the senior managers in the team.

Senator B.E. Shenton:

Are these meetings minuted or are they informal meetings?

Mr. I. Black:

We produce action points from our senior management team meetings. My meetings with my managers on a one-to-one are not.

Senator B.E. Shenton:

Let us just ask do you have any treasury qualifications or specific foreign exchange qualifications?

Mr. I. Black:

I am a qualified accountant and I have a degree in economics. Those in fact are the job specification requirements for the Treasurer's post, which requires you to be an accountant plus to have a degree in a related subject.

Senator B.E. Shenton:

Okay. Moving on to the actual hedging strategy, when did you first become aware that a hedging policy would be required by your department?

Mr. I. Black:

I think it was on 6th November 2008. Are we talking about the immediate ...? It depends which time you are talking about.

Senator B.E. Shenton:

No, just generally, that the States of Jersey were buying an incinerator that had a euro exchange rate risk attached to it. When did you first become aware of this?

Mr. I. Black:

Okay. Well, the first point I would have to make is that it was not intended originally that it would have a euro exchange risk attached to it. As is made clear in the report of the Comptroller and Auditor General (C.A.G.), the tender requirement was to tender in sterling, so there was no planned intention to cover the payment in a foreign currency.

Senator B.E. Shenton:

Right. You would have had input into the wording of the proposition that went to the States of Jersey with regard to the acceptance of the tender?

Mr. I. Black:

Which proposition are you referring to?

Senator B.E. Shenton:

The most recent one which said that the exchange rate would be hedged on signing the contract.

Mr. I. Black:

Right. The proposition was to do with financing of the incinerator and it did not cover currency issues at all. What was there was a statement within the report which said that it was intended that the exchange would be locked out at contract signing date.

Senator B.E. Shenton:

Right. Now, your department, you receive euros ... and this is going a little bit off the path slightly but we will get back there. You receive a substantial amount of euros in each year as part of the air traffic control facility. Now, my understanding is these euros are put in the accounts at the exchange rate at a certain time and then the States just takes a risk with regard to what the rate is when the money is received.

Mr. I. Black:

Yes, the airport, of course, is a trading committee that works on a semi-standalone basis with its own finance director. This has been made clear again in the C.A.G.'s report, that traditionally exchange issues have been dealt with by departments and the policy, as I understand it, of the airport has been to receive these euros and convert them on receipt.

Senator B.E. Shenton:

Well, what I am trying to get to is that the Treasury has no experience, or had no experience, with regard to the logistics of hedging or the management of foreign currency.

Mr. I. Black:

You are quite right, as again it is pointed out in the report. There were no major currency exchanges prior to this one and those that did exist were handled by departments.

Senator B.E. Shenton:

Can you run through the exact responsibility within the department, with respect to when you knew that the euro hedging was required, how you passed the responsibility down, or where the responsibility was passed down to?

Mr. I. Black:

The Energy from Waste issue was dealt with by the Energy from Waste Funding Group on which Treasury had 2 representatives. One was a person whose title is, I think, the Assistant Director Finance and Investments, who works for Property Holdings Department. Now, it seems a bit strange, but basically he used to be the capital accountant in the Treasury and when this new Property Holdings Department was set up we did not think we could justify having an accountant in the Treasury dealing with capital and another accountant in Property Holdings, given what was the vast majority of the States capital. So he performed a dual role as being in the Property Holdings Department, also covering issues to the States Capital Projects, so he was on there representing the Treasury. We also had another person who was the Treasury Strategic Investments Manager, who was there to deal specifically with the financing of the incinerator. We would not normally have had such a person there but in this project, I do not know if you recall, it was not clear how we were going to pay for it. It was such a major sum that it was anticipated we would probably have to borrow to meet the cost, so he was put in there specifically to look at how we were going to finance the project.

Senator B.E. Shenton:

He was put in there specifically by you to do so?

Mr. I. Black:

That is right, yes.

Senator B.E. Shenton:

How did you monitor how he was doing his job?

Mr. I. Black:

He reported to his line manager. The Deputy Treasurer would have been responsible for monitoring the normal management functions for him.

Senator B.E. Shenton:

His line manager was?

Mr. I. Black:

The Deputy Treasurer.

Senator B.E. Shenton:

The Deputy Treasurer then reported up to you?

Mr. I. Black:

That is right, yes.

Senator B.E. Shenton:

Given the size of the contract and the size of the possible liability to the States, did you not think it wise to take more of a hands-on approach yourself?

Mr. I. Black:

Clearly, with the benefit of hindsight, yes, it might have been, but at the time I believed that I had competent officers dealing with this.

Senator B.E. Shenton:

You believed?

Mr. I. Black:

Yes, I had no reason not to think that the people dealing with it were quite capable of doing so.

Connétable J.M. Refault of St. Peter:

Sorry, just picking up on what the Chairman was saying there, I find it a little bit staggering, Ian, that you did not really have an overarching brief on such a very large financial contract.

Mr. I. Black:

Yes.

The Connétable of St. Peter:

That you did not have almost a day-to-day briefing on the process. Was this not the case?

Mr. I. Black:

Well, no, I was not and I hope that the reason is clear, because of my opening remark about my array of responsibilities. I do not know exactly what it is, but I think the States investments, obviously the States income that we deal with is over £600 million a year. The expenditure is on a similar level. The States investments are £1.5 billion plus and the States property portfolio is £1.5 billion plus, so there is a reliance to have ...

The Connétable of St. Peter:

I recognise that, as the Chairman said at the start, you have a very, very wide portfolio and a massive amount of responsibilities that you carry, but this, I think historically, is probably the biggest single contract we have ever signed, is it not? You know, I personally would have thought that that would have a direct input, or certainly very much a controlling brief from you, even though you have competent staff beneath you.

Mr. I. Black:

Yes, well, I did not. If you look at some of the things that I was dealing with during the year, are things

like ... This was the year for instance, that we brought G.S.T. in and we had a number of debates about that. That was clearly the biggest single issue that we were dealing with at that time, and we were also dealing with Zero/Ten, and we have a controversy over 20 Means 20. In the middle of this year, we had the historical child abuse inquiry blew up with unplanned expenditure, and I had to deal with that. Just to give you a taste of some others, we had the credit crunch happened at the beginning of the autumn, which had fairly massive implications for the States in terms of dealing with our investments and the effect on the States finances to deal with, and if you just allow me a final one, the States also, in an unplanned way, asked me to take on responsibility for a review of the £300 million Esplanade Quarter deal, which of course is very significant.

The Connétable of St. Peter:

In hindsight, obviously we are all, you know, far better informed in hindsight, and it sounds rather harsh for me to say it this way, but do you consider looking back that you were competent to carry out all those tasks at the same time, given the outcome as we see it today?

Mr. I. Black:

I could not, I cannot, carry out all these tasks at the same time, which is the point I make. I must rely on my senior managers to do it.

Connétable A.S. Crowcroft of St. Helier:

Could I come in? We have not mentioned the political lines of responsibility. After the debate and after the approval of the funding, were there meetings held between your staff and your political masters, the Treasury Minister, to map out how this piece of kit was going to be procured?

Mr. I. Black:

No, there was not. I believe the way it was being dealt with was there was a Waste Funding Group that had a remit to deal with this, chaired by the Chief Officer of Transport and Technical Services, with a number of people, including a financial adviser that they brought in specifically for this purpose, and

these Treasury representatives and the project manager for the project.

The Connétable of St. Helier:

Did the Treasury Minister at any time sit down with you to discuss how this asset was going to be procured and any potential risks? Risk comes up quite a lot in the projet, I think 3 or 4 times it is referred to, the taxpayer's money and the risk to it. I just wonder whether there was a meeting between the Treasury Minister and the senior staff who were going to be delivering the project.

Mr. I. Black:

No, there were not.

The Connétable of St. Peter:

Just to pick up on a point that Simon was just saying. You mentioned that the Chief Officer of the T.T.S. (Transport and Technical Services) was quite involved with the actual discussions of the funding committee.

Mr. I. Black:

He chaired the funding group.

The Connétable of St. Peter:

I am sorry to the Chair, I just find it strange that the Chief Office of the T.T.S. would be dealing with the funding committee when other people are more appropriate ...

Mr. I. Black:

Perhaps if I can comment on this? I mean, there are lots of learning points from this. One of them was, we have not had such a major procurement before and one of the issues was, I think if you look through there, was a lack of clarity about who was responsible for what, and all things being equal, and if you read it under the law the accounting officer is responsible for the revenue and capital spend of their

department. So, the accounting officer for this project was clearly the Chief Officer of Transport and Technical Services and that is responsibility for all risks to do with that project. Now, I accept that a currency risk is an important issue and it may not ... not may not, it will not be within the expertise of the Chief Officer of that department. So, what you do in those circumstances as accounting officer, is bring in expertise to deal with those issues. Clearly, professional accounting advisers were brought in to deal with it and we also had Treasury advisers in there, so they were advising him on those issues.

The Connétable of St. Peter:

Right, sorry I was going to come on to that point. So, the accounting officer, albeit the Chief Officer of T.T.S., did have advice through your department?

Mr. I. Black:

Yes, sir, as I have already said. Sitting on that funding group were ...

The Connétable of St. Peter:

Was that specific to also the hedging of the euro element of the contract?

Mr. I. Black:

Clearly, if I look back on the minutes, and subsequently, this group clearly were discussing those issues at length and all the members of the group, yes.

Mr. A. Fearn:

Mr. Black, it would be helpful to me to maybe ask you to map out the different parties involved in the process itself, as you understand it. We have talked about the project itself. One would normally expect to see an overarching project manager bringing those different component parts, including your department and yourself, together. So it would be helpful, maybe, for you to explain how that structure fitted in and how those different teams, for example, the financing group that you mentioned, how they came together, to your knowledge, and end up instructing you and your staff.

Mr. I. Black:

I hope I understand your question. Well, there was, I think, the accounting officer for the Energy from Waste scheme was the Chief Officer of Transport and Technical Services and yes, you are quite right, he appointed a project manager that was ultimately responsible for co-ordinating all aspects of the project. One of the aspects of the project was the financing aspects, and there was a group set up to deal with that. Does that answer your question?

Mr. A. Fearn:

Was that group then co-ordinated on a regular basis by the project manager, to your knowledge? How was your department pulled into that structure?

Mr. I. Black:

As I said, we had 2 people who were standing members of that group and at any meetings of that group. Okay?

The Connétable of St. Peter:

I think, really, if I can just jump back in again, Mr. Chairman. You mentioned about going back to the Chief Officer of T.T.S., the accounting officer and the responsibilities, but what did you mean that there was a lack of clarity on responsibility and accountabilities or roles?

Mr. I. Black:

If I look at lessons for the future, it is we have got to be quite clear on where responsibilities for these lie, and it could well be that we decide that these things are an area of specialisation that should lie with the Treasury. I would not deny that. Having said that, and you may wish to discuss, is the expertise in the Treasury on these issues. If we are going to have limited standing expertise, and again that is something I am happy to discuss with you, whether that would be correct to have that. We need to work these things through but I think clearly one of the learning points from this is to have a policy upfront

and be quite clear where responsibility lies so that those people can make sure they have ratings for that.

Senator B.E. Shenton:

Are you saying that no one had picked up the ball and taken full responsibility for hedging the euro contract?

Mr. I. Black:

There certainly were mistakes made on this and what is quite clear is that, at the end of the day, the Treasury has to take some responsibility for those things. The point I am trying to make is that we started off on this game not clear who was responsible. At some point, it shifted over and I think that was one of the reasons it went wrong. I think I am accountable for delivery of the Treasury's business plan. If you look in the Treasury's Business Plan for 2008, which is all my major projects, you will not see anything in there about energy from waste and currency issues and that is not surprising because when we wrote that business plan, there was not supposed to be a currency risk in the Energy from Waste project.

The Connétable of St. Peter:

The control politically, though, was very clear from the projet that the States debated. It was lodged by the Ministry of Treasury and Resources and the report makes it sound very simple. Maybe it oversimplifies what it says but if I can quote, it says that ... and this is, I think, a well-known phrase: "The exchange risk will be eliminated upon the signing of the contract with the preferred bidder at which time the euro/sterling rate will be deemed to freeze for the purposes of the contract payments." In the next bullet point, 3.3: "As with all States capital projects, Treasury will monitor and manage the fluctuations risk." It does seem to me there is a very simple clear statement that this is going to be managed, and I go back to my earlier question, the political control there is very much the Minister.

Mr. I. Black:

I have to accept that by that time, because of the statement in that report, the responsibility was moving

across to the Treasury.

Senator B.E. Shenton:

What date was that? 11th July. It moved across at a very early stage.

Mr. I. Black:

Yes, it did, and the intention was to lock out the exchange risk through a payment to contractor and that remained the case until just, I think, 7 working days before contract signing, 22nd October.

Senator B.E. Shenton:

So when the proposition was passed by the States, did you take any specific action, bearing in mind that Treasury, from that point onwards, was responsible for the exchange rate risk?

Mr. I. Black:

No, I did not. The Energy from Waste Funding Group was still meeting with Treasury representatives on it and they were still dealing with these issues.

The Connétable of St. Peter:

Just to pick up on a slightly different tack now. Please correct me if I am wrong: there is some doubt that the right expertise was there to deal with the hedging element in itself and you brought in external consultants to help you in some respect, whether it was you or whether it was the project management team.

Mr. I. Black:

The project management team had Deloitte's who were advising on general issues on finance. We had our own advisers who we did use on this and that was our standard advisers, so Hewitt's, and we also sought advice from Royal London Asset Management.

The Connétable of St. Peter:

Did they give similar advice with regard to hedging?

Mr. I. Black:

No, they gave different advice. Hewitts' advice is contained in the report and it is not definitive. I think the words used at the end are: "On balance most treasurers would buy forward contracts." When we sought advice from Royal London Asset Management, they tended to prefer payment of euros into an account, for administrative simplicity. Interestingly enough, the Comptroller and Auditor General, having reviewed it, comes up with a third preferred option. His preferred option, he says, would have been a payment to the contractor. I think, with hindsight, I would have probably erred for that one as well, based on a lack of experience.

Senator B.E. Shenton:

You went to Hewitts and Royal London Asset Management. Can I just ask you why you chose those particular entities to go to? Hewitts are based in London and Royal London is in Guernsey.

Mr. I. Black:

Yes, Hewitts have been our investment managers for many years. As I said earlier, we have very significant sums of money under management. I will say that we are an extremely tight ship and, given that we are trying to do everything on a small scale, we just cannot employ a whole range of specialists so we do rely on contracting out for these skills, particularly where they are expensive because we can only pay proper accepted rates of pay. Hewitts have been our investment managers for quite some time and so it is natural that we go to them for advice on this. Royal London Asset Management we came to use through a tender process in, I think it was, 2006 when one of the improvements I sought to make was a more active approach to managing our cash balances. So we used Hewitts, our investment advisers, to assist us in a selection process to recruit cash managers, and Royal London Asset Management were selected as a result of that competitive tendering process. I have to say they have provided us with a very good service and they have also achieved very good returns.

Senator B.E. Shenton:

How are Hewitts and Royal London remunerated by your department?

Mr. I. Black:

They are done on a different basis. Hewitts is on a time basis and Royal London is done on a fee on a funds under management plan.

Senator B.E. Shenton:

Now, certainly I get the impression that a full picture was not given to either adviser with regard to what exactly they were giving advice on, and the reason I say that is because Royal London came up with the ludicrous advice of wait until January from an accounting point of view. Hewitts still have not given you what I would term a proper hedging strategy. What currency expertise do these 2 firms have? That is the nub of the question.

Mr. I. Black:

I believe you can ask questions of both of them and they are probably the best to answer but my understanding is that both have significant experience in this area.

Senator B.E. Shenton:

Do you know that for a fact or is that something you are just assuming?

Mr. I. Black:

I suppose I cannot say I know exactly but when these issues came up and we asked them for advice, they both appeared to demonstrate that they do have expertise in this and I believe they do.

Senator B.E. Shenton:

Do you realise that under the J.F.S.C. (Jersey Financial Services Commission) Codes of Practice that

you have to have a specific qualification to give investment advice on currency management?

Mr. I. Black:

Well, I do not know if any of that ...

The Connétable of St. Peter:

Just if you do not mind me coming back in again, and still staying on the management side of it: could this almost be a case of death by management by consultant advice? It has almost been called by death by management advice because we appear to have had several different financial experts advising either the steering group and then yourselves within Treasury and coming up with different forms of advice. How much did that conflicting advice cause the doubt in the minds of the responsible officers, or the accounting officer in this particular instance, which stalled him from making that vital decision to hedge the funds?

Mr. I. Black:

Yes. Certainly, if one of these people had come out with a clear understanding that they are required to give unequivocal advice, I think that would have made it ... it would have been ... I am not saying it is the cause of what went wrong but it would have been less likely to happen.

The Connétable of St. Peter:

With the benefit of hindsight, would you again have so many different advisers advising potential for different advice causing more confusion than if you had not asked them in the first place?

Mr. I. Black:

I was not involved in the appointment of Deloitte and I do not know definitely, as I speak, what their remit was so I cannot really comment on that one and they were financial advisers on the procurement of the Energy from Waste project. I do not know the extent of their brief. The bit I do know is that the Treasury was involved in a specific decision earlier on to exclude the source of finance for the project.

That is how we are going to pay for it, the following issues of debt, and we did take that on in the Treasury. It is clearly our responsibility. Regarding the other 2 advisers, an issue we need to discuss, I guess, is the officer who is dealing with it in the Treasury. They had not dealt with these issues previously and they sought advice from colleagues on where to go. It was suggested they go to Hewitts and to Royal London Asset Management. I think Hewitts were our strategic advisers. I can understand that Royal London Asset Management, because they were specialists in currency and cash areas, the suggestion that they seek advice from there as well but, yes, it could have been a source of confusion.

The Connétable of St. Peter:

With the benefit of hindsight, would you do things differently?

Mr. I. Black:

Yes, there are a number of things that would be done differently with hindsight and, yes, that is one of them.

Mr. K. Keen:

In the Auditor General's report on page 20, there are the actual terms of reference for Deloitte and it says: "To ensure that proper financial advice is provided to the States of Jersey to enable it to take a robust decision on the proposed scheme." Later on in that, they were involved in the report that went to the Council of Ministers about the need to hedge the currency exposure. I was just wondering, when the Treasury took responsibility for it, which it seems to have done at least from 20th May, why they stopped using Deloitte who seemed to have very clear terms of reference.

Mr. I. Black:

So far as I am aware, Deloitte were still involved in these issues. I know that from reading the minutes of the funding group but certainly there was a discussion about extraneous issues [\[MDeLaC1\]](#) being in the September report. Deloitte, I believe, were party to that discussion so they were still advising.

Mr. M.P. Magee:

Can I just take you through, Ian. It was quite a long document and what I tried to do was a summary of the position. To me, in July 2008 there was a clear strategy which was that the exchange rate will be eliminated on the signing so, to me, that gave you a free mark. Then from July through to November, so over the next 4 or 5 months, there are lots and lots of discussions and that was about delivering that strategy, so it was really different methods, different products. Then in late October, the emphasis just changed. To me, that is the bit I do not understand because the change of emphasis at the end of October then led to the document in November that appeared from Deloitte's.

Mr. I. Black:

It is quite clear that the intention was that there was going to a payment to the contractor to remove the exchange risk. The first indication - and I only know this from the benefit of hindsight, on reading the documentation but moved away from that - is that if you look through the report in early September, the Energy from Waste Funding Group met and there was a discussion of an alternative which was to pay euros into a euro account. Now, why that group suddenly decided to look at that alternative I do not know, and it is another alternative. I cannot say that it is any better or worse than the original intention but they did decide to investigate it. Now, if you look at the places where it went wrong, one of the places it went wrong was the person tasked to investigate. That was the Treasury Strategic Investments Manager. That person left our employment on 3rd October. On 22nd October, it is still quite clear that the intention was to pay the contractor with some of this money [MDeLaC2] and the communication shows that, but on 22nd October the whole thing was opened up. There was an email from the Assistant Director, Finance Investments, who was on the project group, asking the Treasury to look at alternatives. Now, it would have been good if they had never sent that email and, quite simply, the payment had just been made to the contractor, I think, but that email was sent and that email was sent to the Deputy Treasurer who asked a member of his staff to look at alternatives and it is from that point that in a very short period of time, as I say, the alternatives were looked at.

Mr. M.P. Magee:

I think just following on, because it was more to me whether it was going to be a payment to the contractor or whether it was going to be for the contractor whether it was going to be used. They were just other methods of doing something the day the contract was signed. But what it seemed to be was all of a sudden it became we either pay something to the contractor, who might cost £1 million plus, and maybe that is part of the reason why alternatives were looked at because that is going to be another push on project costs up through £100 million. So the emphasis seemed to then flip to the payment in January. So it was just at that point all of a sudden, rather than the date when the contracts were signed, it became something ...I guess it was going to be easier from an admin perspective to do something in January rather than just close down the risk which was really the objective.

Mr. I. Black:

Yes, I think you are quite right and there were a number of changes happening, steps here, all under a great deal of pressure. The person who was given the task to look at the options, if you read the report, tried ... what you cannot fault him for is the level of activity when you read the report. They investigated a lot of things in a short period of time. There is an issue that has been alluded to earlier which is one of the things unfortunately I think they did - and, again, this is only after the event you realise - is when seeking advice from one of our advisers they were not clear on exactly what the requirement was, and I think it is fair to say that those advisers did not get a clear understanding of the requirement. So advice came back which eventually became the advice we acted on which was not to lock out the risk on contract date but, in fact, to lock out the risk in a period somewhere between 6th November and the first contract payment and that opened up this gap.

Mr. M.P. Magee:

I guess just touching on the advisers, because I think we touched on them earlier, it was just where did these advisers ... if you look at the engagement letters for them. Did they have down they are mandated to give advice on foreign exchange or were we just tagging on to them because they were there already? You could see some of the flavours on the notes coming back basically saying: "We take no responsibility for these comments. This is what you might want to think about", which is not really

advice. It is something you could hear from somebody ... anyway, it was not solid advice. It was not written down.

Mr. I. Black:

Neither of the advisers specifically had mandates to do with foreign exchange, although Hewitts, to be fair, foreign exchanges were part of the investments we were dealing with so they did have expertise in these areas. To deal with this specific event was not in the particular mandate. I believe that they were expert in doing this and they were competent to do so. I have lost track of your question now.

Mr. M.P. Magee:

Was it part of their remit to give that advice?

Mr. I. Black:

Quite simply because we had never had a major foreign currency exposure before, therefore we never had arrangements in place. Therefore, when that email came in on 22nd October and we were seeking advice, what else can you do? It was the only place to go really. Obviously, having had such a major exposure, we will make sure that we have people lined up to give advice on these things in future.

Mr. K. Keen:

Well, that really goes to my question. You seem to have anticipated that you were going to need specialist advice early on in the project and the funding group appointed Deloitte to provide that advice and yet I cannot understand why at some point - and it seems to coincide with the Treasury taking responsibility - that they stopped using someone who did have terms of reference and had a fairly clear responsibility to ...

Mr. I. Black:

Yes. I am looking evasive but I do not know the answer to that question because I did not appoint Deloitte, nor was I sitting in the meetings where they were giving advice but what I do know is that

Energy from Waste Funding Group was meeting. They clearly were looking at foreign currency issues and Deloitte were involved in those meetings and giving advice. I cannot really say why they were not definitively still making decisions on this. What I can say is that up to 22nd October it appeared that the decision was to just make a payment to the contractor.

Senator B.E. Shenton:

You report to the Chief Executive of the States --

Mr. I. Black:

I do, yes.

Senator B.E. Shenton:

-- whose job is to co-ordinate different departments and make sure that everything runs smoothly. You have already mentioned to us that, following the ... from a political point of view, there was no real follow-up when the proposition for funding went through the States. Was there any follow-up from the Chief Executive of the States in Jersey whose role it is to co-ordinate these things?

Mr. I. Black:

No.

Senator B.E. Shenton:

So there was no follow-up at all from the Chief Executive?

Mr. I. Black:

He was not involved in this.

Senator B.E. Shenton:

You do not have to answer this but would you have expected the Chief Executive of the States to get

involved in a funding of this nature?

Mr. I. Black:

I do not know, I do not think so. I am not sure, I do not think so.

The Connétable of St. Helier:

Presumably, he was present at the meeting on 6th November when the Ministers for Treasury and Resources and T.T.S. were present?

Mr. I. Black:

No.

The Connétable of St. Helier:

He was not at that meeting?

Mr. I. Black:

No.

The Connétable of St. Helier:

Was that meeting, which is on page 44 of our copy of the report, the first time the politicians involved were made aware of the exchange rate problems or do you feel they were aware of the problems throughout the process?

Mr. I. Black:

It was the first time the Treasury Minister and myself were involved in discussions to do with the immediate period prior to signing.

The Connétable of St. Helier:

Following that meeting, did the Minister working with you realise that action had to be taken to bring this ... because clearly, politically, this was drifting away from what the States agreed.

Mr. I. Black:

That did not happen at a political level, to be fair. I am happy to talk about the other reasons why the decision moved but it was not at a political level that the decision to move it took place. That meeting on that day, which was arranged at very short notice, was quite simply because the costs of the contract had grown to the extent that Transport and Technical Services felt unable to sign the contract. It had grown because of the exchange issues. The States were informed it would be locked out on the contract date and in that period suddenly we entered a period ... the deal had been very stable ... well, it moved about but, in fact, it stayed fairly static. Suddenly it started declining and there was an additional cost to the contract and at the same time, there were contractual negotiations that had added some cost and, at the same time, there were legitimate planning requirements on finishes and the like which added quite significantly to the cost of the scheme. It was as a result of that that T.T.S. convened a meeting at short notice to say they could not proceed on that basis and that meeting was to discuss how to deal with the issue.

Senator B.E. Shenton:

Obviously, the exchange rate has moved against the States and a loss has already been crystallised on the part of the hedging that you already covered. From your point of view, if this came to light now and the exchange rate had moved in the States favour, would you still be as concerned by the apparent failings within the department to take responsibility for this? The loss or the profit is in some ways irrelevant; it is the fact that there appears to be a lack of procedure within the department.

Mr. I. Black:

As I say, with hindsight, as has been said in the report at 279, not abiding by the intention to lock out on contract date is: "A failure to implement a strategy of this kind should not necessarily be a matter for criticism if an alternative strategy has the best value for the States." What happened in this period, and

we just have to look at the exchange rates and the dates, suddenly in the period just up to contract signing, and then just after, there was a huge decline in the euro rate. Now, I believe that the officers involved in it at the time - and you can see from the emails - could see that the rate was declining and I think there was goodwill there. What they were trying to do was obtain best value for the States and their belief was that at signing the rate had hit a historically low rate and they believed the rate would bounce back. They sought to obtain some advice on it. How good that advice was can be subject to discussion but they thought they were doing the right thing. In the event, the rates turned against them and that is why we are having ...

Senator B.E. Shenton:

But is it your department's job to speculate on currency?

Mr. I. Black:

Obviously, you can say that with hindsight and, as you suggest, if the rate had improved, I guess we probably would not have had this hearing today but they were acting, I believe, with goodwill and trying to do the right thing and they did try to obtain advice from that and the advice, I am not saying how clear that advice was, did appear to back them up in the course of action they were taking.

Senator B.E. Shenton:

Are you saying that if the rate had gone in their favour, it is all right for your department to speculate on currency?

Mr. I. Black:

No, what I am saying is one thing you can be sure when you lock out on a rate is you have got certainty of rate. That may turn out to be a good rate; it may turn out to be certainly a very bad rate. You cannot avoid somehow making this decision that the rate at which you are going in at is a good or a bad one. They took the view that it was best to defer the payment for a short period of time. In the event, they were wrong.

Senator B.E. Shenton:

I would hope you would now admit that you are responsible for the strategy going forward with regard to the hedging.

Mr. I. Black:

Yes.

Senator B.E. Shenton:

You have covered about half the payment approximately. Can you just outline the hedging strategy with regard to the outstanding monies, bearing in mind it is not still hedged?

Mr. I. Black:

Yes. When it became clear that we were exposed and the rate had declined, I, as a matter of some urgency when it was brought to my attention, tried to seek advice on the best thing to do. In discussion with ~~past~~our strategic investment advisers, who are still our prime source of advice on this, a strategy was developed which is to take a stepped approach to the payment of euros which was to buy 5 million euros when the rate hit 115, 5 million euros when the rate hit 120 and the balance when it hit 125 and, if you had not hit those triggers and currency payments came due, to buy at that rate. So far we have bought 5 million euros at 115 and we are covered now on payments through to October 2009~~8~~^(?), so we have another 6 months or so to go to the next payments. We have kept that strategy under review and, in accordance with the strategy, we have reviewed it and we have recently changed the stepped rates to we will now buy a further 5 million euros at 115 and a further 5 million euros at 117.5. Apart from that, the strategy stands as ~~is, as~~ was.

Senator B.E. Shenton:

If it goes to 105, what is the strategy then?

Mr. I. Black:

If the euro rate goes down, then it will end up costing us money. We have looked, in quite some depth, at the alternatives to take out the downside risk. In particular, we have looked at forward contracts, we have looked at options and vanilla-flavoured options. We looked at some fairly complicated ones. We have looked at currency put options; we have looked at currency collar options; we have looked at currency ratio collar options. All these things would lock out the downside but they come at a cost. The most recent quotes we have had, for instance, which would be to lock out the downside at the current rate for the next 24 months, would be 8 per cent. So we could take out the downside but there would be a very significant cost to that.

Senator B.E. Shenton:

Going back to the strategy it seems to say we will deal with it if it hits 105 so, as I said, what will you do if the rate hits 105? You will have another meeting?

Mr. I. Black:

We will seek the advice of our investment advisers. So far the strategy has been more successful than just locking out on 17th December, which would have been our alternative.

Senator B.E. Shenton:

Well, I agree with you that sterling has strengthened against the euro over recent weeks. That may continue, it may not, who knows, but the strategy at the moment is if it hits 105, panic. Is that what the strategy is at the moment?

Mr. I. Black:

No, we would seek further advice at that time.

Senator B.E. Shenton:

But should you not know what you are going to do if it hits 105?

Mr. I. Black:

The strategy is to review it if that happens.

Senator B.E. Shenton:

So on the upside, we are going to limit any gains because we are going to take euro out at high levels but on the downside, we have got no stop loss, we have got no strategy; we are just going to have a meeting. Is this not the problem, you have had all these meetings but you have not done anything?

Mr. I. Black:

No, that is not true. A huge amount of effort has gone into trying to deal with this issue and we have tried to obtain the best advice we can. If you ...

Senator B.E. Shenton:

The advice you have had is have a meeting if it gets to 105. Is that what you are saying?

Mr. I. Black:

No, the advice is our trigger policy. If it was deemed ... and if you follow that policy and if it works, it could be that the States comes out of this with little or no loss. It could even come into positive territory and that is, at the moment ... again, we are seeking advice on projections for the euro rate and Reuters is for it to improve and some forecasts, such as Barclays, are currently forecasting quite significant improvements in the euro rate. I have got those forecasts here if you want. The alternative, which we could do, is we could just go out and buy all the euros now and that would limit any downside risk. It would, of course, also crystallise a loss at a historically low rate and a rate at which most people expect will improve.

Senator B.E. Shenton:

So, at the moment, you are speculating with the currency?

Mr. I. Black:

No, I would not agree that I would use the word “speculation”. I was going to say you cannot take risk out in this life. You can take risk out in this life but with that may come at a cost. What you have got to decide is is that cost acceptable to you. On balance, the advice we have got is that on the balance of cost and return, that this is the best strategy for us.

Senator B.E. Shenton:

Well, I put it to you, would it not be better, with the rate moving in your favour, that you have a moving stop loss? As the rate goes up, your stop loss goes up and then you are taking out there instead of 105 or ...

Mr. I. Black:

So, some form of option?

Senator B.E. Shenton:

No, just a stop loss, just say: “Right, we will cut if it falls back to a certain level.”

Mr. I. Black:

I am being honest, I am not sure what you mean by that. The way you could ...

Mr. K. Keen:

I think where Ben is coming from, and I agree with him, is that you have got triggers at one end and not at the other end, and it is easier to make a decision when it is rising because you go through 115, it is an easier decision. It is a really difficult decision at 105 and hence that is why you should have something that is set so that it is automatic and that is where this gap is.

Senator B.E. Shenton:

So if it gets to 117.5, you say: “Well, if it falls back to 115, then we are out” but on your policy, you are going to wait until it all goes all the way back to 105 and then you are going to have a meeting.

Mr. I. Black:

Yes, okay. That sounds to me to be a suggestion with merits to it and I would be very happy to discuss it with our advisers.

The Connétable of St. Peter:

Just a little one again, I am just coming back to those consultants again. You have just said in answer to Ben’s question a few moments ago that the advice that you have got at the moment from your advisers on the strategy you are currently employing with regard to the exchange rates, is that the same advisers that advised you last year?

Mr. I. Black:

Yes.

The Connétable of St. Peter:

So we had duality of advice coming from a number of advisers last year and we are still relying on some of those same advisers now this year?

Mr. I. Black:

We are relying on our single strategic investment adviser at this point.

The Connétable of St. Peter:

So your confidence is higher with the one that you use rather than the others that were employed last year?

Mr. I. Black:

They have been the one who are our paid advisers on our investments and that is within their remit so, yes, they are the ones.

The Connétable of St. Peter:

Sorry to be pedantic about this but coming back to one of Ben's earlier questions was what confidence do you have that they are qualified to give you advice on hedging and you could not give us an answer then. Why would you give us an answer now?

Mr. I. Black:

You are going to interview them. I believe that they are qualified to do this. I will check their qualifications.

The Connétable of St. Peter:

Sorry, what you have said to me just then, in my words, is that: "We have not checked that they are competent to advise the States on the hedging policy and yet we have set up a strategy based on their most recent advice." Those are my words, not yours, I accept.

Mr. I. Black:

Okay. I cannot say for certain as I speak to you today but I am confident that they will have those qualifications but it is a matter of fact.

The Connétable of St. Peter:

That is your belief but not your firm conviction?

Mr. I. Black:

I would have to double-check it.

The Connétable of St. Peter:

Okay, I understand, thank you.

Senator B.E. Shenton:

This is just an aside but when we were putting together this meeting, we did find that we had to contact a firm in Guernsey, a firm in London and a firm in Manchester. Is there any particular reason why you do not take advice locally, seeing that Jersey is a finance centre?

Mr. I. Black:

Hewitts were appointed before my time. Long before this happened, we had an intention of going through a tender process within the next year on investment advice, so through that process, no doubt, we will seek a range of people to tender on currency management. We did have a clear specification and we did seek appropriate people there and Royal London Asset Management came out as the best in terms of service and price and I have got to say they have delivered for us so far. I have got no hang-up about on-Island versus off-Island. I think the important thing is we get the best we can for the States.

Senator B.E. Shenton:

We have got this chunk of money unhedged at the moment, so can you just reiterate what the strategy is in the department and whether this has the full political backing now, because obviously concerning the previous policy there was a lack of political input there?

Mr. I. Black:

Yes. On advice from Hewitts, we have this stepped strategy now which is to get the best result we can for the States. The revised strategy is we have purchased 5 million euros at 115. We will purchase another 5 million euros when the rate is 115; 5 million euros at 117.5; 5 million euros at 120 and the balance at 125; and at each step we will review the strategy.

Senator B.E. Shenton:

If it never gets there and it goes down to 105, you will have a meeting?

Mr. I. Black:

We will buy at the spot price at that time. Obviously, we have 6 months until we make the payment now so there is time to review these policies.

Senator B.E. Shenton:

The advisers that you have, are you in constant contact with them as the rate moves? Are they reviewing this advice on a daily basis or is this just advice they have given and there is no ...

Mr. I. Black:

It is not being looked at on a daily basis. [\[b3\]](#)

The Connétable of St. Peter:

What I just picked up there, this is on a timeline. In other words, the last comment you made about if it starts to drop you will make a decision at that time and you do not have to make that decision for another 6 months. Am I confusing 2 things together there? Are we looking at a timeline rather than a currency movement line?

Mr. I. Black:

The next [unfunded](#) payments do not have to be made until October 2008 ~~89~~ [\(?\) \[MDeLaC4\]](#).

The Connétable of St. Peter:

This is to the contractor?

Mr. I. Black:

Yes.

The Connétable of St. Peter:

That is the time when you are going to look at the exchange rate and decide whether to ...

Mr. I. Black:

No, obviously figures are reached before that time. We will do more forward purchases. I think it is anyway we will review in the ~~3~~6 month period.

The Connétable St. Peter:

Just coming back to Ben's point. If, for example, you do not have another payment to make until October - I am hypothesising at the moment - and within that time the exchange rate drops down to Ben's 105 in the intervening period, then we are going to sit on that and wait until we have got something and decide whether to buy or not. This is essentially what I am getting from what you just said.

Mr. I. Black:

Sorry, can you say that again.

The Connétable St. Peter:

I am hypothesising that if you have not got a payment to make until October to the contractor and the exchange rate does drop down to 105 in the intervening period you will not make a decision then, you will wait until you have got to make a decision in October.

Mr. I. Black:

No, we would review at 105.

Senator B.E. Shenton:

They may decide to cut the whole lot out or they may not.

Mr. I. Black:

I do take the point. I cannot profess to be an expert on these things. It has been quite clear we have never had them before. I am an expert on many things but not this area. At the end of the day, we rely on advice. That is the advice we have received. You have suggested today a proposal that I think has got merit in it and we will certainly ...

Senator B.E. Shenton:

Well, one of the basic rules of investment is that you do not cut your profits and run your losses. In fact, if anything, you should cut your losses and run your profits. Your policy at the moment is to cut your profits and run your losses.

Mr. I. Black:

I understand what you are saying about downside and, as I say, it has got merit and we will review it.

Senator B.E. Shenton:

We were kindly sent the times that you converted some of the money and we went back on the graph and, for example, one of the rates that you achieved at the time is right. It was outside the range which we could see on Bloomberg's and Reuters that the currency traded at that time. How do you, as a department, check the rates that you are achieving? Do you just take their word for it, bearing in mind that a few pips here and there can add up to a substantial amount of money?

Mr. I. Black:

We have asked R.L.A.M. (Royal London Asset Management) how they purchased the euros and they have responded to us. It is quite extensive advice. Do you want me to take you through that?

Senator B.E. Shenton:

If you could; if that is all right.

Mr. I. Black:

They said they purchased the euros through ... I can say businesses and names, can I not?

Senator B.E. Shenton:

Yes, you can, yes.

Mr. I. Black:

HSBC London with which they have an arrangement. Because of that, they can telephone HSBC London and ask traders to quote with spot or forward exchange rates for relevant currencies, in this case selling sterling to purchase euros. At the same time, we cross-checked the rate quoted by HSBC against live F.X. (foreign exchange) rates quoted by contributors to the Bloomberg money markets monitor. The check is to ensure the rates quoted by HSBC are competitive with the F.X. market in general. We are able to report that the rates quoted by HSBC are, in our opinion, always comparable to the rates quoted by Bloomberg.

Senator B.E. Shenton:

All right, but your counterparty was not HSBC. Your counterparty was Royal London? You did the trade with Royal London.

Mr. I. Black:

Royal London organised it on our behalf.

Senator B.E. Shenton:

They organised it? Did they take a turn on the rate?

Mr. I. Black:

No, we asked them what costs were involved and they said: "None in that HSBC does not charge us and we do not charge the States of Jersey for F.X. transactions. HSBC will make the return on the F.X. trade through the buying and selling spread on F.X. rates. HSBC's traders will be constantly receiving,

buying and selling orders from their traders and/or their customers. HSBC will, for example, will buy sterling and sell euros at, say, 1.08.05 or sell sterling and buy euros at 1.08.15 in which case the spread is .001 which is not large but on big and frequent F.X. transactions, the trading profits generated can be quite significant. We are of the opinion that HSBC spreads are competitive with other major players, thus affording their clients access to market rates for F.X. requirements. Just to confirm, aside from the potential profit made by HSBC, there are no other possible charges or fees involved.”

Senator B.E. Shenton:

Okay. What market information service providers do you have within your department to check those? Do you have Reuters or Bloomberg or any proprietary systems that you pay for?

Mr. I. Black:

No, we do not, we are not that size organisation. We do not have the skills or expertise. We rely on contracting out. What we have done, though, is we have asked Hewitts to do a check on this. They came back and they said they did check these and they thought that both the arrangements that R.L.A.M. had - and they have checked these trades - were consistent with Bloomberg screens.

Senator B.E. Shenton:

Okay. Obviously you outsource to Royal London this and also the placing of cash deposits and so on and so forth but you do not have Bloomberg or Reuters or anything to check that the rates you achieve are tight?

Mr. I. Black:

No, we do not. Maybe you think we should have more extensive staffing. The fact is that the States wants to keep the number of civil servants down to the absolute minimum so we contract out these functions and have very few staff ourselves. As is also clear from the C.A.G.'s report anyway, what we discover is that civil service rates of pay is not competitive or have not been with private sector rates of pay. So even if we had the desire to have staff to do this we would have difficulty recruiting.

Senator B.E. Shenton:

Well, I do not think you would have difficulty at the moment. A lot of private sector staff are being laid off.

Mr. I. Black:

Yes, it may well be that it changes but certainly in this period, when that Strategic Investments Manager left, we advertised and we could not replace him.

Mr. A. Fearn:

Mr. Black, if I may, with regards to the existing advice and existing arrangements, you have indicated that Hewitts are providing you with F.X. advice. Is that mandated now? Is that included in the formal arrangement that Hewitts now have with the States?

Mr. I. Black:

We have not amended their mandate as yet. Clearly, we need to have discussions on this anyway. As I said, we are going through a tender process and we will re-specify requirements as part of that.

Mr. A. Fearn:

Yes. Sorry, if you could just reiterate the different parties involved with relation to the current F.X. transactions. I believe you said that Hewitts are providing advice to you on the stepped rates. Hewitts are then engaging, is it HSBC or is it Royal London with regards to the actual execution? There is obviously the States Treasury Department themselves. The States, I assume, have no direct execution facilities with somebody like HSBC so ...

Mr. I. Black:

No, we did the budget of £5 million through Northern Trust who hold all our investments on our behalf.

Mr. A. Fearn:

All right. So, we have the States Department, we have Northern Trust who then execute on your behalf with those that make markets in the F.X. which, in this case, is HSBC?

Mr. I. Black:

Yes.[\[MDeLaC5\]](#)

Mr. A. Fearn:

Thank you.

Mr. M.P. Magee:

Could I just ask a question with regards to current policy, the new policy that is in place? Who signs that off? Is there a collective responsibility for that like a management board or ...

Mr. I. Black:

Yes.

Mr. M.P. Magee:

I am trying to put it in a corporate world perspective.

Mr. I. Black:

Well, we do have an Investment Sub-Committee at the moment, which involves the Minister, the Assistant Minister and myself. That committee is responsible for signing off all strategy and major investment decisions. Its remit, at this time, did not include foreign exchange transactions because we have not had any. The sub-committee's mandate has been extended to include foreign exchange transactions. So everything over a certain level will go to them now. That is our interim arrangement and clearly what we need now is to have a clear strategy in place if ever major foreign exchange transactions occur again in future. We have taken that through 2 drafts now and our intention will be to

issue it as a financial direction within the next month or so.

Mr. M.P. Magee:

Okay. Does that give a wider circle for a review like the rest of the management committee? I am trying to think, if you take a board then there is collective responsibility, it is signed off and then it makes your life easier.

Mr. I. Black:

Yes, and we have that with the States major investments. We did not have it with foreign exchange because we had not had any of it before. One of the learning points has been that we should include foreign exchange within their remit, and I know the Minister, when he stood, expressed an intention to look at having some board with which to put past all major States investment decisions and he is considering that.

Mr. A. Fearn:

If I can then just revisit the advice that you currently receive. Is that on a proactive basis? For example, does that advice include economic views which is obviously part of the input on how exchange rates move? Is there any forecasting there to enable you to look at those steps and how they are moving against currency rates?

Mr. I. Black:

I understand that Hewitts have house view on future F.X. rates which informs their decisions and that will inform any one of our regular reviews on the triggers. Does that answer your question?

Mr. A. Fearn:

Yes, thank you.

The Connétable of St. Helier:

Can I come in with a quick question about the day of the signing of the contract, 14th November, the day before emails were flying around because there was concern about the cost rising. I believe the Minister for Treasury and Resources was copied in, as was the Minister for T.T.S. and the Chief Executive of the States. So, a day before the signing, people were aware there was a problem but the signing took place the following day and there was a related ministerial decision, the Comptroller and Auditor General tells us, by the Treasury and Resources Minister approving the necessary budget and giving delegated authority to you to approve the actual sum required. Did you feel uncomfortable with that position you were being placed in in the sense that the public finances law does not allow an accounting officer, which I appreciate you were not on this project ... but it does not allow a civil servant to spend money that the States have not approved. Did you feel that this was a ...

Mr. I. Black:

No. Admittedly, this was all done under huge pressure but what happened here is normal process. Before my time, the States was, at one point, considered symptomatic with overspends on capital schemes. One of the first things I did, as Treasurer, was revise capital processes. One of those things is detailed forward planning of capital schemes. Another thing is to do with risks in capital schemes. Now, certain risks you could try and get rid of but it just would be prohibitive to do so. Perhaps it is a bad example but below ground works on certain schemes, you can do a reasonable degree of investigations but you cannot really find, until you dig something up, what it is going to be. What we do is we give the department sufficient to meet the known risks on the project and we keep entirely separate a risk reserve for those risks that we have identified that you cannot do anything about. A great example of that would be planning requirements on this scheme. The Planning Minister can make quite legitimate demands that affect the cost of the scheme. So we keep this capital risk reserve and it is specifically there for these risks that materialise. As I said, in this case 3 lots of risks did materialise. The States were told that they were carrying the risk on currency exchange to contract date and that did materialise. There were very significant planning requirements added to the cost and there were contractual negotiations added to the cost. This decision here was to transfer money from the risk reserve to enable the scheme to go ahead and that is our standard process. Admittedly, it had to be done

very quickly here but it was in accordance with the normal process.

The Connétable of St. Helier:

Was there not, however, a problem in that because the euro exchange had not been fixed, there was a risk that that could continue to go down and so that we were entering into a contract which we were not entirely sure we would be able to pay, certainly not within the sums agreed by the States?

Mr. I. Black:

As I said, things changed because of the movement in the euro rate. You are quite right that by that time it was intended to run the risk for a short period of time until the first contract payment.

Senator B.E. Shenton:

I am conscious of the fact that we have kept you much longer than we anticipated but could I just ask you to run through some of the changes you are going to make in the department as a result of the ... well, one assumes that you are going to make changes within the department as a result of what has happened with regard to the euro and the lack of the hedging?

Mr. I. Black:

For reasons, I think, that have become clear in this discussion, not only was this an exceptional event, in that we have never had such a major transaction before, but there are also very difficult circumstances in which it happened. The first thing is we do not know of other major States procurements in the immediate future which will be subject to the same thing, so it is not something that is likely to happen frequently. Having said that, there must be a learning process from this and one of the most important things is that we cannot have a recurrence of this. The things that we will do to deal with that, first of all is we will have a clear policy and a financial direction where everyone upfront will know exactly how we are going to deal with the issue, should it arise. That will also make quite clear the responsibilities. Whichever way we jump, whether it sits with the accounting officer in the department or whether it sits with the Treasury, we will be quite clear where responsibility for dealing with foreign exchange issues

lie. As has already been said, we are going to re-tender for investment advice and we will make sure that the mandate does include, in the event it arises, these foreign exchange issues. We are also looking at the organisation of the department and the fact is we had one strategic investments manager. We are that tightly staffed that we have one person who dealt with this. When they left, we were exposed in that we did not have anybody with any expertise so I think there comes a point where you just must increase basic capacity. I think we have to look at that as well. Finally, it has been quite clear ... as you said, it may change with the change of market conditions but we need to look at rates of pay as well. We cannot be in a position where we cannot recruit people when we need them.

Senator B.E. Shenton:

You said that in future you were going to make sure you have a clear policy and financial direction but surely you had a clear policy and financial direction set out in the proposition for the funding?

Mr. I. Black:

No. I understand the policy to be a standing arrangement on what will happen in certain events.

Senator B.E. Shenton:

So you are talking about a better managerial grasp on what you need to do to carry out the financial directions of the State?

Mr. I. Black:

No, what it might say ... we have gone through 2 drafts of the policy. What the policy could say, for instance, is where you are involved in a foreign exchange transaction of, say, more than 5 million euros, you will hedge and that will be a policy.

Senator B.E. Shenton:

Well, yes, but you could argue that that was the policy here.

Mr. I. Black:

What was in there - I will not deny this - was a clear intention of what to do, what was intended to happen. It did not happen because people at the time thought that it would be a better outcome for the States if they still intended to purchase all the euros but they extended the period through which that purchase happened for a short period. In the event, they were incorrect.

Senator B.E. Shenton:

Does anyone else have anything else? Well, thank you very much again, Ian, for coming along today.

Mr. I. Black:

Thank you.

Senator B.E. Shenton:

As you know, we have another hearing later in the week and we will decide, as we analyse what has been said today, how to push this forward. Thank you very much.

Mr. I. Black:

Thank you.