

STATES OF JERSEY

Public Accounts Committee

TUESDAY, 21st JULY 2009

Panel:

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

Witnesses:

Mr. I. Black (Treasurer of the States)
Mr. J. Turner (Deputy Treasurer)
Ms. A. Taylor (Head of Financial Reporting)

Present:

Ms. A. Heuston (Committee Clerk)

Senator B.E. Shenton (Chairman):

Right, it has just gone 2.00 p.m. so we will kick off. Thank you for coming along, Ian. What I will do is I will go around the table and introduce everyone and then perhaps you could introduce your colleagues that have come along today with you. We have Alexander Fearn, P.A.C. (Public Accounts Committee) member, Deputy Vallois, Constable Refault, Patrick Ryan, Senator Breckon, Kevin Keen and Anna, who is our support, so, welcome. I have got to just quickly read out a bit of housekeeping which is that the proceedings of the panel are covered by parliamentary privilege through Article 34 the States of Jersey Law 2005 and the States of Jersey (Powers, Privileges and Immunities) (Scrutiny Panels, P.A.C. and P.P.C.) (Jersey) Regulations 2006 and witnesses are protected from being sued or prosecuted for anything said during the hearings unless they say something that 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 their 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 questions. If I could just start, Ian, by just asking you to introduce your colleagues.

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

Okay. We have come quite mob handed today because I thought it would help you, as well as us, for you to see the whole of our financial reporting team and so, first of all, there is myself, Ian Black, Treasurer of the States. On my left ...

Mr. J. Turner (Deputy Treasurer):

Jason Turner, Deputy Treasurer.

Mr. I. Black:

She has not got a microphone on, introducing Amy Taylor here who is head of our financial reporting team, and I will just mention so that you have got the full pack, sitting as the member of the audience is another member of our team, Andy Robinson, who is the accountant. What you see here, the 2 of them, is the whole of our financial reporting team who deal with the accounts and other financial reporting in the States.

Senator B.E. Shenton:

Okay. I will start off by asking, prompted by one of my colleagues, a very open question to give you plenty of chance to give a very open answer, who are these financial reports and accounts produced for?

Mr. I. Black:

That is a very good question. I think we seek to be all things to all men, so the answer to that is for all our stakeholders. I would say, primarily, for the general public and States Members because the aim is to demonstrate how public money is being spent.

Senator B.E. Shenton:

Obviously you are working towards certain standards of reporting. It has taken quite a long time to get to where you want to go because this process started quite a few years ago and I think you have been heavily involved with the process. How satisfied are you with the sort of progress that you are making with regard to G.A.A.P. (Generally Accepted Accounting Principles) accounting and so on and so forth, bearing in mind that the accounting standards do tend to change as you go along?

Mr. I. Black:

Well, this repeated a number of times. I cannot say for certain but we believe we will be the first small jurisdiction in the world to be producing G.A.A.P. compliant accounts. I cannot say for definite but we cannot find anyone else who has, and certainly not Guernsey, they have not even considered it yet, and the Isle of Man do not, so none of our near peers. I think the U.K. (United Kingdom) started on this process about 12 years ago. They still have not quite produced whole of government accounts, so it took them 12 years, and we have been at it 3 and have overtaken them. In that case, I would suggest that the pace of change here has been phenomenal and the achievement for a small jurisdiction to manage this has been quite high. In terms of what the accounts look like, these accounts before you today are not G.A.A.P. compliant accounts because it is next year's accounts that will be, but they show big steps in the right direction. We have already done things like accruals and the like. We have changed the format of the accounts. We moved into a format that they would look like under G.A.A.P. in many ways. We have also tried to put in a number of enhancements this year. We have tried to improve the pages for individual departments to make them more readable. We have also brought in some additional disclosures such as on financial instruments between notes 23 and 10. I guess one of the downsides of this is people always ask us for more information, and this is one very hefty document now. I have got full admiration for anyone who makes it from start to finish, but it is because stakeholders keep on asking us to produce more, so that is what we do. Next year though we are trying to slim it down. We are looking at a 2 part document where the accounts side is really rather smaller and something that looks more like a report integrating with performance information. So, you are going to see not only G.A.A.P. accounts next year but a really big change in presentation and a lot slimmer.

Mr. J. Turner:

We are looking into it as we speak. You will see that a massive proportion of this document is the departmental pages, which provides a lot of very useful information in there, but you would not normally get that kind of detail in a set of financial accounts. One of the things we are doing is looking at the volume of that, so these are a more manageable set of accounts, and the volume of departmental detail is an annex to the accounts themselves, which would follow the format of the Business Plan.

Senator B.E. Shenton:

When we had the accounts officer for Home Affairs in yesterday, he was very keen to point out that he came within budget within his department. Now, of course, and I think it was an amendment by P.A.C. who forced you to put in the original Business Plan figures into the accounts. When you are looking at it, as Treasurer of the States, do you consider a figure that is within the final approved budget to be a success or do you tend to look back at the original budget and think, yes, well we have gone off the rails a little bit here?

Mr. I. Black:

One of the problems I find with this is what is the question that people want us to answer? If we were a company, I do not know if companies produce budget figures, nor are they the slightest bit interested in them generally, they are just interested in what the outturn looked like and generally the outturn compared to previous years. Putting in information on budgets and approved budgets is something that is public sector-ish, I guess, because what was the approved spend? My concern is we end up with numerous different sorts of variances here. We end up with comparisons between the original budget in the outturn, the comparisons between the approved budget and the outturn, and even comparisons between the original budget and the approved budget. All of those 3 we have put in there. We have put them in at the request of the previous P.A.C. Undoubtedly it has improved the information. Please, I would be grateful for your feedback on whether you think it has made life easier and more meaningful. I worry at the end of the day what we end up doing is confusing people because we are running at least 3 different explanations of variances.

Senator B.E. Shenton:

I think it would be fair to say that when we pass the Business Plan, the Business Plan is what we pass as the States. The final approved budget or variances to that Business Plan is normally extra spending. How far do you see your role to make sure that the States sticks to the original Business Plan, as opposed to making sure that you just account for every penny that they spend? What degree are you Treasurer and what degree are you the States accountant?

Mr. I. Black:

Do you want to try that question again? Which question are you asking me? Clearly, the difference in the Business Plan and approved budget we all know is carry forwards plus additions agreed by the States. It is up to the States to decide on whether they can agree additional spending. Far be it for me, that is a political decision. To that extent the job here is to make sure that people live within their budgets, their approved budgets, and that is what the Finance Law requires.

Senator B.E. Shenton:

Where I am coming from is that you refer back to private companies. The style of the report, where the introduction by the Treasury Minister is very gushing, as you would expect from a P.L.C. (public listed company): "Did we not do well, blah, blah, blah, blah, blah" but there is no counter within that to say: "Well, yes, we have done well but the Annual Business Plan was X and the States decided to do Y and this is very disappointing that we have spent significantly more money than in the original Business Plan." Is this a document that is more a sort of bit of P.R. (public relations) work as opposed to a serious piece of work?

Mr. I. Black:

This is quite the opposite from my point of view; obviously the Minister's foreword is the Minister's foreword. My Treasurer's report and the accounts are all subject to an audit and they have all received a clean audit report, and they are statements of fact. It is up to others what conclusions they draw from those facts. There is just no way I am going to get involved in presentational stuff. My job here is to

give the facts.

Senator B.E. Shenton:

The facts are that we spent significantly more last year than we did allocated in the original Business Plan.

Mr. I. Black:

Yes but you knew you were doing that every time you made a decision to increase spending.

Mr. J. Turner:

Would it help perhaps, if I could draw your attention to page 7, I believe that sets out the point that you were making. The table down at the bottom, table 3, shows the £515 million that was approved in the Business Plan and how that progressed through to the final approved budget of £528 million. The table at the top of the page, table 2, shows the outturn spend of £522 million against the original Business Plan approved figure at £515 million.

Mr. I. Black:

Just to take that example of that page, the States decided to allocate £6 million extra on its budget to the historical child abuse inquiry. I do not think it is up to me to comment on whether that was a good or bad decision by the States. That is a States decision.

Senator B.E. Shenton:

Yes, I do not really want to go down that road, but although it is the States decision to spend the money would you say it is your job to make sure that the money is spent wisely?

Mr. I. Black:

Yes, very much so.

Senator B.E. Shenton:

So, from that point of view, and just drifting off a little bit but seeing that we are going down this road, it was brought to your attention a while ago that there were potential problems with regard to the assessor or the accounting officer structure within the Home Affairs Department, what has been done to address that?

Mr. I. Black:

Sorry, I am not hearing your question again.

Senator B.E. Shenton:

The accounting officer for Home Affairs has, through a ministerial decision, put his hand up and said that because of the structure he cannot verify that the money spent on the police side within the Home Affairs budget was spent wisely in accordance with the States of Jersey Public Finances Law. This issue was raised by the Comptroller and Auditor General a couple of years back with the Chief Executive of the States that they may cause a problem in the future and, as circumstance have turned out, it has caused a problem. The accounting officer said: "We cannot make sure that the money is being spent wisely." You, as Treasurer of the States, have the responsibility to make sure the money has been spent wisely. Where are we on that because, at the moment, there is a significant spend of taxpayers' money which is not being verified as being spent correctly?

Mr. I. Black:

The Minister determines the accounting officers. The accounting officer is currently the Chief Officer of Home Affairs. I am not personally being asked nor aware of any proposals to change that at present.

Senator B.E. Shenton:

What was your reaction to the ministerial decision signed by Senator Ozouf with regard to the fact that the accounting officer said he could not undertake his role?

Mr. I. Black:

Sorry, again, I am not aware of that.

Senator B.E. Shenton:

There was a ministerial decision signed whereby Steven Austin-Vautier said that he could not undertake his role because of the current set-up in respect of the Home Affairs Department and the accounting officer's role within that department.

Mr. I. Black:

As far as I am aware, the current arrangement is he accepts his accounting officer responsibilities for Home Affairs and has arrangements in place to ensure that the money is properly accounted for.

Senator B.E. Shenton:

No, there has been a ministerial decision passed to say that that part of the money, which is a significant part of the budget, effectively has no accounting officer.

Mr. I. Black:

I am not aware of that. If you let me have the arrangements I will happily look into it.

Senator B.E. Shenton:

All I can do is I can forward you a copy of the ministerial decision that Senator Ozouf signed.

Mr. I. Black:

Okay.

Mr. K. Keen:

Chairman, can I just ask the Treasurer, this is a weighty document, as you said Mr. Black, to what extent is it audited? Where does the audited bit stop?

Mr. I. Black:

It is made quite clear I think in this ...

Mr. K. Keen:

Because normally in the auditors report it would say page this to that sort of thing but, unless I am being slow, I could not see that; probably I am being slow.

Mr. I. Black:

I think they do say that, do they not? Page 21, which paragraph are we on?

Ms. A. Taylor (Head of Financial Reporting):

The top paragraph ...

Mr. K. Keen:

Oh, I see, so it is up to the cash flow and the notes, so most of it is unaudited then after that. Is that correct then? After that we are in unaudited documents.

Mr. I. Black:

No.

Ms. A. Taylor:

If I can comment on that, the audit opinion addresses, as you say, the operating cost statement, the balance sheet cash flow and the notes to the accounts but they do also review the information within the whole document for consistency, so they do audit, in fact they did detailed work on the department's pages that the opinion is issued over the aggregated position in the accounts.

Mr. K. Keen:

Yes, so that the formally audited document ends at page 55 then really.

Ms. A. Taylor:

But, in line with any audit opinion, they have to review all the accompanying information for consistency and they do that.

Connétable J.M. Refault of St. Peter:

Ian, if you can just help me for the moment, just going back slightly, who is responsible for ensuring that the accounting officers are performing to their brief?

Mr. I. Black:

Which is a good question. I guess, ultimately, the Chief Executive because they have a reporting line to him.

The Connétable of St. Peter:

Would it not come through the Treasurer of the States? You do not have an overview of the accounting practices of individual departments?

Mr. I. Black:

I have responsibility as head of profession for determining the financial standards.

The Connétable of St. Peter:

Right, but that does not draw down to how they handle their monies within the departments. If you felt there was, I suppose, a breach of standards it could be a result of a misspending, could it?

Mr. I. Black:

Yes, if there is a breach of standards. It would probably come through from an audit report to something like that, and all audit reports go to our independent Audit Committee and if there were some issues there to do with the accounting officer not complying with their requirements then it would be up to the Chief Executive, I think, who sits on the Audit Committee, to raise the issue with the member of staff. It would be a disciplinary matter I think.

The Connétable of St. Peter:

Okay, so just going back to the issue that the Chairman was just raising with the accounting officer within Home Affairs, you, as the Treasurer, I am very surprised that you were not aware of that because that is quite common knowledge.

Mr. I. Black:

I am aware of issues, obviously, about the historical child abuse inquiry. Sitting here today I am not aware of where that ended up. I am aware that there was some review undertaken. I am not aware of what action needs to be taken, if any, on that matter. As I understand it, at the moment, the accounting

officer for Home Affairs is still the Chief Officer who has got arrangements in place to reassure him that money is spent properly.

The Connétable of St. Peter:

Would you, as the Treasurer of the States, expect that you would be involved in matters which are involved around accounting practices within other departments?

Mr. I. Black:

Such as?

The Connétable of St. Peter:

Well, let us stick with the item that we are talking about within Home Affairs. We know that there is a difference in there. Would it be fair for us to assume that you, as the Treasurer, would be involved in discussions surrounding that issue?

Mr. I. Black:

Sorry, I really am not following this.

The Connétable of St. Peter:

You have just said that you were aware there was a problem within Home Affairs to do with the Haut de la Garenne and all that inquiry, and there was a difference to normal accounting practices, would it be fair for us then to presume that you, as the Treasurer of the States, would have an input into how that was managed?

Mr. I. Black:

The accounting officer is responsible for managing the affairs of the department and that is absolutely quite clear in law. I think there has been some review of that. I have not seen an outcome from such a review. My understanding at present is that the accounting officer has put arrangements in place to ensure that he can properly discharge his responsibilities. I am aware, for instance, of bodies being set up in which the expenditure from the historical child abuse inquiry is subject to a review team that involves both the accounting officer and his finance director.

The Connétable of St. Peter:

Were you involved in the setting up of that body, your advice was taken?

Mr. I. Black:

No, I was not involved in the setting up of that body.

Senator B.E. Shenton:

Just let us take a step back. What happened is a ministerial decision had to be passed because otherwise the accounting officer for Home Affairs would have breached the States of Jersey Law because he could not fulfil his role because, from his point of view, he had no input into the way the States of Jersey Police spend their funds, because this came under the control of Graham Power. It was a weakness highlighted by the Comptroller and Auditor General. I was a little bit surprised at your response given that the actual accounts under Home Affairs, and we did discuss this with the accounting officer yesterday: "However, the funding experience has exposed potential weaknesses which require a review of the funding arrangements within Home Affairs. Discussions have already commenced with the Treasurer of the States to this effect." Page 98. We are going to be following up on the ministerial decision because you cannot have a law where you can just pass a ministerial decision and get out from your responsibilities under that law, otherwise you might as well not have the law in the first place. It does seem a little bit strange that your reporting accounts say that discussions have taken place with you

and you do not seem to know much about it.

Mr. I. Black:

My knowledge is that arrangements have been put in place within the department that now deals with these issues.

The Connétable of St. Peter:

Within your department?

Mr. I. Black:

No, within the Home Affairs Department.

The Connétable of St. Peter:

So, is this statement here on page 98 incorrect then? Sorry, paragraph 1, 2008 results, the last sentence starting: "However ..."

Mr. I. Black:

"However, the Council of Ministers have decided that only £250,000 should ..."

The Connétable of St. Peter:

No, page 98, 2008 results, half way down the page, paragraph headed up there: "However, the funding experience of the year, H.C.A.E. (Historic Child Abuse Enquiry) has exposed potential weaknesses which require a review of the funding arrangements within Home Affairs. Discussions have already commenced with the Treasurer of the States to this effect." Is that statement incorrect in this case?

Mr. I. Black:

No. Well, to my knowledge and my recollection there have not been detailed discussions as yet. There have been some informal discussions on arrangements that the accounting officer has put in place to ensure that he can adequately control the finances of the department.

The Connétable of St. Peter:

I am sorry, I am just not getting clarity here because just a few moments ago you said you did not know anything about it. Here it says it does and now you are saying you are aware of some things.

Mr. I. Black:

I have not had any detailed discussions or strategy involvements or working party in this. I have had some informal discussions and there may have been a few exchanges of emails and I am aware that the ... I have been in other fora where the accounting officer of Home Affairs has said that he has now got arrangements in place to ensure that the finances are adequately controlled. I am aware that they have set up a group that involves himself and his finance director where they review all expenditure on the historical child abuse inquiry.

The Connétable of St. Peter:

Yes, thank you. It still leaves me wondering whether this statement here is correct and whether it has been resolved or not. Thank you anyway.

Deputy T.A. Vallois of St. Saviour:

Ian, with regards to internal controls within the Treasury Department, just looking back on the report that was done by P.A.C. back on 9th September 2008, and they mention with regards to the financial directions and how this was an issue. Where are Treasury with regards to the financial directions, have they been changed?

Mr. I. Black:

I think you can answer that one.

Mr. J. Turner:

If I could perhaps just give you a very brief overview. There is a whole range of financial directions in place covering a whole range of various financial control issues, and these cover everything from how to buy goods to how to manage petty cash, and then a whole new range of other things. From time to time we issue new ones, or revise old ones for various reasons that come along. What we are in the midst of doing following that issue and various other issues that have come up over the past year is we have gone through a process of firstly looking at the various assurances that are in place to give us and accounting officers assurance that financial directions are being complied with. As part of that we are validating that the controls within them are still relevant, valid and appropriate at this time. We do have a programme of revisions to existing financial directions which is underway and some new financial directions which need to be introduced. This is an ongoing thing that happens most years and there are a number of areas being worked on, as we speak, at the moment. As we are advising them to do new ones we are obviously learning from past experience and ensuring that they are appropriate and as understandable as they can be, but some of them are necessarily technical documents. The other piece of work that we are about to undertake is a comparison of the control framework, so that is the areas where we have financial controls in place against best practice in the U.K., to see if we are covering everything that needs to be covered, whether there are any areas where we could look to improve our range of controls. Equally, if we have areas where perhaps the controls are more at risk than might be best practice.

Deputy T.A. Vallois:

With regards to the Chief Internal Auditor, who mentioned with regards to the financial directions and that it was a problem, he makes recommendations, I understand, to the accounting officers. Obviously, Ian, you will be speaking with the accounting officers when it comes to budgets and monies, when it comes to that time, how have they reacted to the recommendations in moving forward over the last year, 2008? Do you know or ...?

Mr. I. Black:

In terms of?

Deputy T.A. Vallois:

In terms of recommendations which would have been made by the Chief Internal Auditor because he would have made recommendations to obviously improve areas.

Mr. I. Black:

Yes. As I mentioned earlier we have now set up an independent Audit Committee, it has got an independent chair and all audit reports go to that committee. All of them have actions. For each one the accounting officers say what actions they will put in place to put things right. The Audit Committee, if they feel that those actions are not good enough, will summon the accounting officer to the meeting to explain themselves, and all those actions are followed up to make sure they are put in place by the agreed date. I think at the moment, I say this because I saw a report recently, the implementation of actions by the agreed date is running I think at 96 per cent plus, so they are being put in place.

Mr. K. Keen:

Could I have a follow-up to that one. I recall from last year in evidence to this committee, you were reported as saying that the system was incapable of exercising control over States expenditure, I think that was virtually a front page, and not surprisingly, would you say that it has improved in the last year

and if so how?

Mr. I. Black:

I was not referring to this context at all. I am not going to go to the same place again, which was about States financial planning. Your question is on controls, have they improved over the last year? I think we are on a journey, but I think controls have improved very, very significantly over the last year. We have put a lot of things in place to improve the standard of controls. We are in the process of totally reviewing financial directions, issuing new ones. We have set up this independent Audit Committee. We have done a piece of work to look at compliance with financial directions to ensure there is a framework in place. We have produced statements of internal control that are signed off by the accounting officer, and we have put a statement in the accounts. We have still got a long way to go but I think they have improved very dramatically.

Mr. K. Keen:

If the chairman put the same question to you, as to whoever put it last year on the other point, would it be any better?

Mr. I. Black:

That is on a different issue, which is about financial planning.

Mr. K. Keen:

Yes. It is quite important really though, is it not? It was quite a shocking ...

Mr. I. Black:

I may end up in the same place again, which I do not want to. When you have got independent States Members and you have not got a political party system - I am not saying I am desiring any of these things - it is very hard to get coherence and accountability for a plan. It is a bad example, but the Council of Ministers could, for instance, suggest that there should have been no pay award this year and they may have lost that proposition and that would have meant that their spending plans were in some disarray. It is quite difficult to set coherent plans and keep to them. What we are doing is we are working on improved internal planning, which is to try and work out the drivers of States spending so at least we can say, on current policies and current States plans, this is what the outturn will look like.

Senator B.E. Shenton:

The Treasurer of the States, reports to the States Assembly as a whole, so there is a level of independence there so that no one can tell you what to do. Now, surely we would then expect you to turn around and be a little bit more vocal from an economic point of view if spending was getting out of control.

Mr. I. Black:

Yes, and I think I will do that. The balance of tax and spending is a political decision. I cannot say States spending is too high or too low because that is what the people of Jersey will look up to you as politicians, say they want you to increase or cut spending and increase or cut taxes. Where I guess I would make a stand to you is if what I thought you were doing was unsustainable. If I saw someone suggesting a very big increase in States spending and a big reduction in taxes it would be my job, and I think I would do it, to tell you what the consequences of that would likely to be.

Senator B.E. Shenton:

Then you would be more vocal on the implications of the policy. The Medical Officer for Health, she has a similar role to you. She sits outside the States and she says: "We need this, that and the other. We need pandemic and this, that and the other" and then it is up to the Health Minister to decide whether we

are going to spend the money on the pandemic or not but ...

Mr. I. Black:

Yes, and if I thought there was an issue I would certainly raise it. I would say that this States, in recent years, has got a very good record of ensuring sustainable public finances. It has made some very difficult decisions, necessary decisions, on taxes which mean that our starting point today, and entering the credit crunch, we are in a financial position, I think, is the envy of the rest of the world. We have got, potentially, another structural deficit arising. If I saw the States reluctance to address that I guess, ultimately, I would have to say, either through not cutting spending or not increasing taxes, this is not sustainable.

Mr. A. Fearn:

If I can maybe go back to the implementation of the financial directions, the responsibility for monitoring progress, you have obviously given us some good examples and cited a percentage progress. Does that monitoring lie with yourselves?

Mr. I. Black:

The Chief Internal Auditor produces the report on progress.

Mr. A. Fearn:

Yesterday we heard about the Finance Advisory Board; is that something again that you use because you would be aware that that that it meets regularly, it is something that is chaired by yourself, and it contains all the States finance directives. How do you use that forum as a ...?

Mr. I. Black:

That is how we drive the professional financial management agenda in the States of Jersey, so, as you say, they meet on a monthly basis and it is through that, for instance, that we have led the programme on G.A.A.P. accounting and issues like that. Issues like controls are discussed there. Issues like improving financial forecasting are discussed there. At the moment we are working on a plan to totally automate the production of monthly reporting on a standardised basis to make sure of the deadlines. That is the forum in which we discuss these issues.

Mr. A. Fearn:

If I may, in relation to your publication of this report, which you have said is obviously bigger than last year's, or maybe next year will be a different format again, and in relation to the implementation of G.A.A.P., because that has obviously got an impact on your resources, so with regards to limitation of resources how has that impacted your ability to take some of these forward? Has that impacted on any day-to-day business, if you like?

Mr. I. Black:

Traditionally, the States has had a view, the States I joined 20-odd years ago was that it wanted to be a low tax, low spend jurisdiction, provide a low level of public services and, in particular, have very small central departments and things were done on a shoestring. Things have changed and people, quite rightly, now are saying they want very high standards of financial management, but that is not the resources that are being provided. The resources being provided have been for a low level of financial management. I am absolutely delighted that people are now saying they want more and, I have got to say, the Council of Ministers are now showing commitment to doing that. In next year's Business Plan that was published today there are additional resources for the Treasury and Resources Department, and they will be invested in a number of areas such as improving financial reporting, improving forecasting, improving the management of States investments, working on Treasury management who invest in all these areas, and I am quite pleased about it. I have got to say though, this financial management agenda,

which I am absolutely signed up to and absolutely willing to lead on, is not something we are going to solve overnight in the States of Jersey. There is huge cultural change. We will demonstrate leadership but, at the end of the day, financial management is about managers managing their finances. We will support them, we will give them reports, we will train them, we will help them on decisions forward but it is going to be quite a journey.

The Connétable of St. Peter:

Can I just pick up on the end of that. You are mentioning about financial management and certainly we have got JD Edwards, and certainly the general view is that it is not really fit for purpose and we are seeing people working outside of that and using purchase cards, so where do we go from JD Edwards?

Mr. I. Black:

I think JD Edwards had been much maligned because there are a very few organisations who have got an enterprise-wide system operating that does allow us, like we did this year, to produce accounts straight out of the system. If we did not have JD Edwards we would not be producing G.A.A.P. accounts next year. What I do accept is that the system could be more user-friendly. I think the answer to that is not to use JD Edwards as a front end. Other organisations use a friendly front end on them, and the bit you mentioned about purchase cards is about developing procurement systems in the States which may well use JD Edwards, it might not. What both these things I have just mentioned have in common is investment and, quite simply, we have not had the money to invest in the development or procurement or develop a front end but, again, as part of this management financial agenda, the Council of Ministers are starting to allocate money to that purpose. If you really want to do it well, I have got to tell you there is a bump-up in investment required here. You are talking, I do not know, but certainly more than £1 million investment in financial systems to address the sort of issues you want.

The Connétable of St. Peter:

How much of an influence do you have, as the Treasurer of the States, to make that change and that increase in investment to get a better financial management system in place?

Mr. I. Black:

If I am given the resources I can do it.

The Connétable of St. Peter:

Do you, as Treasurer, fight your corner for those resources?

Mr. I. Black:

Absolutely, but you can imagine that when you are sitting in a political environment and they say we can spend the money on nurses or teachers or a computer system for the Treasury, this one politically tends to come down the priorities quite often.

The Connétable of St. Peter:

I understand but, equally, good financial management could produce the savings that will give you more nurses and teachers.

Mr. I. Black:

I think so, and there is now recognition of that; we are starting to get that investment. It is going to be really tough. You, as politicians, are going to be told you have got really constrain a big expenditure, no growth here. If someone says: "Do you want to put more money into the Treasury and are you going to fund that by cutting the health service?" that is going to be a pretty tough decision on your part but, given that, I have got to say that the Council of Ministers, as you can read in the Business Plan out today, are putting more money in.

The Connétable of St. Peter:

Just staying on the same sort of theme, what sort of anti-fraud policies do you have in place?

Mr. I. Black:

Well, we do have financial directions that cover this. We are reviewing our anti-fraud policy and what we have done this year is we have invested in some software, which is training, in order to deal with fraud. We have also updated our whistle-blowing policy, and also next year we are investing in additional investigators, particularly in Social Security and Income Tax, to deal with fraud.

The Connétable of St. Peter:

Can you clarify that one, so there are no investigators currently within Social Security?

Mr. I. Black:

No, there are a small number and it has been identified that employing more has a double benefit of reducing fraud and potentially raising the income of the States. Again, that is a strategy that is included in the Business Plan, which is out today.

The Connétable of St. Peter:

Is that incorporated in the Business Plan?

Mr. I. Black:

They are in today's Business Plan. You will find both Income Tax and Social Security in that plan.

The Connétable of St. Peter:

Okay, thank you.

Mr. K. Keen:

Could I ask you about pensions? On page 27 of the 2008 accounts there is an item described: "Movement in pension liability", virtually £96 million, which is obviously a very big number and does not seem to have got much mention in the narrative by the Minister, or indeed in your report, that I found. On page 28, I think the principal explanation in 1996 meant there was an increase in the pre-1987 P.E.C.R.S. (Public Employees Contributory Retirement Scheme) liability, where it has virtually doubled from £119 million to £222 million. Could you explain a little as to what that is?

Mr. I. Black:

I will happily do so, or I will try my best because it is complicated. There are very extensive notes in the accounts on pension issues.

Mr. K. Keen:

Yes, accepted.

Mr. I. Black:

What this is about is about the pre-1987 debt. Up until 1987 the States funded its pension liabilities on a pay-as-you-go basis. From 1988 onwards it moved towards fully funding, and the trouble is that that left you with a debt from previous generations that give these people a greater ...

Mr. K. Keen:

I think that is understood by this committee but you booked the liability in 2005 at £100-odd million and you have doubled it now; what is the reason for that?

Mr. I. Black:

Yes, I will happily explain. The trouble was that what was agreed in 2002 was that the States would eradicate that debt over a number of years and it entered into negotiations with the Committee of Management and in the end came up with a deal that effectively meant that 2 per cent would be contributions on payrolls, so it agreed that the States overall contribution, effectively, would be 15.6 per cent, of which 13.6 per cent would cover ongoing pension contributions and that was capped, and 2 per cent would cover the past service debt. That 2 per cent of payroll was converted to a cash amount and is indexed each year in accordance with the cost of pay in the States. What we have done to put a figure on that is you work backwards on a discounted basis, effectively to what that equates to in terms of debt, and it varies hugely depending on the discount rate. Now, what we had over this period was a big fall in interest rates and that has increased the value of the pre-1987 debt. This is truly an accounting issue. There has been no change in the agreement. There has been no change in the liability. There has been no change in the contribution. What it is, is because of changes in the discount rate, is that revenue stream - I think it is about £3.5 million or something we pay in a year - when you capitalise that, based on the discount rate, it varies in accordance with interest rates. Although it is a way of demonstrating the figure, it has not changed one iota the amount the States will repay over the period.

Mr. K. Keen:

It seems a highly material change, it really does. Do the public owe £119 million or £222 million?

Mr. I. Black:

No, what the public are committed to is to repaying the debt over 82 years on a sum of money that is index-linked by pay awards. That is what they are committed to and that figure does not change regardless of interest rates. They are trying to put a capital value on that for accounting purposes. It is varied by the actuary and it is done independently by him on an annual basis. So it is not more money.

Mr. K. Keen:

If your accounts show a true and fair view I am sure it is more money, is it not? Presumably if you tried to settle that liability with the trustees you would have to pay them the cash amount and what we are saying now is it is £222 million.

Mr. I. Black:

If you decided to pay the money to the trustees now it probably would be. I think it may not be a wise thing to do at this point because as interest rates change the amount would go back down again.

Senator B.E. Shenton:

Just sticking on ... because we were talking about financial management and talking about pension funds, of course we have the liability with regard to the Teachers' Pension Fund. The perception with the ...

Mr. I. Black:

The pre-1987 debt?

Senator B.E. Shenton:

No, I am talking about the teachers ...

Mr. I. Black:

So you are talking about the pre-1987 debt or the actuarial deficiency?

Senator B.E. Shenton:

Both really, to be honest with you, because with the Teachers' Pension Fund it was well known for quite

a long time that there was a problem there. I think the original intention was to merge it in with the P.E.C.R.S. scheme, but then P.E.C.R.S. turned around and said: "No, we do not want to because it would create too many problems." While the negotiations were going on there was a failure to increase the contribution rates to the teachers, which was largely a political decision. I believe the Minister at the time did not want to increase the contribution rates to the teachers even if he knew that there was a liability there building up. Where you have got circumstances like that where do you see your role as Treasurer of the States, where politicians are basically not making difficult decisions and, as a result, the liabilities to the taxpayer are increasing?

Mr. I. Black:

I do not know if I accept the analysis you have just given, but I think it is my job to give advice on the implications of decisions absolutely.

Senator B.E. Shenton:

Is there still work to do on the teachers' pensions?

Mr. I. Black:

I think what we are doing with the teachers' scheme is the right thing to do. That is my advice. I think the issue of the pre-1987 debt is trying to deal with a sense of the past. I think it is admirable that before my time, in 1988, the States decided then in their wisdom to go for a fully funded scheme and to cap off their pension liabilities. I think the decision to try and recoup the ... pay back the past service debt is an admirable decision. I do understand that you have lodged a proposition on this. It is a matter of judgment whether this generation should pay off that debt of previous generations - a number of previous generations - very quickly or whether it is only fair that it has spread it over a period of time. I think attempting to do the same on the teachers' scheme, which is to cap the employers' liability, which is what the changes do, and to try and pay off the debt of previous generations is laudable.

Senator B.E. Shenton:

You have not set a time frame for the teachers' one yet, have you?

Mr. I. Black:

No, we have not, but the intention is that it mirror P.E.C.R.S. as much as possible.

Mr. K. Keen:

This discount rate on page 37 for the scheme liabilities - at the top, if I am looking at the right discount rate - has gone from 5.8 to 6. I am surprised it makes that big a difference from £100 million to £200 million.

Ms. A. Taylor:

The notes on page 37 to which you refer are the assumptions used in drawing up the FRS17 disclosures, which are wholly different from the valuation of the pre-1987 debt. It is a different piece of work by a different actuarial advisor so that discount rate is not the rate that has been applied to the pre-1987 debt. The rate that is used is the one that is used in valuing the liability for the P.E.C.R.S.

Mr. K. Keen:

Are you able to disclose the 2 discount rates so we can just see how that number has changed, because it is a staggering number?

Mr. I. Black:

These are very complicated issues and we have a briefing note here, which I am sure we would be absolutely delighted to share with you. If you want I can take you through ... I have a high-level

variance analysis here, but the best thing is if I just give it to you, I think.

Mr. K. Keen:

Yes, I think you must understand why I think members of the public would be surprised that a liability that we thought was capped - and I think you used those words "capped" - can change from £117 million to £222 million; it is a big number.

Mr. I. Black:

I accept it is difficult to understand, but I think I would also say, and I really do mean this, that the States has capped its liability in terms of meeting the ongoing costs of the scheme and the States has ... the pre-1987 debt was always there. The States has always capped ... has also capped the way of dealing with it in that it has come up with an agreed formula and making an index-linked payment every year for a number of years. Regardless of these fluctuations those payments do not change, nor the period of the loan.

Senator B.E. Shenton:

I cannot find my notes, but on one of the pension funds you do have a surplus which you have written back into the accounts. Is that on the future service liability of the teachers?

Mr. I. Black:

There is a tiny one that the States is exposed on. When it was set up it incorporated ... it is Jersey Post you are talking about, I presume. When we set up Jersey Post as an incorporated entity it had an exposure on a traditional pension scheme and the States took on that liability on incorporation.

Senator B.E. Shenton:

I will need to write to you about it because ... I have not got my notes here, but where you had the surplus you actually wrote it back into the accounts over something like 14 years and therefore built it up as a large amount of money whereas your liability is over 2 years. I will write to you separately on that.

Mr. I. Black:

I have to say, apart from the 2 big ones, we have some pretty residual pension issues in the accounts. We have 2 big schemes and we have some minor ones relating to the post office scheme, I think, primarily.

Senator B.E. Shenton:

No, it was more to do with the fact that you ... by using your surplus and using a smaller time frame you are increasing the size of the surplus and doing the opposite with the liability.

Mr. K. Keen:

If I could just have 2 more on pensions. At the bottom of page 36 there is another defined benefits scheme which seems to have popped out from somewhere and I was not really sure how that had occurred. It is the very last thing.

Mr. I. Black:

I think yes, this is a pension scheme that popped out that we were not aware of. It related to a States department who had an employee in the U.K. who they committed to pension arrangements for. We only discovered it in the last year; in fact we discovered it very late in the year. We have put it in the accounts.

Mr. K. Keen:

Can you be confident that there are not any other liabilities of this type lurking around? I think you can see that it is really impacted on these kinds of promises, of broken companies. There are not any others around? The auditors clearly did not find it.

Mr. I. Black:

How did it come to light, do you know?

Ms. A. Taylor:

Yes, it was identified to me by the department in question.

Mr. K. Keen:

Because they were just paying it out of a revenue budget?

Mr. I. Black:

So you are quite right, the auditors had not picked it up over many years.

Mr. K. Keen:

Presumably there is a financial direction on making a post-retirement promise like that now?

Mr. J. Turner:

There is not a specific financial direction on making post-retirement promises, no. There are obligations on accounting officers to ensure value for money and specific requirements about committing future years expenditure which this would relate to.

Mr. K. Keen:

My very final one on pension. At the bottom of page 38, I could not quite be clear because I was trying to work out ... you have a liability of £381 million in the FRS17 disclosure, £182 million, and it says ... I was trying to work out if the pre-1987 liability effectively included, although possibly valued in a different way as you have describe ...

Mr. I. Black:

Yes, is the answer to your question.

Mr. K. Keen:

The thing that then confused was it said the asset or liability was recognised on the balance sheet. What I was trying to do was find it on the balance sheet because it was quite a big number and I just could not track it down. Is that just a typo basically?

Mr. J. Turner:

The problem with these notes is that we are in an unusual position here because normally you have a pure defined benefit scheme or purely defined contribution scheme. These notes are the notes that would accompany defined benefit schemes so they lay out the situation of the scheme in its entirety. As you will know from reading the notes and other things, the States is not ... because the States has this cap interest it has inherited it is not exposed to additional liability. These are standard notes and that wording is unfortunate for that note because you cannot find that entire ...

Mr. K. Keen:

Because it is not there?

Mr. J. Turner:

It is not there, no.

Mr. I. Black:

It does say so in the notes elsewhere.

Mr. K. Keen:

I think it is a bit misleading because if it says something is recognised on the balance sheet and it is a very big number, some people, if they got to page 38 - which I appreciate many would not, but if they got to it - they would be comforted to know that at least it was in the books but ...

Mr. J. Turner:

I think that is a fair point that I would suggest we take on board and find a better way to do that.

Mr. I. Black:

To clarify, FRS17 is meant for a defined benefits scheme. This is a final salary scheme, but not a conventional defined benefits scheme. We have received and sought huge amounts of advice on how to deal with this. We have been involved in extensive discussions with our external auditors and we have reached a situation where we will identify what the liability would have been. It is not going into the States accounts because it is not a States liability.

Mr. K. Keen:

I understand that argument, but all I am trying to say is that where a note says that something is on the balance sheet, I think it is ...

Mr. I. Black:

I think that is a point well made because we do say we will do an FRS17 disclosure. It is the exact words ...

Mr. K. Keen:

If you had put "amount not recognised on the balance sheet" which clearly it is not, I think that would have been more accurate.

Mr. I. Black:

I think that is a reasonable point.

Senator B.E. Shenton:

Does anyone have any further questions?

Mr. A. Fearn:

Just to clarify, some members of the public were asking me this question in relation to the pensions. Obviously, with regards to pensions in the private sector, the 2 main issues around funding as it relates to longer life expectancy and also pay awards traditionally. So just to clarify, when you talk about capping these schemes does that capping relate to the cessation of any further liability by the States on behalf of longer life expectancy and also potential payments?

Mr. I. Black:

Absolutely. For instance, we have just had an actuarial valuation done of P.E.C.R.S. and it has identified a deficiency. One of the major contributors of that was increasing life expectancy. There are actions that must be taken to address the deficiency and there are discussions that are open between the employer and the employer representatives, but the default position is that index linking of pensions reduces. So that is how the States has capped its position, that any worsening of the scheme for whatever reason - pay, longevity, anything - results in a valuation deficiency. That deficiency in default

is always addressed by automatically reducing the figure to pensions; the States is not exposed.

Mr. A. Fearn:

Thank you.

Deputy T.A. Vallois:

Ian, it is just with regards to your actual role as Treasurer at Treasury meetings. My understanding is that a large proportion of the resources element is going on to the Deputy Chief Executive which falls under the Chief Minister's Department. With regards to a reflection of last year and how ... I know he has only been in post for over a month now, how do you see this in your responsibility for the financial management throughout the States going forward?

Mr. I. Black:

As I have already said today, I am happy to take a lead on developing financial management ... in fact, thrilled to be given the opportunity to develop financial management within the States and will happily show leadership on doing that in developing the finance function. There has been a recognition, a separate recognition, that within the States resources is a very wide brief and it would have to be integrated. What we are doing at the moment is the Chief Executive is going to take some responsibility for integrating resources functions. It is currently split across the Chief Minister's Department and the Treasury and Resources Department. How it is going to work in practice we still, if I am being honest, have to yet quite work out, but I guess what I can say is it will remain the Treasury and Resources Department. Resources will be within our ministry.

Deputy T.A. Vallois:

How effective do you think you will be as Treasurer now?

Mr. I. Black:

There are going to be issues in making sure we are really joined up and integrated because you cannot afford things to fall between stools, like I talked earlier about financial management. Absolutely key to it is the development of this JD Edwards system. If I lose control of that, then I am being asked to develop something with one hand tied behind my back. I can say that is just not going to happen. We are working it out. I am working with the Deputy Chief Executive on just how we will work together, but I have got every confidence that it will work and, in fact, we have set ourselves a target of producing a plan within the next couple of weeks when this will operate.

Senator B.E. Shenton:

I mean I did not have any further questions, but Tracey has made me think of some. If you look at it, step right back and look at it from a distance, the way the role of Treasurer was set up was very much that he would report to the States so that he would not have anyone telling him what to do and would be totally free from undue political influence. That is how basically the law was structured. A number of your roles are moving across to the Deputy Chief Executive of the States, who is much more under political influence. Has that been taken into account with regard to the movement of roles? Is this whole change just a way of the Council of Ministers getting more sort of flexibility in making it more malleable that the people will do what they want them to do with regard financial management?

Mr. I. Black:

No, absolutely not. I think it is driven by all the right reasons. I think it is driven by the fact that we had Human Resources and I.T. (Information Technology) sitting in one States department, we had Financial Processing and Procurement and Property sitting in another. These things are all resources and there are all huge interlinks between them and there are huge opportunities for economies of scale and for providing a really good one stop shop to departments. If they are setting up a new office building they

do not want to go running to one person for their I.T. systems, one person for their building and one person for their staffing. They want to go to one place. Behind this is that objective. There is one that quite simply I was being spread too thin so I need to be able to concentrate on the Treasury side and on this financial management agenda, by bringing in some extra resource to help deliver that resources agenda. There is no devious thing to it and there is no change to my responsibilities. I have still got an obligation, a right, which I will exercise if I think so, to go straight to the States on issues if I think something has been dealt with wrongly. All I am saying is that it is a really positive move. There is no sub-agenda, there is no political agenda to it.

Senator B.E. Shenton:

No, but albeit that if you are looking back, some of the areas that you need an independent Treasurer to oversee are moving to an area where you have not got the independence of them all.

Mr. I. Black:

We have not worked out how it is going to work out. It may be that I effectively have a service level agreement to have some things provided to me, but that is okay because I contract out other things all the time. I contract out currency and security issue and the like. You can do that and still retain responsibility.

Senator A. Breckon:

Just a question I had, Ian, that was on court and case costs. As you know, the National Audit Office made recommendations following the cost of Les Pas. I wonder if you would like to comment whether you feel comfortable where we are with court and case costs, about reporting and accountability and the use of?

Mr. I. Black:

I think court and case costs are a very, very difficult issue because behind all this is the "What price justice?" argument. Who is going to say that you will not progress a case with the public of Jersey except the case not being progressed, as somebody said, because I am not willing to spend the money. On the other hand, I have got to tell you that court and case costs in the current year are running at a very high level. We did have that review. We have put all the actions from that in place so things like when there is a very significant case started there is a case plan put in place with estimate costs that are monitored on a regular basis. All those things have been done. We have a clear accounting officer to monitor expenditure. What we do not have in place is anything that ultimately has got a means of controlling the cost and it is rising. We have a decision at the moment, any overrun on court and case costs will be charged to the Criminal Offences Confiscation Fund. I have to say that the overrun now is running at such a level that it is challenging the ability of the Criminal Offences Compensation Fund to meet those costs. There is an issue here, but the arrangements for the day-to-day control, I think, are working well. The big issue of whether you can limit your expenditure on this area is a more difficult one.

Senator B.E. Shenton:

I will just jump in here because I have spoken to the Attorney General on this matter. To give you an example, in the U.K. in the Magistrates Court, prosecution costs on an ability to pay basis will be taken from the convicted, if they are convicted. In Jersey we do not try and cover prosecution costs even if the person convicted does have an ability to pay. The Attorney General is now looking into this matter and it came back to me that it was just lack of direction that they failed to take this course of action. How many other areas do you think we have on court case costs that there is a lack of direction? Because also when I was looking into the Voisin situation I found that when Planning win a case they never ask for costs because the department was so disorganised they could not work out what the costs were. There are big steps that need to be taken here. There is no real user pays policy with regard to court and

case.

Mr. I. Black:

It sounds like there is something to be looked at. I think so. We have, as a result of some of these big cases, we have to be fair, seen some very significant sums of money off people which have gone into the Criminal Offences Confiscation Fund and that has met our costs to date. We are now in the unfortunate situation where the people being prosecuted have very expensive cases and little or no assets, and that is just money up and going in one direction and you cannot recover anything. If there is something you have to look at, I am all for it.

Mr. K. Keen:

One last one, on page 192m just to show that somebody does ...

Mr. I. Black:

Get to the end. [Laughter]

Mr. K. Keen:

Get to the end of all your hard work.

Senator B.E. Shenton:

You start at the back, do you not? [Laughter]

Mr. I. Black:

I am pleased you did get there because we committed last year to putting all this information in the back of the accounts on these funds.

Mr. K. Keen:

Can you tell me the write-off of assets £1,385,919 is?

Mr. I. Black:

I guess the answer to this, I am going to say, is no but I will ... point me to the line.

Mr. K. Keen:

Presumably it is within narrative(?). This thing owns some sites or something, does it?

Mr. I. Black:

Yes, that is exactly right. The Housing Development Fund has purchased sites for redevelopment and when they redevelop, and it has happened in the past, a town site for social rented housing you buy the site at quite high cost but social rented housing has not got a high value because rents are low. It is a price you pay for trying to build your social rented housing in town and not in green areas, so when we pass these assets over to housing trusts they are only going to get social rents. We have to sell them to them effectively at a loss. It is a deliberate mechanism to achieve States policies and provide more social rented housing in doing it in the town area, but I have got to say I think that is extremely likely to be the reason, but I will confirm in writing to you.

Senator A. Breckon:

Can I just ask a supplementary on that? You might remember, and maybe you could confirm that, just to substantiate what you said in the case of Le Coie, we wrote off £12 million.

Mr. I. Black:

Absolutely, yes. It is the cost of our policy of providing high quality social rented housing on expensive

brownfield sites.

Mr. K. Keen:

You would carry the site at cost until it was developed and then write it down at that point rather than write it down as it came in or would it be written down as it came in?

Senator A. Breckon:

It is written down and transferred.

Mr. J. Turner:

In this case, if what is stated is right, it has been written down and it has been transferred.

Mr. K. Keen:

Outwards to the developer then?

Mr. I. Black:

Not to the developer, to a housing trust. But we will check the facts and let you know.

Mr. K. Keen:

Because I think, coming back to the narratives, I mean I know there is a huge amount of work that is done here and I certainly appreciate the work that has been done, but I think sometimes when it is a material number like that, it says a question if somebody picks it up and just says ...

Mr. J. Turner:

What I would say on that is previous P.A.C. meetings has been very helpful in helping us make these more understandable and improve the narrative. Every year, as this year, we have scribbled down notes and next year hopefully the narrative will reflect that and we will continue to improve it.

Senator B.E. Shenton:

Okay, no more questions? It is 3.15 p.m. We have got someone else in at 3.30 p.m.

Mr. I. Black:

Can I just come back? I was disconcerted by the discussion at the start about the Home Affairs and you may have felt I was wriggling. I am certainly not wriggling on this. I was a bit thrown by how much credence was placed on this. I have written it down, you know, that discussions were commenced with the Treasurer. I am very happy to come back to you and confirm from both sides exactly what discussions have taken place and what I have done. I am very happy to do whatever is necessary to make sure there are adequate controls in these areas. I really believe that there have not been very many discussions with me on this yet, but I think what I might even do is if we produce a joint statement from Home Affairs on exactly what discussion there have been and what we have agreed so at least you know.

Senator B.E. Shenton:

There is a ministerial decision signed by Senator Ozouf which you will be very interested in.

Mr. I. Black:

I think I know the ministerial decision.

Senator B.E. Shenton:

This is the one where he says: "I could not carry on my role as accounting officer" and obviously that has big implications because if you have got a law with accounting officers and all they have to do is

say: “Well, I am sorry that is not part of my role”, then you have got no checks and balances.

Mr. I. Black:

I am aware of ministerial decisions in this area, all of which I would have advised the Minister on, and all of which I will stand by the advice I have given I am sure.

The Connétable of St. Peter:

That would be useful. Thank you very much.

Senator B.E. Shenton:

Thank you very much.