

STATES OF JERSEY

Public Accounts Committee

MONDAY, 30th JULY 2007

Panel:

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

Senator J.L. Perchard

Connétable T.J. du Feu of St. Peter

Connétable D.J. Murphy of Grouville

Deputy A. Breckon of St. Saviour

Mr. R. Bignell

Mr. A. Ohlsson

Mr. C. Evans

Mr. A. Grimes

Mr. M. Magee

In attendance:

Mr. C. Swinson (Comptroller and Auditor General)

Mr. P. Monamy (Committee Clerk to the Public Accounts Committee)

Witnesses:

Mr. I. Black (Treasurer of the States)

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

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

Good afternoon, gentlemen, and welcome to the Public Accounts Committee meeting hearing on the annual accounts for 2006. For a start, do you know everybody here? I am sorry, if we go round quickly.

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

I know everybody but perhaps Jason Turner, my new Deputy Treasurer does not, so for his benefit it might be worthwhile.

Deputy S.C. Ferguson:

So, you are Ian Black, the Treasurer.

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

I am Jason Turner, Deputy Treasurer.

Connétable T.J. du Feu of St. Peter:

Connétable du Feu, Constable of St. Peter.

Connétable D.J. Murphy of Grouville:

Dan Murphy, Constable of Grouville.

Mr. R. Bignell:

I am Roger Bignell, independent member.

Mr. A. Ohlsson:

Alex Ohlsson, independent member.

Deputy A. Breckon of St. Saviour:

Alan Breckon, Deputy of the States.

Mr. C. Swinson (Comptroller and Auditor General):

Chris Swinson, Auditor General.

Mr. P. Monamy (Committee Clerk to the Public Accounts Committee):

My name is Peter Monamy.

Senator J.L. Perchard:

Senator Jimmy Perchard.

Mr. A. Grimes:

Tony Grimes, independent member.

Mr. C. Evans:

Christopher Evans, independent member.

Deputy S.C. Ferguson:

Welcome to our hearing. It will be transcribed and you will be given a copy of the transcript in case there are any words that are a bit fuzzy that can be corrected. We have been looking at the accounts for 2006. I wonder if I could ask a really dumb question to begin with. Who is the Treasurer's Report written for?

Mr. I. Black:

That is a very good question.

Deputy S.C. Ferguson:

It is quite hard to understand and pull figures together and I just wondered who you had in mind when you wrote it.

Mr. I. Black:

I guess it is a public document so it is there to inform the public, primarily, and States Members.

Deputy S.C. Ferguson:

I am a little confused because on the first page, I think it is page (iii), we talk about the surplus of £22 million, but if we go and look at the accounts we talk about £43 million.

Mr. I. Black:

Yes.

Deputy S.C. Ferguson:

Do you have a reconciliation then?

Mr. I. Black:

Yes, we do. This is a fundamental problem now of the difference between trying to produce accounts in accordance with best accounting practice and trying to reconcile that with the States' budgeting process. The 2 at the moment are fundamentally incompatible. We try and reconcile the accounts, hence this

different format on page (iii) is an attempt to reconcile the accounts outcome with the way the funds are allocated through the budget, but they are done on 2 different bases. It is difficult. It is trying to compare apples with oranges. I think the thing for the future is to try and bring, which we are doing, States' budgeting processes in accordance with good accounting practice.

Deputy S.C. Ferguson:

I think it is probably a fairly complex document. I wonder if you could supply a copy to the Public Accounts Committee.

Mr. I. Black:

Absolutely. We have copies with us today.

Deputy S.C. Ferguson:

You do not have copies?

Mr. I. Black:

We do have copies of the reconciliation with us today.

Deputy S.C. Ferguson:

If it could be supplied to us. If we go to the main reconciliation page on page 13, I find this quite difficult because what we have voted in the States -- do you have page 13?

Mr. I. Black:

Are we on 13 or (xiii)?

Deputy S.C. Ferguson:

Page... (xiii), I am sorry. I find this a little difficult because what I voted for in the States was £442 million and then I have a little bit added here from last year, and a bit from contingency and one or 2 other transfers and then, good heavens, I voted for £466 million. I find it difficult to understand how departments can assess their performance when it is not as it was originally planned last year. It is a bit confusing because you end up with a figure, which is £466 million, which is called a total 2006 voted budget --

Senator J.L. Perchard:

Chair, I think we are on a different page.

Deputy S.C. Ferguson:

We are on (xiii). Oh. If you deduct the capital servicing, then the £478 million, I am sorry, becomes £442 million.

Senator J.L. Perchard:

Okay.

Deputy S.C. Ferguson:

And the £503 million becomes £465 million. But then the figures, the totals for each department are used as the comparatives. But is that really an assessment of their performance, because you have added a whole lot of things to it. In fact, you have counted some things double because we voted for the 2005 budget and the bits left over have been stuffed in again.

Mr. I. Black:

I think this is the point which I made in my previous answer about the difference between accounts and

the difference between authority to spend, and authority to spend is what this page tries to show, that the amount that was spent was within the authorities. Quite simply, when you do that, you have to look at things like when the States agreed to additional expenditure or when money was transferred between departments because of change in organisation.

Deputy S.C. Ferguson:

But it was not being spent on what we thought it was being spent on. My point at the moment is how are you going to control expenditure when you are not giving departments realistic comparatives? You are taking your previous year's under-spends and reallocating them. So it is a disincentive when it is applied to... if your department under-spends and you give a surplus to somebody who has overspent, then it is a disincentive, you are not coming back to the States for any supplementary spending so that we do not know what is going on. Where are the incentives? How are you going to be able to control States expenditure?

Mr. I. Black:

That is a political decision to allocate money around and it is done in accordance with the Finance Law. I am not sure it is a question you should be asking me.

Deputy S.C. Ferguson:

No, sorry, perhaps I am being simple-minded. But, in effect, your --

Mr. I. Black:

Sorry, just take an example, just to make sure we understand each other. The Social Security -- last year supplementation overran. It is demand led. There was nothing that I could have done about it or even the Council of Ministers. They decided to try and manage that within the overall voted amounts. So, they used up under-spends from other States departments to meet the overspend on supplementation. That was a political decision and in accordance with the law.

Deputy S.C. Ferguson:

Yes, but you advise on political decisions.

Mr. I. Black:

No.

Deputy S.C. Ferguson:

You advise on financial decisions aimed -- one which is bothering the PAC (Public Accounts Committee) is that we start -- I think this is probably something that is more easily shown by the graphs. I think if we can --

Mr. A. Grimes:

Chairman, could I just say, I think the difficulty people have had is that it says within the law that there should be no overspend other than the monies that have been in the Business Plan or voted. So when one is trying to apply that, from your perspective, on which number would you be applying it? Would you be applying it -- for example, if it is a 2006 vote that has gone through the States, is that the number that the officers in the department are restricted to and any breach of that would be, effectively, breaking the Finance Law?

Mr. I. Black:

Effectively, if I understand you right, the delegation of spend by the States is to departmental level. It goes to an accounting officer, like myself. I cannot overspend my cash limit by £1. If I do, I break the law. I do not have authority to overspend. If I believe I am going to overspend, I have to bring that to

the attention of the Council of Ministers and they then have a number of options, one of which is to instruct me to do, which I will tell them, the least damaging cuts to come within spending. Another one is for them to go back to the States for more money, which is something they are going to do this year in the near future. Another one is to try and make savings elsewhere amongst themselves in order to meet that. The only thing -- so, at officer level, I can only spend up to my departmental level. I cannot go a pound over. The Council of Ministers have the authority to move between departments and the total voted figure by the States the Council of Ministers cannot exceed. If they are going to go over that by £1 they have to go back to the States.

Mr. A. Grimes:

With the Social Security, the supplementation overspend, is that something that you would have expected to go back to the States or is it discretionary?

Mr. I. Black:

We go through the tiers. The officer has to keep within his total budget. If he thinks he cannot, which he thought he could not, he has to bring that to the attention of the Council of Ministers. They then have the option of going to the States or finding the savings from within budgets elsewhere. Last year they took the decision to do it within the budget savings elsewhere. This year they are faced with the same situation. I am not sure if it is in the public domain yet but they made a decision to go back to the States to seek more money.

Mr. A. Grimes:

So, in terms then if you took your own department, you would be voted in 2006, say, Treasury and Resources, £49.6 million. There is then a total 2006 voted budget, after adjustments of £54.41 million. At what point would you have been breaching the Finance Law?

Mr. I. Black:

If at any point I exceeded the sum voted to me. So it started at £49.6 million; there was a political decision then to add to my department £1.69 million at the start of the year. That then increased the amount I could live within. There was a transfer during the year of services from other departments, for instance £2.38 million that was agreed by the Minister. Every one of those increases requires a political decision. I started with £49.6 million. I must stay with the £49.6 million unless there is a political decision to alter that.

Mr. A. Ohlsson:

But insofar as the States are concerned, the last voted amount in your budget would be £49.6 million?

Mr. I. Black:

That is right, yes, but the changes are all notified to the States.

Mr. A. Ohlsson:

They are notified by the States and then there are ministerial decisions?

Mr. I. Black:

Yes.

Mr. A. Ohlsson:

Just running through those numbers to help clarify the position, are the carry forwards a one-off or will that be available annually in terms of carry forwards from the prior year? Or does this reflect a move to the new Finance Law?

Mr. I. Black:

No, carry forwards are a one-off by their very nature.

Mr. A. Ohlsson:

Right. Then the contingency allocation is a ministerial decision?

Mr. I. Black:

That is right.

Mr. A. Ohlsson:

The transfer between capital and revenue is simply a ministerial decision to reflect change in accounting treatment?

Mr. I. Black:

Yes.

Mr. A. Ohlsson:

Other transfers are movements between departments which again can be made by ministerial decision?

Mr. I. Black:

Yes.

Mr. A. Ohlsson:

That leaves you not so much a total 2006 voted but a total 2006 authorised expenditure of £54.4 million, effectively?

Mr. I. Black:

That is right, yes.

Mr. A. Ohlsson:

The £54.4 million, therefore, is the number that one should be looking at when setting 2007 budgets, presumably, because that is what you actually spent in 2006?

Mr. I. Black:

No, not necessarily. It could be that there were major one-offs in that, particularly when carry forwards are allocated. There is a tendency to allocate them towards one-off expenditure, so no.

Mr. A. Ohlsson:

Or utilisation of contingencies, presumably?

Mr. I. Black:

Yes. So, no, you cannot say that that is a new base on which future budgets should be set. It might give an indication. Supplementation, in fact, was a good example of a recurring overspend that has been factored into the Business Plan for 2008.

Mr. A. Ohlsson:

One of the difficulties that the Committee seems to have continually is the changing numbers from year to year. If we take 2006 as an example, if you go right back to -- I think the lowest number I have is the Resource Plan 2005-09, which envisaged a 2006 States revenue expenditure of £429 million. That was back in 2004; P.135/2004. We then go to the 2006-11 Strategic Plan and that number has gone up to £441 million from £429 million. We then go to the 2007 Business Plan which was approved in

September last year, that number has gone up to £448 million. Then we get a set of accounts that shows the number has gone up to £465 million. We have 4 different numbers through the process with a material increase from an original forecast of £429 million up to £465 million, without really a clear reconciliation of where these additional costs have been incurred.

Mr. I. Black:

We are talking about budgets here, aren't we? Or forecasts rather than actuals. I am trying to think if we do provide a reconciliation. We probably do on a stage-by-stage basis but we could do some analysis which would show the reason but that can only have happened if there was a political decision for it to happen. Things cannot just grow in a --

Mr. A. Ohlsson:

But they have grown though in 4 stages.

Mr. I. Black:

Yes, they have grown but they have grown by political decision and some of those are based on experience. It can be that we budgeted, for instance, 2½ per cent for pay awards for a year and the actual pay awards settlement was 4.4 per cent. That is fact and that is a reason for growth. It can be that the States Members decide that they want to increase expenditure for a fifth scrutiny panel or for third party planning appeals that were not in those figures, but every one of those required a political decision in order for expenditure to grow. It required a States decision, actually. The Council of Ministers do not have the power to increase total expenditure, only the States can do that.

Mr. A. Ohlsson:

But the way we have these graduated decisions - and maybe this is a political matter - allows, effectively, States expenditure to increase from £429 million to £465 million - and that is nearly 10 per cent -

Mr. I. Black:

Yes

Mr. A. Ohlsson:

And that is with a series of States decisions over a period of time resulting in that increase, with the States perhaps not having the information before it to see that what they have approved over a period of time is an aggregate increase in expenditure of 10 per cent.

Mr. I. Black:

It is our job to make sure politicians have information with which to make decisions. So, I hope each time they make a decision they are entirely clear on the reason why. But every single one was a States decision.

Deputy S.C. Ferguson:

Yes, but it is not always clear to politicians, I think, to be fair, what has actually happened due to these decisions, which is where I think we need to have a look at the graphs that have been prepared. I wonder if you could talk us through them. There was quite a lot of difficult -- we are going to put the graphs up on the screen.

Senator J.L. Perchard

The most recent budget, Chairman, for net revenue expenditure was last year's Annual Report. The net revenue expenditure was estimated for 2006 to be £441 million. It ended up at £465 million. That is £24 million. What has affected the net revenue expenditure by £24 million in 12 months? It is certainly

not a States decision.

Deputy S.C. Ferguson:

Can we leave that one for the moment while we go through the whole context?

Mr. A. Ohlsson:

It is also helpful to turn to page 11 of your report which helpfully sets out movements in income and expenditure and RPI (Retail Price Index) from 1996 to 2006.

Mr. C. Swinson

The first of these is quite simply it takes the information that Alex was referring to and just sets it out, not by looking at the percentage increases but just looking at the totals for a moment, comparing general revenue and net revenue expenditure of non-trading departments. The first one is just a straightforward reportage, so just a reflection. The next one takes the figures that appear in the Treasurer's Report in each year and it is basically the figures in the table on (iii) of the Treasurer's Report and compares the net revenue expenditure of non-trading departments with what is shown there as the budget in each year. So, it is taking the figures in the report, simply comparing the actual with the budget and showing that the actual spend compared with the budget, according to the report's numbers, exceeds the budget by a margin of this growth.

Mr. I. Black:

Do you want me to comment on that? You are hitting me with these things but I am --

Mr. C. Swinson

They are taken from your report.

Mr. I. Black:

Yes, I understand that, but for the reasons I have already given, year-on-year expenditure cannot exceed the amounts approved by States. I mean, if it did, that expenditure would be *ultra vires*. But, for various reasons, I can see why this analysis would end up looking like that; one reason, for instance, being carry forwards, if the States agreed a budget and expenditure was far below, that would allow a carry forward which would allow expenditure to be at a high level the next year. Capital is a major issue in that the States votes a sum of money for a whole scheme but the actual expenditure in the accounts, done in a proper way, does not match up with that exactly so you could get --

Mr. C. Swinson

This figure does not include capital expenditure because it is net revenue expenditure.

Mr. I. Black:

But you could always get revenue looping around the budget line. It could go over --

Mr. C. Swinson

These are your numbers. This is taking your revenue expenditure compared with your budget.

Mr. I. Black:

Yes. I am not disagreeing with that. What this appears to be showing is that at the moment expenditure is exceeding the budget.

Mr. C. Swinson

That is what you reported?

Mr. I. Black:

The expenditure cannot exceed the States approved expenditure over a period of time and, in fact, I know with some certainty has not.

Mr. C. Swinson

But leaving aside the authorisations, the evidence in your report is that you are exceeding your budget.

Mr. I. Black:

The reports have explained this. I understand the difficulty with this. This is comparing apples with oranges. It is trying to demonstrate to States Members how they did compared to a budget allocation system which does not align with proper accounting.

Mr. C. Swinson

Where did you describe that to people on page 3 of your report?

Mr. I. Black:

I believe we did. Second paragraph: "On a basis consistent with and allowing for comparison to the 2006 budget."

Mr. C. Swinson

Where do you say that the budget is not consistent with the actual? That is consistent with the table here, which shows a surplus of £22 million.

Mr. I. Black:

Yes.

Mr. C. Swinson

But this figure comes from exactly the same table and shows revenue expenditure exceeding budget.

Mr. I. Black:

Yes. I can only repeat what I have said, that if the budget is prepared on a different basis to the accounts then there is no way I can ever do a comparison on a consistent -- on the same basis. It is just not possible.

Mr. C. Swinson

Where on page 3 do you say to people that there is no point in comparing the revenue expenditure with the budget because the 2 cannot compare?

Mr. I. Black:

That was on that second paragraph --

Mr. C. Swinson

Paragraph 2 does not say that.

Mr. I. Black:

I suppose if you really wanted to -- there was no desire or intention to mislead. We tried to be very straight by saying this is the basis on which we did this note here. I can do it on a totally different basis that does not allow comparison with the budget.

Mr. C. Swinson

I suppose the point of the question is why did actual expenditure exceed budget?

Mr. I. Black:

It cannot. It can only be a timing issue.

Mr. C. Swinson

But if we go on to the next graph, this shows the planned rate of increase in the expenditure as reported in your report in each of the last 3 years, in budget terms. Then the actual rate of increase in expenditure is reported in the report each year, which is the higher line. That is the rate of increase of actual expenditure has been higher than the budgeted rate of increase.

Mr. I. Black:

And?

Mr. C. Swinson

The next graph takes net revenue(?) expenditure and compares it with the Island's gross value added. That is the GNP (Gross National Product). On the next chart, it shows the percentage of net revenue expenditure compared with GNP in the Island has increased from 11½ per cent in 2001, to 13 per cent in 2005. The reason 2005 was given there is because the GVA (Gross Value Added) for 2006 has not been published by the Statistics Unit so that comparison cannot be done. The point is to ask a question about policy that lies behind the increase in Government expenditure as a proportion of Gross National Product of the Island as a whole.

Mr. I. Black:

I have personal views on that but I am not sure that they are relevant. It is a political decision.

Deputy S.C. Ferguson:

But is it not your responsibility? Forgive me, I am perhaps being a little dumb on this but I thought it was part of your remit to advise on that.

Mr. I. Black:

I advise politicians on States spending. I may advise them about whether States spending is growing in real terms. I might even advise them on whether it is growing as a proportion of GDP (Gross Domestic Product), which of course will fluctuate quite significantly with the economic cycle. I am not blaming anyone but having given that advice, the Council of Ministers then decide what to recommend to the States in the Business Plan and the States then usually amend the Business Plan so as to increase expenditure.

Deputy S.C. Ferguson:

But is it not part of your remit also to make sure that all departments are keeping their expenditure under control?

Mr. I. Black:

It is my job to ensure departments have procedures in place to keep their expenditure within amounts voted by the States.

Deputy S.C. Ferguson:

In other words, the original budget voted by the States?

Mr. I. Black:

As adjusted in accordance with the Law.

Deputy S.C. Ferguson:

Which was the £441 million. I'm sorry --

Mr. I. Black:

I am happy to have a discussion with you about the sustainability or not of States expenditure, but it really is a political decision.

Mr. A. Ohlsson:

I think the difficulty that the Committee has is the way in which this incremental approach and perhaps relatively modest budget increases seen year on year, when you look over a period of time, and to take your numbers on page 11, result in States expenditure in 1996 being £237 million, RPI over the period having gone up by 46.6 per cent, applying that increase to States expenditure, i.e. had States expenditure gone up by RPI, we would have a number of about £347 million and we are actually faced with a number of £465 million.

Mr. I. Black:

Yes.

Mr. A. Ohlsson:

The Committee seeks to understand that and why that has occurred. I think everyone accepts that the decisions to spend that money have been properly made but that does not mean that we should not look back and say that back in 1996 did anyone think that States expenditure would have gone up by 96 per cent rather than 46 per cent over the ensuing 10 years?

Mr. I. Black:

I take your point and I agree with it entirely. But perhaps a more interesting one, if you want to track these things back, is the States Business Plan. Every year the States has a Business Plan that includes 3-year forward cash projections, where you have approved it for one year. Every year thereafter the States agrees a new Business Plan that ignores the cash limits that they set themselves the year before.

Mr. A. Ohlsson:

Exactly.

Mr. I. Black:

That is a political decision. The increase in States budget expenditure in this year's Business Plan is 7.3 per cent. It will be the States who decide whether they want to do that or not. I suspect amendments will be to increase expenditure, not to reduce it from the States.

Mr. A. Ohlsson:

I think one of the areas the Committee is trying to investigate is these various reports and the difficulty one has in penetrating these numbers and the consistent movement of these numbers. Is that making the situation worse? Is that resulting in less aggregate control over expenditure than one would otherwise have?

Mr. I. Black:

I have never thought about it. You may have a good point and I am open to ideas on what we can do to improve our information. I think we do try and provide open information but we will try and improve, if you have any good ideas. If you ask me how you really control States expenditure, though, it is to have fiscal discipline and the answer would be for, somehow or other, the States to agree that Business Plan for a year for 3-year cash limits and then have their hands tied so they cannot change it. But the advice I have received so far is that the States are supreme in voting money and if the States decide to change their own forward cash limits, there is nothing anybody could do to stop them.

Senator J.L. Perchard

I do feel that with regard to the graph produced, the second graph, the one on the screen, this is the first time that I sat in the States and the Treasurer's Report last year we approved a budget for net revenue expenditure of £441 million. I voted and approved it. We have spent this year, according to your report, £465 million. That is £24 million more than I approved.

Mr. I. Black:

Yes.

Senator J.L. Perchard

That is not the States' decision. Please tell me what the £24 million represents and why can it be so massively out?

Mr. I. Black:

I do not have the reconciliation here. I am sure we could do it but I can think of a number of reasons why that happened. I will keep on emphasising that it is all within amounts voted by the States. It cannot be that expenditure -- it can be but it would be *ultra vires*. It would be illegal if there was expenditure not voted by the States. But some areas I can think it has happened is that, for instance, with carry forwards, that if you had a carry forward of £10 million at the end of one year and £10 million at the end of another year, the amount spent each year ends up being the same as budgeted.

Senator J.L. Perchard

But is it discretionary as to how this money is allocated because we agreed the £441 million is made up of amounts allocated to each Ministry.

Mr. I. Black:

Yes, but the point I am making is that in the year before, say £400 million is voted by the States, and actual spend was £390 million, then the Council of Ministers do have the authority to spend that £10 million from the previous year. So, suddenly your amount voted of £440 million becomes £450 million. It is still within the amounts voted by States but what they are doing is spending an under-spend from a previous year.

Senator J.L. Perchard

Would you agree that it is at least very confusing for States Members?

Mr. I. Black:

I think it was almost my opening shot, but I will keep on saying, I will struggle to try and reconcile expenditure done on a proper basis with the States' votes money. We will try and bring the 2 things together but you cannot compare them at the moment.

Deputy S.C. Ferguson:

But going back to controlling expenditure, is it going to be helpful then to have the changes in the Public Finances Law that will enable departments to carry forward surpluses and deficit, particularly deficits and the ability to overspend will be in line with such restrictions and conditions as specified in a FDFinancial Direction issued by the Treasurer? Does that not bring you into the political arena? You said that these are political decisions. If you are allowing people to overspend and you are issuing financial directions, does that mean you are all in -- apart from the fact that I am not sure that it is a good way to keep people under control, does that not bring you into the political arena?

Mr. I. Black:

No. The issue about carry forwards at the moment, it used to be the departments could carry forward a deficiency of 1 per cent. At the moment they do not have that power under the new Finance Law so departments cannot have deficits like that. Departments do, at the moment under the FDFinancial Direction, have a right to carry forward an under-spend up to a certain amount, but even that was reviewed politically at the end of last year in order to meet the needs of supplementation. We can discuss about carry forward of under-spends - I am not sure whether it is right or wrong - but it is trying to give people incentives because I think PACs in the past, or their predecessors, criticised the tendency of departments to spend up to their budgets at the year end, allowing them a small element to carry forward to try and not give them the incentive to do that.

Deputy S.C. Ferguson:

If you allow them to carry forward overspends, I do not know if that is going to be very --

Mr. I. Black:

No, we do not. I cannot allow them to carry forward overspends. It has gone. Ministers can.

Deputy S.C. Ferguson:

The law is going to be amended to allow it.

Mr. I. Black:

We are looking at making some minor changes because of the practical difficulties of departments knowing exactly that they can stay within budget. We had the embarrassment last year of a pay award being agreed very late in the year that threw departments into overspend that was not just of their making and it put the accounting offices in breach of the law even though there was nothing they could do about it.

Deputy S.C. Ferguson:

Perhaps it was inappropriate to agree the pay increase, but it comes back to the point that we have these constantly increasing expenditures. I think there are some more graphs that we could go through on that, just so that people understand the problem that we are coping with and the way it creeps.

Mr. C. Swinson

The next graph on from the net revenue expenditure as a percentage of gross value added, the chart, I think, of the figure reported in the Treasurer's Report each year of income tax payable by employees within the Island, which is chart 6 -- there is nothing portentous about it. It is just a report. The next one simply compares the increase in income tax payable with the RPI but simply taking the rate of increase from the figures in the Treasurer's Report and comparing them with the movements of the RPI. Then the next one takes the percentage actual expenditure has exceeded budget from the Treasurer's Report and takes the overspend from that report and compares it with the total of income tax payable and, therefore, shows -- mine gives the percentage -- the percentage in each year by which income tax payable could be reduced if actual expenditure had not exceeded budget. That is chart 9.

Deputy S.C. Ferguson:

In other words, the population is paying, I think, over 14 per cent more income tax than it need because the States departments are overspending.

Mr. I. Black:

I am going to be like a broken record. No. States departments are spending within approved spending, so they are not overspending. What I will agree with you is that expenditure has grown fast. Whether that is an acceptable level of increase is a political decision. It seems to me that there are 2 different issues here. I am trying to be helpful and keep with you but it seems to me you are conflating 2

different matters. I may be wrong but please help me if I am wrong. States spending can only be determined overall in the long term by politicians and politicians have agreed to vote money. If you want to reduce that rate of spending, then the only people who can do it are by politicians agreeing to spend less.

Mr. C. Evans:

No, it is departments, surely, who have the ultimate control on how they spend their budget.

Mr. I. Black:

I suppose a department could spend significantly less than its budget but politicians say: "I want you to provide" --

Mr. C. Evans:

Or could it attempt to be financially planned to ensure that it stays within its budget.

Mr. I. Black:

Departments stay within their budgets. This is the point I am trying to make but --

Deputy S.C. Ferguson:

This is the point we are trying to make.

Mr. C. Evans:

It is not the States of Jersey that has sole --

Mr. C. Swinson

Your report shows them exceeding budget.

Mr. I. Black:

This is the second point that I hope is where we get understanding on what we are getting at, is that because of the differences in the way we budget and the way we show spending, it is possible that -- it cannot be that expenditure exceeds voted amount. Over a period of time you could find actual expenditure looping around the budgeted amount. So, it could be that we are in a bit of a cycle where it appears to be exceeding. To give you a good example would be - and I deliberately take a ridiculous extreme - the States at the moment votes for a capital scheme, the full cost of doing that scheme. So if the States voted £50 million for a school that would appear to show as -- and that is the amount allocated. In the next year it could be that that school never got going, so the budget was £50 million and the expenditure was nothing, and you seem to have a massive under-spend. The year after, that school gets going and the £50 million is spent and on this analysis -- sorry, capital is not in.

Mr. C. Swinson

That is right. Your figures keep the capital items completely separate from the ones that are used in this graph.

Mr. I. Black:

But I believe the same issue applies to -- and again it may be where you are trying to get. It may apply to other areas, such as funds of various types where the States agreed to funds and the expenditure does not match. At the moment, to give an example, there is a strong political desire for environmental taxes and for hypothecation of that tax. What happens is that you set up a fund and the money is allocated through taxation but the actual spend only takes place in future years.

Mr. A. Grimes:

Can I just understand the 2 issues that seem to be coming out? I think the first one is that had the States worked within the budget the tax take could have been to the public 14.8 per cent lower.

Mr. I. Black:

And services would have been lower.

Mr. A. Grimes:

That is one. Number 2 is the States had not overspent because they have had to go back to the States for any decisions beyond the vote; is that what you are saying?

Mr. I. Black:

Yes.

Mr. A. Grimes:

So, it is not an overspend. It is expenditure creep, is it not?

Deputy S.C. Ferguson:

Yes.

Mr. A. Grimes:

There is a budget creep so that the budget is there, we work within it. Had it been properly considered and adhered to by the Ministers and the departments, the implications would have been a tax of 14.8 per cent. Because we have had this expenditure budget creep which the Treasury says is within the law, because on every occasion they would have had to go back to the States for it, so they have not broken the law but there have been Ministerial decisions to allow expenditure beyond budgets. Is that what the position is?

Deputy S.C. Ferguson:

They do not come back to the States every time. For instance, we have double counted, we voted on the 2005 budget, the money was included and because it was not spent it has been --

Mr. A. Grimes:

It has not been in the States but I am trying to interpret what is happening here.

Deputy S.C. Ferguson:

These are ministerial decisions and they are reallocation of funds that we voted for in the previous period. None of these amounts come back to the States.

Connétable D.J. Murphy

Chairman, can I just ask - I am not querying for one minute that every penny spent has had authorisation - what I am querying is the forecasting. That, it seems to me, is where we seem to have the problem and that is we are forecasting and planning a budget on the forecasts and the forecasting has fallen down because of other things that have come into the equation. Can we not trim the forecast or try to make the forecasting a bit more accurate?

Mr. I. Black:

There are 2 lots of forecasting. There is forecasting of income and there is forecasting of expenditure. Forecasting of income is done by a group that I sit on. It constitutes myself, the Economic Advisor, Controller of Income Tax, Colin Powell from the Financial Services Commission and Martin De Forrest-Brown responsible for the finance industry. We sit twice a year with a huge amount of data and try and forecast ahead but it is extraordinarily difficult. We have tax revenues dominated by corporate

tax revenues far, far more than the UK (United Kingdom) and other jurisdictions, and the corporate tax revenue from the finance industry, so they are far more volatile in other jurisdictions and they are driven by economic cycles. I mean, we do our best but it is almost impossible to accurately forecast these corporate tax revenues. You tell me what is going to happen to interest rates next year, whether there is going to be a boom or a recession or whether the stock exchanges can be up or down. We do not really know. But our record is pretty good. We tend to over-estimate in times of recession and under-estimate in times of booms because we cannot spot economic cycles but our forecasting is quite good. On the expenditure side, I sit down with the politicians and the Council of Ministers in particular, and, based on economic advice, we build in assumptions for inflation and pay awards. At the end of the day, we cannot control either of them. We cannot control Bank of England base rates. It is a political decision on pay awards. We build in a certain level of growth in States spending. It is a political decision whether it is more or less. I do not know whether that is helpful.

Mr. A. Ohlsson:

Going back to the numbers for the last 10 years, where effectively States expenditure increased by something like double the rate of RPI and the States were fortunate enough to see income tax revenues increase by a slightly lesser amount, but still substantially over RPI - albeit, as I say, less than the increase in expenditure - what do you see is within your power to prevent, because presumably that is regarded as unsustainable, that occurring again over the next 10 years?

Mr. I. Black:

All I can do is tell people the consequences of their spend decisions and in the Business Plan 2008, which you have, there was a financial plan that put the States back in balance in future years. Because of decisions on spending there is now a structural deficit in future years because the level of expenditure is higher than anticipated. All I can do is tell politicians that if they spend at this level they will have structural deficits and that they will need to increase taxes. That is the limit of my job, I think.

Mr. A. Ohlsson:

It seems from reading your report that in that context perhaps the report and the budget and so on is a bit too upbeat.

Mr. I. Black:

My report?

Mr. A. Ohlsson:

Well, I mean it is right to say that year on year we have had a good year. But in the context of doubling public expenditure over the last 10 years, is it right to be so positive?

Mr. I. Black:

Can you tell me where I have been positive, because I hope all I do is give facts. No doubt the Treasury Minister report is very positive.

Mr. A. Ohlsson:

You do not comment on your graphs in 4, do you? In note 4 on page 11, I have been referring to. You have just set them out which I accept is the factual position. I suppose it is the highlighting of surpluses over previously budgeted deficits that make it look as though things are particularly rosy. Page 3.

Mr. I. Black:

Yes, it could be but, again, preparing them on that basis is a statement of fact. The report does point out that much of that improvement -- and indeed all of this went out with the accounts. It said that much of the reason for that turnaround was of a one-off nature, in particular the dividends from Jersey Telecom

and JEC (Jersey Electric Company).

Deputy S.C. Ferguson:

Right. So basically, we have a position where you say there is a structural deficit.

Mr. I. Black:

It is in the Business Plan. I think it is £28 million, off the top of my head.

Deputy S.C. Ferguson:

There are obviously policy indications, so what are your suggestions from a Treasurer's point of view? I mean, are you going to continue to allow under-spends to be redistributed or are you going to claw them back into the CFConsolidated Fund?

Mr. I. Black:

If you have a structural deficit there are only 2 answers. You increase taxes or cut spending.

Mr. C. Evans:

It does not look like we have any control over the spending.

Mr. I. Black:

It is absolutely within the control of our political masters. That is what we elect them for and that is what their job is.

Mr. C. Evans:

It does make most of the budgeted spending in the accounts meaningless, does it not?

Mr. I. Black:

Sorry?

Mr. C. Evans:

The whole point of what has been discussed this afternoon is that the accounts show that consistently the States spend more than they anticipated on a year-by-year basis and you are saying, yes, that is life.

Mr. I. Black:

No, no.

Mr. C. Evans:

But you are saying that is political?

Mr. I. Black:

I am saying it cannot be the case that expenditure exceeds voted amount.

Mr. C. Evans:

I understand. You have repeated that so many times I think we understand it is out of your personal control because all of the extra expenditure has been approved by the States.

Mr. I. Black:

Yes.

Mr. C. Evans:

But that rather makes the annual budgets for expenditure pretty meaningless because on a year-by-year

basis there will be further demands, as you said, demand led expenditure that will be approved by States.

Mr. I. Black:

I am not sure how to answer. In this 2008 Business Plan there is a proposal to increase States expenditure by 7.3 per cent plus the cost of Income Support transition, which is over £9.7 million. When you see the accounts for 2008, all things being equal, you will find that States expenditure has increased by 7.3 per cent plus £9.7 million, all of which will have been voted by the States. I am sorry, it is difficult as there are States Members here, but if States Members did not want that increase then when the Business Plan goes to them in September they would choose not to agree to an increase in States expenditure of 7.3 per cent plus £9.7 million and say no, and any States Member can bring an amendment saying: "No, I want to halve that figure" and then States expenditure will be half that amount.

Mr. C. Evans:

If the anticipation is that there will be a 7.3 per cent increase in expenditure in next year.

Mr. I. Black:

Plus £9.7 million.

Mr. C. Evans:

In your opinion, with the experience that you have from our States historical performance, what do you think that figure will actually be?

Mr. I. Black:

All things being equal, it would be remarkably close to it. The reason I think you are seeing increases that appear to be higher - I am guessing, I have to do the analysis - is that the States have been budgeting at quite a generous level in the good times and the States expenditure has been below that. But what is happening now is that budgets have been getting tighter in recent times so there has been a catch-up occurring as expenditure has been getting closer to the budget amounts. For instance, year on year you had huge under-spends at the end of every year. It did not matter because, all things being equal, the under-spend of one year was the same as the under-spend the next year. What is the trend? The trend in recent times is the level of under-spend each year has gone down and I guess that is one of the reasons for this graph that appears to show States spending has exceeded the budget because there has been this catch-up of amounts voted in the past that have been spent. Have I confused you?

Mr. C. Evans:

I am lost, I am afraid, but other Members may not be.

Mr. A. Grimes:

What seems apparent to me from the discussions we have had is that the States Members, and to some extent the public, are confused by the format and content of these accounts and that there needs to be a more incisive way of conveying the patterns that are coming out of some of these numbers. I know the list within the chart we have there, with a quick calculation you would be able to see we have doubled the expenditure. Within the charts here the percentage of GDP -- and it looks to me -- because I think a number of the States Members were quite shocked by how this pattern of expenditure has drifted. I think that is a fair comment.

Mr. C. Evans:

Absolutely, yes.

Mr. A. Grimes:

Would you see that as your responsibility to improve the communication of some of the key features within the finances of the States?

Mr. I. Black:

Yes. It is my job to inform and I do accept that this is really, really difficult to get a grip on, trying to compare expenditure and proper accounting methodology with the current way the States budget and perversely, as we move towards GAAP (Generally Accepted Accounting Principles) compliant accounts, it is going to make it worse. Because when you did simple income and expenditure, budgeted income and expenditure accounts you could match the 2 things up. As we move to more meaningful accounts the difference between that and the budget process has got bigger and the only answer to that is - to use some jargon - to move to something called resource accounting and budgeting, which is that budgeting is done on a similar basis to proper accounting methodologies and then the 2 things come back together. So, yes, I do accept that we have got a job in bringing the budgeting system and the accounts system back together and helping that through better information. But I also will repeat that the way to control spending is to limit the increase in the amounts voted.

Mr. A. Grimes:

But would the politicians, though, understand what is happening from those accounts? Over the duration of this period I got the feeling from all the politicians here that there was some surprise at this expenditure drift over the years. Is that fair?

Senator J.L. Perchard:

Yes, I think that is absolutely right.

Mr. A. Grimes:

What you would be looking for is some sort of concise, incisive presentation of the information that brings home exactly the points the Treasury is making. I think that is what you would be looking for.

Mr. C. Swinson:

Could I just ask a question? You have just said that the way to reduce the rate of increasing expenditure is for the States not to vote increases.

Mr. I. Black:

That is right, that is the only way to stop it.

Mr. C. Swinson:

Which implies that you would not permit overspends.

Mr. I. Black:

That is right.

Mr. C. Swinson:

But your department has proposed and the Minister has approved the drafting of a law that will permit overspends.

Mr. I. Black:

That is this minor carry forward of --

Mr. C. Swinson:

It does not say that, it says: "Carry forward overspends". The word "minor" is not included.

Mr. I. Black:

Well, it is the --

Mr. C. Swinson:

It says: "The amendment should allow the States to overspend its overall expenditure approval."

Mr. I. Black:

The reason for doing that is the reason I have explained, which is what we discovered was an unintended consequence of the change in the Finance Law - which was intended to improve accountability - was that accounting officers could find themselves breaking the law through no fault of their own.

Mr. C. Swinson:

Sorry, but it would be the fault of their own if they allowed overspends.

Mr. I. Black:

Well, because certain parts of expenditure are demand-led such as supplementation, it could be that there was nothing that an accounting officer could do to prevent expenditure happening in December.

Mr. C. Swinson:

Yes, there is something that the accounting officer could do to prevent that and that is to seek a supplementary budget. But it is important to say that the proposal is that the ability to overspend should be within restrictions and conditions specified by you as Treasurer, not specified by the States in the legislation.

Mr. I. Black:

Yes. Well, if you believe that as a CCommittee to be important I would be very happy to have the States constrain the amount. There is no intention here to cause a free for all; it was just practicalities to keep within budget. If you say to people: "You cannot overspend your budget", I guarantee what you will have every year is States under-spending its budget but in a non-planned way because people knowing they will break the law if they go a pound over will keep themselves a margin of error and it could be that services are not provided quite simply because accounting officers do not want to find themselves in breach of the law.

Mr. C. Evans:

But is contingency planning not part of a good budget?

Mr. I. Black:

But that does not work like that. The States does not work like a business on that. You can only spend what has been voted, so you cannot say: "I will keep a contingency fund that I can dip into." You can only spend what has been voted.

Mr. C. Swinson:

Well, have you ever attempted to seek States approval for a contingency budget?

Mr. I. Black:

No, but it would be -- the way that the Finance Law works is the States either votes an allocation for expenditure or not. So you could end up -- there may be ways of doing this and I am open to ideas, but let us say all things being equal, we suggested that £10 million is added to the States' voted amounts next year for a contingency fund. Well, we would then have to, all things being equal, raise taxes by £10 million to put the money into the fund to make sure the money is there and you then would have this money sitting there that we might either find at the year end is not spent at all, in which case you

overtaxed the populace by £10 million, or, as was the case for those with long enough memories when we had supply days, find that it is just an incentive to spend more.

Mr. C. Swinson:

Let me put it to you another way, which is that you reduce departments' expenditure by £10 million so the £10 million can be provided as a contingency fund. That way there is not ever a requirement to increase the tax.

Mr. I. Black:

I am not being negative; I am certainly open to these ideas but if we were to take £10 million of departments' budgets now, they would say: "We will have to cut services by £10 million."

The Connétable of Grouville:

But have we not got a stabilisation fund to do that?

Mr. I. Black:

No, the stabilisation fund is to try and iron out both cyclical upturns and downturns.

The Connétable of Grouville:

But that is what we are talking about.

Mr. I. Black:

No.

Mr. C. Evans:

If there is no contingency in any of the budgeted expenditure then it is almost inevitable that there is going to be an overspend or projected overspend and a requirement to go back to the States for further authorisation.

Mr. I. Black:

There could be. In the past we did have a contingency fund; it was called the general reserve, and all we found -- it is a behavioural thing that if you have a general reserve it just encourages people to dip into it. It is almost like as soon as you create the contingency fund people will spend it. Because it is not like a business, which in a business it is all driven by profit maximisation; the States system is driven by providing services and service maximisation.

Mr. C. Evans:

But with a sub-agenda of cost minimisation; in other words, the most efficient way of doing it. Because you have consistently said that if there was to be a reduction in costs at departmental level, it would inevitably result in lower level of services. That is not the only way; you do not need to be in business to know that you can achieve the same levels of service by doing things differently, more efficiently.

Mr. I. Black:

Regardless of the level of spending, every States department should provide services as efficiently as possible. So, all things being equal, if you increase the allocation for spending you will increase services and if you reduce it, you will reduce services.

Deputy S.C. Ferguson:

I think if we carry on now. One or 2 of the items in the accounts have intrigued us, for instance the income on the Strategic FundFund.

Mr. A. Ohlsson:

Yes, there are a few questions relating to the performance of States assets rather than States expenditure and how various assets in the different funds are held. The easiest - which everyone knows about - is the Strategic Reserve and I wonder if you could comment on the performance of the strategic reserve in 2006, which showed an increase of 4.6 per cent, which does not seem to be that strong a performance in a period of rising markets and, indeed, rising interest rates.

Mr. I. Black:

That is right and the reason for that performance was that the fund is heavily invested in gilts and that was not a good time to be in gilts because the returns on them were extremely low. On all our funds now we develop investment policies and we are just about to take a new investment strategy back to the States and it will be for the States to decide to alter the investment policy. So, the Strategic Reserve we could -- what we have got at the moment is a very, very low risk method of investment for the strategic reserve that - all things being equal - over a period of time will have a lower return than if you had a riskier portfolio. When I became Treasurer it was invested 100 per cent in gilts. During my time we have moved it up to -- I think it is currently 30 per cent equities and going further. At the end of the day it will be decided on the States' risk appetite for the strategic reserve because, obviously, if you go heavily into risk investments over years when the RReserve goes down as well as up --

Mr. A. Ohlsson:

Yes, I think it is important for these funds to comment not only on performance but performance when measured against risk. A 4.6 per cent increase, if you have got a 100 per cent equity portfolio, is obviously extremely poor because of the higher risks you are taking.

Mr. I. Black:

Yes.

Mr. A. Ohlsson:

Does or will that policy apply across some of the other funds as well?

Mr. I. Black:

For every fund now we have a clear investment strategy basically driven by the purpose of the fund and inflows and outflows over a period of time and, as a result of that, we allocate the resources. We have got very tight procedures in place to monitor the performance of investment managers. Everyone has got a benchmark against which we monitor their performance.

Deputy S.C. Ferguson:

What about all the little special funds, the bequests and so on, Lord Portsea and people like that?

Mr. I. Black:

We do not have them for the special funds at the moment but we are looking at that. On the special funds there are -- I will make it up, I think there are hundreds but there is a clear H20 rule there, which is a very small number of them have a fairly significant amount of money and we are currently looking at some pooling arrangement for those.

Deputy S.C. Ferguson:

Like umbrella funds?

Mr. I. Black:

Yes.

Senator J.L. Perchard:

Why has it taken so long, Ian, for that to happen? There are hundreds of funds, are there not?

Mr. I. Black:

Yes.

Senator J.L. Perchard:

Would you describe them, historically, as having been mismanaged?

Mr. I. Black:

It is simply a matter of resource and, again, I have worked my way through the big stuff and I am working my way down.

Mr. A. Ohlsson:

So, the change from 2005 to 2006 in cash - this is page 23 of the balance sheet - at the end of 2005 the States held £237 million in cash, end of 2006 it held £54 million in cash but its other investments - which it has explained in note 8 - went up considerably. If you look, in particular, at near cash instruments --

Mr. I. Black:

Alex, sorry, can I catch up on the page?

Mr. A. Ohlsson:

Page (xxiii) balance sheet.

Mr. I. Black:

Okay.

Mr. A. Ohlsson:

So, look at the line that is cash at bank, line note 11.

Mr. I. Black:

Yes.

Mr. A. Ohlsson:

A reduction from £237 million to £54 million, and if you look at other investments, an increase from £463 million to £718 million. If you look at note 8 which sets out the details of those other investments, the notable increases in particular are certificates of deposit which have gone from £102 million to £355 million. Is that reflective of an active management of your cash/near cash holdings?

Mr. I. Black:

Yes. It used to be almost entirely on 30-day deposit and I went through a tender process to take on active cash managers. As a result of that, we have changed the way we manage cash and near cash. They have got benchmarks for their performance again and a clear statement of what risk is acceptable and what is not.

Mr. A. Ohlsson:

Also, as part of the same question, I noted that some of the currency fund is now held on deposit with the Strategic Reserve. That is part of this policy, is it?

Mr. I. Black:

Yes. Absolutely, it is like an umbrella fund. It is a way of diversifying the investments of the currency fund.

Mr. A. Ohlsson:

Was the Strategic Reserve not borrowing the cash?

Mr. I. Black:

Absolutely not. It was a way of using the equity manager that we had appointed to the Strategic Reserve.

Mr. A. Ohlsson:

Thank you.

Deputy S.C. Ferguson:

The court and case costs that were mentioned on page (xiii) and are also the subject of a ministerial decision, which is MD-TR-2007-0003, yes, they are complex. We seem to be going around in circles and ending up putting the surplus into the Criminal Confiscation Fund. Why is it such a complicated process?

Mr. I. Black:

I am possibly the wrong person to ask on this but it is true, they are a nightmare. The reason they are a nightmare is because, quite rightly, the Attorney General decides whether to commence cases and in Jersey, I think it is fair to say much to do with our finance industry, some of these cases can be extremely complex and extremely costly and, accordingly, our expenditure on court case costs fluctuates wildly from year to year and it is almost impossible to budget accurately for.

Deputy S.C. Ferguson:

It says at the end that by the time you have paid the £480,000 to Home Affairs for the overspend on court and case costs for customs and police, then the money coming through the Viscount - presumably from the various criminal cases that are under way - will be used to reduce the deficit on the central fund and then the surplus goes into the Criminal Confiscation Fund. So that is off balance sheet almost.

Mr. I. Black:

That is right. Yes, and we have agreed that we treat it in a different way in future years in that we show it within the States expenditure by transfer. But yes, that is the way it has been dealt with in the past and that was as a result of a recommendation by your predecessor committee that undertook a review of court and case costs. You are quite right, what is happening is money is moving between income and expenditure and balance sheet and it should be more explicit. We have already decided to do that.

Deputy S.C. Ferguson:

We have been trying to reconcile some of the figures; the expenditure per the Consolidated Fund statement. We have been trying to reconcile that back to the £500,000 or so at page 82 of the accounts. If you start with the expenditure per the consolidated fund statement with the figure of £591,000 and then if we knock off the non-trading 'committees' income and the pre-1987 liability for PECRS and the defined benefit pension schemes/other finance expenditure, we come to a net expenditure figure of £493,000, which is not what we have in total spent, which was £502 million. Do you want to think about it and come back to us?

Mr. J. Turner:

I was going to ask where the £502 million was first. I cannot see these figures.

Deputy S.C. Ferguson:

Income and expenditure for non-trading --

Mr. J. Turner:

We are on page 82?

Mr. A. Ohlsson:

Page 82 is where the £592 million comes from.

Mr. I. Black:

Where is it?

Mr. A. Ohlsson:

It is the expenditure line.

Mr. I. Black:

Oh, right, I have got it. Yes.

Deputy S.C. Ferguson:

Total spent and income and expenditure of the non-trading account. Yes, income and expenditure for non-trading account notes.

Mr. A. Ohlsson:

The £502 million increase is your page 2. It is a reconciliation of those numbers, which we find impossible.

Mr. J. Turner:

Would it be easier if we submitted the reconciliation rather than trying to work through it because it is quite complicated?

Deputy S.C. Ferguson:

Yes.

Mr. J. Turner:

I will do that.

Mr. A. Ohlsson:

While we are on that subject, can I ask a couple of questions on the pension plan reconciliations? Firstly, on the PECRS (Public Employees Contributory Retirement Scheme) as I understand it, the pre-1987 liability was agreed by the States as being recognised as an obligation to the States and, therefore, reflected in the 2005 balance sheet, brought in as a one-off charge. There is now a loan which is being repaid by the States to PECRS over an 80-year period in the summary. Why, then, is there an increase in the pre-1987 liability recognised in 2006 of £3.8 million?

Mr. J. Turner:

You do this one, please. [Laughter]

Mr. I. Black:

I think it is to do with the method of calculation of the debt - and I may lose myself on this because it is terribly complicated - but the debt was calculated by an actuary and it is effectively working backwards based on increases in States pay awards, I believe. So, unfortunately, it will have a tendency to fluctuate

year on year based on that method of calculation.

Mr. A. Ohlsson:

So, are we saying that the pre-1987 liability is not a crystallised amount, it is a fluctuating amount?

Mr. I. Black:

It is crystallised in that it was agreed the method of calculation but the cost of it, in monetary terms, will vary.

Mr. A. Ohlsson:

So, the States did not agree a monetary amount as to that deficit?

Mr. I. Black:

No, because it was --

Mr. A. Ohlsson:

It agreed a principle that will change as actuarial rates change in the future?

Mr. I. Black:

Yes.

Mr. A. Ohlsson:

So, the 80-year repayment is what? Does that vary with those numbers or ...?

Mr. I. Black:

No, it does not. It all works back from the 80-year repayment and actual experience on pay awards, I believe.

Mr. A. Ohlsson:

So, it is effectively a net present value of that 80-year payment stream?

Mr. I. Black:

Yes.

Mr. A. Ohlsson:

The next one was on the teachers' fund. You recognise in 2006 £7.3 million additional liability in relation to past service costs - this is page (xxxiv) of the accounts - which is explained as being the introduction of the widowers' pension in respect of post-1988 service. Why is that only recognised in 2006 and not previously?

Mr. I. Black:

I do not know the answer to that one. I will have to find out for you. I presume we made proper provision for it but I can only check.

Mr. A. Ohlsson:

The last question - again, this is just from account issues relating to these pension funds rather than some of the policies used - but there is a marked change in the performance of the teachers' fund in 2005 and 2006 on page 35 of the accounts where last year there was a £32.4 million excess return over expected return and in 2006 only £5.1 million. Do you have an explanation for that?

Mr. I. Black:

Again, I will have to check. I presume the reason for this is it is a defined benefits scheme so the situation will fluctuate wildly.

Mr. A. Ohlsson:

I think that is the variation in return on assets but the liabilities vary.

Mr. I. Black:

Oh, sorry, I will have to check that for you and find the answer.

Deputy S.C. Ferguson:

The management letter written by the auditors, who does that get circulated to?

Mr. I. Black:

It went to the Treasury Minister and the Chief Minister.

Deputy S.C. Ferguson:

Is that all?

Mr. J. Turner:

The Audit Committee has received it.

Mr. I. Black:

Yes.

Deputy S.C. Ferguson:

The Audit Committee - for the benefit of the press - is comprised of?

Mr. I. Black:

Senior officers; it is Bill Ogley, myself, Mike Pollard, Steven Austin-Vautier, Ian Crich.

Deputy S.C. Ferguson:

So, the Ministers do not get a view of -- I am sorry, I am a bit dumbfounded. The Ministers do not get to look at the management letter?

Mr. I. Black:

The Chief Minister and the Treasury Minister get it.

Deputy S.C. Ferguson:

No, the general Ministers?

Mr. I. Black:

No, unless they receive the bits related to their departments?

Mr. J. Turner:

Not necessarily.

Mr. I. Black:

Okay. No, it is Chief --

Deputy S.C. Ferguson:

Is there a reason for this?

Mr. I. Black:

No, whom it went to was done in discussion with the auditors on who they thought it should go to. I am not deflecting responsibility but that is who they felt it should go to. But if we thought there were benefits in going more widely, I have no difficulty with that at all.

Deputy S.C. Ferguson:

Does your management letter go to the whole board?

Mr. A. Ohlsson:

The Audit Committee.

Mr. M. Magee:

Just Audit Committee because the Audit Committee, in effect, has got responsibility to perform a review on behalf of the board as --

Deputy S.C. Ferguson:

But the Audit Committee is comprised of board members.

Mr. M. Magee:

It is. Yes.

Deputy S.C. Ferguson:

Which is the difference, I think.

Mr. A. Ohlsson:

Just on the detail of the management letter, what steps are you taking to resolve this year's rental reconciliations?

Mr. J. Turner:

For all the issues raised in the management letter - along with other less significant ones that PwC (PriceWaterhouseCoopers) raised - there is an action plan put together with individual actions for each of the departments regarding all the recommendations.

Deputy S.C. Ferguson:

Right. UK GAAP.GAAP. I understand that the British Government will be on IFRS (International Financial Reporting Standards) by 2009.

Mr. I. Black:

That is right.

Deputy S.C. Ferguson:

All the handbooks they had for assistance in coping with GAAP accounting will, of course, not be updated any more. Would that not make it easier to go straight to IFRS?

Mr. I. Black:

I think Jason will comment on this in a second. All I can say is that I was at a conference on this in the UK recently and some took the view -- many were surprised that the UK Government had made that commitment because there are some major issues about moving to IFRS for the public sector, not least that the EU (Economic Union) has not decided on major issues surrounding it and are unlikely to in the near future either. So there is a view in the UK that the UK Government was bold - that is a kind word,

I think - to make this decision at this time. Because there are so many uncertainties still. It does cause problems for us because we have decided to follow the UK Government and no sooner have we made that decision than they are jumping on again. There is a case for us either missing out an interim step or going the whole way but I think either way there are issues. Primarily, why I have brought Jason is he is Project Manager on bringing us up to GAAP accounting, so perhaps he should comment.

Mr. J. Turner:

We have maintained close links with the UK Treasury, so we were aware of these discussions going on and the decision once it was made. We have considered the pros and cons of following the UK and going to international standards sooner rather than later and, on balance, concluded that the position we are in means that we would be better off going through a transition period to move to UK GAAP and then reconsidering our subsequent move to international standards. The reasons we have come to that conclusion are largely driven by the benefits that we are looking to get from the project to move us to GAAP. Very briefly, they focus around enabling us to improve accountability, transparency of what happens and the information that is produced for the accounts and the decision making process that goes on within the public sector. Those benefits that we have identified and are looking to achieve we can achieve through UK GAAP. The move to international standards is not going to give us a whole new tranche of benefits that we are missing out on at this stage. So we believe those benefits are just as deliverable under UK GAAP as they would be under international standards. Also, to move to international standards there are not -- the UK public sector provides us with a nice base line, a nice set of information that we are using to develop our framework that we would work within. We cannot go and take that off the shelf for international standards because it does not exist at the moment, they are still working on it and finalising it. So, we are giving ourselves a very challenging timetable at the moment to deliver compliance with the move to UK GAAP and to stop and perhaps start thinking through some issues from scratch - without the UK having thought them through - would extend the process and the time it would take. So that is another issue being considered. Also, without exception, our finance profession within the public sector in Jersey is trained to UK GAAP standards, so there would be an even greater training exercise to bring our staff up to standard very quickly to adopt international standards. What it does mean for us is for a short period of time until we move to international standards we would have to maintain the standards that we are working to independently from the UK because the UK, as you say, will stop maintaining their version of UK GAAP.

Deputy S.C. Ferguson:

So when would you expect to be on IFRS?

Mr. J. Turner:

We have not come to that conclusion at the moment. All we have considered is should we move at the same time as the UK to save us taking an additional step, and concluded that we can achieve the benefits we want to achieve and are far more likely to be successful in the timescale we are challenged with than trying to jump straight into international standards.

Deputy S.C. Ferguson:

But are you not doubling the work?

Mr. J. Turner:

No, because the --

Deputy S.C. Ferguson:

At the moment you have got 2 stages to get to IFRS whereas if you just said: "Okay, we will go for IFRS" you will just have one load of conversion.

Mr. J. Turner:

Yes, and what we are trying to do is, where it may involve 2 steps, we are being aware of that and thinking it through to consequence to see if there are benefits to doing it in one stage. But most of what we are trying to achieve is the step from where we are to UK GAAP is where we get the big achievement and the benefits. In many cases there is no move from thereon into international standards, it is the same, and where there is a move, if it is significant and would create a lot of work then we are thinking that through now. Thinking: "Can we make that jump in that particular area?" but by and large, we are trying to get to a good point and good base to build from, rather than trying to jump the entire thing in one go.

Deputy S.C. Ferguson:

Okay. Thank you. Anybody else? Any more questions? I do not think there was anything else. Thank you very much indeed. Sorry if it has been a rather heavy afternoon, but thank you for your time.

Mr. I. Black:

Can I just say, finally, I felt the discussion on these graphs was a bit unsatisfactory. I would very much like to engage in a constructive dialogue with the PAC on how to address these issues, so I would like the opportunity to look at them, respond in writing and even, if you wish, come back again and talk to you.

Deputy S.C. Ferguson:

With pleasure. No problem.

Mr. I. Black:

Thank you.