



OFFICIAL REPORT

OF THE

STATES OF DELIBERATION

OF THE

ISLAND OF GUERNSEY

HANSARD

Royal Court House, Guernsey, Thursday, 13th December 2012

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Present:

Richard J. Collas, Esq., Bailiff and Presiding Officer

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H.E. Roberts Esq., Q.C. (H.M. Procureur)
Miss M. M. E. Pullum, Q.C. (H. M. Comptroller)

People's Deputies

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Deputies P. A. Harwood, J. Kuttelwascher, B. L. Brehaut,
R. Domaille, A. H. Langlois, R. A. Jones

St. Peter Port North

Deputies M. K. Le Clerc, J. A. B. Gollop, P. A. Sherbourne,
R. Conder, M. J. Storey, E. G. Bebb, L. C. Queripel

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M. G. O'Hara, F. W. Quin, M. P. J. Hadley

Representatives of the Island of Alderney

Alderney Representatives B. N. Kelly, P. Arditti

The Clerk to the States of Deliberation

J. Torode, Esq. (H.M. Greffier)

Absent at the Evocation

Deputy S. J. Ogier (*indisposé*)
Deputy J. P. Le Tocq (*absent de l'Île*)

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The Assembly adjourned at 5.31 p.m.

States of Deliberation

*The States met at 9.30 a.m. in the presence of
His Excellency Air Marshal Peter Walker, C.B., C.B.E.
Lieutenant-Governor and Commander-in-Chief of the Bailiwick of Guernsey*

[THE BAILIFF *in the Chair*]

PRAYERS
The Greffier

EVOCAATION

Billet d'État XXVI

TREASURY AND RESOURCES DEPARTMENT

**2013 Budget
Debate continued
Propositions approved**

5 **The Greffier:** The continuation of Billet d'État XXVI, the Budget Debate.

The Bailiff: Just to remind you, Members of the States, we are moving into general debate now on the Budget.
Deputy De Lisle.

10 **Deputy De Lisle:** Thank you, sir.

The strength of this Budget lies in the attack on the deficit through broadening and extending the corporate tax base, together with expenditure restraint and delivery of the Financial Transformation Programme targets. This is to be commended and more of the same will be welcomed in next year's Budget, as the new T & R Department settles in. This is absolutely essential. The Island Government *has* to face the reality of the new worldwide economic order and strive to return to a balanced budget position in short order, whereupon we can begin again to build up modest surpluses in future.

Treasury are to be commended also for increasing personal allowances at the present time, given uncertainty over tax receipts as the economy retrenches at home and abroad. Most encouraging, too, is the recommendation of a £3 million Strategic Development Fund, aimed at seeding new initiatives for enhancing economic growth and job creation, increasing States revenues and leaner delivery of services and social programmes.

I recommend caution, however, with the authorisation of borrowing by the trading Boards, particularly after the States recently resolved to guard against the borrowing trap.

25 Proposition 14, to authorise Guernsey Electricity to borrow to finance capital expenditure, on page 90 – it is Proposition 14 – is very open-ended. Proposition 14 states, on page 90:

‘To authorise Guernsey Electricity Limited to borrow, either from the States General Investment Pool or third parties,

30 to finance capital expenditure and to authorise the Treasury and Resources Department to facilitate, if necessary by providing guarantees, any third party borrowings.’

This is a radical change in policy. GEL operates under a save-to-spend policy in respect of financing the purchase of capital assets, and to go down the borrowing route is a major change, particularly as some estimates of capital requirement needs for future energy projects are considerable.

35 So what exactly will the States be signing up to here? It must be made clear. Are we signing up to a new policy of borrowing in the open market from this Budget forward, or is what is intended that indicated in paragraph 6.8 at the top of page 28 – that is, a one-off

40 ‘...2013 borrowing requirement of £15 to £20 million (including the overdraft facility of £5 million that was approved as part of the 2012 Budget Report) to finance the next stage of capital investment’

and T & R will consider and approve the business cases for capital investment and the borrowing mechanism and terms?

45 You will recall that it started small. GE requested, in the last Budget, an overdraft facility of £5 million for a four-year period from 2012, with interest payable at the States Treasury rate, in order to provide appropriate capacity and security of service for the Island. The overdraft facility was sold to the States as a short-term contravention of existing policy on capital expenditure – the save-to-spend policy – to address a capital expenditure spike, short term, and that planned tariff evolution would be sufficient to repay the facility. GE has recently announced the planned tariff evolution: a 9% increase in electricity tariff.

I would ask that this Proposition is taken separately in the vote and that the Minister provides assurances to the States about what is being asked for. Are the States voting for a change in policy here to approve GE borrowing in future, rather than the existing save-to-spend policy? Or are the States being asked to approve a one-off 2013 borrowing requirement of £15 million to £20 million, including the overdraft facility, to finance the next stage of capital investment, *whatever that is*? That again is not clear. Only are we given that it

60 ‘...will include both engine/generator plant [...] and additional import capacity through subsea cable interconnection.’

These are big-ticket capital expenditure items. The borrowing spike is going up and up and the recommendation here is to approve borrowing from third parties. The States have to have some awareness of *what* they are voting for on this, and I seek clarification from Deputy St Pier, the Minister for Treasury, on this matter.

65 Thank you, sir.

The Bailiff: Thank you.

Next, I will call Deputy David Jones, then Deputy Lester Queripel and Deputy Storey.

70 **Deputy David Jones:** Thank you, Mr Bailiff.

Just to clear up an issue that came up yesterday, I did support the Burford amendment because I did say, in the last debate, on smoking, that I fully supported any education programme that would help get children off cigarettes. It was the creation of the post that I objected to strongly.

75 Moving along, I want to make a couple of points about indirect taxation in general. Indirect taxation really is, and can be, as regressive as a GST, simply because both systems are not based on people’s ability to pay. They are a one-size-fits-all tax across the board, and you get hit with them, whether you can afford to pay them or not.

80 But I think the biggest one, again, is the fuel. I would like to say something on fuel – raising fuel taxes all the time. Fuel increases have a knock-on effect right across the board. They increase the transportation costs for goods that come into this Island. Those costs are then passed on to the supermarkets through goods and items that are sold to households, and that has a real ongoing increase in household budgets. So we always have to be very careful what we do with fuel because of those increased costs that show up elsewhere. Cigarettes and drink... Well, they are the traditional ones, of course, but I think that we have to look at where our fuel prices are going, and they are slowly creeping up every year.

85 I understand that part of those prices is, of course, the amendment that Deputy Brouard and I brought about to help funding the buses and the transport strategy, of which we do not seem to have an overall one, but certainly for the buses... and I accept that, but I am very worried where we are going with fuel prices, year on year, and indirect taxation altogether.

90 Thank you.

The Bailiff: Deputy Lester Queripel.

Deputy Lester Queripel: Thank you, sir.

95 I was very disappointed to hear that amending Zero-10 is only going to realise £8 million in real terms. Rightly or wrongly, I had hoped that amending Zero-10 would realise between £15 and £20 million. After all, the finance industry have already told us they are *perfectly happy* to pay more tax, so why aren't we asking them to do that?

100 The T & R Minister has already told us that there will be an additional review of taxation overall, but I suspect what that will mean is that mid-to-low earners will be asked to pay more tax – and yet we have the finance industry telling us *they* are happy to pay more tax. So can we not take another look at amending Zero-10 even further? Are we not looking a gift horse in the mouth?

105 The States has a history of turning down offers such as this. We had entrepreneurs offering to fund and build energy-from-waste plants and the previous Assembly turned them away, so we are now in the ludicrous position of having to find some other jurisdiction to take our waste.

Now here we have the finance industry telling us they are perfectly happy to *pay more tax* – and what do we do? We say, 'Thank you, but there is no need; we are doing fine as we are.' Well, actually, we are not. We have a considerable deficit and, surely, by broadening the bandwidth of Zero-10 even more, we could reduce that deficit.

110 Could we not, in fact, even engage in discussions with the finance industry a lot more than we do currently? I realise discussions do take place between the States and the finance industry, but people in the industry tell me that communications could certainly be improved – in fact, they would very much like them to be improved –and I have also been told by people in the industry that those improved communications need to come from *us*, the States. So when the T & R Minister sums up, sir, I would like him to, please, give the Assembly his thoughts on amending Zero-10 even further.

115 Thank you, sir.

The Bailiff: Deputy Storey, and then Deputy Adam.

120 **Deputy Storey:** Thank you, sir.

First of all, I would like to congratulate the T & R Board and their staff for the continued improvement in the presentation and the content of this Budget Report. It is so much easier to read and more informative than Reports when I first joined the States, so I hope the Minister will communicate those thanks to his staff for their improvements there.

125 However, debating next year's Budget just 20 days before the Budget year starts is really quite unacceptable. We are effectively being presented with a *fait accompli*. The delay has also prevented an informed debate on SSD's proposals for the future in the context of our overall financial position. We have been given no proper explanation for this delay, and perhaps the Minister would provide an explanation in his reply to this debate and, hopefully, also give us an undertaking on an earlier timetable next year. *We really do need* to be able to debate the Budget and SSD proposals together, preferably in the October meeting.

130 Sir, at a first glance, the Budget for 2013 is encouraging, setting a target of an operating surplus, *at last*, of £11 million. However, this outturn relies on a significant increase in revenue – 5% or more – and a real-terms freeze on overall expenditure. The increased income, as we have been told, is boosted by the net income from extending the 10% band for corporation tax, less the removal of distribution tax; however, the tax take budget relies heavily on the projected growth in the economy of 1.3%, and that is after declines of 2½% to 3% in 2009-10 and zero growth over 2011-12. With the economic storms around the world, a 1.3% growth in the economy does seem to be a fairly big ask, and I am a bit concerned that we are kidding ourselves a bit on our income next year. Furthermore, we are clearly finding it difficult to achieve the FTP savings that were identified. We can only hope for a good economic outturn, which is beyond our control, and redouble our efforts to achieve savings in operating cost, which *is* in our control.

135 However, sir, I would like to speak, in particular, about four points set out in the Budget. The first one is the Financial Transformation Programme. The SSP adopted by the States in 2009 set the target of balancing the books by 2015-16 by a combination of FTP savings of £31 million, an increased tax income fuelled by economic growth at the trend rate. However, the States agreed to spend the first three years' savings on new services. As a result, we have committed £5.2 million of those savings to the delivery of new services. I know I have constantly argued against spending

150 these savings over the past three years, and my position, I think, was vindicated by the independent financial review presented by Prof. Wood last year. We should not have spent these savings, we should have banked them to reduce the black hole. So I am greatly concerned by paragraph 4.12 in this Report, which, if I can quote, says:

155 ‘It was intended that a proposal for the level of any future FTP savings allocated to fund new services in 2013 and subsequent years would be included within the 2012-2017 States Strategic Plan (planned for Autumn 2012) or the 2013 Budget Report.’

160 We have not had those proposals, because we have not had the States Strategic Plan and they are not in the 2013 Budget Report. The updated SSP is now scheduled for publication in early 2013 and it is intended that this will include ‘appropriate proposals, including any requirements to reprioritise funding for existing services’.

165 Sir, I remain opposed to spending FTP savings on new services until we have balanced the books, after making adequate transfers to the Capital Reserve. I strongly believe that any new service developments should be funded from Departments’ existing cash limits by, if necessary, re-prioritising services or making additional efficiency savings. Furthermore, what also concerns me is we still seem to be waiting for a detailed report on the actual cash savings achieved against the FTP opportunities identified, and I would very much like to see either T & R or PAC conduct that detailed exercise so we know exactly what we *have* achieved against the targets.

170 Which brings me on to the second point of concern in this Budget, and that is the budget being set aside for PAC and Scrutiny. The approved budget for these two Committees for 2012 was £781,000 – PAC £446,000 and Scrutiny £235,000. I accept that there will be an under-spend during 2012, and that is mainly due to the General Election, which meant that no Reports were commenced prior to the Election and the new Committees have not got into their stride yet.

175 During the last term, PAC in particular, produced Reports on good governance and risk management, which highlighted the need for compliance in respect of risk management and the fact that the previous Reports had been ignored – and we subsequently got a £2.6 million loss through fraud. They also looked at management of funds and, I think helpfully, arrangements between the States and the Medical Specialist Group. All these areas were especially important and needed to be undertaken by independent investigators with skills and knowledge in those particular areas.

180 The budget for 2013 has been reduced from that £781,000 to £600,000 between the two Committees. So whilst I agree that, under the current need for expenditure restraint, it would be insensitive to expect an *increased* budget for these two important Committees, but to *reduce* the budget, with so many areas needing urgent investigation, is most questionable in my mind. I believe that a thriving democracy depends on effective scrutiny. It was seen that the Policy Council and the Central Management Team do not want proper scrutiny and are doing what they can to restrict this vital area of good governance. £600,000 represents less than two-tenths of 1% of the States’ total expenditure. I trust T & R will provide *additional* funds to facilitate *proper* value-for-money investigations which may appear to be urgently needed during the year, in addition to their existing budget.

185 The next area I have concern about, sir, is capital expenditure. I think paragraph 4.27 says it all. In order to maintain our infrastructure, we need to be spending 3% of GDP, on average, per annum, and that equates to £57 million a year – somewhere between £55 million and £60 million, at least. So, if we deduct the £10 million which has been set aside for ‘routine capital expenditure’, we need £45 million to £50 million a year for capital projects. But we are only putting between £20 million and £30 million a year into the Capital Reserve: in 2011, we put in £21 million; in 2012, we put in £30 million; and the proposal for 2013 is only £25 million. Sir, we cannot take out £55 million to £60 million per annum and only put in £20 million to £25 million per annum indefinitely.

200 The Capital Reserve has fallen from over £100 million in 2009 to a projected £40 million at the completion of the current capital project programme. So then what? The fact is that we do not really have a deficit of £17 million. If we are going to be putting the correct amount of money into the Capital Reserve, we have a deficit of at least £40 million! The question is how are we going to fund this – and perhaps I can provide a suggestion that the Minister and his Department might consider. I will come to that shortly.

205 Sir, I am particularly pleased that work is progressing on the Strategic Asset Management Plan, and especially the Island Infrastructure Plan – because that is something which I have been asking for in various debates over the last few years – but I am disappointed in the delay being proposed.

210 Let's hope it will be worth waiting for. However, I believe that *this* review and the investigation will identify capital expenditure obligations which might well *increase* our need for capital expenditure in excess of the £55 million to £65 million identified in the Budget Statement.

215 Treasury and Resources have announced that they intend to conduct a widespread review of taxes, duties and contributions which Government imposes on Islanders. I hope that this will not be confined to *personal* taxation, because I have a suggestion to make. Sir, this is a small community, living on a small island. Perhaps our most important resource, and the scarcest, is our land. The land and buildings and countryside have been inherited by us from our forebears. We are the custodians of this valuable asset – which is our heritage – for our descendants. When the community, through the planning process, grants permission for changes in use of land, or for significant developments, the value of the land involved increases dramatically, producing a capital gain for the property owner. However, on Guernsey, we do not have a capital gains tax, and I am certainly not going to suggest that we should introduce a capital gains tax, (A Member: Hear, hear.) but I certainly do believe that the community should share some of this gain it has conferred on the owner.

225 This could be achieved by a significant increase in the use of planning covenants, or some other planning gain tax. Such a tax would provide a significant contribution to the cost of infrastructure maintenance and renewal. I do not advocate specific hypothecation, but perhaps income from such a tax could be transferred to the Capital Reserve. I hope the Minister will give me some assurance, in his reply to this debate, that this matter will be given serious consideration by his review team.

230 Thank you, sir.

The Bailiff: Thank you very much.

235 Deputy Adam.

Deputy Adam: Thank you, sir.

I support this Report from the Treasury and Resources Department. I think it is well thought out and well presented.

240 I also note the overall review of taxation over the next year, but what will this tell us? I believe that it will tell us an unfortunate fact of life: that we, as a community, must accept that, to have the facilities and services that we expect, at the standard we expect, more money will have to be raised. This can only be brought forward, in my opinion, *once we are confident* that the moneys spent are necessary, targeted and value for money.

245 T & R has also increased the Budget Reserve, and Departments can now access – if they provide a business case – an anticipated emergency expenditure, where there is a demand of cost pressure that cannot be met by re-prioritising existing budgets. This, unfortunately, is rather vague, in that, at present, the Department does not *appear* to accept that the increased costs in HSSD come from increased *demand*: they are because of poor financial control... This has been said by the Minister for T & R three times. He has repeated it in public, in the press and radio interviews. 250 Unfortunately, the implication that the Department gets is that (a) the Board, and (b) – and I feel this should *not* have been implied – the staff, are not competent. I have to ask, actually, which staff are not competent or which Board is not competent. At least we are spending money on a specific purpose: it is called patient care. Yet £2.3 million of taxpayers' money is lost by T & R Department.

255 On page 23 of the Budget Report, the anticipated probable overrun for each Department is tabled. HSSD stands at £1.5 million. It is accepted that any additional formula-led expenditure, which is greater than estimated, will be funded, if possible, from Budget Reserve or (b), failing which, by an additional transfer from Contingency Reserve. There is only £1.115 million in the Budget Reserve. If a Department was to *exceed* this amount, what effect would it have on the Fiscal and Economic Plan objective of real-time freeze on active States revenue expenditure?

260 In regard to SSP projects, HSSD deferred progressing with three projects that money had been laid aside for in 2011, for use in 2012. We thought that this might be allowed against HSSD's budget and kept, obviously, by the centre but, unfortunately, T & R did not allow this. So there is £615,000 for bids acknowledged not accessed by HSSD, but not put against their budget. There is also £300,000 in 2010 which was allocated for Legal Aid in relation to requirements for mental health tribunals. As you are all aware, the Mental Health Law is coming into force in April of next year. That means, I would have thought, there would have been £300,000 set aside in 2011 and in 2012. Yet, on page 16, it only puts one of these sums.

265 Turning to the budget for HSSD, I believe HSSD has reached the point where minimal further

270 efficiency savings can be made, and that higher service demand can only be met if we have further
funds. I believe, having achieved static cash spend within HSSD budget over the last three years,
we are well on the way to providing services in a cost-effective manner. There may be still slight
275 areas where more savings can be made when, at the present time, we are continuing what is called
‘the budget challenge’, looking at every area of the Department of HSSD, assessing the budget for
that area, and ensuring that it is spent appropriately and as cost effectively as possible.

But how is the budget for the Department set? There is *no* reference to activity of the
Department or increased activity. There is no recognition that demand for Health and Social Care
services is volatile and that peaks and troughs cannot be relied on to fit neatly into budgeting
280 periods. Does T & R accept, or otherwise, that Health and Social Services are demand-led? This
aspect appears, at times, to be accepted but, at other times, considered irrelevant.

Are FTP savings targeted at Departments in a logical manner? HSSD has to save over £8
million in the next two years. What is the FTP process suggesting that is reasonable from the
work-streams proposed?

285 As I state, and I state again, HSSD *has* reached the point where minimal further efficiency
savings can be made, and that higher service demand can only be met if we have further funds. We
have overspent this year because of the increased demand in our services in the last quarter of this
year. It is not formula-led, it is demand-led. SSD has also overspent by over £2 million.

I continue to be *amazed* at how the cost of cash benefit for someone who is eligible because of
their condition is considered *so differently* from the cost of medical treatment or social care for
290 someone because of *their* condition. Both costs are demand-led and, as Prof. Wood said, you
should not be surprised that Social Security and Health and Social Services Departments are
overspending – you cannot control such expenditure.

I fully accept that Departments are required to come within budget. The States’ fiscal policies
require that overall spending is reduced. The big-spending Departments are asked to make the
295 biggest savings. The FTP process applies to all, and if HSSD, which takes 32% of States’
expenditure, fails to make the savings, the whole process may falter, if not fail. So I understand
fully why, then, our potential £2.5 million overspend was flagged in the latter part of September
this year, that T & R and their officers put pressure – significant pressure – on HSSD and our
officers to contain the overspend. The possible measures for containing the overspend were sent to
300 the Deputy Chief Minister, as the Chief Minister was off-Island, and the Chief Minister received
them the following day, prior to them being finalised by the HSSD Board meeting.

That was the situation in 2012. The budget for HSSD in 2013 is set at £108 million, which will
probably be less than the potential actual spend for 2012. Is this really realistic? Will it be possible
305 to introduce £2.3 million savings or targets in relation to FTP? Many of the projects may be
controversial and will be required to be brought to this Assembly for agreement, especially in view
of the reaction to this Board’s recent actions to *contain* the budget. These have been detailed in the
States Report entitled ‘Increase in Authorised Budget for 2012’, listed under longer-term plans.
They include charging for diagnostics – that means radiology and pathology, particularly for
310 services delivered to primary care providers; the future of long-term care funding, including a
more equitable funding structure for all forms of care, whether in the States’ or private sector,
residential or community based; charging the Specialist Health Fund for the cost of visiting
medical specialist consultants who provide services which the MSG contract cannot provide – at
the present time, they are paid out of HSSD’s revenue budget; management of off-Island travel
and off-Island acute services with SSD and MSG – this is actually being progressed at the present
315 time, with a tighter control over this aspect, and we will hope to save money in relation to it. All of
these are FTP target projects, but have *considerable* implications in relation to *who* pays for what.
If they are not agreed, or considered a step too far, then I do not think HSSD will be likely to keep
within the budget in 2013.

The issue in relation to the Budget is, as in previous years, no true assessment of the different
320 Departments. It is not zero-based. There is no clear logic. It is simply assessed on previous years,
the amount available for revenue expenditure, which is then divided up. I believe the longer-term
solution for funding of HSSD and other essential services must be resolved. I *hope* the review of
taxation looks into this and provides a more logical way of deciding which services should be
kept, which must be funded, and which can be put to one side.

325 Thank you, sir.

The Bailiff: Deputy Bebb.

Deputy Bebb: Members, the Minister for Treasury and Resources described this Billet as

330 'dull'. I am afraid that I would also add 'slightly amateurish' to the description: amateurish in
some of its conception, and amateurish in its execution.

The only truly interesting thing that we have from the Budget that seems to have sparked
interest within the Island was the Mortgage Interest Relief, and it seems bizarre to me that
Mortgage Interest Relief is, basically, a tax relief on property ownership. Tax relief on property
335 ownership was one of the fundamental reasons for the French Revolution, and it seems to me that
the Department has failed to defend what, essentially, was actually progressed by France in 1789.
But just as everybody was running round like Chicken Little, unsure as to what the world would
actually look like post-Mortgage Interest Relief being removed, I was waiting for Foxy Loxy to
come along and maybe put an end to it, (*Laughter*) and that, unfortunately, was played by the part
340 of Matt Fallaize, the Deputy for the Vale.

Certain aspects of the Budget were, as I said, dull in the extreme, and whilst I was using the
Budget as a cure for my insomnia, I did happen upon something that actually raised quite a
considerable amount of interest. That is on page 23. Members will note that, at the bottom of page
23, it actually states:

345 'The provision for exceptional expenditure is a prudent allowance for non-recovery of the balance of the monies
fraudulently obtained from the States in July 2012.'

I know that I do not have a piece of paper to my name, actually saying that I have any ability
350 with numbers, but I do consider myself to be fairly well versed with some accounting rules. I
would have expected this to have been removed from capital, *not* to have been taken from the
revenue – or is the Department expecting *further* expenditure of this kind next year?

I would ask that the Minister actually address that issue in particular in his response, because I
do find that it is... what I would expect as accounting would have been through capital and not
355 through revenue.

Thank you.

The Bailiff: Deputy Sherbourne.

360 **Deputy Sherbourne:** Thank you, sir.

The actual reference to the French Revolution by Deputy Bebb... I do not know if it is a
particularly appropriate one today, because I immediately think of guillotines. (*Laughter and
interjections*)

I actually would like to say a few words about the Budget, and I must declare, from the outset,
365 that Budgets are not my bag. I do not feel in my comfort zone, and getting my head around a
Budget Report is hard work. I suspect that I am not alone. (**Two Members:** Hear, hear.) So I have
to accept that there are professionals producing these Reports. They are usually well thought
through and I shall certainly be supporting the *amended* Budget Report.

However, even though I am a layman, occasionally when I read these Reports, alarm bells ring
370 in my head, things that I do not necessarily understand or cannot get my head round. I noticed – if
I can refer you all to page 28 – the Budget Report suggests there that Treasury and Resources are
recommending Guernsey's removal from Standard & Poor's sovereign credit rating list. The
reason given is that, since the Island has no short-term or medium-term intention to borrow from
the international market, the need for a credit rating no longer applies.

375 Can we really be that certain that, in the future...? We may well *need* to borrow. Can the
Minister assure this Assembly that this decision will not backfire on us when it comes to
international perception of our financial status and stability? Surely, the maintenance of a AA-plus
rating has benefits other than the ability to borrow at advantageous rates. I am aware that the
Island lost its AAA rating last year, as did the USA. Is this a knee jerk response to that downgrade
380 or a strategy to save us future embarrassment, should we be further downgraded? Can he provide
me with the initial set up costs, the continued maintenance cost of such an arrangement with
Standard & Poor and the level of savings this will make?

Thank you, sir.

385 **The Bailiff:** Deputy Laurie Queripel.

Deputy Laurie Queripel: Thank you, sir.

My eyes were drawn initially to the letter that prefaces this Report and the bottom paragraph of
the first page: it talks about Income Tax receipts being down and the Report attributes this to a

390 couple of things – but I was wondering, sir, if there was some more detailed and broader
information in regard to Income Tax receipts from across the whole of the community in regard to
various sectors and area and industries because it would give us a good idea, or a good indication –
I suppose it would be acquired via the ETI system – of how all the different sectors and industries
395 are performing. If they are under-performing, or not performing too well, we might be able to find
ways, as a Government, to *assist* those sectors or those industries.

I am thinking in particular, sir, of the retail sector. We are now compiling or putting together a
retail strategy and, hopefully, that will help the retail sector to improve its performance. On top of
that, of course, it will be of greater benefit to the larger and wider economy. So I would ask the T
& R Minister, if it is possible, if he could have a much more detailed look across the board at all
400 the sectors, all the industries, all the areas, to see what we are receiving in the way of Income Tax
revenue, to see if areas and industries are under-performing and to see if we can find ways to assist
them, just as we are going to try and find ways to assist the retail sector via the retail strategy.

Then, sir, my eyes were also drawn to the second page of the letter and the first paragraph
where it talks about the disappointment when Departments, or individual Departments, overspend
405 and, of course, an overspend by an individual Department *is* disappointing but there is always a
likelihood of this with very public-facing front line service-providing Departments. Yes, of course
you can look for all kinds of efficiencies and savings and it is right to do that but what you cannot
do, and you cannot predict and make allowances for, are great surges in demand for those services.
I agree with Deputy Adams, I do not care if you call it formula-led or demand-led, that is playing
410 with words: it is the same thing. It should come as no surprise, those types of services are always
more greatly in demand at times of recession when social and economic difficulties become more
apparent and more acute, so not to expect these surges would be naïve and unrealistic and I am
glad that the T & R Department has, in a way, acknowledged that by increasing the size of the
Budget Reserve.

Then, sir, I turn to page 16 of the Report and paragraph 4.12 and there is mention there, of
course, of the States Strategic Plan and of the Financial Transformation Programme. In regard to
the SSP, I do not think we, in the current climate, have a chance of achieving some of the higher
level social policy objectives within the SSP but we should at least ensure that front line service
420 provision is prioritised. So I am fully supportive of a saving and efficiencies programme but if I
had to choose between that programme and the possibility of people genuinely in need in our
community going without, I know which one I would choose.

I am very pleased with what I read in paragraph 3.1 on page 7. We are told here that there will
be a holistic review of the system of taxation and I know that word has become rather over-used
but I am hoping it *will* be truly holistic. It is a review, sir, that will, hopefully, lead to a much more
425 progressive tax system being put in place. Now, I know that Deputy Kuttelwascher is not a fan of
that word ‘progressive’ but, for me, it is *easy* to define: a system where there is a far greater and
more even distribution of wealth, a system that helps to create a more inclusive society. That, to
me, sounds progressive. As part of this review – and I know the Minister has alluded to this
previously – we *could* be looking at things like the re-calibration of personal tax allowances,
430 making them far more targeted, and *even* be at least considering things like land value tax.
Nothing should be ruled out of that review.

Sir, what we may have thought was an economic blip, not only locally but globally, is looking
set to becoming the new norm. I spoke, I think in the October debate, about the concept of steady
435 State economies where no, or little, growth is a reality. The idea is to make the very best use of the
resources to hand, be they natural resources, land, human resources etc – it is all in the mix. The
idea is to live more sustainably and to work towards a *greater* degree of self sufficiency, to live
and operate in a smarter way. And I think we need to re-embrace the old Guernsey way of
prudence and absolutely get our priorities right.

But, overall, I believe we are in fairly decent shape. I do not think enough attention is given to
440 the fact that we lost approximately £100 million per annum from our tax take because of Zero-10 –
close to a third of our overall tax take! That is a big blow and I realise it has increased the burden
on the individual taxpayer, which is why it is crucial that we arrive at the right conclusions via the
review.

445 Thank you, sir.

The Bailiff: Deputy Inglis and then Deputy Brehaut.

Deputy Inglis: Mr Bailiff, Members, I just want to make an overall comment.

I am very supportive of what Deputy Storey has said about this wonderful document. It is very

450 *[Inaudible]* reading and, as Deputy Bebb said, he pointed out that it made good bedtime reading
for sending you to sleep but, that being said, I have unfortunately been reading balance sheets and
budget reports for the last 35 years and it *never ever ceases to amaze me*, the copy ability of
accountants. Deputy Bebb did allude to it, where he talks about ‘the provision for exceptional
455 expenditure’. That, really, is a great one for me! If the number crunchers do not stay in their
profession, they should go and work for the local media because they could be a great headline
writer.

That being said, the amount involved... we talked about contingency funds, it seems to be a
buzzword around here and HSSD, for some reason, is not able to provide a contingency fund – and
that will come out a lot further on. Members will be well aware that the contingency fund in the
460 development of the airport is £10 million. I would like to see the re-allocation of this amount of
that fund, on the basis that if the word ‘Lagan’ had never appeared, we might never have fallen
foul of this deed. But Deputy Bebb is absolutely right; it should *not* be on this page.

Thank you, sir.

465 **The Bailiff:** Deputy Brehaut.

Deputy Brehaut: Thank you very much, sir.

The Budget debate was interesting yesterday for lots of different reasons... Many years ago I
placed an amendment to a Budget Report, when Deputy Trott was T & R Minister. *(Interjections)*
470 Those were the days! *(Laughter)* Those were the days. I often lay awake at night laughing...
(Laughter) But, I placed a very minor amendment on TRP, which was a small stone in the pond of
the beach of the fiscal landscape, and it got through. Yesterday we saw, effectively, a tsunami of
amendments. Never before in my nine years in the States... I know some of them were minor but
we have *never seen* so many amendments on a Budget debate before today, or not in *my* memory,
475 anyway.

The point touched on by Deputy Storey and also by Professor Wood, in his Report, was the
total value of not just taxation but fees and charges and I do not think that, as yet, we have a
figure, we have a number, of what we charge out to the community totally in fees and charges,
because I know it is a familiar theme of mine – and I will apologise for that – but the FTP... To
480 say that we are delivering services more efficiently when, actually, you are charging the
community for that service, it is just not the same thing, so we do need to get an appreciation of
exactly the volume, the quantum, of fees and charges on the community. Incidentally, when
Members talk about a review of taxation, the focus was a ‘holistic’ – to use Deputy Laurie
Queripel’s word – review of taxation. What do we mean by that? Because, if we are talking about
485 taxation, it has been said time and time again that Guernsey people currently receive 30 pence in
the pound services for 20 pence in the pound and *that* is the review of taxation that needs to take
place and we should not shy away from that.

Deputy Martin Storey was right to underscore in the Budget the Scrutiny and PAC resources
or, rather, lack of financial resource and lack of staff resource. Because, when a Government is at
490 full stretch, when a Government needs to deliver more efficiently, when a Government needs to
cut corners, you need the checks and balances within the Select Committee system to make sure
you are doing absolutely the right thing. Although Professor Wood has done his level best now for
what will be, I think, three years next year, it would be fantastic if our own PAC, under the
mandate of value for money, just see whether the services and fees and charges imposed on the
495 community represents real value for money.

I just wanted to highlight one piece of expenditure in the Budget. I have raised this point before
and I do not want to be misunderstood, so I will have another go at it. St. John Ambulance and
Rescue provide an exceptional service to this community and I want to go on the record and thank
them for that. It is an exceptional service.

500 HSSD are facing a £107 million budget and there has been a bit of furore that we have gone
over by £2.5 million. St. John Ambulance and Rescue rely on a States grant from HSSD of £2.1
million and they now have a financial security blanket of £500,000. So, broadly, in part, an
organisation that relies on public subscription, with a *total* grant of £2.1 million, needs the
assistance of a further £500,000. The only reason I raise that is that they may need *more* money.
505 To provide the good service that they do to this community, they may need more money in the
future. Because it is under HSSD’s mandate, it is something that we should not ignore because it is
a growing sum in the overall scheme of things.

Deputy Adam touched on the formula-led overspend by our colleagues at the SSD. There is
clearly a case for SSD coming to this Assembly, you could argue, with a Report, with a Billet,

510 detailing why universal benefits are no longer up for grabs, why the amendment placed by Deputy
Le Lièvre on the age at which a mother goes back to work, dependent upon the age of the
dependent relative – I think it is 12 currently – detailing they would action that as soon as they
possibly could, to be back next year with *less* of a formula-led overspend.

515 So, as ever – I think this is a point that other speakers have made – Guernsey... we are not at
war with foreign countries, we do not have the *huge* amounts of debt other countries have, we
have a self-imposed structural deficit and we are making good efforts in reducing it. I think,
perhaps – and I am sorry, Deputy Perrot, it is a cliché – perhaps our glass just might be half full.

Thank you.

520 **The Bailiff:** Yes, Deputy Soulsby and then Deputy Langlois.

Deputy Soulsby: Sir, I am going to be brief and just ask two questions of the Minister.

525 In relation to Table (A) on page 35, bearing in mind the level of tax of real property for office
accommodation being used for regulated activities is three times that of unregulated activities,
how can his Department be satisfied that it is collecting the maximum tax due, given the vast
majority of office accommodation is rented and landlords may not be experts in what is, or is not,
a regulated activity? How are they expected to know whether their tenant is undertaking such an
activity and tax them accordingly?

530 My second question is in relation to the Public Accounts Committee and I would just like to
say I welcome the comments of Deputies Brehaut and Storey. My point relates to the wording
used in Section 4.17 regarding the cash limits for the Public Accounts Committee. Reading this, it
would be easy to get the mistaken impression that the Committee has increased its budget for the
financial controls review. This was agreed... The actual budget level was agreed on the basis the
Committee *would be* resourced sufficiently internally to be able to undertake its own reviews,
535 rather than outsource all its work to external consultants. You can see from the budget for 2013 on
page 69, it is abundantly clear that it is far from the levels of last year and there is actually a
reduction of 20%. Let there be no doubt that if I do not get the resources for my Committee, I
intend to come back to this Assembly and let you know if I see no action in the near future.

540 **The Bailiff:** Deputy Langlois and then Deputy Gollop.

Deputy Langlois: Thank you, sir.

545 I think it is entirely appropriate today to congratulate Treasury and Resources on a balanced
and appropriate Budget ahead of what has already been flagged, rather too many times, as a major
review of personal tax and so on. I think this document displays caution and, in the right sort of
level, and a bridging operation through to probably what will be relatively radical changes during
the term of this Assembly.

550 I would like to also remind people – as Deputy Brehaut did just now – that this is a cup half-
full economy. In fact, many would say it is a cup almost-overflowing economy and is certainly by
comparison with other places. *At the moment*, the issues that we face are containable, small and
manageable. Therefore, let us again keep things – sorry again to use the word – but ‘in
proportion’.

555 I also feel the need to explain the difference between this terminology in the Budget of
‘demand-led’ and ‘formula-led’ because it is a hugely confusing piece of jargon and it is
something which will, undoubtedly, have to be tackled at some point. It is reported in this way for
two different reasons. Some time ago, a long-term decision was made by the States on various
Social Security entitlements... and the trouble with using the word ‘benefits’ is, I think for most
people, they immediately fly to Supplementary Benefits and Unemployment Benefits in their
mind: people who have been placed in an unfortunate situation and are drawing money from the
560 States to cover that period of time. Benefits, of course, includes a lot more and the question of
universal benefits has been flagged up this morning: you know that we are planning to bring that
into the review and that has been declared on a number of occasions.

565 The second reason why there is confusion here is that we must remember that the cost of an
additional unit of benefit claim is pretty much 100 per cent of the cost to the States. So, in other
words, if somebody turns up who fits a particular category in a Law that we have passed, saying
that person in *that* situation is entitled to *that* money, it takes a relatively short time to assess that
and it then means that they receive that money. That is virtually 100 percent of the *additional* load
on our States expenditure. By comparison, we have got little information – as Deputy Soulsby
pointed out last month – about the marginal cost of certain demand-led services. I know that seems

570 a very pointed comment towards HSSD but it is something that disturbs me across the *whole* of the States. It is something which asset accounting, when it is introduced – back to another favourite hobby horse – will help with. It is something which our financial systems are simply not up to at the moment but, once we have got an idea of the marginal cost of demand-led services, we will be in a far better position to make the sort of decisions which we are now being asked to make in slightly more difficult circumstances.

575 Please forgive me if I tell you things which you already know: very briefly, let us just look at what we mean by marginal costs and let us use an example well away from the examples that we are going to talk about, probably later today. If you look at the College of Further Education, they have an establishment, they have a teaching staff which consists of a number of specialists, who teach particular subjects and so on. The demand for places at the College has varied *wildly*, certainly in my knowledge since 1980. It does not matter why it is 1980 that I know about but, in my knowledge, it has varied wildly and in particular departments and sections, it is hugely different year by year and yet the cost of running the College tends to stay fairly steady. That is because, if you take on an additional full-time catering student, the *only* additional cost to running the College is a bit more food for the practical sessions and an extra couple of text books and so on and so forth. That is a tiny marginal cost but it is still demand-led. If, next year, 200 school leavers want to take full-time catering courses at the College, there would be a problem. There would be a problem of overspend and there would be a problem of resourcing but that is when demand-led is very, very different from formula-led. That is the reason why the Social Security benefits were put into a formula-led package some time ago.

585 Now, sir, in the long term, the States *may* choose to move more unpredictable demand-led services into formula-led – they may. But we can only do that if we have got the accounting data to do it. The States *may* choose to examine what is going on in formula-led and suggest that some of it should be moved out of that category and should be put into a capped General Revenue budget. At the moment, they have not done that. *Either* of these moves would be a *very major* change of direction and, at present, we are where we are, so any comparison to suggest that demand-led and formula-led are the same thing is, at this stage, in my view, pointless in the context of this Budget.

600 **The Bailiff:** Deputy Gollop.

Deputy Gollop: Yes, sir, having listened to a number of the speeches, where we have heard today – in particular, Deputy De Lisle, Deputy Storey and one or two others – a question that emerges, I think, in Deputy Sherbourne's speech about Standard & Poor, is where we are going with the borrowing idea because the States, as we know, voted by a relatively narrow margin to reject Treasury and Resources package in the last Assembly. Whether a different Treasury and Resources Minister, with a different package, which was more commercially based upon revenue from projects, might have won is hypothetical. But the issue has been raised about States Electricity Company, effectively, potentially borrowing and we know, in a way, you could argue that the Corporate Housing Programme relies on a degree of commercial bank finance in an unusual vehicle.

I think we need clarity as to whether the States Treasury and Resources Department envisages borrowing or not because, clearly, if some aspects of Government are effectively borrowing, then it strengthens the argument to retain our ratings, as well as for other reasons.

615 On another level, I think the States probably did Deputy Fallaize an injustice by not supporting his amendment yesterday because the issues raised in it are very pertinent to this debate. When one looks at the declining position we are in, one can see on page 25 of the Budget, in 2010 – and, remember, the global banking crisis had occurred and we were four years, or three years, into Zero-10 at that point – the legacy that the then Chief Minister and the Policy Council had was actually quite robust. It was £262 million on the graph and we are going down a bit to a disappointing £208 million for next year. But when we look at page 22 and some of the comments that came out of the Professor Wood Report, who did admit that, in fact, it was *likely* that we would continue to overspend, or have greater financial commitments, to be fairer, in both Social Security and Health... when you come on to page 22 – and this was presented to us very well by the States Accountant and the Treasury Resources Minister – 5.2 says:

'Taxation income in 2013 is anticipated to be £362 million which is 19.1% of the 2011 GDP of £1,895 million, compared to the Fiscal Framework'

630 – coming back to the topic of yesterday –

‘limit of taxation at 21% of GDP.’

635 The issue we should look at – particularly the scrutinising wing of Public Accounts and so on – is that, clearly, theoretically at least, we are nearly 2% under the Fiscal Framework limit and, that being the case, although I accept a Contingency Reserve is dropping and we do live in slightly troubled financial times, our position is still robust enough to accommodate an additional spend within that Framework. Because it goes on to say – 5.3 –

640 ‘The Fiscal Framework includes that the annual operating deficit of the States may not exceed 3% of GDP (£57 million [out of] ...£1,895 million)’

and there was an operating *surplus* projected for 2013. And 5.5 says

645 ‘The increase in the estimated deficit will require a larger withdrawal...’

and so on. Nevertheless, we are effectively spending *less* on capital than was envisaged, too, so there *is* a degree of leeway for the kind of arguments being advanced to move ahead with the economic model and building programmes and *also* to accommodate, as the UK Coalition Government is accommodating, *increased* demand for certain essential Social Services and Health provision, because we are actually still doing relatively well. The problem, I accept, is the capital budget but we *could* go up to 21%. We would have, admittedly, to find greater revenues of one kind or another – and I thought it was a good speech from Deputy Queripel, when he referred to looking again at marginal tax allowances and readjusting taxation so it is fairer to the lower earners – but we have got a 1.9% gap where we could be more creative economically and follow a little bit more Keynesian demand management to ensure that we do not create, or enhance, the recession by unnecessarily facilitating under-employment, unemployment and financial hardship and a drop in the retail sector.

655 So I feel we need to be a bit more progressive over the next year in evaluating public expenditure and personal allowances.

660 **The Bailiff:** Deputy Gillson and then Deputy Perrot.

665 **Deputy Gillson:** Sir, just a quick comment in relation to something Deputy Gollop mentioned.

He mentioned the fact that the last Government decided not to borrow £175 million by issuing bonds. It is just worth noting that the bonds were going to be issued at below 4%. The States is currently earning more than that on its investments and, even if you stay very conservative and say the margin is 1% – and I believe it is more than that – the States has lost income of between £6 million and £10 million in the last three years because of the decision not to borrow.

670 Anyway, on to the Budget: the review of taxes I look forward to. There is one aspect which I will pick on and be a little bit more specific about than others. During the last term of Government, I was a Member of the Strategic Land Planning Group and that has... the decision has been made to change the way Planning operates, in that land around village centres, such as St. Peters, will be able to be developed. The effect of that is it will make many landowners, if they develop their land, millionaires. The difference in land value from a field to development plot is significant. I’ve got no problem with that – lucky that they own the land! But there is logic that the public should share in that windfall. Therefore, I have advocated, before now, that we should, in that specific instance, bring in a form of windfall tax *if* people develop their land, because the value they are getting is not a result of anything they have done, it is a result of the policy changes by this Assembly. So, in that circumstance, there is logic and I will probably write to T & R separately with more specific ideas as to how that can work.

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690 Sir, mention was made by Deputy De Lisle about Guernsey Electricity being able to borrow. I fully support this proposal and hope everybody does support it. I think it is important that GE is allowed to borrow for capital expenditure. It makes a lot of sense, if you borrow, that the people who are benefiting from that expenditure are paying for it. So if, for instance, GEL borrow to buy a generator, those people who are consuming and paying for the electricity are paying for the generator over that time – the same as, when you buy a house, you are paying mortgage as you live in the house. There is also, though, another more subtle benefit from external borrowing, which is additional financial control and restraint. In my professional career, I’ve seen many, many companies borrowing, or being recapitalised through external borrowing, and what happens

is the lenders impose financial covenants on to the borrower. By that I mean they will impose certain ratio restrictions, often in terms of expenditure as a percentage of sales, things like that. That imposes on the management a level of financial restraint completely opposite to allowing them to build up a cash pool, which the save-to-spend does. Whilst I was at C & E, a lot of work was undertaken on this and the conclusion was that the spend-to-save policy has not served the Island very well, and it does need to change. So I fully support, and I urge people to support, Proposition 14, to allow GEL to borrow.

Sir, I have got one final question which I suspect is not going to be a surprise to the Minister. He has already made mention about a £2 million transfer from Housing back to Treasury as part of the FTP, a transfer which in no way can be described as a saving and under which I understand Capita had no involvement. Can the Minister confirm whether or not Capita will be paid 6% – i.e. £130,000 – in relation to that £2 million.

Thank you.

The Bailiff: Deputy Perrot.

Deputy Perrot: Thank you, sir.

Borrowing is the elephant in the room... Actually, it isn't at all! I just put that in for the pleasure of Deputy Brehaut! *(Laughter) [Inaudible] (Laughter)*

I rise to correct a misapprehension, possibly, about borrowing by Guernsey Electricity being something which is new. It is not. I remember, in the 80s, that the old Electricity Board – which, of course, was merely a committee of the States, but it was a trading board – borrowed then, I think, to fund one of the Sulzer generators. One can see the sense of this, because if a States body has got a very high positive cash flow – and we know that Guernsey Electricity has got a very high positive cash flow, if you pay for your electricity bills, particularly if, like me, you're a pensioner! *(Laughter)* – this sort of thing is very attractive for third-party lending by a bank. That's what happened in the 80's.

The curiosity then, of course, was that the bank wanted to have some sort of security. Well, how do you get security from the States of Guernsey, because you cannot actually have a mortgage – not in any practical sense – on States of Guernsey property? So it was understood, at that time, when the old Electricity Board borrowed money from a commercial bank, that the States of Guernsey would stand behind that loan. Now, of course, things have changed. We have got a commercial company and, therefore, it is right again that the States should have the ability, if necessary, to give a guarantee for a loan, but the trick is to make sure that you only do it for a commercial entity. We could have done it for telecommunications if we hadn't given away the business... but one could see that that could be another candidate for borrowing, which the States would stand behind. But, so far as I am concerned, borrowing can *only* exist for those entities. **(Several Members: Hear, hear.)** *If* we start going in for States borrowings, as Deputy Gillson has said, if that is put up by Treasury and Resources or by the Policy Council, then, frankly, I think the States has lost the plot. **(Several Members: Hear, hear!)**

I will be the first, I hope, manning the barricades *(Laughter)* with Deputy De Lisle to declare independence for the Western Parishes *(Laughter)* because I think that, once we start going in for deficit financing, the appetite for it will be *insatiable* **(A Member: Hear, hear.)** and we will get into the same sort of financial difficulty that so many of these other European countries are now in.

I am fundamentally in opposition to Deputy Gillson when he says that spend-to-save has not served the Island well. I think it has served it *brilliantly* over the years and I hope it continues.

Deputy Gillson: Sir, may I –

The Bailiff: Deputy Gillson, do you have a point of order? This is under Rule 12.(6), is it?

Deputy Gillson: I did not *quite* say what Deputy Perrot... The spend-to-save I was saying, in the specific case of Guernsey Electricity... and I do not agree with deficit budgeting. The proposals that Deputy Parkinson put forward were borrowing specifically, and only, for capital. I would be totally against borrowing for revenue items.

Thank you.

The Bailiff: Deputy Duquemin.

Deputy Duquemin: It's quite bizarre that the first line I had written on the speech here was that I wanted to refer to the FTP as the 'elephant in the room' but Deputy Perrot somewhat stole my thunder!

755 The reason why I say that – and I pick up on a point raised by Deputy Storey earlier, when he said that it was unfortunate we were debating the Budget in isolation from the Social Security Report and budget – I think it is also unfortunate that we are debating it just a month ahead of the FTP debate next month.

760 Let me start by saying that I am a fully signed up member of the FTP 'Party'. In my manifesto I said that the previous States had often just paid lip service to the FTP programme and that the difficult decisions were just around the corner and we would have to make them. I am more than willing to make them. Let me also start by saying that, as I mentioned last month in a speech, I also mourn the day when the Financial Transformation Programme became the new name for what, up until then, I understand had been the *States* Transformation Programme, because I think, 765 really, the more important thing is to change the way that we are doing things and *not* just concentrate on the pounds, shillings and pence – because that would follow if that was the main focus. But now, as I say, I am working hard in both Departments that I am a member of – Culture and Leisure and PSD – to deliver our FTP commitments.

770 I would like to refer Members to two pages of the Budget, which I think are fairly critical and have the potential to cause us to be in a familiar place, like today, this time next year, with financial concerns. That is pages 15 and 17.

775 Page 15 concentrates on the FTP and it lists, at the side, the £10,643,000 of FTP – the balance for the 2013 FTP – that is then included in all of the departmental budgets for the year ahead. Obviously, as Members will realise, there is then a line in each of the budgets, which is over and above the day job which, basically, has the FTP savings attached to each. Then we then turn over the page to page 17 and we have what are the cash limits for each Department. My concern... and it almost starts with just purely the *words* that are in there.

780 Page 15 talks about 'targets'. For me, targets are goals, they are ambitions. Maybe, they are even estimates, but they are *not* cast in stone. Deputy Adam, in his speech, mentioned the fact that HSSD, in order to meet *their* FTP requirements, may have to come back to the Assembly and request things that, maybe, we as an Assembly may vote against. Education may come back in the next twelve months, possibly with a vision, or a plan, to maybe close schools that we *may* vote against. Those figures, those calculations were in their FTP targets and they often were the premise on which those targets were based.

785 I turn over the page to page 15 and I see the word 'limit' – cash limit. For me, just as an everyday person, the word 'limit' just seems that little bit more serious. It says you can have this much money but you cannot have a penny more. So the question – and, hopefully, it is a very simple question that I ask the Minister of T & R – is that if, for good reason, some of those FTP targets – I use the word again, 'targets' – are not met, then what then does happen to those cash limits? In the arena of decisions that may come forward to this Assembly, it may not even be 790 within the control of the individual Departments to make all those decisions and it may be left to this Assembly to actually make the decision. So what happens when the FTP targets are not met and that then, therefore, impacts on the cash limits that are prescribed on page 17?

Thank you, sir.

795 **The Bailiff:** Deputy Trott.

Deputy Trott: Sir, whilst I do not intend to speak on the matter, for good order I am a director of a fiduciary company – like the Treasury Minister – which will be impacted upon by these proposals.

800 I would like to start by making comments about Deputy Hunter Adam's speech this morning – and how pleased I am that we now have a proper *Hansard* system because I suspect that, in the months and years ahead, people will be given the opportunity to reflect upon that speech and some of the wisdom contained within it. Can I ask Members to turn to page 46 of the Billet – page 46.

805 On page 46 we are reminded of the trading position of Aurigny & Anglo Normandy, a long standing States asset and one of enormous strategic value. Sir, for some time now, one of the country's most dedicated and proficient private equity managers, a chap by the name of John Moulton, has been chairman of that company. Private equity men of Mr. Moulton's expertise make their money by taking failing businesses and turning them around. They go in, they look for 810 efficiencies and they provide value by driving out those inefficiencies and there is no-one better at it in the country than John Moulton.

815 But let us just have a look at the figures. We see that the year to date budget figure for 2012 predicts a deficit of £770,000 and the projected outturn £785,000. What those figures tell us is that there *appears* to have been limited impact from the arrival of Mr. Moulton and there could be two reasons for that. It *could be* that the company is burdened by debt. Indeed, if we look at the line above we see that net interest payable is now nearly £1 million. Essential debt: the company needed to invest in assets. It did not have the liquidity to do otherwise. Or *it could be* that there are no more inefficiencies left to drive out of this company. It *could be* that it is actually operating as efficiently as it can but that there is a structural problem with it and that structural problem is, to all intents and purposes, about £¾ million pounds a year.

820 I would like to talk, if I may, for a while about the Budget Reserve. I listened very carefully to the remarks that my friend, Deputy St Pier, gave in his opening remarks – a very, very good speech – and may I say a very difficult job has been done as well, I think, as it could have been, bearing in mind – and I’m sure he will not mind me saying this – the relative inexperience that he and his team have. I think if one *discounts* that experience, a pretty good job has been done.

825 In those opening remarks, he talked about the Budget Reserve rising from £5 million to £11 million. The explanation that he gave for that was pay rises, the unpredictability of them – and I completely accept that – capital allocations and the demands that the Budget Reserve needs to provide for and also to fund variations in formula-led expenditure – an acceptance, if ever there was one needed, that that is a particularly unpredictable aspect of States finances. We heard a *very good* speech and explanation about formula-led expenditure from Deputy Allister Langlois. But, surely, the point is, that demand-led expenditure is equally unpredictable and, under the circumstances, would it not have been better for *that* fund to have been drawn upon to a greater extent than it otherwise would have been? But, of course the Treasury and Resources Department is shackled by a criteria laid down by this Assembly, which confined them to only being able to, if you like, *extend* a Department’s budget if that overspend, that excess, is less than 2% of the overall budget allocation.

830 I wonder whether we should actually have a Proposition in this Budget that allows another degree of flexibility, if the Treasury and Resources Department considers that it is appropriate in the short term because, if we had had that, we would not have dozens of people viewing this Government in the way they are because of the way the Health and Social Services Department felt they had no option to react towards, with regard to the postponement of operations... Governments must have built into them that degree of flexibility to deal with unforeseen circumstances because, without it, the machinery grinds to a halt.

845 Now, if I can ask Members to turn to page 22 of the Budget Report and, in particular, the line ‘Operating Surplus / (Deficit)’ because what that tells us is that we are more or less washing our face as a community in terms of our ongoing revenue expenditure. What it also tells us is that the deficit we have is capital in nature and capital in nature *only*. And what are we doing? Well, we are taking money from the Contingency Reserve and we are spending it on capital, in much the same way as our forefathers did by taking money from a Capital Reserve and spending it on capital, in much the same way as we, in our own lives, do by saving up for a new car and either entirely or partly funding that acquisition from our savings, from our reserves. So let us keep a sense of perspective about how well we are doing. We are, as I say, washing our face, in terms of recurring expenditure. It is a capital deficit that we have and that we are addressing and addressing reasonably well.

855 Now, my friend, Deputy Lester Queripel...

I am just wondering, sir, if I should pause to allow Members to retake their seats for a moment?

860 **The Bailiff:** Please do.

Thank you.

There was a short pause as Members resumed their seats.

865 **Deputy Trott:** My friend, Deputy Lester Queripel, advised us, rather magnanimously, I hasten to add, that the finance industry are ‘perfectly happy to pay more tax’. Indeed, on page 8 of the Budget Report, under paragraph 3.9, our friends and colleagues in the Treasury and Resources Department advise that, by ‘extending the 10% intermediate Income Tax rate’, not only do we raise revenue but, importantly, we remain ‘within internationally acceptable norms’. It is important that Members do not rush around in the coming weeks, thinking that there is a golden goose that
870 can be tapped into and there is an inexhaustible supply of additional revenue because of the ability

to be able to harvest some tax *now* from the fiduciary sector. We have only been able to do that now because of developments in the international sphere and we must be very careful not to create an environment where we potentially jeopardise the underlying basic rate of corporate Income Tax at zero per cent because that is *absolutely fundamentally important* to everything we do here.
875 Without that tax neutrality, we would not be able to function as a proper international offshore finance services centre.

So Proposition 14, as shown on page 90, has been mentioned by several and it is the issue to do with Guernsey Electricity's borrowing and the final sentence of Paragraph 14 says, if necessary, by providing guarantees to any third party borrower. In other words, the Treasury and Resources Department, *if necessary* would provide guarantees. Having listened carefully to what Deputy Perrot and others have said, I have come to the conclusion that I cannot envisage a situation where it would be necessary. Guernsey Electricity is a commercialised entity with a guaranteed revenue stream, with a balance sheet asset value in excess of £100 million. I cannot imagine that there is a borrower in the Island or, indeed, in the country, that would not consider Guernsey Electricity to be a very safe proposition and should not require us to stand behind them – *unless*, of course, by doing so, the Treasury and Resources Department is able to ensure that the Electricity Company has borrowings at a very *significant* premium or, indeed, an interest rate of a significant discount to what they would otherwise have had to pay without such a guarantee, so I hope that would be the only condition under which such a process would be undertaken.

I would like now, if I may, to finish with something that has become a bit of a habit for me, whether I have been Treasury Minister, Chief Minister or, indeed, just a humble backbencher, and that is the issue to do with the... (*Laughter*) That is to do, sir with the over-arching comments, commenting, if you like, on the state of the nation and our relative prosperity. It is absolutely essential that we continue to support the Treasury and Resources Department in what I believe is the toughest job in Guernsey politics. Why? I will tell you why. When I first joined the States back in 2000 we were *growing* public expenditure at a rate that, if left unchecked, by now – twelve years later – the tax take required to fund those public services by this community would not be 19% or even 21%, it would be well in excess of 40%! Well in excess of 40%...

That is how *aggressively* public services were growing. And what would have happened, in the space of less than a generation, is that we would have moved from being one of the most competitive places in the world to one of the most uncompetitive and there would have been very, very serious long term consequences, particularly for the most vulnerable and the most dependent members of our community. Every time I say this, my friend, Deputy Brehaut, grimaces... (*Laughter*) I suspect today will be no different, sir! (*Laughter*)

One of the very best things that any community can do, in terms of the provision for its under-privileged and for its dependants and for the lowest paid, is to ensure a strong economy, because those are the people that suffer first and longest the moment the economy is affected and there is evidence of that all over the world. So I hope we remain what we are and that is a community that maintains *sensible* levels of taxation, provides *superb* public services, bearing in mind the long run levels of taxation that we have, that maintains *significant* reserves, by contrast to other places that have significant borrowings – and a perfect example is the UK that has about 80% of its GDP expressed in borrowings, where we have something in excess of 30% of our GDP expressed in reserves!

We are very fortunate. We did not get here by chance. Successive Treasury and Resources Departments have done a very good job. If Deputy St Pier *and his team* are to maintain that trajectory, they *need* this Assembly's support. Please support them.

Thank you, sir. (*Applause*).

The Bailiff: Deputy Brouard.

Deputy Brouard: Thank you, sir.

It was just something that Deputy Trott sparked me off and something that Deputy Inglis, as well, looking at the budget figures, and I just started to doodle with them.

Something I would not mind a bit of explanation for, or just some understanding, the outturn on T & R's own budget: in 2011 it actually spent £15.3 million and then, in 2012, they are predicted to spend £15.6 million – slightly up. But, in 2012, they are predicting an *under-spend* of £750,000. Now, next year's *cash* limits – in other words, what they can spend up to – is back up again at £16.3 million, so will the net result be that there will be another under-spend in T & R of £750,000, and is that appropriate because that seems a very big contingency?

I do take Deputy Trott's point that, perhaps, Departments do need to have contingencies but it

just seems that the history shows that you are going to spend about £15.6 million but the reality is you make sure you have got a really big budget to make sure you cover it.

935 My second part, which I do not quite understand, as well – again it is what Deputy Inglis said – is that the ‘Lagan’ exercise I would have thought would have been an over-spend on T & R and they would be applying *here* for permission for us to sanction that over-spend but, instead, it is on a separate line. I was just wondering why we do not see, in the accountancy, an over-spend for Treasury and Resources of £1.5 million and a request in the Propositions to sanction it. It just seems to be different.

940 Thank you, sir.

The Bailiff: Does anyone else wish to speak in general debate?
Chief Minister, Deputy Harwood.

945 **Deputy Harwood:** Thank you, sir.

First of all, can I also congratulate the Minister and the Board of T & R on producing a balanced and, I believe, a fair Budget.

As Deputy Trott has said, it is vital we maintain our competitive position *vis-a-vis* the finance sector and also I would re-echo Deputy Trott’s comment: do not regard the finance sector as being a cow that you can continue to milk by way of raising additional tax.

950 I would also like to address the issue of borrowing because my colleague, Deputy Perrot, reminded me that, in the 1980s, the Electricity Board, as it then was, did borrow. In fact, I think I was part of the company that lent that money, so borrowing by the electricity utility is not new. It was necessary at that time, in order to finance the acquisition of the Sulzer generating plant.

955 Borrowing by Guernsey Electricity is now also, I believe, essential if we want to maintain security of energy supply in this Island. We cannot wait for the save-to-spend process produce the level of funds that we require to replace an ageing generating capacity, also to consider the impact of the possibility of financing a new cable link which I am sure will be essential in the near future. But I do echo Deputy Gillson’s comments that borrowing from a third party – i.e. from a bank or other institution – does impose discipline and that actually can be very beneficial and something that I think we, as an Assembly, would take comfort from *if* Guernsey Electricity does go down the route of borrowing from a third party. Again, I think, as Deputy Trott has also mentioned, the circumstances whereby the States of Guernsey would guarantee such borrowing would only, I am sure, arise *if* there was a sufficient savings in the interest cost that would otherwise be met. So I do commend the borrowing proposal, or the authority that is granted by the Budget proposal, in favour of Treasury and Resources.

960 Can I also... Deputy Trott is absolutely right in drawing to our attention the fact that, at an operating level, we are actually showing a surplus but that, in itself, is also *somewhat* misleading because, of course, the operating surplus, if you were doing this in any normal accounting terms, would be after allowing for depreciation of your capital assets and here I think – and no doubt the Minister of Treasury and Resources will correct me, if I am wrong – the figures here do not really account for depreciation but there is a calculation for reaching capital expenditure. One of the issues that we all face – and we have been discussing this – is the cost of repairing, renovating, refurbishing assets, where inadequate provision has been made in the past towards the cost of that.

975 I would commend this Budget to you all and would urge you to show support for the Treasury and Resources Minister and his team in what is a very difficult period for the Island.

Thank you.

The Bailiff: Does anyone else wish to speak?

980 No? Then, Minister, are you ready to reply?
Deputy St Pier.

Deputy St Pier: Sir, thank you and thank you to all Members who have spoken in general debate.

985 There have been many points raised and I will attempt to pick up as many as I possibly can. I will try and do it in the order that people have spoken but it is also possible we may need to jump around because of some points covered by a number of people.

990 GL, obviously, has been raised by a number of people, particularly starting with Deputy De Lisle, in terms of what it is that we were actually asking this Assembly to approve. GL has had exceptional demands on its cash flow during this year in terms of funding the repair of the cable and the increased operating costs, using more expensive on-Island plant than importation and that

has had a detrimental impact on its cash flow. We are hopeful that we may be able to recover some of the costs of the cable repair from insurers which will, obviously, help repair the cash position of GL. But nonetheless GL does have to recognise that its operating model has fundamentally changed with the limitations on its importations so it *does* need more local plant which requires more local capital, capital investment.

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The save-to-spend policy, in the context of the trading entity and, particularly, a utility with its long term capital needs, I would suggest is not appropriate. I would agree with Deputy Gillson on that. You are imposing on current – in fact, technically, on past consumers – in order to generate savings, the costs of tomorrow’s investments. That is not a normal way to fund these types of investments. So borrowing for capital expenditure of this nature is not unusual. Clearly, the States does have a policy stretching back to 2009 of not allowing borrowing, other than for capital projects with a clear revenue stream – and this is entirely consistent with that. I may return to that as I go through.

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Deputy Jones has raised his concerns in relation to fuel duty and I think that *is* a point that is well made and it is one that we certainly recognised in considering an appropriate rate of fuel duty increase for this year. Over the last five years, the average increase has been 10% a year. I think it is fair to say that, in the absence of significant changes in, perhaps, the underlying cost of fuel or economic performance and so on, it is quite likely that Treasury and Resources will want to seek to maintain the real terms value of excise duty in the future but that is a decision that will have to be taken from year to year, ultimately, of course, by this Assembly.

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With regard to Deputy Lester Queripel’s comments in terms of the industry seeking to pay more tax, I think their comments were specifically in relation to what has been proposed in the Budget, i.e. the extension of the 10 to fiduciary and some insurance businesses.

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In terms of being able to extend it further, Deputy Trott has really covered that point in terms of needing to stay internationally compliant. The whole principle behind Zero-10 is that our general rate of corporate tax must remain zero and –

Deputy Lester Queripel: Sir, sorry to interrupt –

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The Bailiff: Yes, Deputy Queripel.

Deputy Lester Queripel: There are numerous employers in the industry, who tell me there are still areas that we do not ask them to contribute via taxation, so I am in a dilemma, sir.

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Who do I believe, politicians or people who work in the industry?

The Bailiff: Please continue, Deputy St Pier.

Deputy St Pier: Yes certainly, sir.

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So, yes, our general rate of corporate Income Tax *must* remain at zero, in order to ensure that we remain both competitive but, more importantly, that we are EU Code of Conduct Group compliant. There is one area that remains an option for the future that we did look at in 2012 and that is in relation to the Funds industry and Fund management. There is a distinction between Fund administration and Fund management and it is an area which is quite complicated. Jersey sought to overcome that by simply extending their 10 to those who had a Fund licence under their regulatory law and, as a result of that, they have caught some of the products: that is not to say that the business is on the Island but some of the underlying products that, perhaps, they were not seeking to capture. That has made their industry less competitive and it may explain why our Fund industry has performed rather better this year. We do continue to keep that under review and it is something that we will certainly consider. It has not been ruled out.

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In relation to Deputy Lester Queripel’s point about engagement with industry, we do have extensive engagement with industry particularly through the Finance Sector Group which meets monthly and is led by Commerce and Employment.

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Thank you to Deputy Storey for his comments on the presentation of the budget. He raised the very valid question about the date of the presentation of the Budget. We are absolutely committed to delivering the Budget in October 2013 for 2014, which will, hopefully, address that issue. As I have previously said, it simply was not possible to do it in the timeframe this year, not least because of the switch in the FTP targets for Education and HSSD for 2013 and 2014. That would not have been achievable within the existing timeframe.

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Deputy Storey also raised concerns in relation to transferring savings on FTP to new services and, in particular, to paragraph 4.12. Despite having complimented Treasury on the

Budget Report, it may be this is one area that has not provided enough clarity for Deputy Storey. In essence, what 4.12 is seeking to say is that, as part of the process going forward, we should be looking at... one of the comments that has frequently been made about Government is that it is very good at turning *on* services but less good at being able to work out when to turn services *off* and that is what the reference to prioritising services – existing services – is about.

1055 In relation to PAC and Scrutiny, I did not recognise the number which Deputy Storey mentioned. I think it was seven hundred and something... The authorised budget for the two for 2012 was £635,000 and £600,000 in 2013. It is worth noting that both Committees have under-spent in recent years. The figure of £600,000 between the two Committees was agreed with those
1060 Committees and Treasury and Resources certainly have no designs to try and limit the operations of the Committee –

Deputy Storey: Sir, just to clarify that point.

1065 I was looking at the figures on page 23 of the Budget Report, which shows the authorised budget for Public Accounts Committee and Scrutiny at £446,000 and £235,000 respectively, which adds up to £781,000. That is where my comparison was drawn from.

The Bailiff: Excuse me. You said £446,000 and £235,000?

1070 **Deputy Storey:** Yes, sir, on page 23.

The Bailiff: Well, surely that is £681,000, is it not? Are we looking at the same...? I am looking at page 23.

1075 **Deputy Storey:** Right, sir.

Deputy St Pier: In any event, perhaps I can explain the difference between that and the numbers on page 17 – the cash limits on page 17 – which is £405,000 and £230,000 on page 17. That is simply short term timing differences, rather than an –

1080 **Deputy Storey:** Right, sir, thank you.

Deputy St Pier: – overall increase in the cash limit.

1085 Certainly, as I say, we have also heard Deputy Soulsby's comments in relation to her determination to return to this Assembly if she feels that the Public Accounts Committee do not have the resources which they require.

I think the other comment in relation to funding into capital falling short of the 3% in the Fiscal Framework, I think the key point there is that funding of the capital account is not the same as capital spending. It was always intended that the capital account would be run down as the programme was developed and, obviously, it will need to be rebuilt. That is one of the challenges.

1090 In relation to what Deputy Storey urged, that there should be no delay, I think, with the amendment that was passed yesterday, the six month delay that Treasury and Resources had previously suggested – waiting for the return of the Strategic Asset Management Plan and the Island Infrastructure Plan – will not now happen, so I think that point has been addressed.

1095 In relation to the question of taxation of development value – I guess in relation to land – I have certainly heard the points which Deputy Storey has made and I would encourage him to feed that into the tax review. I would suggest that he is in a very good position to do that, being on the Housing Board, because, clearly, Housing will have, as I said yesterday, an interest in this area.

1100 In relation to Deputy Adams' comments and, in particular, the holding of spending within Health at £107 million for 2009 – 2013, as maybe will come up later in the context of the States Report, that does not, of course, of itself mean that the service is as efficient and productive as it can be. That *is* a separate issue.

Deputy Adam did write to me on 31st August in relation to this year's Budget and said:

1105 'I am pleased to say that we have largely been able to build plans that live within the cash limit set by T & R and we have a well developed list of options to meet the FTP savings targets of £4.6 million'

which, of course, has subsequently been revised down.

1110 We do – as I have said publicly, and in other places – recognise that Health Services are demand-led but there is a difference, of course, between demand influence and demand-led, in

terms of the impact of costs on the service. I think Deputy Langlois made a very good point about the marginal costs of an increase in demand. In other words, increases in demand do not, of themselves, lead to increased costs. You need to understand and look at your cost drivers. I mean, if we look at A & E cases having increased by 4.74% overall, clearly we need to understand what the capacity of A & E was and whether it was necessary to take on additional clinical staff and so on to meet that. If admissions have increased by 8%, what kind of admissions were they? Were they medical or were they surgical? What was the length of the stay? That is clearly going to be a key driver of cost. Similarly, in relation to ICU episodes having increased dramatically, what is the length of the stay there? That would have a significant impact on costs. So there is no question that activity *is* a driver of costs but you cannot just view it in isolation.

In relation to the comments I have made in relation to financial management, financial management is not simply a matter of the number of accountants that are employed by HSSD. Financial management is all about the culture and the skills of the management and, critically, budget holders, which may not simply be the senior management. Financial management is about actually *understanding* your business and its cost drivers and it is about understanding your variable costs and your fixed costs and, as Deputy Langlois said, the marginal costs of additional activity. The Department simply *does not appear* to have timely, accurate management information to enable it to properly forecast, plan or budget for the cost implications of changes in demand and changes in activity levels. It does not really appear to have the quality of information it needs in order to be able to make sound judgements. That is really the issue which needs to be addressed, as to how we can ensure that that information is there.

In relation to Social Security being formula-led which, again, was a point Deputy Brehaut referred to – and I think Professor Wood also made the same point – that we may need to look at the formula. If we continue to experience overspending, as a result of having a formula, then we may need to look at the formula, if that is the only way we can live within our resources. I think that was a point also accepted by Deputy Langlois. I think there *is* a difference between formula-led and demand-led because, as Deputy Langlois said, demand-led may, or may not, lead to increased costs – any more marginal costs – but, if you have a formula that says, if you have an entitlement to a certain amount of benefit per week, the more people that are entitled to that benefit, the more you will pay out. There is a fundamental difference between the two.

Moving on to Deputy Bebb's comments, and Deputy Inglis – and a number of others had also made the same point in relation to the provision for exceptional expenditure and the use of that term – well, again, the term 'exceptional item' *is* a recognised accounting term. What gets charged to capital are those things that actually generate an asset. If the £2.6 million *had* gone to its correct destination then, obviously, it would have been charged to capital because it was a capital project with the Airport. We have generated no asset by having £2.3 million stolen from us. And it is exceptional precisely because we do not expect it to recur. So that is why it appears in that form.

Deputy Sherbourne raised the very valid point in relation to Standard & Poor's and why that had disappeared. Of course, we acquired a Standard & Poor's credit rating precisely because the previous Treasury & Resources Board were looking at the possibility of the States borrowing for capital projects and, therefore, felt it needed to have the credit rating. As Deputy Sherbourne quite correctly mentioned, we lost our triple-A rating for absolutely no fault of our own. It became obvious, at that point, that it is a complete nonsense for Guernsey to have its own Standard & Poor's rating. The rationale was we have no central bank because we are linked to the Bank of England, so we have no control over our own currency: we are linked to the UK's credit rating, which is absurd. We are sitting on a cash pile in our reserves, we have no debt and yet Standard & Poor say 'You're not triple-A rated', so what on earth is the point in having the credit rating? I can assure Deputy Sherbourne, it plays absolutely no part in the perception of this jurisdiction as a quality jurisdiction.

In terms of the strategy, and what the strategy is and why it was done, it was purely to save to save money. At a cost of £22,500 per year, plus the time – and there was time required in order to meet Standard & Poor's requirements – it just simply did not appear to be offering us any value for money. Clearly, if at some future point in time, there is a desire by this Assembly to borrow money – hopefully, I would agree with Deputy Perrot – for capital projects and certainly not for deficit funding, then it may be appropriate to seek such a credit rating again but, in the meantime, I would suggest there is no merit in us spending that money. We did consult with industry on the wider benefits before the decision was made to not continue with it.

Deputy Laurie Queripel asked about whether it was possible to get further information on the breakdown of tax receipts. Banking receipts are specifically referred to because, of course, they are more specifically tracked because they are a separate stream within the Zero-10 tax strategy

and one of the industries that is taxed at a corporate level. In relation to ETI, I am afraid we do not have that data. It is not collated by industry but I think the point is well made and certainly, as and when we do come round to implementing a new IT system – which I am sure will happen at some point – it may very well be appropriate to consider being able to structure it in such a way that we can acquire that kind of data.

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Deputy Brehaut asked the question in relation to fees and charges and not having a full picture of fees and charges. I would draw his attention to page 48 and the reference to departmental operating income of £32.7 million. Of course, a lot of that *does* represent fees and charges, but I think he is correct that, actually, in terms of the *full* picture, including Social Security contributions, pulling that all together and understanding the total burden that Government imposes on our community is precisely one of the objectives of this joint exercise between Treasury & Resources and Social Security.

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Deputy Soulsby asked questions in relation to TRP. She is quite correct that the burden rests with the landlord and they may not have an understanding of the nature of the businesses that are occupying their buildings. It is a question which my own Board has considered since May and we have had discussions with the management team at the Cadastre to ensure that we are comfortable that they are doing what they need to do to raise as much revenue as we are entitled to. To be clear, the responsibility is on the landlord. If the landlord fails in that responsibility, then the liability rests with them. Reminders are included – that is one of the things we are looking at, the clarity of that – with each invoice that goes out. Information is posted in the *Gazette Officielle* and there is also enforcement activity, as well. Certainly, in the last few months the Board has seen a number of cases where the Cadastre is writing to property owners to advise them that their rate of TRP is changing, as a result of change in the occupational use of that property.

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Deputy Gollop's point in relation to we have capacity within the Framework to, perhaps, be spending more... it is a valid point: we could be spending more but the question remains, where are we going to get it from? We are going to have to either raise more tax or draw down further on reserves and I think, again, his comment about demand management and whether we should be more Keynesian, with some economic stimulus and so on, is a very valid one. It is a point which has been raised on a number of occasions in this Assembly in the last few months and it is something that we should continue to keep under review. I mentioned it yesterday, in the context of future capital spending projects over the next couple of years, if we believe that that is appropriate to depress rising unemployment or those sorts of problems within our economy. I would suggest it is probably through those smaller scale capital projects would be the way to do it, rather than raising our rate of general revenue expenditure. But we should definitely be keeping that under review.

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That is precisely one of the reasons that caution underpins this Budget. As has been made by a number of Deputies in this morning's debate, our economy is in a relatively good position: there is no evidence that we need to be pumping sums into the economy at this point and, therefore, imposing a greater burden on taxpayers by seeking just to get to the magical 21% for the sake of it. So, let us keep the thought, but let us stay cautious for the moment and watch how things develop with the economy and with our tax receipts over the next year.

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Deputy Gillson and the question he asked in relation to whether Capita would receive a fee on the £2 million reduction in the transfer to the Corporate Housing Programme: not an entirely unexpected question. To be clear, the Policy Council owns the Financial Transformation Programme and the process which has been agreed is that it is the Policy Council which should sign off on projects that fall within that Programme and that will be subject to, if you like, the trigger of payment under the contract to Capita. *This* transfer has not been through that process but I think it is safe to say that every Member of Policy Council understands the point that has been made and I am sure that will be taken into account when it comes to consider those projects that should be signed off in order to trigger a payment to Capita.

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In relation to Deputy Duquemin's comments, sticking with the FTP and the impact on cash limits: the cash limits on page 17 are after the FTP targets. He makes the very valid point that if the targets are not met, then what happens to the cash limits. That, again, is one of the reasons, as indicated, that the Budget Reserve is higher because there may be timing differences that need to be accounted for so Departments will need to be asking to draw down on the Budget Reserve precisely for that reason. If that is not the case and they are simply not able to achieve their targets, for whatever reason – perhaps, as you say, because the projects that come forward are not accepted by this Assembly – then more funds will need to be made available. That will be done through the mechanism of the Budget Reserve or through the mechanism of asking this Assembly to provide more funds. That, again, is very much the reason I mentioned that the risks to this Budget are on

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the downside, in terms of our ability to deliver on the FTP. So he is right to note that we may very well be in the same position at some point, not necessarily this time next year, but at some point next year in terms of our needs to consider the adequacy of funding, depending on the performance of the FTP.

1235 Deputy Trott made some very valid comments in relation to Aurigny's performance. Aurigny is trading very well in terms of the number of passengers that it is receiving and its market share and so on. It has experienced additional costs both with fuel and also, in particular, with landing costs at Gatwick which are being hiked significantly by the new owners of that airport. In terms of the underlying... whether there is an underlying structural problem, I would suggest to Deputy
1240 Trott – and it is one of the issues which the Treasury and Resources Board is considering – that it is probably more about the route network which Aurigny is required to maintain. Some of the routes which Aurigny runs are inherently loss-making and they always will be. At the moment, there is no transparency on that. It is simply a question of the States of Guernsey, through its guarantee in underwriting, effectively underwriting, Aurigny's losses, it is underwriting those
1245 routes. We believe that there should be more transparency to that and that this Assembly should be understanding what losses are being incurred and where and whether it is willing to support that and should have control over those decisions. We do intend to return to this Assembly, hopefully next year.

1250 It is necessary to recapitalise Aurigny at some point. Deputy Trott made the point that it is incurring nearly £1 million of interest: much of that relates to the aircraft that it has bought on borrowings but it also relates to borrowings which *effectively* are accumulated losses which will, clearly, never be recovered. So the airline does need to be recapitalised and that is an issue that we will need to address. As part of that process, we believe, as a Board, that it will be appropriate for this Assembly to consider how it wishes to continue to support what Deputy Trott describes as 'an
1255 important strategic asset'.

The Budget Reserve and the fact that it is larger than last year: my response to Deputy Trott would be that is precisely what gives us another degree of flexibility that did not exist in relation to 2012, the ability of Departments to come to Treasury and Resources not just simply to seek an increase in their authorised budget, which is the 2% that he referred to, but actually to use the Budget Reserve to meet their needs. That is precisely why we sought to build a larger Budget Reserve and to be able to do it within our overall restraint on spending I think has been a good
1260 result.

The question of guarantees: absolutely, I think the only reason we would be giving a guarantee to Guernsey Electricity is because it would lower the cost of borrowing for that company and I absolutely endorse his comments in relation to the need to retain the competitiveness of the economy as being the principle route by which we can ensure that wealth is well distributed. We need to be able to continue to be successful economically and that requires us to retain our competitiveness. Again, that was one of the three principles that underpinned our thinking in relation to putting this Budget together.

1270 In relation to, finally, Deputy Brouard's comments and, in particular, on the Treasury Budget, Treasury and Resources have under-spent this year because, essentially, of some vacancies within its staffing. We have also, in relation to next year, one of the requests from the Treasury and Resources Board is, within the Budget, that we actually have some additional resources within the Income Tax area because it is well known we have had some... Income Tax has experienced problems in turning round as many tax returns as quickly as they would have liked and that is all to do with having sufficient tax officers to do the work – so we do not actually expect there to be the same level of under-spend. I think we are, clearly, getting to the point, as a result of the FTP, that the under-spends which most Departments experienced, and have continued to experience, in recent years, I think our expectation is that situation is unlikely to continue in 2013 and beyond...

1280 The numbers, just for information. For Treasury and Resources, the budget in 2011 was £17.6 million and the actual spending was £16.4 million for 2012; it was £18.25 million, with an actual spending of £17.5 million and a budget of £17.03 million in 2013.

I hope, sir, that I have managed to address all the key concerns and questions the Members had and, as I say, I do thank everybody for their contribution to the debate and for all those who have expressed words of support for not only the presentation of the Budget but also its contents and I do, once again, commend it to the Assembly.

1285 There is one final point which I would like to perhaps before I sit down, sir, which is that I must advise Members that I am actually unable to return to the Assembly after the lunch recess. I am obviously disappointed to have to leave and to not be here through the whole of the States sitting. However, I do have a long-standing personal commitment involving my immediate and
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extended family and that commitment has been set for the last couple of years – certainly, before I was elected to the States – and although I have tried, it simply has not been possible to re-arrange that at short notice, as recent political events have unfolded. The Deputy Minister, Deputy Kuttelwascher, will, of course, be presenting the Department’s views on HSSD’s States Report.

1295

Thank you, sir.

The Bailiff: Deputy Lester Queripel.

1300

Deputy Lester Queripel: Sir, I did not want to interrupt while the Minister was speaking but, as every Member knows, I do have great concerns about communications from Government and within Government and people in the finance industry have told me, on many occasions (**Members:** Speech, speech...)

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The Bailiff: Is this a further speech, Deputy Lester Queripel?

Deputy Lester Queripel: No, sir, just to ask the Minister to please look at areas, perhaps, where the communications with the finance industry could be improved.

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The Bailiff: I think that *is* a speech.

Deputy Lester Queripel: Sorry, sir.

1315

The Bailiff: Deputy Trott.
Is this a speech?

Deputy Trott: Sir, I did not want to interrupt the Minister during his outstanding summing up but I wonder if I could just ask the question in a slightly different way with regard to T & R’s discretionary tolerances of 2% to any one budget.

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Does the Minister think that it might be appropriate for that to be extended in certain circumstances and, if so, how might it be? I think that was the general thrust of what I was asking, if the T & R Department wanted – coveted, if you like – additional flexibility.

The Bailiff: Deputy St Pier.

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Deputy St Pier: I am sorry if I misunderstood the point.

It is not an issue that has been considered by the Board and my personal view is that it is probably not necessary to do that and ultimately the control for extending the Budget should lie properly, and quite correctly, with this Assembly. If there are needs and demands, the financial procedures are clear, that the matter should be brought back to this Assembly to consider the issues that arise and I do not consider that to be an inappropriate route.

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It may well cause concern to Members to simply allow Treasury and Resources to have a much larger discretion. The policy of the previous Board, which is one that we feel comfortable with, is that, as a general rule, the discretion is just that, it is a discretion. It is not there so that it *should* be used, it merely *can* be used, and our policy is that it is preferable that issues of over-spend should really be considered by the Assembly as a whole.

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The Bailiff: Members we come, then, to the vote.

There are 18 propositions in the Billet on pages 89 and 90. There have been a number of amendments to those and I would just remind you which ones have been amended. A new paragraph 3A has been inserted as a result of the Deputy Sillars/Deputy Le Lièvre amendment in respect of the States Capital Expenditure Programme: that is a new 3A.

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Proposition 5 has been amended to increase the HSSD budget by £50,000, as a result of the Deputy Burford/Deputy Conder amendment.

The rates of Excise Duty in Proposition 6 have also been amended by that amendment, as has Proposition 7, the Ordinance relating to Excise Duties.

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Proposition 9 has been amended as a result of the technical amendment moved by H. M. Procureur and H. M. Comptroller.

Proposition 17 has been amended, as a result of the Deputy Fallaize/Deputy Conder amendment in relation to Mortgage Interest Tax Relief, and a new Proposition 17A has been inserted as a result of the Deputy Burford/Deputy Fallaize amendment in relation to the

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Comprehensive Review of Personal Taxation.

Those are the amendments.

1355 There has been a request to take Proposition 14 separately – that is the Proposition concerning Guernsey Electricity Limited – and I would propose to take that separately. Unless there are any other requests to take any Proposition separately, I would propose that we take all the remainder together, or should I take the Ordinance separately, Mr Procureur?

The Procureur: No, that is a very good idea if you are going to do that.

1360 I just want to mention, though, technically – simply because we have run over into a second day – it needs to be noted that the dates on the Ordinances will be amended. They will be changed, on pages 32 and 33, the Budget Ordinance, the resolution date will change to 13th December and the commencement date will change to 13th December; and, on page 34, the resolution date on the TRP Ordinance will change to 13th December. That comes into force on 1st January, so it does not need to be changed. Just for the record...

The Bailiff: Thank you.

You are not requesting that we take the Ordinance as a separate Proposition?

The Procureur: No, taken in that form.

1370

The Bailiff: Taking it together. Yes, thank you.

So Proposition 14, Deputy De Lisle, we will take that separately.

1375 **Deputy De Lisle:** Sir, I just wanted to be sure about the clarification that has been given by Minister St. Pier.

I take it that this T & R Proposition 14 aims to address the spike in need at GE at the current time but the general policy existing, the save-to-spend policy, remains?

The Bailiff: Deputy St Pier.

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Deputy St Pier: I apologise. You did raise that at the beginning of the debate. I lost track of that in addressing others' comments.

1385 It is to address the immediate issues and pressures there is on the business and, in particular, the immediate capital needs in terms of new on-Island equipment. There is, as you know, one new unit being put in at the moment. There is a likelihood that there will need to be another because, currently, what is there is obviously being worked harder than was previously the case, which is obviously shortening its overall life.

1390 In terms of the long term capital needs of the business and how that will be funded, that is now quite likely subject to review and consideration by the Board of the company and it will clearly be an issue which is of interest and concern to Treasury and Resources as a shareholder. But it will very much depend on the future capital needs of the business, in terms of the need for new lines, cables either directly to France or to Jersey and so on and, until all that is known, it is difficult to predict exactly how those will be funded. I think it is extremely unlikely that they will be fundable out of save-to-spend. Therefore, there will be a need to give consideration to alternative funding mechanisms but that is not what this Proposition is about. If a further extensive borrowing is required as a result of those future capital needs, then it would certainly be the Board's proposition to come back to the Assembly.

1400 **The Bailiff:** So we will vote, then, on Proposition 14:

14. To authorise Guernsey Electricity Limited to borrow, either from the States General Investment Pool or third parties, to finance capital expenditure and to authorise the Treasury and Resources Department to facilitate, if necessary by providing guarantees, any third party borrowings.

1405 Those in favour; those against.

Members voted Pour

The Bailiff: I declare it carried.

1410 And now we will vote on all the other Propositions, with the necessary amendments, as the Procureur suggested, to the Ordinances:

- 1415 1. To rescind resolution 1 of Billet d'État XXII of 15 December 2011 and to authorise the Treasury and Resources Department to transfer from the Contingency Reserve (Tax Strategy) to General Revenue a maximum sum of £31,000,000 during 2012.
2. To authorise the Treasury and Resources Department to transfer from the Contingency Reserve (Tax Strategy) to General Revenue a maximum sum of £17,000,000 during 2013.
3. To transfer the sum of £24,550,000 from General Revenue to the Capital Reserve on 1 January 2013.
- 1420 3A. To agree that the timetable for determining the next phase of the States' capital expenditure programme shall remain as set out in the 2012 Budget Report (at paragraph 5.39 of Billet d'État XXII of 2011), namely:
- Quarter 1 2013 – bids for capital programme new projects for the period 2014 to 2017 submitted;
 - Quarter 3 2013 – Capital Prioritisation States debate to determine the firm capital programme for the period 2014 to 2017.
- 1425 4. To establish a Strategic Development Fund with effect from 1 January 2013 by transferring £3,000,000 from General Revenue and to delegate authority to the Treasury and Resources Department to approve use of this Fund.
5. To approve the cash limits for ordinary revenue and capital expenditure for 2013 for individual Departments and Committees totalling £360,700,000 as set out in paragraph 4.13 of this Report, but to direct the Treasury and Resources Department to increase the 2013 budget of the Health and Social Services Department by £50,000, funded by a transfer from the Budget Reserve, to be used specifically to fund appropriate States and/or voluntary sector educational and other programmes to discourage commencement and/or encourage cessation of smoking.
- 1430 6. That the rates of excise duty in Guernsey and Alderney on the under mentioned goods shall be varied as follows:
- | | | |
|------|--|---|
| | Cigarettes | £251.13 per kilogram |
| | Cigars | £233.20 per kilogram |
| 1435 | Hand rolling tobacco | £217.16 per kilogram |
| | Other manufactured tobacco | £188.36 per kilogram |
| | Tobacco leaf – un-stemmed | £209.09 per kilogram |
| | Tobacco leaf – stemmed | £211.20 per kilogram |
| | Petrol other than any fuel used for the purpose of air navigation | 46.5p per litre |
| 1440 | Petrol used for the purpose of marine navigation where supplied by an approved trader | 31.3p per litre |
| | Gas oil | 46.5p per litre |
| | Beer brewed by an independent small brewery | 41p per litre |
| | Other beer | 65p per litre |
| 1445 | Spirits not exceeding 5.5 per cent volume | 57p per litre |
| | Spirits exceeding 5.5 per cent volume but not exceeding 25.0 per cent volume | £7.99 per litre |
| | Spirits exceeding 25.0 per cent volume but not exceeding 50.0 per cent volume | £10.62 per litre |
| 1450 | Spirits exceeding 50.0 per cent volume | In the extra proportion to 50.0 per cent volume |
| | Cider produced by an independent small cider-maker | 41p per litre |
| | Other cider | 65p per litre |
| | Light wines not exceeding 5.5 per cent volume | 48p per litre |
| 1455 | Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines) | £1.97 per litre |
| | Other wines | £3.14 per litre |
7. To approve the draft Ordinance entitled 'The Excise Duties (Budget) Ordinance, 2012', but subject to the deletion of:
- 1460 '1. Tobacco and tobacco products
- | | | |
|------|-------------------------------|-------------------|
| | a. Cigarettes | £248.78 per kilo |
| | b. Cigars | £231.02 per kilo |
| | c. Hand rolling tobacco | £217.16 per kilo |
| | d. Other manufactured tobacco | £186.60 per kilo |
| 1465 | e. Tobacco leaf – un-stemmed | £207.13 per kilo |
| | f. Tobacco leaf – stemmed | £209.22 per kilo' |
- and the substitution therefor of:
- 1470 '1. Tobacco and tobacco products
- | | | |
|------|-------------------------------|-------------------|
| | a. Cigarettes | £251.13 per kilo |
| | b. Cigars | £233.20 per kilo |
| 1470 | c. Hand rolling tobacco | £217.16 per kilo |
| | d. Other manufactured tobacco | £188.36 per kilo |
| | e. Tobacco leaf – un-stemmed | £209.09 per kilo |
| | f. Tobacco leaf – stemmed | £211.20 per kilo' |
- and to direct that the same shall have effect as an Ordinance of the States.
- 1475 8. That the rates of Tax on Real Property in Guernsey and Alderney with effect from 1 January 2013 shall be as set out in paragraph 3.26 of this Report.
9. To approve the draft Ordinance entitled 'The Property Tax (Rates) (Guernsey and Alderney) Ordinance, 2012', but with clause 2 thereof amended by deleting 'The' and substituting 'Section 7 of and the Schedule to the' and to direct that the same shall have effect as an Ordinance of the States.
- 1480 10. To delegate authority to the Treasury and Resources Department to increase a Department's routine capital allocation, funded by a transfer from the Budget Reserve.
11. To authorise the Treasury and Resources Department, pursuant to Section 2(4) of the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001, to agree to and implement the Board of Guernsey Post Limited's proposal to repurchase £5 million of shares reducing the shareholding of the States accordingly, and subject to Guernsey Post Limited complying with its obligations under the Companies (Guernsey) Law, 2008.
- 1485 12. That the sum of £5 million received from Guernsey Post Limited for the repurchase of shares shall be transferred to

the Capital Reserve.

1490 13. That the net capital proceeds received from the sale of Granville House, Mont Durand, St Peter Port and Edessa, Monument Gardens, St Peter Port totalling £1,597,816 shall be transferred to the Capital Reserve with immediate effect.

15. To approve that references in all legislation and other documents to the 'Chief Accountant' be changed so as to refer to the 'States Treasurer' and to direct the preparation of such legislation as may be necessary to give effect to this decision.

1495 16. To extend the company intermediate income tax rate (10%) to licensed fiduciaries (in respect of regulated activities), licensed insurers (in respect of domestic business) and licensed insurance intermediaries and licensed insurance managers (in respect of the carrying on of business and acting as such) and to direct the preparation of such legislation as may be necessary to give effect to this decision.

17. To direct that:

1500 a) the Treasury and Resources Department shall consider the case for making changes to mortgage interest tax relief as part of the comprehensive review of personal taxes, duties and contributions referred to in paragraphs 3.1 to 3.4 of that Report;

b) in advance of that comprehensive review no changes shall be proposed by the Treasury and Resources Department in respect of the cap of £400,000 which at the present time applies to mortgage interest tax relief;

1505 any proposals to make changes to mortgage interest tax relief which are put before the States of Deliberation by the Treasury and Resources Department as part of, or further to, that comprehensive review shall be accompanied by an assessment of the likely financial impact of those changes upon taxpayers who are at that time eligible to claim mortgage interest tax relief.

1510 17A. To direct that as part of their comprehensive review of personal taxation referred to in paragraphs 3.1 to 3.4 of that Report the Treasury and Resources Department shall consider the rôle of taxation in deterring property speculation (having regard inter alia to the suspension in 2009 of the Dwellings Profits Tax (Guernsey) Law, 1975 and the effects thereof), and shall include in their 2014 Budget Report their conclusions together with any recommendations considered necessary.

1515 18. (a) That, subject to the provisions of the Income Tax (Guernsey), Law 1975 and to the provisions of this Proposition, the allowances claimable for the Year of Charge 2013 by an individual solely or principally resident in Guernsey by way of relief from income tax at the individual standard rate, shall be the allowances specified in the First Schedule to this proposition.

(b) That the allowances specified in the First Schedule to this Proposition shall only be granted to an individual who has made a claim in accordance with the provisions of the Income Tax (Guernsey), Law 1975, and who has proved the conditions applicable to such allowances and prescribed in the Second Schedule to this Proposition have been fulfilled.

1520 (c) That: 'Family Allowances' means Family Allowances payable under the Family Allowances (Guernsey) Law, 1950 as amended; and 'the Income Tax (Guernsey) Law, 1975' means that Law as amended, extended or applied by or under any other enactment.

1525 Those in favour; those against.

Members voted Pour

The Bailiff: I declare them carried.

1530 Thank you very much. That, then, concludes the special Budget meeting.

Billets d'État XXV and XXVIII

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The Bailiff: Greffier, will you now convene the next meeting.

CONVOCATION

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The Greffier: To the Members of the States of the Island of Guernsey. I have the honour to inform you that a meeting of the States of Deliberation will be held at the Royal Court House on Wednesday, 12th December, 2012 at 9.30 a.m. to consider the items contained in Billets d'État numbers XXV and XXVIII, which have been submitted for debate.

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The Bailiff: Thank you very much.

The first bit of business, then, is a Statement to be delivered by the Minister of the Education Department.

1550 Deputy Sillars.

Funding of Higher Education
Statement by the Minister of the Education Department

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Deputy Sillars: Mr Bailiff, Members of the States.

Sir, I would like to thank you for affording me the opportunity to address the Assembly on the subject of further affordability of Higher Education. In March this year, the Assembly acknowledged that the Education Department would not be seeking additional funding for Higher Education in 2012 and agreed to direct the Treasury and Resources Department to take into account the funding implications detailed in the Report dated 20th December 2011 and Billet V of 2012 when recommending the 2013 cash limit for Education – higher and advanced education.

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The Assembly further agreed to note that the Education Department intended to return to the States in 2013 with proposals on Higher Education funding from 2014 onwards and, in particular, to report on the level of budget required thereafter. Some Members may well be aware that the level of UK Higher Education tuition fees for new UK students increased to £9,000 in September 2012, from just over only £3,000 previously. Members of the Education Department staff, colleagues from Jersey and the Isle of Man, reached agreement with Universities UK, the representative organisation for the UK's universities, that Island students should be treated as home students and charged, in the majority of cases, the same fees as UK students.

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The majority of institutions have abided by this agreement. Currently, the Department supports 785 students at 118 institutions. However, a small number – four – have not. These four institutions are Cambridge, Cardiff, Imperial and Warwick, who have decided to charge our students overseas fees. We are continuing in our efforts to persuade UK Higher Education institutions to treat students from the three Islands as they would home students but it is not currently possible to determine how many institutions may begin to charge us more than the home tuition fees in the future.

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Given the difficult financial situation many UK Higher Education institutions find themselves in, there is obviously pressure on them to secure as much as they can financially. In the circumstances, my Board believes it would be imprudent to present a Report to the Assembly whilst we do not have sufficient information. Therefore, with the Assembly's agreement, we propose that we should continue with the present scheme for funding Higher Education until the situation becomes clearer and we propose to return with a detailed Report in the early part of 2014, when the picture should be clearer.

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With some adjustments, the Department will be able to continue within the existing grant system from within its current budget. The Board has unanimously agreed to increase the maximum parental contribution to fees from £6,983 to £7,983 for students commencing their studies – that is *commencing* their studies – in 2013 and to £8,983 for those starting in 2014. Due to the timescales in which students apply for Universities, the Department has decided to continue with its policy of allowing access to any approved course at any approved University or Education Institution, subject to the financial assessment, despite the decisions of a small number of Universities we are aware of to charge us higher tuition fees.

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In closing, sir, we expect the changes in adjustments that I have just referred to will more than compensate for the rise in expenditure and will contribute to the savings the Department needs to make in the future.

1595

Thank you.

The Bailiff: Now it is 12.04. We can have fifteen minutes' question time, if anybody has any questions they wish to raise.

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Deputy Gollop.

Deputy Gollop: Yes, sir,

I appreciate the sterling work the Board has done but the Minister, Deputy Sillars, just referred to four institutions if I recall correctly, Imperial, Cardiff, Cambridge and Warwick Universities. Will that mean that the Education Department will be encouraging, or discouraging, potential future students to those institutions? I would, personally, hope there is no discrimination.

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The Bailiff: Deputy Sillars.

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Deputy Sillars: You are right in your conclusion, Deputy Gollop. We will not currently be disadvantaging students who want to go there. We do actually have 22 students currently at Cardiff, 19 at Cambridge, 15 at Warwick, so we would encourage those to go at the moment and

we will not be discriminating against them.

1615 **The Bailiff:** Deputy Trott:

1620 **Deputy Trott:** Sir, whilst I completely understand that conclusion, it does beg the question that when the other Universities – the 114 who have treated us fairly – hear of this news, the logical conclusion *might* be why should we offer such a discount if it does not appear to, in any way, change behaviour?

The Bailiff: Deputy Sillars.

1625 **Deputy Sillars:** Sir, as usual, I actually agree with Deputy Trott on this one, which is exactly why we are not going to bring a Report to the States in early 2013, when we have no idea of what the outcome is going to be.

1630 For example, an overseas student's fees is something like, as an average, about £5,000 more than current, so if you take, roughly, the 800 students we have away at University that will be an extra £4 million. It would be discreditable for us, as a Department, to come here in 2013 with what we know today and then have to come back in only a few months' time, saying 'I'm sorry, we got it wrong. Can we have another £4 million, please!' So I agree, thank you.

The Bailiff: Anyone else?

1635 Deputy Langlois first, then Deputy Hadley.

Deputy Langlois: Thank you, sir.

1640 Would the Minister confirm that, in the light of this financial reality, whether it is just the £9,000 or with the higher fees that are being mooted by some Institutions, that his Board will be giving appropriate and timely consideration to the possibility of the States offering to potential students student loans to bridge any gap between the cost of Higher Education and the support the taxpayers can now afford to give.

The Bailiff: Deputy Sillars.

1645 **Deputy Sillars:** Sir, we plan to carry on as we are, as I said.

Without knowing the facts and the figures, it would be lunacy for us to go into loan schemes and goodness knows what else. Once we have the knowledge, then that is the time for us to come back.

1650 **The Bailiff:** Deputy Hadley and then Deputy De Lisle.

1655 **Deputy Hadley:** Surely, Mr Bailiff, we *do* need to discourage from going to these four Universities because of the effect that it will have on all of the other Universities. If we are just going to wait until 2014 before making any decision, other Universities might decide to take the same route of treating us as overseas students. Unless there is the... if you like, unless we use the stick we are going to damage our financial position.

The Bailiff: Deputy Sillars:

1660 **Deputy Sillars:** That is exactly the point and this is a risk that is very real for us and this is why working with Jersey and the Isle of Man, hopefully, we have sufficient numbers to try and discourage the four. We are trying very hard to get the four Universities who have broken ranks, if you would like, to see it like that, to come back within what we have agreed with the UK. That is exactly what this is all about. For the three Islands to work together, then our numbers – and we are the smallest number – we will have a lot more clout working together. That is what we are trying to achieve.

The Bailiff: Deputy De Lisle, then Deputy Fallaize.

1670 **Deputy De Lisle:** Sir, I wanted to ask a question to the Minister with regard to the announcement this morning that, in the UK – England and Wales, I should say – the number of applications to University has decreased by 11%. That is due to the increase in fees generally to

1675 £9,000 and I am wondering if there has been any indication that this reduction has also been appraised in Guernsey and that, in fact, would support the continuation of the existing grant system.

The Bailiff: Deputy Sillars.

1680 **Deputy Sillars:** Sir, the numbers at the moment are too early to tell for what is coming through.

1685 The numbers of students going through do fluctuate a little bit. Sometimes they go down a little, sometimes up a little. At this moment in time, we really do not know what the numbers will be, going forward to September 2013. But, obviously, it will be part of the equation and, with the 11% drop in students, that is exactly the point. That one works both ways for us because they have got numbers, they are better off having some from us at a UK rate but, equally, *they* could argue 'Well, you have got them all there. They are coming here: we will charge the overseas rate.' This is all part of the discussions that are ongoing.

1690 **The Bailiff:** Deputy Fallaize.

Deputy Fallaize: Thank you, sir.

1695 Would the Minister agree with me that (1) the introduction of student loans in the UK *has* had an impact, the impact of discouraging some applications to Higher Education institutions and (2) that, because of the relatively small cohort of students in Guernsey, running a student loan scheme is extremely expensive and, therefore, (3) it is not cost effective for the Education Department to introduce a student loan scheme, particularly given the likely impact it would have in discouraging students from accessing Higher Education?

1700 **The Bailiff:** Deputy Sillars.

Deputy Sillars: Yes, yes and probably (*Laughter*) is the short answer but we will be reviewing everything, as we always do, but my instincts are what I have just said.

1705 **The Bailiff:** Any other questions?

No? Then, in that case... Oh, sorry, Deputy Storey.

1710 **Deputy Storey:** Sir, I would just like to ask the Minister whether he has had conversations with GTA about the possibility of providing more university courses on-Island which would be beneficial both to the taxpayer and to the students.

The Bailiff: Deputy Sillars.

Deputy Sillars: I am quite sure the answer is 'Yes' to that one, too.

1715 We have been talking to GTA. I am a Director of the GTA and certainly one of the things we are talking about is where we can produce more university courses on-Island.

The Bailiff: Deputy De Lisle.

1720 **Deputy De Lisle:** Sir, will the Minister give confirmation that he will continue, through his term, the existing grant system and avoid, at all costs, loans to students in the future?

The Bailiff: Deputy Sillars:

1725 **Deputy Sillars:** That is kind of a tricky one. I mean, my instincts are certainly to go that way but if, for example – and we have just touched on it, when I was saying that if we were suddenly deemed as 'overseas students' – there is an extra £4 million to find, on top of the £6.5 million we already have, then that is going to be a very tricky sum. We are going to have to go and talk to T and R about that. But, certainly, my Board is very keen to continue supporting what we have at the moment, as long as it remains affordable.

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The Bailiff: Deputy Fallaize.

Deputy Fallaize: Just one more question, sir.

1735 Is the Minister able to give us some indication of the Department's expenditure on Higher Education in recent years? I mean what sort of fluctuations have there been in the budget over the last five, six or seven years? Has this area of expenditure seen very rapid growth, or even growth in line with inflation or has the Education Department largely been able to maintain, or even cut, its expenditure in this area?

1740 **The Bailiff:** Deputy Sillars, are you able to answer that?

Deputy Sillars: Hopefully.

1745 It depends on what you mean by Further Education? If you are talking about the College of Further Education, as putting that into it, then I cannot.

Deputy Fallaize: Only Higher Education, off Island.

1750 **Deputy Sillars:** However, if it is just about student grants, as I said a little earlier, the numbers do fluctuate – well, fluctuate is perhaps too strong a word – they do go up and down but there is definitely a steady consistency. Going forward, who knows because, of course, the numbers of students in cohorts is reducing slightly as we go forward but it certainly seems to me that it is *reasonably* consistent. We are managing and part of what we are proposing, by increasing some of the contributions which I have just outlined, will help us keep within that budget.

1755

Questions for Oral Answer

1760

PUBLIC SERVICES DEPARTMENT

Alderney Airport An essential lifeline

1765 **The Bailiff:** If there are no further questions arising from that Ministerial Statement, we will move on to Question Time proper and the first Question is to be asked by Deputy Gollop of the Minister of the Public Services Department.
Deputy Gollop.

1770 **Deputy Gollop:** Thank you, sir.

I will have to hurry up a bit. There are four questions and I might have supplementaries on two and three, but does the Department Board, sir, at the Public Services Department, acknowledge that Alderney Airport is an essential and integral lifeline and a key component of the Alderney community and economy?

1775

The Bailiff: Deputy Luxon.

Deputy Luxon: Thank you Sir and thank you Deputy Gollop for your questions, in advance.

1780 Mr Bailiff, the Board of Public Services is unanimously of the view that Alderney Airport *is* an essential and integral part of the Alderney community and economy.

1785 However, even if we were not of that view, the Department is mandated to provide and maintain an airport for Alderney as one of the transferred services under the 1948 Agreement between the Islands. As part of that obligation, the Department takes seriously its responsibility for ensuring Alderney Airport remains fit for purpose and able to meet the Island's requirements. Public Services, therefore, *has* to maintain an operational airfield, in the same way as it does at Guernsey Airport and in accordance with the same international aviation standards.

1790 In exercising that requirement, the Board commissioned an expert study in 2011, looking into the maintenance requirements of the current three runways and options for long term provision at Alderney Airport. It identified that significant capital expenditure – and, by significant, I mean hundreds of thousands of pounds – is required on *each* of the three runways, to address their current condition and to ensure the provision in the long term. We have been consulting with the

1795 States of Alderney, and with other interested parties in the Island, on the findings of that report so that we understand their views and can reflect them in our final recommendations. We fully expect those recommendations will involve significant capital investment at Alderney Airport and will require approval by this Assembly. It is, therefore, imperative that, whatever proposals are brought forward, they are reasoned and can demonstrate that the options have been fully assessed to ensure the recommended scheme represents the most appropriate use of capital funds.

1800 We expect that, given the current financial constraints on the Bailiwick as a whole, the measure that Members of this Assembly will apply will be ‘Is this essential?’ We have to be sure that we can make that case. That is the process we are going through currently, in full consultation with Alderney, and I would stress that we have established a great deal of information but, as yet, have not made any firm decisions.

1805 **The Bailiff:** Deputy Gollop, do you have a supplementary?

Deputy Gollop: No.

The Bailiff: No.

1810 I think Alderney Representative Kelly has and then Deputy De Lisle has, as well. Alderney Representative Kelly.

Alderney Representative Kelly: Yes, thank you, sir, I do have a supplementary question.

1815 First of all, I am grateful to Deputy Gollop for asking the question and I am comforted by *some* of the Minister’s answers.

1820 However, the Minister, in his reply, refers to an ‘expert study’. If I am not mistaken, the expert study that he refers to is the one that was undertaken by an officer of PSD and I wonder if the Minister believes this compares with the expert study undertaken by the Burks Green, consultant engineers, who were commissioned by PSD in 2006 to examine Alderney Airport and could he explain how he feels the subsequent lack of maintenance of the runways compares with the second conclusion and recommendation of that report, which if I may quote, says that:

‘The airport should be maintained at least to its current standards and safety standards.’

1825 If you could answer that, sir, I would be grateful.

Deputy Luxon: Thank you, sir.

1830 The report I referred to is the Mott Macdonald report in 2011 not the Burks Green, which was an earlier report, but I think the principle of States of Alderney Representative Boyd Kelly was has the States of Guernsey, under the PSD, maintained Alderney Airport and its facilities appropriately. What I would say that, in discussion with the Guernsey Airport Director, we are comfortable that maintenance *has* been maintained at the Airport but what the Mott Macdonald report very clearly says is that there are extensive works that are now necessary. Indeed, the CAA, through the DCA – our local DCA – have made it very clear that there are real issues that do need to be addressed with each of the runways.

1835 **The Bailiff:** Deputy De Lisle, you have a supplementary question?

1840 **Deputy De Lisle:** Yes, sir, a question to the Minister as a supplementary: is the Public Services Department considering giving more autonomy to Alderney with respect of the running and operation of the Alderney Airport?

The Bailiff: Deputy Luxon.

Deputy Luxon: Thank you, Deputy De Lisle.

1845 The answer is no in principle or not proactively, although we are very determined – as I have assured the States of Alderney Representatives that we have been in discussions with – that what we have to do is to find a solution both to the runway facilities themselves but also to the operating deficit of the Airport but we have to find solutions jointly, both PSD and the States of Alderney. So, no, we have not considered transferring responsibilities, as you describe.

1850

**Alderney Airport
Cost of runway repairs**

1855

The Bailiff: Deputy Gollop, then, your second question.

1860

Deputy Gollop: Yes. The second one is: would the Public Services Department accept that the cost of runway repairs are a proportional fraction of the Guernsey runway rehabilitation costs and are equally essential to the Island's individual welfare?

The Bailiff: Deputy Luxon.

1865

Deputy Luxon: Thank you, Deputy Gollop.

1870

I am not sure what the measure of proportionality Deputy Gollop is actually suggesting is appropriate. It would be strange to request that any capital project requirement at Guernsey Airport that a similar level of funding should be provided to Alderney simply in proportion to the Island's relative size, population or frequency of air services, for example. The important measure is what level of investment is proportionate to the requirement of Alderney Airport to ensure that it is fit for purpose to meet the Island's needs. In the current economic climate, a key consideration *has* to be what is essential.

1875

The independent expert valuation has estimated that to address the immediate maintenance requirements of all three runways at Alderney will cost in the region of £1 million – slightly over. Other options are also available, costing considerably more. What Public Services are currently trying to establish, working with Alderney, is what is essential and appropriate in the long term and, in that respect, we have not yet reached a decision.

The Bailiff: Any supplementaries on that?

1880

Deputy Gollop: Would the Minister agree, in principle, that estimates have ranged from £1 million to £1.3 million and that would equate to approximately £33 million to £39 million in Guernsey terms whereas we, in fact, in practice, have a budget twice the size of that for our runway?

1885

The Bailiff: Deputy Luxon.

Deputy Luxon: I think I will borrow Deputy Queripel's calculator for this one! (*Laughter*)

1890

I think the point I am trying to reiterate to Deputy Gollop is that the Alderney Airport is a different facility and has a different circumstance and a different level of population for an Island, as does Guernsey. The point I was trying to make is that I do not think that there is any *direct* comparison between the investment in one facility or another. It is about what is appropriate for each of those facilities.

The Bailiff: Alderney Representative Arditti, do you have a supplementary question?

1895

Alderney Representative Arditti: I will try and avoid a debate on this subject because discussions are ongoing but I have to rise and ask *this* question in the light of something that the Minister has just said.

1900

Is he aware that the Airport Director recently compared the £80 million rehabilitation at the Western Airfield to one million passenger movements and, proportionately, to the movements in Alderney – which are, sadly, very, very low at the moment because of the state of the Eastern Airfield – the proportionate expenditure would be £5 million to £6 million?

1905

Deputy Luxon: I am not aware of that comment and I would challenge Alderney Representative Arditti. I am not sure that the Alderney Airport is suffering *because* of the state of the runways. I do not accept that point at all but I cannot make comment on what the Airport Director has purported to say.

1910

The Bailiff: Deputy Trott.

Deputy Trott: Sir, I apologise, in rising, if this question has been answered whilst I was

1915 looking for the information in the Budget but I notice, in the Budget, under the heading ‘Guernsey Airport’, we are advised that there is a ‘recovery’ from Alderney Airport, amounting to about £160,000 a year. What is not immediately obvious from this information is whether Alderney Airport makes a surplus or a deficit. If it is loss-making, is the Minister able to advise to what extent?

The Bailiff: Deputy Luxon.

1920 **Deputy Luxon:** Thank you, Deputy Trott.

Yes, a previous States Department some years ago, I think, made a statement that the operating deficit at Alderney Airport should not rise about £500,000. The current estimate for loss at Alderney Airport would be £750,000, so round about £759,000 currently.

1925 **The Bailiff:** Alderney Representative Arditti.

Alderney Representative Arditti: I wonder if the Minister could explain what is the relevance of a loss to a transferred service?

1930 Our hospital makes a *total* loss. Our hospital and the transferred health service from Guernsey – of which Guernsey can be *extremely* proud – does not make one single penny profit. Could he please explain to me how a transferred service is expected to make a profit?

The Bailiff: Deputy Luxon.

1935 **Deputy Luxon:** Thank you.

I think the only way I can explain it is that I totally agree with the principle that the transferred service agreements are to provide those facilities for the Island of Alderney. The difference is that Alderney Airport is a trading entity, in the sense that, unlike the Health Service, where a service is provided, Alderney Airport is a trading entity, where it sells services and receives income, so it is only *on that basis* that I describe Alderney Airport as operating at a deficit of circa £750,000.

1940 I would reiterate that the PSD Board, *unanimously*, is very, very clear about its commitment and responsibility under the transferred services agreements and we, equally, are very, very clear about the current condition of Alderney’s economy – indeed, finances and, indeed, aspects of depopulation – so the PSD Board, in covering our mandate of looking after Alderney Airport, we are conscious of the bigger issues that exist.

1945 **The Bailiff:** Right.

1950 **Deputy Trott:** Briefly, and I am almost certain finally, sir, would the Minister of PSD agree with me that, whilst Alderney Airport is clearly of significant strategic importance, in much the same way as Aurigny is to Alderney, it is impossible for this Assembly *ever* to make decisions that are properly informed without the relevant information in front of them?

1955 **The Bailiff:** Deputy Luxon.

Deputy Luxon: I am very pleased to agree with Deputy Trott, as always (*Laughter*).

1960 **Alderney Airport
Detrimental effects of reduction in useability**

The Bailiff: Deputy Gollop, your third question please.

1965 **Deputy Gollop:** Would the Public Services Department acknowledge as correct any assertion or argument that any significant reduction in landing opportunities and/or takeoff at Alderney Airport due to cross winds would be detrimental to Alderney society, trade, economic development and the contribution made by the northern Isle to our overall budget?

1970 **The Bailiff:** Deputy Luxon.

Deputy Luxon. Mr Bailiff, thank you.

1975 There is bound to be a point at which a reduction in the availability of Alderney Airport itself will have an effect on Island life. Equally, the Island *may* be able to accommodate some reduction in the facilities at Alderney Airport without it having any major adverse effect. That is what we are seeking to establish by working with Alderney.

The Bailiff: Deputy Gollop, a supplementary?

1980 **Deputy Gollop:** My supplementary here is the Minister acknowledges that it is possible that there will be an effect on Island life or that the Island could accommodate *some* reduction without it having any major adverse affect. What is the evidence for this and is the Department working closely with Treasury and Resources and the Policy Council on assessing the economic contribution of the Airport to the Alderney economy?

1985

The Bailiff: Deputy Luxon.

Deputy Luxon: Thank you, Deputy Gollop.

1990 I think there are two strands to that question. Certainly, the PSD Board and myself have kept the Policy Council and the External Relations Group completely up to date with this issue, both in terms of the runways and, indeed, the operating deficit of the Airport. Indeed, we have also been in dialogue with Aurigny who, clearly, have a vital role to play in services to Alderney. So, from that point of view, we are very well aware of the implications of what does or does not happen at the Airport in terms of services and availability and connectivity.

1995

I think the only point I would try and make is that we do not see any evidence at the moment that anything to do with Alderney Airport, or its facilities or its opening hours, has had any *direct* impact on the economy or the economic problems that Alderney are facing, but we *do* recognise that changes to those services and levels of activity *could* impact. I do not have anything more definitive to say to you other than that, Deputy Gollop, but it is very much in the back of our thinking. That dialogue is happening, we are engaging with Alderney, we have finished a consultation exercise and, indeed, at our next PSD Board Meeting we will be trying to assess and work our way through the data, the facts, the information that we have. Alderney have been very, very proactive in providing us with that information from their perspective, for which we thank them.

2005

Alderney Airport Improvement of connectivity

2010

The Bailiff: Deputy Gollop, your fourth question.

Deputy Gollop: The final one: will the Public Services Department be looking at some viable way or plan to improve connectivity at Alderney's essential airport infrastructure?

2015

The Bailiff: Deputy Luxon.

Deputy Luxon: Thank you.

2020 Mr Bailiff, to deal with the specifics of the question, Deputy Gollop asks what are we doing to improve the connectivity at Alderney's essential airport infrastructure. I will refer back to my previous answers and reiterate the process that we are going through with Alderney: it is now to define what 'essential airport infrastructure' is. I cannot, therefore, be any more precise than that at the moment.

2025 Looking at the issue more broadly, Public Services is working with Alderney to identify ways to address the decline in passenger numbers and the resulting increasing deficit at Alderney Airport which, in 2011, stood at £750,000. Sadly, to date, we have not seen any material improvement but the Department will continue to work with Alderney and actively pursue any viable options.

2030

The Bailiff: Deputy Gollop.

2035 **Deputy Gollop:** Deputy Trott raised, in supplementary, the £759,000 deficit, which I would argue is a Policy Council responsibility but I would like to ask the Public Services Department, in coming up with that figure, which I acknowledge is higher than the £500,000, does that include transferred costs management accountancy overheads pertaining to the Guernsey Airport, as well, which contributes to the scale of the loss?

The Bailiff: Deputy Luxon.

2040 **Deputy Luxon:** Thank you.

Ultimately it is, of course, the States of Guernsey and Policy Council that are responsible for the deficit at Alderney Airport but, in reality, currently that falls under PSD, so it is the responsibility of PSD to try and manage that situation with the States of Alderney.

2045 I think, from that point of view, Deputy Gollop, what I would say is that we will continue to work with the States of Alderney, we will try and work through this process and I am almost certain that we will need to bring back our recommendations to this Assembly, regardless of which options we pursue or recommend because of the costs involved.

2050 **The Bailiff:** If there are no more...
Yes, Deputy De Lisle.

Deputy De Lisle: Can I ask what capital investment has been placed in Alderney Airport over the past five years by the Public Services Department?

2055 **The Bailiff:** Deputy Luxon.

Deputy Luxon: I certainly do not have that to hand but I would be very happy to circulate that to you, Deputy De Lisle.

2060 **Deputy De Lisle:** Thank you very much. I will look forward to that.

The Bailiff: If there are no more supplementary questions, it is 12.30: I propose we rise now and resume at 2.30 p.m.

2065

*The Assembly adjourned at 12.31 p.m.
and resumed its sitting at 2.30 p.m.*

2070

Questions for Oral Answer

SOCIAL SECURITY DEPARTMENT

2075

Illegal building workers Social Security spot checks

The Bailiff: Members, welcome back.

2080 We move on with Question Time. The next Question is from Deputy Lester Queripel to the Minister of the Social Security Department, Deputy Queripel.

Deputy Lester Queripel: Thank you, sir.

2085 Can the Minister tell me please how often do Social Security staff undertake random spot checks on local building sites in an attempt to identify employees working illegally? Also, could he please tell me how successful these spot checks are?

The Bailiff: Minister of the Social Security Department, Deputy Langlois.

2090

Deputy Langlois: Thank you, sir.

2095 First of all, can I thank Deputy Queripel for giving me this opportunity to explain in outline how these systems works. Social Security Inspectors make frequent spot checks on building sites and, in fact, in 2011 there were 120 such spot checks, all unannounced. A similar number has been undertaken this year to date, and these inspections are part of the wider mandate of the Inspectors to ensure compliance with all Social Security legislation.

2100 These spot checks are necessary and successful, but it is not easy to quantify what is the level of success or what is meant by success. If your question means ‘How often do you find people who are not registered?’ then the answer would be quite often. But, in some cases, before people jump to conclusions, there would be *no* obligation to register with Social Security, for example, if the people concerned were visiting for a few days’ specialist work on behalf of the UK or foreign employer. In other cases, site workers are here for a longer period of time but properly continuing to pay UK Social Security, as employed or self-employed people.

2105 One area in which our inspections are particularly effective is in applying the labour only sub-contractor rules. This is where a person, who might be treated as self-employed in the UK or elsewhere, is classed as an employed person under Guernsey legislation. This, consequently, requires a contribution from the employee and the employer. On large projects, we will contact the main contractor, ahead of any work commencing, in order to highlight the Social Security obligations, including explaining the labour only sub-contractor rule.

2110 I do not want to say too much about the operational aspects of our Inspectorate, as this would compromise their work, but it is certainly well known in the construction industry that an Inspector *might* call on site at any time. This is a strong incentive for all employers to make sure that all staff are properly registered with Social Security.

2115 **The Bailiff:** Any supplementary questions arising?
Deputy Queripel, do you have a supplementary?

Deputy Lester Queripel: Yes, sir. Thank you.
2120 Can the Minister please tell me: do SSD decide for *themselves* which sites to visit, or do they wait for information to be passed on to them, or both?

The Bailiff: Minister.

2125 **Deputy Langlois:** Thank you, Deputy Queripel.
The answer to that is both. It is a combination of the two. We very much encourage people to pass us information. Obviously, there is a facility to do that anonymously but, as with all information-driven systems, it is far more credible if it comes with identification of who is calling.

2130 I think it is extremely important to realise that this type of system has got to be a mixture of deterrence and catching people out. Arguably, of course, if we end up by doing lots of visits and finding no people transgressing, the system has worked in deterrence form – or the other way round...

So it is a combination of both and we encourage anybody to give real and genuine and valid information.

2135 **The Bailiff:** Any other supplementaries?
Yes, Deputy Laurie Queripel.

Deputy Laurie Queripel: Yes thank you, sir.
2140 Can I ask the Minister, should the officers be successful in their endeavours and apprehend offenders, as it were, what are the next steps in the process? What happens to those individuals?
Thank you.

The Bailiff: Deputy Langlois.

2145 **Deputy Langlois:** The policy we follow in that area, Deputy Laurie Queripel, is that we prefer at this stage – or we have preferred, certainly – to take civil action to recover the amounts that have not been paid. That is both more effective and quicker and, in our view, gets the right result because we get the money in our coffers.

2150 **The Bailiff:** Deputy Lester Queripel.

Deputy Lester Queripel: Yes, following on from that, sir, would that be from the employers as well as the employees?

2155 **Deputy Langlois:** Certainly, sir, if that is the way... I will start again! (*Laughter*) If those people are the people who owe us the money then, obviously, it has got to be from both parties.

The Bailiff: No further supplementaries?
No? In that case, we can move on...

2160

**Alderney Airport
Improvement of connectivity**

2165 **Deputy Luxon:** Excuse me, sir.
May I, with your forgiveness... Just before lunch, with my excitement not to over-run, I forgot to answer Deputy Gollop's second part of the question he asked me. Would you mind if I just briefly...?

2170 **The Bailiff:** Yes.

Deputy Luxon: About £155,000 of costs is allocated from Guernsey Airport to Alderney Airport, for things like Air Traffic Control and admin invoicing.
Thank you, sir.

2175

Deputy Gollop: Thank you very much, sir.

The Bailiff: Thank you.
That concludes Question Time.

2180

Billet d'État XXV

2185

The Air Navigation (Bailiwick of Guernsey) Law, 2012, approved

Article I.

The States are asked to decide:

2190 *Whether they are of the opinion to approve the draft Projet de Loi entitled 'The Air Navigation (Bailiwick of Guernsey) Law, 2012' and to authorise the Bailiff to present a most humble petition to Her Majesty in Council praying for Her Royal Sanction thereto.*

2195 **The Bailiff:** We move on, Greffier, to legislation.

The Greffier: Billet d'État XXV, Article I, The Air Navigation (Bailiwick of Guernsey) Law, 2012.

2200 **The Bailiff:** The legislation is at the first 340 pages of the Brochure... (*Laughter*)

Deputy Luxon: Sir, would you like me take you through it?

Deputy Stewart: No!

2205 **The Bailiff:** Any request for clarification or debate?
Yes, Deputy Perrot.

Deputy Perrot: I have given the Minister some warning of this question.
There was something of a mistake in the drafting of this legislation, in that it has not referred to

2210 the usage of the IMC rating, and I wonder if, for record purposes, the Minister could confirm that the legislation will eventually retain the benefits of the IMC rating during such time it is recognised by the Civil Aviation Authority in the UK, and I suppose the wretched European Air Safety Agency. (**Several Members:** Hear, hear.)

2215 **The Bailiff:** Deputy Stewart will reply.

Deputy Stewart: Far be it from me to comment on the ‘wretched’ European Air Safety Agency!

2220 Yes, I can confirm, sir, that the regulations to include IMC ratings will be included. I know that Deputy Perrot has been in touch with the Director of Civil Aviation.

2225 There are one or two amendments that will come through by way of regulation or Ordinance, because we will need to bring forward a shortlist of amendments to this legislation to take care of, also, the likely participation of Jersey in the Aircraft Registry, although Jersey have not yet confirmed whether they still wish to join with us, but I am in discussion with my fellow Ministers in Jersey.

So there will be a shortlist of amendments. The inclusion of the IMC rating will be in there, and IMC holders can, hopefully, exercise their privileges, anyway, in the Channel Islands Class D Airspace.

2230 The other associated issue, as Deputy Perrot rightly points out, is the fact that, next year, the proposal for the reclassification of the Channel Islands airspace will go out for consultation and should also, subsequently, be implemented in the latter part of 2013.

2235 Under that proposal, the Director of Civil Aviation would expect that most, or much, of the airspace below 5,000 feet will become Class D, increasing the value of the IMC rating for holders in the Channel Islands. We also do have to await the European Aviation Safety Agency’s solution as well to their IMC conundrum, as they call it.

The Bailiff Thank you very much.
Does that answer your question, Deputy Perrot?

2240 **Deputy Perrot:** I thank the Minister. (*Laughter*)

The Bailiff: Deputy Kuttelwascher, do you have a question?

2245 **Deputy Kuttelwascher:** Yes, a short question, sir.
I remember the original Law – I think it was 2008 – there were about 600 pages. I remember reading it, even the bits that were in French. It is much truncated now, and I was wondering where the rest of it has gone, especially the bits in French?

2250 Is this a complete revamp of the whole Law, or is some of the old Law still going to be around?

The Bailiff: Deputy Stewart.

2255 **Deputy Stewart:** I am not sure whether I am able to answer that totally.
From what I understand, this is a complete tidy up of the Law, but I am happy to confirm that outside. I don’t want to mislead the Assembly in any way, so I would like to refer back to the Director of Civil Aviation and I can write back.

The Bailiff: Maybe Madam Comptroller can help us on this?

2260 **The Comptroller:** I may be able to assist in the short term, sir, in that the Air Navigation – the first item which appears – is, in fact, a re-draft of Part III of the 2008 Law, and the reason for that is to update it and tidy it up.

2265 I am not sure if that is sufficient for Deputy Kuttelwascher but, certainly, that is the case as regards the first piece of legislation. It is a tidy up of the existing Part III and it was thought better to re-enact it into a separate Law, to make it much more easily identifiable for the user and also to update it in accordance with international standards.

The Bailiff: Thank you very much.
Any further clarification?

2270 No? In that case, we go to the vote on the Air Navigation (Bailiwick of Guernsey) Law, 2012.
Those in favour; those against.

Members voted Pour.

2275 **The Bailiff:** I declare it carried.

2280 **The Aviation (Amendment)
(Bailiwick of Guernsey) Law, 2012, approved**

Article II.

The States are asked to decide:

2285 *Whether they are of the opinion to approve the draft Projet de Loi entitled 'The Aviation (Amendment) (Bailiwick of Guernsey) Law, 2012' and to authorise the Bailiff to present a most humble petition to Her Majesty in Council praying for Her Royal Sanction thereto.*

The Greffier: Article II, The Aviation (Amendment) (Bailiwick of Guernsey) Law, 2012.

2290 **The Bailiff:** Pages 431 to page 359 of the Brochure.
Any questions or requests for clarification?
No? We will go to the vote.
Those in favour; those against.

2295 *Members voted Pour*

The Bailiff: I declare it carried.

2300 **The Road Traffic (Compulsory Third Party Insurance)
(Amendment) (Guernsey) Ordinance, 2012, approved**

Article III.

The States are asked to decide:

2305 *Whether they are of the opinion to approve the draft Ordinance entitled 'The Road Traffic (Compulsory Third Party Insurance) (Amendment) (Guernsey) Ordinance, 2012' and to direct that the same shall have effect as an Ordinance of the States.*

2310 **The Greffier:** Article III, The Road Traffic (Compulsory Third Party Insurance) (Amendment) (Guernsey) Ordinance, 2012.

The Bailiff: This is pages 360 and 361.
Any requests for debate or clarification?
2315 No? We go to the vote, then.
Those in favour; those against.

Members voted Pour

2320 **The Bailiff:** I declare it carried.

2325 **The Offences (Fixed Penalties) (Guernsey) Law 2009
(Amendment) Ordinance, 2012, approved**

Article IV.

The States are asked to decide:

Whether they are of the opinion to approve the draft Ordinance entitled 'The Offences (Fixed

2330 *Penalties) (Guernsey) Law 2009 (Amendment) Ordinance, 2012' and to direct that the same shall have effect as an Ordinance of the States.*

The Greffier: Article IV, The Offences (Fixed Penalties) (Guernsey) Law 2009 (Amendment) Ordinance, 2012.

2335

The Bailiff: Pages 362 and 363.

We need to amend the commencement date. Is that what you are going to tell us, Madam Comptroller?

2340

The Comptroller: Yes, please, sir.

The Bailiff: In Section 5 of the Ordinance, the commencement date, as drafted, is yesterday's date, so that needs to be amended to today's date, 13th December.

Subject to that, those in favour; those against.

2345

Members voted Pour

The Bailiff: I declare it carried, as amended.

2350

The Income Tax (Guernsey) (Approval of Agreements with Italy and Latvia) Ordinance, 2012, approved

2355

Article V.

The States are asked to decide:

Whether they are of the opinion to approve the draft Ordinance entitled 'The Income Tax (Guernsey) (Approval of Agreements with Italy and Latvia) Ordinance, 2012' and to direct that the same shall have effect as an Ordinance of the States.

2360

The Greffier: Article V, The Income Tax (Guernsey) (Approval of Agreements with Italy and Latvia) Ordinance, 2012.

2365

The Bailiff: This is pages 364 and 365 and, again, the commencement date in Section 3 is yesterday's date so that needs to be amended to today's date, 13th December.

Subject to that, those in favour; those against?

Members voted Pour

2370

The Bailiff: I declare it carried.

Statutory Instruments laid

2375

The Greffier: Statutory Instruments laid before the States: The Land Planning and Development (Fees) (Amendment) Regulations 2012.

2380

The Bailiff: I have had no requests for debates, so we just note those regulations.

POLICY COUNCIL

2385

**Appointment of Legal Aid Administrator
Mrs H E Cooper appointed**

Article VI.

2390 *The States are asked to decide:*
Whether, after consideration of the Report dated 15th October, 2012, of the Policy Council, they are of the opinion:
1. To appoint Mrs. Hayley Elizabeth Cooper to the office of Legal Aid Administrator, for a period of 5 years, with effect from 1 January 2013 pursuant to Section 2(2) of the Legal Aid
2395 *(Bailiwick of Guernsey) Law, 2003.*
2. To authorise the Policy Council to issue written guidance or directions to the Legal Aid Administrator, which the office holder shall have regard to, or act in accordance with, as described in paragraph 2.5 of this Report.

2400 **The Greffier:** Article VI: Policy Council, Appointment of Legal Aid Administrator.

The Bailiff: Chief Minister, Deputy Harwood.

2405 **Deputy Harwood:** Thank you, sir.
In July 2001, the States resolved to approve that a comprehensive system for the provision of Civil and Criminal Legal Aid be established in Guernsey, to satisfy the Island's obligations under the European Convention on Human Rights and the International Covenant on Civil and Political Rights.

2410 The Guernsey Legal Aid Service came into being on 1st September 2001 and it was recognised from the outset that it would take some time to develop this new and potentially complex service to establish and refine procedures, set up an office etc. Accordingly, it was decided to operate the scheme for Civil and Criminal Legal Aid under the current extra-statutory basis, known as the Interim Scheme.

2415 Policy Council now considers it necessary and desirable to complete the process of establishing the statutory Legal Aid scheme or schemes, to operate on substantially the same basis as the existing arrangements. The key element to this is the appointment of a statutory official to the independent post of Legal Aid Administrator under section 2 of the 2003 Law.

2420 The relevant Ordinance placing Legal Aid on a statutory footing has now been prepared in draft by the Law Officers and will be submitted for approval by the States in early 2013.

Under the terms of that Ordinance, any Department of the States which is responsible for Legal Aid will be able to require the Administrator, when administering any statutory scheme, to have regard to general policies and act in accordance with specific directions, notified to the administrator by the Policy Council or whichever Department may be subsequently be mandated in respect of Legal Aid.

2425 These provisions are intended to find a balance between the independent discharge of the Administrator's duties – which is a statutory requirement under Section 8.2. of the Law – and the need to ensure an appropriate and effective measure of control over the scope and the cost of any statutory scheme and enable formal guidance and direction to be given to the administrator in order that the office holder can prioritise and manage accordingly. Recommendation 5.1.(b)
2430 included in the Billet has been included to cover the interim period between Mrs Cooper's appointment and the relevant Ordinance coming into force.

2435 Mrs Cooper was admitted as a solicitor in England and Wales in 1985 and has been in post as a non-statutory Legal Aid Administrator under the interim scheme since 2004, and she took over this role from her predecessor, Advocate Dr Nicholas Le Poidevin. During her period, Mrs Cooper has been instrumental in the development of the Guernsey Legal Aid Service, and I would like to as mentioned in the Billet, express our appreciation, on behalf of the Policy Council, to Advocate Dr Nicholas Le Poidevin, who took on the role at the first stage of developing the Legal Aid provision in its current form.

2440 Following detailed discussions with Mrs Cooper, the Policy Council is now in a position to recommend to the States her formal appointment under Section 2 of the 2003 Law. Policy Council, therefore, proposes that Mrs Cooper is appointed to the office of Legal Aid Administrator for a period of five years, with effect from 1st January 2013.

2445 Policy Council recommends the appointment of Mrs Cooper to the office of Legal Aid Administrator accordingly, and also to authorise the Policy Council to issue written guidance or directions for the Legal Aid Administrator, which the office holder will have regard to or act in accordance with, as described in paragraph 2.5 of the report in the Billet.

I therefore so move.

The Bailiff: Deputy Gollop.

2450

Deputy Gollop: Yes, thank you, sir.

Of course, I agree with the appointment of Mrs Cooper, who has clearly shown diligence and experience in her task and her role – but there are a few questions that come out of this Report. One of them is, of course, the direction that we will move to a statutory basis, which enshrines it, really, as a legal right rather than just a policy.

2455

Now, if we are committed and serious, under Human Rights, to provide Legal Aid, we acquire a basic standard that we will attain, so the thought that a future Policy Council or Department could interfere in the Legal Aid Administrator's role by issuing directions – perhaps to cut costs – concerns me a little bit.

2460

That is also why I am mystified as to why, on page 2207, Treasury and Resources say 'As there are no resource implications identified in this report...' because, although it is not calling for a budgetary increase, it has the *potential* to achieve just that, once it is placed on a statutory basis.

2465

From what I gather, Legal Aid has been generally a successful adjunct to our judicial system, but there have been concerns, on occasion, that Duty Advocates have been drafted in at short notice, or the clients have not had sufficient consideration by lawyers over a longer period, or they have been turned down when they have had good cause. For that reason, I think we all need to become more aware of what the real cost and resources of the Legal Aid system are. I noticed that there is a relevance here because what we are voting on is not just appointing the Legal Aid Administrator but we are, at (b), authorising the Policy Council to issue written guidance or directions to the Legal Aid Administrator. With this, there is a general view that there will be new legislation 10 years later on this theme.

2470

But, of course, I am not sure that this written Report gives very great specific guidance to the States or the legal draftsmen, or what will exactly encompass the statutory basis of Legal Aid, *or* what this written guidance or directions will contain beyond, as they refer to paragraph 2.5 and in the Chief Minister's speech as it is put here:

2475

'Policy Council now considers it necessary and desirable to complete the process of establishing the statutory Legal Aid scheme or schemes, to operate on substantially the same basis as the existing arrangements.'

2480

But that is not very detailed, it is not very specific, and it does not inform either us or the client base, or lawyers in the community, what the new rules will be. So I would welcome, perhaps, the States giving Members the opportunity for a presentation on the issues relating to Legal Aid sometime next year.

2485

The Bailiff: Any further debate?
No? Chief Minister.

2490

Deputy Harwood: Sir, if I may just reply to Deputy Gollop, the Policy Council will be bringing back to this Assembly an Ordinance to give effect to the Statutory Scheme, and I am sure there will be opportunities then for Members of this Assembly to question the procedures and, indeed, the policies that will be considered at that time.

2495

Clearly, Deputy Gollop has identified a number of operational issues. The scheme *has* been operating, as described, as an interim scheme for a number of years. Although I have had no great interaction with the Legal Aid schemes – it was not a field of law I was involved with – I believe those who are involved in the Legal Aid system have been broadly comfortable with the scheme. Clearly, Members of the Guernsey Bar would always like to get increased fees for the service, but I think Mrs Cooper has been fairly diligent in assessing fees, and also challenging fees, which I think is probably for the benefit of the Island generally.

2500

As regards Deputy Gollop's suggestion of a presentation, I concede that would be entirely appropriate and I will take that back to Policy Council because it will be appropriate: possibly even before the States considers the Ordinance we do have a presentation on the Legal Aid system, because I think it is some time since the States has had that luxury.

2505

The Bailiff: Members of the States, there are two Propositions on page 2207. I will put both propositions to you together.
Those in favour; those against.

Members voted Pour

2510 **The Bailiff:** I declare them carried.

2515 **COMMERCE AND EMPLOYMENT DEPARTMENT**

**Reappointment of Industrial Disputes Officer
Mr M A Fooks appointed
Appointment of Deputy Industrial Disputes Officer
Mr N Carrington appointed**

2520

Article VIII.

The States are asked to decide:

Whether, after consideration of the Report dated 25th September, 2012, of the Commerce and Employment Department, they are of the opinion:

2525

- 1. To reappoint Mr. Michael Allen Fooks as Industrial Disputes Officer for a period of two years with effect from 1 January 2013 and ending 31 December 2014.*
- 2. To approve the appointment of Mr Neil Carrington as Deputy Industrial Disputes Officer for a period of two years with effect from 1 January 2013 and ending 31 December 2014.*

2530

The Greffier: Article VIII, Commerce and Employment Department – Reappointment of an Industrial Disputes Officer and Appointment of Deputy Industrial Disputes Officer.

The Bailiff: Deputy Stewart.

2535

Deputy Stewart: Sir, I have not got too much to add to the Report, other than to pass on our thanks to Mrs Tiffin for her work over the term of the office.

As Members will note from the Report, there is likely to be a change in the Law. Therefore, these two appointments will only be for two years, so we will recommend to the States to re-appoint Mr Michael Alan Fooks as the Industrial Disputes Officer for two years, with effect from 1st January: also to approve the appointment to replace Mrs Tiffin with Mr Neil Carrington as the Deputy Industrial Disputes Officer.

2540

The Bailiff: Any debate?

2545

No? In that case, we come to the Propositions on page 2226. Again, there are two Propositions: I put both to you together.

Those in favour; those against.

Members voted Pour

2550

The Bailiff: I declare them carried.

2555

PROCEDURAL MOTION

**Change in Order of Business
Rule 9 suspended to take Article VII next**

2560

The Greffier: Billet d'État Number XXVIII, Article I, Motion of No Confidence in the Minister and Members of the Health and Social Services Department.

The Bailiff: Chief Minister.

2565

Deputy Harwood: Sir, if I may, through you, the order of events are set out for the vote of No Confidence to precede the Report of the Health and Social Services Department, the increase of authorised budget. Might I, through you, sir, suggest that perhaps it might be more appropriate for this Assembly to agree to reverse the order, and that the Minister of the Health and Social Services Department is able to lead on *his* Report before the vote of No Confidence.

2570

Deputy Fallaize: Sir, before we do any of that, might we do item VII on Billet d'État XXV?

2575

The Bailiff: Well we can do, but the Rules – Rule 9 – says one takes the vote over a motion of No Confidence before anything else, that's why The Greffier has called it in that order. But I could put that to the States first, that we deal first with Article VII of Billet XXV, I could put that to the Members first. *(Interjections)*

Sorry, we have done Articles 6 and 8, yes, because those are elections. We have been following the Rules. *(Interjections)*

2580

Do you wish to press for Article VII to be dealt with now? If not –

Deputy Fallaize: I apologise sir, because I had misunderstood but, actually, yes, I do think we should dispose of item VII and then do all the Health stuff.

2585

The Bailiff: Well, I will put that to Members.

The proposition I am putting to you is that we deal next with Article VII of Billet XXV, which is the Report from the Treasury and Resources Department on the Rules for Payments to States Members, Former States Members and Non States Members of States Departments and Committees. So the proposition I am putting to you is that we deal with that next.

Those in favour; those against.

2590

Members voted Pour

The Bailiff: We will deal with Article VII next, then.

2595

TREASURY AND RESOURCES DEPARTMENT

2600

Rules for payments to States Members, former States Members and non-States Members of States Departments and Committees, approved

Article VII.

The States are asked to decide:

2605

Whether, after consideration of the Report dated 2nd October, 2012, of the Treasury and Resources Department, they are of the opinion:

To approve the revised Rules for Payments to States Members, Former States Members and Non-States Members attached as Appendix 1 to this Report.

2610

The Bailiff: I call, then, on the Deputy Minister Treasury and Resources Department, Deputy Kuttelwascher, to open the debate.

Deputy Kuttelwascher: Thank you, I will try and dispose of this 'expeditiously', if I could use Deputy Fallaize's word.

2615

Sir, the Treasury and Resources Department is bringing this Report as the result of a direction of a resolution last January, following discussion of States Members' pay. It has been slightly delayed because it was prudent to await the outcome of the Requête on freezing States Members' pay. *(Laughter)* For the third time this year we are discussing States Members pay! *(Laughter)*

2620

Sir, during the compilation of this appendix which was required, there were a couple of issues that were raised, on which the Report on States Members' pay was silent, and it related to certain payments to Alderney representatives. One of them was that there was no mention of any payment to any *alternative* Alderney representatives who may substitute because of the unavailability of one of the regulars, and the other one was that there was no information about any payments for additional responsibilities for Alderney representatives. That, of course, brings into focus Alderney Representative Arditti, so I might like take this opportunity to congratulate him on being elected by his States to represent them in this Assembly for the next two years. **(Several Members: Hear, hear.)**

2625

So we are actually voting on what was agreed, plus the two tables relating to these other payments. The methodology by how these were calculated is clearly explained in the Report.

I also wish to reiterate that any increase in median earnings, *if any*, will be paid to Members

2630 from each May and that, if any Members do not want to receive this increase, they should notify the Treasury and Resources Department

One minor matter: Deputy Lowe's amendment to publish States Members' pay was placed at the door of Policy Council, and we are suggesting it should be published by Treasury and Resources, because we will be producing the figures, so there seems no point passing them on just
2635 to someone else to publish them.

Besides that, there is nothing new in this Report and I expect Members will support it.
Thank you, sir.

2640 **The Bailiff:** Is there any debate?
Deputy Fallaize.

Deputy Fallaize: Thank you, sir. Just one quick thing, I opened the *Press* on Friday the 2nd November and I became very excited when I turned to one page, and I read a headline... I read
2645 this headline sir, "Oversight means head of SACC paid £5,000 too little"

And I thought, well – most probably (*Laughter*) – the States has reached that conclusion!
(*Laughter*) But then I read the story and it says:

2650 'States Assembly and Constitution Committee Chairman Paul Arditti could receive a near £5,000 pay rise if Deputies approve Treasury's rules for payments...'

The *Press* had got confused between SACC and Scrutiny. Difficult to believe that the *Press* would have made (*Laughter*) any such mistake! Certainly, we hope that someone has been held to account, at least. (*Laughter*)

2655 I just wanted to take this opportunity to clarify that, in fact, given the last few minutes, and demonstrating that I don't know the Rules at all, the 'pay rise', perhaps, would not have been justified but, in any event, I am paid £5,000 too little... But, seriously, the *Press* report was inaccurate and the head of SACC is *not* in line for a £5,000.00 pay rise.

2660 **The Bailiff:** Any other debate?
Deputy Kuttelwascher, do you wish to reply to that?

Deputy Kuttelwascher: No, but in short... (*Laughter*)
In short, what it can boil down to is whether you think Alderney Representative Arditti is
2665 worth an extra payment, I suppose. (*Laughter*)

Deputy Fallaize: Recorded vote please, sir? (*Laughter*)

Deputy Kuttelwascher: Nothing to add, sir.

2670 **The Bailiff:** There is a single Proposition. It is on page 2222, 'to approve the Revised Rules for payments to States Members, Former States Members and Non-States Members, attached as Appendix I to this Report'.

Those in favour; those against.

2675 *Members voted Pour*

The Bailiff: I declare it carried.

2680

Billet d'État XXVIII

2685

PROCEDURAL MOTION

Change in Order of Business

Rule 9 suspended to take Article II first

2690

The Bailiff: Right. Now that completes Billet XXV and we, therefore, come to Billet XXVIII.

You have heard the Chief Minister's request that we consider Article II, that is the Health and Social Services Department's Report on the increased authorised budget for 2012 before the Motion of No Confidence and I am going to put that to you as a procedural motion. The Proposal is to take Article II – The Report – before Article 1, the Motion of No Confidence: Take Article II first.

2695

Those in favour; those against.

2700

Members voted Pour

The Bailiff: We will do that.

2705

HEALTH AND SOCIAL SERVICES DEPARTMENT

Authorised Revenue Expenditure

Increased budget for 2012

Debate commenced

2710

Article II.

The States are asked to decide:

Whether, after consideration of the Report dated 6th December, 2012, of the Health and Social Services Department, they are of the opinion to delegate authority to the Treasury and Resources Department to increase the 2012 revenue expenditure budget of the Health and Social Services Department by a maximum of £2,500,000 and to rescind resolution 1 of Billet d'Etat XXVI of 12 December 2012 and to authorise the Treasury and Resources Department to transfer from the Contingency Reserve (Tax Strategy) to General Revenue a maximum sum of £32,000,000 during 2012.

2715

2720

The Bailiff: In that case, it is then for the Minister for the Health and Social Services Department, Deputy Adam, to open the debate.

2725

Deputy Adam: Thank you, sir.

This Report recommends the States to delegate authority to T & R Department to increase the 2012 revenue budget expenditure of the Health and Social Services Department by a *maximum* or up to £2.5 million and to rescind Resolution 1 of the Billet d'État XXVI of 12 December 2012 and to authorise the Treasury and Resources Department to transfer from the Contingency reserve as there is insufficient in the budget reserve, to general revenue, a maximum sum of £32 million during 2012.

2730

The bare facts of this situation are simple. HSSD has *not* been able to meet the costs of Health and Social Care Services to the people of Guernsey from its authorised budget for 2012. The amount of over-spend and the specific reasons have varied during the year and many areas of potential over-spends have been managed *successfully* and without any perceived effect on service. Unfortunately, our surge in costs became evident in the last quarter. The forecast potential over-spend rose to an unacceptable level, in relation to the opinion of the Treasury and Resources Department.

2735

When I say it was 'unacceptable', that is what we emphasise by the opinion of the officers *and* the Members of Treasury and Resources. HSSD Board was required to take action to reduce this potential over-spend. *Any* action would cause distress and upset to patients and staff. The Board discussed the various options that were brought by our staff and arrived at what *they believed* were actions that would result in the *least effect* on the *overall* services of HSSD and their clients – the least effect overall. *Anything* HSSD does will affect *someone*. Whether it is care in the community, whether it is in a ward, whether it is in the long term King Edward VII Hospital, *if* you have to do anything *at all*, *someone* is going to feel it.

2745

So we took action where *we* considered would be the least effect, long term, on the people concerned. This States Report was *required* by Treasury and Resources Department under the States Financial Rules, as we were told. In actual fact, in 2010 a States Report *was not* required

when we were forecasting a budget over-spend of £3 million: a Statement was necessary.

2750 To understand fully the context of our situation, I have to comment on a letter T & R have attached to the Report. Firstly, they hold that HSSD is *failing* to be responsible for the management and safeguarding of public funds – *HSSD is failing to be responsible for the management and safeguarding of public funds*. What about the £2.3 million management and safeguarding of public funds? Who *lost* that money? We did not lose £2.3 million. We may have spent extra on caring for patients but we *did not lose* £2.3 million. If that is the belief, should PAC not be called upon to review it, as they have been asked to review £2.3 million *lost* to the coffers of Guernsey? That is a States Committee mandated to ensure that proper scrutiny is given to the States assets, expenditure and revenues to ensure that States bodies operate to the highest standards in the management of their financial affairs. The Department would welcome such a review and, according to the *Guernsey Press*, I believe PAC is considering such a review.

2760 The Treasury and Resources Minister refers to the fluctuating overspend during the year, both in value and the reasons therefor: fluctuating expenditure. I sometimes wonder if people understand the volatility of expenditure within HSSD. That is the problem. We do not have a nice even level of expenditure throughout the year. It goes up and down, depending on what the requirements are. He concludes that the reasons for late notification of the rise in the potential full year over-spend was that HSSD did not have

2770 ‘an adequate financial monitoring and forecasting regime in place, such that expenditure pressures are properly identified and quantified at an early stage and thus allow appropriate action to be taken.’

Yes, he is quite right but what did HSSD do in 2010? HSSD asked, produced a business case to the T & R Board and Department, asking for a review of exactly that situation. *We* were asking for it.

2775 It is not just HSSD Department that has problems with these financial aspects; Education have them – they do not have enough staff looking after their monies: Home Department has them – they do not have enough staff looking after their monies.

2780 They have subsequently publicly stated that he is *disappointed* that this problem was not recognised by the Board and Department, it was not addressed in the longer term plans identified in our States Report. Well, I realise he has not been in this position very long and, obviously, has not gone back over the history of such things, therefore he must unaware of what I have suggested, what we flagged up in 2010. In fact, one might say Deputy Hadley flagged it up. Maybe he does not remember his question in June, asking for an update in the September on the financial position of Health and Social Services Department. He asked this question, he got a very brief reply and he got about a five page statement from us concerning what was happening at that time.

2785 It is more surprising to read the last paragraph of the letter, referring to a review, to be initiated by the Chief Executive,

‘that will, at a minimum, consider the adequacy of financial management within the Department.’

2790 I am not sure which Department. That might be T & R, it might be HSSD, it might be Education, it might be Home, because we *all* have similar problems, because we *all* have insufficient staffing. Across the States of Guernsey, there is insufficient financial control.

2795 So what was meant to happen? Our wonderful FTP was going to come along and review this issue. That is what we were told in 2010. Have they come yet? As I say, in April 2010, the Board received a report from our Chief Officer, setting out significant concerns regarding the financial management of the Department. This report – shared with the Chief Accountant at the time – was followed up by commissioning a review of financial management of HSSD by Deloitte UK. All approvals for this review had been secured by our Chief Officer. However, the Chief Accountant requested that this review *did not* proceed – *did not* proceed – on the basis that the consultant supporting FTP would be *able to undertake such a review*.

2800 *Where is it?* I might add that HSSD has got tired of waiting. This is a financial management business case that was presented to the Board on Tuesday because – partly because – of all the criticism in the *Press* and the public domain and by the Treasury Minister in relation to financial controls.

2805 Now, in this Report, it states quite clearly, as part of the budget challenge that we are carrying out, and as part of the fact that FTP and Treasury and Resources and HSSD have parachuted in David Poynton in the interim to report, his assessment is exactly the same assessment as was in 2010: *no* costing expertise; *no* internal audit function; *limited* financial planning and forecasting

2810 capability; *low grade* management accounting support; only *two* professionally qualified accountants – *two professionally qualified accountants* – one only having been in post *one month*... the other also is fairly new to the Department, I think he has been in post about a year and a bit; no financial management advisory function to work with senior managers to help shape and re-shape services, as well as deliver efficiencies; no business partner role; limited procedure manuals; little in-depth experience of analysis and risk assessment – *all the things* that were highlighted to T & R and the Chief Accountant in 2010 because, at that time, we were going over budget and realised – *at that time* – there was not sufficient financial controls in place.

2815 As I say – in Education, Home Department and other major Departments – the larger the Department, the more important it is. In respect of the forecast over-spend in 2012, it is apparent that there is *not* sufficient rigour of control within HSSD. I put this down to the following main, but not exclusive problems: lack of management accounting support; lack of resources, *lack of resources* and lack of resources; staff budgets being compiled on accurate numbers but *no* allowance for sickness, holidays and training, particularly in clinical areas. That is historical. It happens in Education because they have to have – they do not have locums and agencies but they have people coming in. A 3% vacancy factor is taken off all staff budgets. That is the only way we can survive. Therefore, staffing in the hospital is tight as anything.

2820 There is an inadequate process for ensuring that activity data is appropriately captured and converted into invoices, thus potentially significantly under-achieving income: *because of lack of resources!* The number in the Department, five. The *minimum* number suggested by any experienced person is eleven full-time equivalents.

2830 Additional support *was* put into the Department, focused on correcting a trading loss from private patients, and additional resources *have* been put into other specific areas so, as a Department, we have said ‘Wait a minute, we will try and get people in from other areas.’ Therefore, obviously other areas lose resources but benefit Finance Department. HSSD officers *continue* to work with T & R officers to establish what levels of resources are required to maintain a fit and proper service. So we are still working with them but it is much easier to do the work yourself and produce a Report, *with* the evidence base to show what a satisfactory number is.

2835 Last year significant focus and time has been given to SAP project, as this was a States agreed priority and *all* Departments were required to provide sufficient resources to support that project. During the debate concerning that, Deputy Dorey and myself specifically said this is going to be harmful to our Department, if we take people away from their normal work. HSSD has about nine whole-time equivalents working in relation to the staff project.

2840 Obviously, the impact of these and the risks that would be created within the Department were raised, as I say, very early on. I think it was six thousand man hours or something required from Guernsey to help the firm that were brought in to do this SAP Project. As I say, there should be a review of the situation but it should not just be focused on HSSD, it should be focused on T & R as well, and Education and Home, to ensure that all these Departments, which are the big spenders, have adequate control of finances.

2845 The Minister of T & R refers to the States Financial Procedures. This Board and officers urged HSSD to bring a States Report, requesting the increase in authorised budget. The problem is the increase of this authorised budget varied through the year. It was not £2.5 million all the year and in May 2010 HSSD had forecasted an over-spend for *that* year of £3 million. As I say, this may be historical, but it is important for Members of this Assembly to realise things seem to change: the priorities, the way different Departments interpret things, have changed. Our Chief Officer was relatively new in post and sought advice from the Chief Accountant at that time: ‘Is there a process my Board needs to go through to formally notify the States of a potential over-spend?’ The response was: ‘We do have a rule, which says Departments are responsible for spending within authorised budget.’ There was then a letter that was sent from the Minister at that time, Deputy Parkinson, to myself, saying that a Statement was required to inform the Assembly. As I say, no States Report was necessary and simply T & R put forward a Proposition which read:

2850 ‘to sanction overspending of £2.173 million by HSSD, such sum to be funded from the General Revenue Account’

because there is sufficient money in it! If you want a reference, that is on page 110: Proposition 2 of the 2010, or 2011, Budget.

2855 What is so different now? That is what I do not understand. What is so different? Let us consider Budget Reserve for this year after allowance of anticipated total under/overspend of Departments, service developments and provision of ‘*a prudent allowance for non-recovery*’ – that is a lovely terminology – ‘prudent allowance for non-recovery’, £2.3 million, fraudulently

2870 obtained from the States, as shown at just over £1 million. If HSSD's overspend was greater than the £1.5 million anticipated, money might have had to come from the Contingency Reserve. This would be counter to States financial policy, to limit revenue expenditure within the set cash limits. This may go some way to understanding why T & R wanted to ensure that HSSD brought their forecast of their overspend to the States in the form of a Report, thus focusing on the HSSD overspend as a *problem*, not the exceptional vision of the Budget Reserve.

2875 There is another difference from 2010. Since 2011, all COs are directly responsible for their line management issues to the Chief Executive Officer. I mentioned this both to Deputy Fallaize and Deputy Harwood. I think this is important in relation to the review of Government and what is happening because this *changes* the emphasis between lines of, shall we say, command, authority, priority. And I do feel it has potential cause of tension because, in one case, the Chief Executive has priorities laid down by various States policies and yet the Chief Officer of the Department has to listen to what the political Board might want or consider their priorities. How do we match them up? How do we get the balance right? In our case, the Board was very aware of responsibilities to the corporate policies of the States – corporate policies of the States. We accepted fully that we, as a Board, had a responsibility to keep *within budget*.

2885 Some of you may think how much you spend does not matter because we are looking after a very important thing called Health and Social Services. Some will say – like Deputy Duquemin said this morning – the FTP is *all important* and we have to contain expenditure. That is the dilemma. I think the expression is 'you are between a rock and a hard place'. Spending trends had been identified in the final quarter of the year, thus in May we are at £1.6 million – sorry, first quarter we were at £1.6 million – second quarter we had gone up to £2.5 million because of situations related to children in need and child protection issues – a 143% increase – and then, by the August, we dropped back down again because things had got under control.

2890 We have got superb staff in our Department. They care about it but also they care, get worried, get insulted by people assuming they are not trying to do their best to control the budgets in each area. That was £1.6 and then, at the end of September, we were around £1.6 million *but* there was *concern* that it was going to start increasing because there is a note that there is increased agency, there is a note that there is increased staff going through... That is when it went back and, shortly after that, the spending trend had been identified, as I say in the final quarter which, if allowed to continue, *if allowed to continue* would have resulted in a potential year over-spend of up to £2.5 million.

2895 Now someone said to me that means you *spent* £2.5 million. No, the forecast – the *forecast* – was that, by the end of the year, if we continued at the same rate in November and December, we would be up at £2.5 million. The Board examined all options identified that would bring down expenditure or contain expenditure. We made the decision on balance, mindful of our responsibilities to follow the policy of the States to implement savings and reduce expenditure. Policy Council: you *all* agree with that, you *all* support it. It is the first thing – FTP. Deputy St Pier is FTP champion.

2900 But our other responsibility is to treat, care and protect the health of our community. Which do you put first, the financial aspect of Guernsey or to treat, care and protect the health of the community? Sir, at this point, I would just like to say that, in my own personal view, the decision was extremely difficult – extremely difficult. For thirty years I have been in medicine. You do not take messing about with patients and people easily but if I look at it, from a clinical point of view, what can I reduce? I can reduce what is considered by *clinicians* – not by the Board, not by politicians – I consider what patients can we *defer* for three, four or five weeks. That is a clinical decision. The clinicians, the consultants, decide that. Now, you cannot defer someone who has had a heart attack: they have to be treated and managed. You cannot defer someone who has had a stroke: that has to be treated and managed but if someone has got a problem, which the consultant – and I accept, I did not like it, thanks very much. Many of you saw me coming in here to the States in May and June, looking miserable as anything, having pain and discomfort, so I can understand these things both from a personal point of view and a clinical point of view.

2905 The Board had hoped that this Report presented to you would allow the Assembly to have insight into some of the difficulties and challenges that face the HSSD. Those of you who have been in this Assembly in the previous term will have heard me say repeatedly that the present Health and Social Care system is *not sustainable* and requires a *fundamental review*. That States Report will be coming here in February. Sir, just as an aside, I am reminded of the story of the old Scotsman who was asked by a visitor for directions. 'Well, he said, take the next right and go to the Church... No, that's not right. Go straight over the crossroads for a mile and go first right, then left... But, no, that's not right. either... You know, if that's the place you want to go to, I wouldn't

start from here!’ That is the problem with HSSD funding and budget measures.

2930 I hope you have taken the time to read the causal factors in paragraphs 11 – 29, although I accept the complex structure and detail are not easy to understand. I have to apologise for this flaw. I understand it without any trouble at all because I have lived it, I have been in hospital. Deputy Jones asked me this morning what does DPU mean: I said ‘Day Patient Unit’. You know, sorry, but we do use abbreviations. What is A & E? That is ‘Accident and Emergency’. What is
2935 cardiology? That is heart problems. I do not have to think twice about it, it is second nature to me. So I apologise to you if you did not fully understand this Report because, as I say, it has, maybe, got too many abbreviations. The tables in the Report at paragraph 30 show clearly the increase in *demand* for services, an increase across all areas but especially marked, as I said, in child protection.

2940 It should also be noted that there is a... [*Inaudible*] increase in demand for those over 65 – and that is not meant to be ageist to say over 65. I’m sorry, I’m almost near there myself, so I am saying I’m going to demand more services shortly! I have already used up my whole lot this year, but in future... The bottom line is if more people need treatment, the total cost of services goes up. Now, I understood, this morning, Deputy Langlois’ argument about what is formula-led and what
2945 is demand-led. Formula-led: as he says, you go in, put the cards on the table – if they fit in, you get your money out, basically. Demand-led... maybe that is too simplistic for Deputy Langlois (*Laughter*) – demand-led is you go in with a problem, it is assessed, you receive treatment, depending on the severity of that problem. That may take one day, two days, three days, but we do not know the final cost until the *end* of that period of treatment and that is the problem.

2950 Everyone tells us we should *forecast* what we are going to spend. Yes, you can forecast to a certain extent. You can say a hysterectomy is a hysterectomy is a hysterectomy and, roughly speaking, how long it takes, but you do not know what complications there are going to be, are you going to capture a ureter, are you going to burst a blood vessel that you should not do? There are complications that happen. Does the person need ITU after the operation – and cost an awful
2955 lot more? Therefore, it is not an exact science, assessing financial issues in relation to medicine.

The forecast overspend in HSSD during 2012 peaked twice, I have to say it. What you should remember, in actual fact, the majority of the increase was successfully contained – *successfully contained* – within their budget but the stress that has put on our staff is horrendous. The stress of
2960 the last four – well, in fact, the stress over the whole year – is significant and I, personally, sir, would like to thank them for all their effort and hard work. As I say the, third quarter was £1.6 million. It rose in the fourth quarter. As soon as it was realised, the budget challenge was instigated with the support of T & R. This examined closely all budgets within Departments, to assess their costs and calculate any possible savings. So what we did we’ve got five staff in finance, we tried to get the ones back from the SAP project etc and we took other people from
2965 different departments and they all went on the job of going through, *in detail*, budgets in every department of HSSD. The interim results of this were presented to the Board: there was no easy options. If the overspend for 2012 was to be contained, very hard decisions were needed and they needed to be actioned *immediately*. You can’t wait for a month until the next States meeting. Once you realise there is a problem, you sit and assess how bad it is, try and get more information and,
2970 then, as I say, you have to take action.

I have said already, no-one likes to reduce their services – not a nice thing to have your operation postponed. But the decision to close theatre and surgical ward will help us to contain this over-spend. Some of you say, ‘Well, you did it too quickly. How could you inform people?’ Sorry,
2975 again I have to say, I’ve done it. It’s terrible! There is *no easy way* to inform patients of changes to their arranged operations. There will always be a psychological upset, alteration of personal arrangements and the possibility of prolonging pain and discomfort.

So what does that mean to me? I cancelled my cruise, I cancelled my other holiday and waited patiently for another few weeks before I had my hip done. So I know what it’s like to have
2980 continuing pain etc. I empathise with these people but the problem is what other decision could we take? Deputy James, on the radio, said ‘I know other ways we could have saved money, but I’m not going to tell you’. I think that’s when Deputy Bebb was on... ‘I’m not going to tell you.’

I’ve asked some of you ‘How else are you going to do it?’ ‘Well, I don’t know about your system.’ ‘I don’t know enough about medicine.’ I said ‘Fine’. So it’s not easy. It’s not easy and all we can do is apologise for going down that route because we believed, as a Board, that it was the
2985 most reasonable thing to do, under the pressures we were being put under from T & R staff and Board members, and without being unkind to our staff, as well – and from the recognition that, as a Department, we ought to try and stay within the budget.

The problem is that if the Department that is allocated 32% of the total spend from General

2990 Revenue *does not* control its spend, this will have a significant effect on controlling their overall budget deficit. That is the problem with HSS. If we don't control things and get our FTP targets in place, the FTP will fail or fault. If we don't get our spending under control, the whole Budget is upset. We can't get extra money from other Departments because £2 million is a lot to some of the Departments. £2 million is a lot to us, as well, but if you think about this 2%, if you think about it, it is actually one week's spend of HSSD. If you take 52 weeks – £120 million, roughly speaking – that comes out at one week's spend! It's a frightening thought, isn't it? If nothing else is achieved, I hope this Assembly will understand the unpalatable choices they will be presented with during 2995 2013, when HSSD brings the Reports that must be accepted if FTP targets are to be achieved and the States policy of revenue expenditure reduction is to succeed.

3000 Sir, I believe HSSD has done a terrible thing. I believe HSSD had no choice in this matter and had to progress this way forward. I apologise most sincerely to all those who have been affected because it *is* distressing, it *is* annoying, to have... you are all built up for something. Psychologically speaking, you're geared up for it. I didn't want to go into hospital but, psychologically speaking, you get geared up for it and when some stupid fool comes along and says 'Actually, the overall budget of the States and the finance of the States is more important than your operation', that does not help at all. You're still upset. You're still annoyed. You're still 3005 aggrieved – apart from some people, who actually have contacted me, saying 'You did the correct thing because it is important about our finances. We have to look after them.'

3010 So far as people saying that theatres... yes, one theatre has closed, I accept that. What has happened, in the last week – first week when it was closed? Well, 57 operations were done and there were 59 endoscopies: endoscopy means there's a telescopic examination either down the way or up the way. (*Laughter*) Sorry, I apologise but... It is not a case of these people standing around, doing nothing. The one thing that is happening at the present time is that all the lists are *full*, because they have to be fully used whereas, normally – if I had a list and only had four patients on it, no-one else came along and did another one at the end – you can get five or six 3015 patients on the list, depending on how major they are at the end. Now, because of our situation and because of the co-operation between MSG and HSSD, all the lists are full. So you get maximum use of the staff and get as many patients through on a limited rotation.

3020 As I say, I do apologise to those who have been affected. Some of you don't believe it was the correct decision and we should have just spent, spent, spent. And we would have gone over 2.5 and 2.8. At the present time, we have *forecast* that there will be at least a £500,000 saving. There are agency nurses that run theatre: that means they are short term nurses and you can ask them to leave. Six of them, gone! There are agency nurses on the beds and what are called 'lighthouse' wards. Divette ward was closed: one patient was transferred to Albecq, because it was a more 3025 suitable clinical position, three patients had been assessed and were moved into their new places of residence, and that left two patients, who had been assessed but, very conveniently, were able to be moved earlier into their chosen place of long term care. So Divette ward closed: the staff from there – as quoted to me – were stoical, as far as the manager of that ward was concerned, and were moved to different areas which suited their expertise.

3030 Going from Divette ward, which is for dementia and mental health problems, to Lighthouse ward, which is mental health problems and, as I say, two went to Albecq, as well. That saved us *eight* agency nurses so, straightaway – we don't like saying the term 'got rid of' – there were 14 agency nurses that discontinued employment with us shortly after the decision was made. Agency nurses are about three times as expensive as nurses employed by us. Obviously, all their jobs have been advertised, but the chances of getting anyone before January is minimal. Christmas and New Year is not a good time to recruit but what we hope to do is get our own nurses, if possible, in 3035 January so we can provide the services in a more cost effective manner by not using agencies.

3040 So, sir, as I started with this, they are simply asking T & R – sorry, asking the Assembly to give directions to T & R – to cover this £2 million up to £2.5 million. It is unlikely to be over £2 million but volatility is a bit of a pain when you are trying to foretell things – so unlikely to be over £2 million in the overspend of HSSD. They have already, in their Budget report on page 23, stated they are expecting £1.5 million, so that is only half a million more. That means it can come out of Budget Reserve because there is £1.151 million in Budget Reserve.

3045 Sir, I may have gone on too long but I hope... I have tried to explain the situation in an honest and truthful manner. No caveats. No, I'm not making up stories, thanks very much. These are the facts I have explained to you. I hope you accept them, and thank you for your time.

The Bailiff: Deputy Soulsby, did you wish to speak?

3050 **Deputy James:** Sir, could I intervene?

I did not want to interrupt the Minister while he was in full flow but I would like to object to his childlike representation of me on the phone-in. I did not use the expression 'I'm not going to tell you'.

3055 I suggest that the Minister re-listen to that programme on BBC I-player to see exactly my response: it was not in a childlike manner, as using the expression 'I'm not going to tell you'.

Deputy Bebb: I'm sorry, I was actually there and the expression used was 'I'm keeping my cards close to my chest'. Therefore, Members can make their own decision as to whether they believe that to have been childlike or not.

3060 **Deputy Adam:** Sir, I apologise to the Deputy if she feels I misinterpreted the exact words used.

The Bailiff: Thank you, Deputy Adam.

3065 Deputy Soulsby, did you wish to speak and then Deputy Laurie Queripel.

Deputy Soulsby: Firstly, I would like to thank the Minister for his understandably impassioned speech. (A Member: Hear, hear.)

3070 Further to the November States meeting, the Public Accounts Committee met to discuss the Statement made by the Minister of the Health & Social Services Department. A key part of the Committee's mandate is, and I quote:

'To ensure that proper scrutiny is given to the States' assets, expenditure and revenue to ensure that States' bodies operate to the highest standards in the management of their financial affairs'.

3075 The Committee was particularly concerned that information provided by the Minister in the Statement, and in the subsequent Question and Answer session, raised serious questions regarding the Department's management of *their* financial affairs. The letter from the Treasury & Resources Department appended to this Report further substantiates this concern, in concluding that

3080 'the Health & Social Services Department does not have an adequate financial monitoring and forecasting regime in place such that expenditure pressures are properly identified and quantified at an early stage and thus allow appropriate action to be taken.'

3085 The Committee, therefore, resolved that it would, as soon as practicable, undertake a review of the Health & Social Services Department, which will consider the standard of financial management in the Department, with particular focus on the information available to monitor and forecast budgetary variances. I am pleased to hear that the Minister of Health & Social Services Department welcomes such a review.

3090 The committee is mindful that the Chief Executive is initiating a review which, it is stated,

'will, at a minimum, consider the adequacy of financial management within the Department.'

3095 and will take this into account when proceeding. The purpose of the *Committee's* review will be not only to provide an independent assessment of the standard of the financial management in place at HSSD but also and – from what I hear, I think the Minister today will also appreciate this – to produce *positive* recommendations that could be applied corporately, in order to develop best practice across the States of Guernsey. Once finalised, the committee will circulate to all States members the review terms of reference.

3100 I can also confirm the final Report, with any recommendations, will be made public.
Thank you.

The Bailiff: Deputy Laurie Queripel, then Deputy Fallaize and Deputy Lester Queripel.

3105 **Deputy Laurie Queripel:** Thank you, sir,

I rise to agree with two particular aspects of Deputy Adam's speech: (1) that a number of Departments *are* acutely aware of the constraints on their budgets and shortage of staff in certain areas. As a result, sir, there is an element of passing the buck, or passing the parcel, between certain Departments. I dealt with a case recently, on behalf of a parishioner who was being passed around between *three* Departments because nobody wanted to take responsibility, because there

3110 were resource implications. So, in a sense, budget constraints – and we all are aware and understand the need for restraints – are creating a new kind of silo mentality. It is hard for Departments to work corporately in this environment and, rightly or wrongly, self-interest *does* kick in.

3115 The other aspect I agree with, sir, is the conflicting position of Chief Officers, (**A Member:** Hear, hear.) who are accountable to two masters, Department Board Members and the States CEO and it seems, in most cases, sir, more the latter than the former. This must result in a less than efficient, effective and timely processing of information. It must fudge and cloud the issue and I think it is something that needs to be resolved.

3120 Thank you, sir.

Deputy Fallaize: Thank you, sir.

3125 The Minister has already inferred that we are faced with a very simple proposition which, in any event, is already a *fait accompli* because the money has been spent, the surgery has been cancelled and, therefore, there is no decision for the States to make today, in effect. So it seems to me that, if we are going to get any value out of this process and out of this debate, then we have to concentrate on some of the issues which perhaps lie beneath the over-spend and the cancellation of elective surgery.

3130 *Some* Members of the States obviously believe that had a different set of Members been elected to this Department in May, or had the Members who *were* elected acted differently, then all of this chaos – and I do not think ‘chaos’ is too strong a term – could have been avoided. Sir, I do not, for one moment, accept that. It seems to me that, although I have to say I am *tempted* to take that view, I am *tempted* to focus today on issues of personality, on the temperament, the skills, the judgement, the leadership of the Minister and the Members of HSSD because, it seems to me, that they made a political judgement that was just simply wrong...

3135 I think that, when you cut through all of the froth, it was simply *wrong* to cancel elective surgery in the way that they did. I think that was a poor political judgement. But I also think, there are, in particular, three factors underneath their decision, three factors which have contributed to the circumstances which HSSD Members found themselves in and which, actually, I think are *more* significant contributing factors than the particular identify of the five Members of that Department and the decisions that they have made.

3140 The first factor – and if I can apologise for Deputy Perrot for expressing this in clichéd terms – is surely it is at least plausible for us to believe that, for a long time, HSSD has found itself caught between a rock and a hard place. Certainly, the Treasury’s Letter of Comment attached to HSSD’s States Report is about the most pointed criticism by a Finance Committee that I have ever read in another Committee in *any* States Report. The Treasury accuses HSSD of failing to discharge its responsibility to manage and safeguard public funds entrusted to them and goes on to state that the reasons which HSSD has provided for their overspend cannot be validated.

3150 The way I read those words, they are very serious claims of irresponsibility. They imply almost some sort of wilful recklessness on behalf of Members of HSSD and they are all about the over-spend, not the temporary service cuts, but about the over-spend. So, although as it happens a motion of no confidence has been laid, or may be laid, has been submitted in HSSD because of the decisions outlined at paragraph 43 of this Report – the closure of the ward and the cancellation of elective surgery – it seems to me quite conceivable that HSSD would have faced, at the least, equal criticism, if not a different motion of no confidence, had they not sought to mitigate their overspend.

3155 Outlined at paragraph 43 are decisions made by a Department, whose Minister has, as he has said, dedicated most of his working life to making sick people better and a Deputy Minister who was a nurse. I find it difficult to believe that these are people who would take such decisions lightly and so I just wonder, in terms of the pressure on Departments to do almost anything to restrain expenditure, is the Treasury Minister satisfied that the senior staff, acting under the auspices of his Department and in their communication with senior staff at HSSD, have not left HSSD with the impression that they have little choice but to close a hospital ward and postpone surgery?

3160 The second factor is HSSD’s authorised budget. Between 1998 and 2009 the revenue expenditure of Health and Social Services increased annually by an average of 7.7%. Inflation over that period was around 40% but the revenue budget for Health and Social Services increased by 125%. In 2009, the States of Guernsey’s per capita expenditure on Health and Social Services was almost identical to that of the States of Jersey, after the increase in revenue expenditure over the previous eleven years of inflation plus 65%. The Isle of Man was spending 20% *more* per

3170 capita than the States of Guernsey. *This* year – 2012 – HSSD’s authorised budget was £300,000
 less than their actual expenditure three years ago. Since 2009, even taking into account the
 Department’s overspend, States spending on Health and Social Services has been cut, in real
 terms, by more than 6%. In the same period, in Jersey, funding has increased by more than 10%
 3175 and, even in the UK where, during this term of Parliament, some departments of Government are
 expected to cut their budget by 25%, spending on Health and Social Services is still being
 increased in real terms.

Sir, increasingly, it seems to me that, over the last three years, the States has been persuaded to
 undertake what amounts to little more than an experiment in observing what happens when Health
 and Social Care spending is cut, quite suddenly, and is cut in a fairly arbitrary way. Further, there
 3180 seems to be a belief that HSSD’s 20-20 vision is the key to *permitting* the Treasury to continue
 cutting expenditure on Health and Social Services and I will refer here to Jersey again. They have
 produced a similar plan to the 20-20 vision. It envisages recruiting an additional 134 full time staff
 by 2015 and recurrent increases in expenditure on Health and Social Services of £11 million per
 annum, *as well* as additional annual expenditure of £14 million per annum, which has already been
 3185 identified in that Island’s medium term financial plan.

I am not dismissing the scope for further efficiencies in HSSD and I am not commending the
 Jersey model. I do not know enough about it. I do not want a sales tax in Guernsey, in any event,
 and I am a stubborn Guernseyman, so I do not particularly want to give Jersey credit for anything!
 3190 *(Laughter)* But, I do think that we should at least be curious about the effects of our experiment on
 Health and Social Services expenditure and, before we leap too quickly to castigate the Members
 we chose in May, to put loosely, in charge of this experiment, I think we should consider that it is
 at least within the bounds of possibility that the experiment itself is flawed and that its failure was
 inevitable, whoever we put in charge of it.

Which brings me to the last of my three ‘other’ factors and I apologise in advance because this
 is where I take up issues of our machinery of Government. In the two weeks since the Minister
 made his Statement to the States, to what extent has this parliament or any of its Committees held
 to account the Minister and his Members? Might *real* accountability not have been served better
 by requiring the Minister and his Deputy Minister and their Chief Officer to sit at least once,
 possibly more, in front of a Select Committee-type hearing, in public, to answer detailed, robust
 3200 questions about their judgement and the decisions which led to the Statement made at the last
 States meeting. Today is very long on political drama but is this really the most effective way of
 holding HSSD to account?

Deputy Adam and his colleagues are criticised in T & R’s Letter of Comment for what is
 perceived as an absence of financial control of their Department. But Members of the States are
 3205 politicians. We are policy makers and we are inevitably reliant upon senior staff undertaking the
 executive functions of the Department, which must include ‘proper financial control’. And, as has
 already been alluded to, to whom is the Chief Officer of HSSD primarily accountable? Not the
 Minister and Members of HSSD but the Chief Executive. HSSD Members are responsible, and
 today they are being held to account for, and facing a Motion of No Confidence for, their
 3210 management of a budget in excess of £100 million and yet their most senior member of staff is
 primarily accountable to someone else.

It seems to me that, increasingly, Members of Departments appear to have very little purpose
 in life, other than to accept a vicarious form of accountability when senior executives, over whom
 they have little or no control, are perceived not to have performed adequately. If there are
 3215 weaknesses in the financial controls at HSSD, surely culpability is at least shared by the Policy
 Council, which now, through the Chief Executive, has a great deal more control of senior staff
 throughout the States and so, one might ask, what is the Policy Council’s response to this crisis?
 Well, it is to be found at page 2257 of the Billet, and it reads:

3220 ‘The Policy Council has no comments to make on the Report.’

T & R has also distanced itself from the budget problems of HSSD although, this time last year,
 Deputy Adam warned of ‘material budget problems ahead’ for the Department in 2012.

3225 Sir, I am going to ask Members to try to imagine, for a moment, that in the UK the Chancellor
 of the Exchequer forces upon the Secretary of State for Health a budget which the Secretary of
 State tells the Chancellor will almost certainly result in an overspend. But the Chancellor says
 ‘Well, it is too bad. We will have to operate within very tight budgets. You have to do your best to
 operate within that budget.’ And the Secretary of State for Health does his best but ends up
 overspending by 2%. That is a perfectly plausible set of circumstances. But, at that point, would

3230 the Chancellor publicly absolve himself of all responsibility for that budget and publicly castigate the Secretary of State for Health and the Department for a failure to safeguard public funds entrusted to it, or would more energy have been deployed, formulating a coherent and a united collective Government response to the challenges faced by the Department?

3235 What we have witnessed of late is Departments turning on one another and some Ministers attacking other Ministers through the pages of the *Press*. I know all of this is perceived by some people to be emblematic of our democracy but it is difficult to believe that the sight of different Departments of the same Government, tearing themselves apart in public, inspires much confidence in this States (**Several Members:** Hear hear). The Departments and their political members are not in any way bound together and this is, I think, a critical point which lies at the heart, not just of this issue but of other problems and challenges and crises which this Government faces from time to time. Our system of Government has many, many strengths but it, perhaps, has one great weakness above all and that is that Departments are not *bound together* and so, as soon as there is difficulty and controversy, the tendency – and it is not really their fault – is for them to become more disparate and more territorial.

3245 There is nothing in the system which requires Departments and Ministers to work out a united, collective, policy response to *any* set of challenging problems. If the Health Minister and the T & R Minister and the Chief Minister were required to formulate one single united response to HSSD's budget problems, is there any Member of this House who believes that their response would have been to close hospital wards or cancel operations at three days' notice, causing all of the distress that has been caused to so many patients and their families? I suggest that is implausible.

3250 So, by all means, if Members want to, castigate HSSD, demand resignations from their Minister and their Members, either for suspending services or for overspending but, in so doing, I think there is a risk of obscuring the underlying budgetary and systemic problems within the States which, in my judgement, have contributed significantly to the emergence of this crisis. I think we would be better served today, debating some of those underlying issues, rather than becoming obsessed with issues of personality.

Thank you, sir. (*Applause*)

3260 **The Bailiff:** I said I would call next Deputy Lester Queripel, who will be followed by Deputy Hadley, Deputy Gillson, then Deputy Wilkie.

Deputy Lester Queripel: Thank you, sir.

3265 I rise to ask the obvious question and that question is as follows: if we do not agree to increase the Department's budget, HSSD will then be in debt to the tune of £2½ million so, with this in mind, can the Minister please tell the Assembly what his Board intend to do if we do not agree to the increase in the budget.

Thank you, sir.

3270 **The Bailiff:** Thank you.
Deputy Hadley.

3275 **Deputy Hadley:** Mr Bailiff, this is a difficult debate and I was not quite sure where it was going but it has morphed into a defence of the actions of the Department in closing wards and stopping operations so I feel, to some extent, I must say some of the things that I was going say in a vote of no confidence.

3280 In response to something Deputy Fallaize has just said, this has *never* been a matter of personalities. I have always considered *myself* to be a friend of the Minister. However, if you come into this Assembly and you only take actions that won't offend your friends in the Assembly, I would suggest that you should not be here. Looking at this Report, some of the things spring out straightaway and one of them is the £2 million overspend mentioned in section 36. You have to say that almost every single item is concerned with agency staff and overspends and locum staff, all the way through. This is a Department that has an appalling record with the retention and recruitment of staff and that has to be one of the things that has to be addressed in the future.

3285 In common with most countries of the world, this Island really does value, and has great concern for, its health service. We are particularly proud of the Princess Elizabeth Hospital and it is not uncommon for it to be described as 'the jewel in the crown'. I am told that, when the finance industry want to attract people to *this* Island, our Health Service is held up as an example of excellence and far superior to that in other jurisdictions. Indeed, the Island Hospital programme on

3290 ITV could only give us a sense of pride as we watch the very caring staff look after patients. Now, the political Board are presented with monthly management accounts and yet we are told that the overspend was largely unpredictable. As you look at the items in this Report, you can see that they *must* have been predictable: these large increases in staff/patient numbers did not suddenly happen in the last month. Indeed, one of the areas that has been identified as an overspend is the children's service: I have stood in this Assembly and criticised the Department, in the past, for bringing in the Children's Law, which added two years to the definition of what a child was, gave much greater responsibility to the Department in looking after children, and set up a Children's Tribunal which could override the Department in putting children into care. Despite all that, no additional funding was put in place, so the demands on that service were quite predictable.

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3300 Again, I have had the argument with the Minister for years about the extent to which he has failed to articulate the case for more money for this Department. The Minister has always been fiscally conservative and I think more tied to the Financial Transformation Programme and the need to be corporate than fighting for the Health Service. Having made the wrong decision, they decided to cancel elective surgery and close wards. They did this to save money and they have told
3305 you how much money it will save – £500,000. But that is £500,000 in December: it is not going to save any money, going forward, because there's still the same workload of work got to be done. It has been suggested that the saving will come because they are going to recruit staff and won't need agency staff. Now, do you really believe it, when you look at all the agency staff and the locum staff and the poor record that they have in recruitment of staff? That is not going to change
3310 overnight!

We could spend time here arguing about whether it is the conditions that staff have, the contracts that are issued, the payment of nurses, the incentive to stay on the Island... All these things could be argued. But, at the end of the day, they are not going to change anything. I don't
3315 believe that we're going to save any money and, having ignored all the warnings of an impending crisis throughout the year, when it *did* come, there were other options to take. The Minister could, and should, have asked the Bailiff for an emergency debate on the Wednesday or Thursday of the last sitting, instead of merely making a Statement. The Report would have been debated and, indeed, the Report was given to us in draft form at that time and is substantially the same Report that we see before us today. If they had made their argument, I cannot believe that this Assembly
3320 would have denied them the money, so that they could have continued to treat patients.

And I must say, having had time to digest that Statement, *some* of the things that are said in this draft in this Report to be saving money are things that they should have been doing, *anyway*: reducing use of agency staff, not paying overtime, asking managers to authorise recruitment of vacant posts. One would have thought that this is something that the Department should have been
3325 doing for the last year and yet these are put there as new initiatives that are going to be carried out to save money. Again, when the Minister made his Statement, that they were going to cancel elective surgery and close wards – which seemed to me to be an incredible thing to suggest – he announced it as though they were issues that were not of great consequence. Today he has told us he understands how important it was, but the way it was presented, delaying elective surgery but
3330 continuing with urgent cases, he almost seemed to be saying that elective surgery was nice-to-have, rather than something that was essential. In reality, as he said today, people wait in pain, they've pinned their hopes on an operation, they've psyched themselves up for an operation and it is extremely worrying to them psychologically when the operation is cancelled. Again, he talks about it was a clinical decision: he told us today he was doing what the clinicians said was best to
3335 save money. But, in reality, none of the clinicians were consulted. The decision was made by the Board at twenty four hours' notice. It was a panic measure – and it did not need to be made.

When we are talking about postponement of operations, let us be aware of what it does mean because Deputy Bebb didn't seem to understand this. He said that the Hospital would be largely
3340 closed for a couple of weeks over Christmas, so we were just delaying operations a couple of weeks. In reality, the surgeons had been told to operate on every day except the bank holidays because of the workload, so we are actually losing four weeks of operating time: it does not mean that your operation is delayed by four weeks, because, of course, if you were due an operation today, then you would go right to the end of the queue, so your operation could be delayed for *eight* weeks.

3345 What they have actually done is not only harmful and painful to patients but it is totally demoralising to staff. Staff have been in tears on the wards and they suffer. The way elderly people have been treated, being moved around the Hospital, is also very upsetting for them. The damage to patients because of the re-allocation of nursing staff is also an issue. We have orthopaedic nurses working on medical wards: they are working outside their skill area so it's not

3350 good for patient care and it's not good for the patients. The action of the Board has not only hurt people but it has totally demoralised people. What we are arguing about today is not *really* about the overspend, or why it happened, or how it happened, but the fact that *this* Board made a political decision, as a *knee jerk reaction*, to close down wards

3355 **The Bailiff:** On this Billet we are dealing with the overspend, Deputy Hadley. I think you've got into the wrong speech!

Deputy Hadley: Right.

3360 **The Bailiff:** I said I would call, next, Deputy Gillson.
Deputy Gillson.

Deputy Gillson: Sir, firstly I'd like to remind everybody that, until the election, I was a member of the Board of the HSSD. In fact, I was Deputy Minister.

3365 It has been suggested by some that the previous Board left the Department with an overspend. That is not true. The latest figures we had, prior to the election, were that the Department was on budget and the projections, particularly early in the year, were positive. I point this out, *not* in an attempt to point the finger at the current Board or to deflect responsibility but to point out that I am not making this speech from a position of trying to vindicate my term of office. I am trying to
3370 make a speech from a point of view of an informed, experienced Deputy in approaching this issue from a neutral position. I have no axe to grind and I have no position to protect. So what I am going to do is give my view on how HSSD got to where it is, thoughts of the future and put the HSSD in the wider States context.

3375 Sir, this time last year, I and the then Board was so concerned about the effect of the change, in the way the FTP was being implemented and how the resulting reduction to the HSSD budget could affect service provision, that we tabled an amendment to reinstate part of that Budget reduction. For the benefit of new Members, let me explain a little about how the Budget reduction for HSSD was calculated by T & R – and this calculation was confirmed by the then Treasury Minister in his Budget speech. In general terms, the 2011 underspends for the whole of the States was expected to be about £6 million. Therefore, T & R's logic was that the total States budget for
3380 2012 could be reduced by about £6 million. The logic in this was total up the under-spends: if you don't need them in 2011, you may not need them in 2012. That's fair enough.

3385 Then we come to the question of *how* that £6 million underspends was going to be allocated across Departments. You may think that the obvious way would be to suggest that if a Department was expecting to have a £1 million under-spend, then its allocation of FTP saving would be £1 million. That would be the logical way to do it, to allocate the total reduction in a way where it matches the allocation. But, no, at the time of the Budget, HSSD was expecting an under-spend of about £1 million but the budget reduction allocated to it was over £2.3 million. Interestingly, the T & R under-spend was £1.2 million but *their* FTP reduction was £560,000. HSSD had a FTP saving
3390 over twice their expected under-spend, while T & R had a FTP saving of less than half their under-spend.

3395 The total FTP budget reductions was based on the expected under-spends but there was no correlation in the way *that* total was produced and the way they were allocated to Departments. It was obvious there would be problems for HSSD! In my speech on that amendment, I said:

3400 'We do need to have an adult conversation about cost-cutting and the need to reduce services may be part of that, but those cost cutting measures need to be implemented in ways which are practical and least damaging. In addition, we need to consider if the proportion of Government spending each Department gets is appropriate. The proportion Departments receive has been established over time in an *ad hoc* way and we need to establish if they are appropriate. I believe this re-balancing needs to be instigated during the early part of the next Government so it can be completed during the term of the Government.'

3405 I still believe we need that conversation to establish whether or not the HSSD has the correct share of the spending cake and we need that conversation sooner rather than later. Last year I expected this sort of situation with the budget constraints on HSSD to become critical but I must admit I did not expect it to be quite as exposed.

3410 Sir, a couple of months *before* the Budget Debate, we debated the SSP and the States approved some new services for HSSD. Faced with the prospect of a real possibility of cutting services on the one hand and introducing new ones on the other, we made it clear to the Assembly, and to T & R, that the least disruptive way of achieving the FTP savings would be to include not introducing

those new services. It seemed illogical to us to introduce new services on the one hand and cut existing ones on the other. We made that clear to the Assembly, we made that clear to T & R and that is how the situation remained. That is, until after the election, when the new T & R Board took over.

3415 According to the Billet, the new T & R Board decided that the £680,000 savings from *not* introducing services could not count towards FTP targets. Now this is a significant change because it meant that, to stay within budget, HSSD would still have to find £2.3 million, but the £680,000 would not count towards it. They would have to find an *additional* £680,000, in addition to those
3420 planned cuts and savings that they had thought of, and because it was May, they would have only have half a year to find those additional savings. So what has happened is that £680,000 has not been spent, it is sitting in a bank account somewhere but it does not count towards HSSD's FTP savings. The practical effect of T & R's actions in May was to effectively reduce the HSSD budget by a further £680,000.

3425 So what has happened since May? According to the Report, HSSD identified £2.5 million of unexpected costs. During the summer they managed to contain those. Then, in September, they identified service growth and, in November, identified unexpected growth would be up to nearly £2.5 million. Now I accept that there will be areas within HSSD where improvements can be made. Nobody disputes that and, over the past three years the Chief Officer has made great strides
3430 in addressing them: the Report shows that. Containing the spending for the past three years is remarkable and all of the staff of HSSD should be congratulated for their efforts and their commitment to HSSD.

So, sir, we need to put this year into context. It is a year in which the HSSD started with a reduced budget. It is a year when they carried a disproportionately large share of the total FTP savings, compared to how the £6 million was calculated. It was a year when their budget was
3435 effectively reduced further in May. It is a year when they identified potential cost increases of some £2.5 million in May, a year when they successfully controlled and mitigated those costs and a year when they have seen continued increased demand for their services. Is it any wonder that, when services increased by the second half of the year, they found it difficult to contain costs even further? Sometimes, there is only so much juice you can squeeze!

3440 Sir, I will now comment for a moment on the way the budgeting process we have affects the HSSD. It is important to note the timing of where we are and how the existing budgeting process contributes to making this whole issue critical. We operate a fixed twelve month budgeting and accounting cycle, like most of the world does. Most businesses do – it is normal – but this does not serve HSSD well. In the past, this has not mattered because there has normally been enough
3445 money but this has been a critical year so, to state the obvious, it is critical because we are coming to the end of the financial year. If we operated a financial year from, say, May to April and the T & R budget reduction was in May, the increased costs, the summer savings, the later costs we have seen in November, would all have been within the first nine months of the financial year. That would allow HSSD to have three more months in which to mitigate these late costs. They would
3450 have been able to plan actions in February or March. They would not have been as disruptive as having to do something *because* the year end is December.

I am not suggesting we change the financial year just to suit HSSD. That would be ridiculous. Whatever date is set for the financial year end, there is always a possibility for peak demand during the final few months of that financial year which does not allow corrective action to be
3455 taken within the financial year. So what we need to introduce for Health, I believe, is a rolling three year averaging budget. In that way, the Department would have the flexibility to implement actions in a timely and planned manner within the broader budgeting cycle, rather than having to react to the arbitrary year end time frame. This would not result in more money for HSSD just greater flexibility and, *without* such flexibility, the Board of HSSD, whoever they are, will have
3460 problems and, as funding gets tighter, those problems will be more acute.

So let us, hopefully, put ourselves in place of the Board of HSSD and assume a budget is in place, which includes various cost saving initiatives and targets. Come next July or August, the Board have management accounts showing the Department is on budget, savings are being
3465 maintained, expenditure under control. So what do they do? Do they say 'We are on budget, costs are contained, things are okay: continue these plans which will bring us in on budget.' Or do they say 'We are on budget, which is good, *but* there may be an upsurge in quarter four, we had better make provision for it: we had better reduce spending and reduce services now, maybe close a ward temporarily.' If the second scenario is chosen and, come the year end, there has been no upsurge in demand, they will be under budget. T & R will be happy: under budget, an under-spend... That
3470 money will go back to the coffers of the States. Great! Pats all round for coming in under budget!

3475 But there is a problem with creating a reserve within an annual budget. The real life effect of such an HSSD under-spend is that money will not have been spent on Guernsey people. *Some* Guernsey people may not have been given the treatment they need. Also, remember that, under our rules, any under-spend cannot be carried forward: it goes straight back to T & R. Do we want that situation? I do not think so. I think we want a situation where we *maximise* the treatment that we can give for the fixed cash that HSSD is given. The best result is for HSSD to come in on budget – not over budget, not under budget. We need to spend money efficiently and wisely but we need to come in on budget, which means all the money will have been used treating Guernsey people and the number of people not receiving treatment will be kept to a minimum. But if the Board of HSSD aims to come in on budget, there is a real risk that any unexpected increase during the last four months or so will take them over budget. So what does this Assembly want HSSD to do? Play safe and stay under budget and possibly *under* provide services, or try to maximise services and risk going over budget? With our current budgeting system, those are the two choices.

3480 A rolling average budgeting system, which would not result in more monies, would not be a magic solution to all of HSSD's problems but it would help remove the artificial cut off which the current system has. It would allow longer term planning and allocation of the revenue budget.

3485 Sir, it is true that Health can absorb pretty well as much money as we can give it. It is true that, as a Government, we do have limited funding and this will mean that, quite possibly, some treatments, some drugs, may not be offered. It is true that HSSD has to live within its budget but we need a budgeting process which helps HSSD to maximise the level of services it provides to the Island, not hinders it. So I make a prediction. I think, if this current budgeting system continues, there is a better than 50/50 chance that whoever is on the Board of HSSD will face another Vote of No Confidence before the end of this term. I say that because HSSD has not really been given any direction from this Assembly. Which is more important, keeping the budget expense of services, or maintaining services at the expense of budget. With increasing demand and a budget reduction in real terms, when measured against general inflation and medical inflation, those two options are likely to be mutually exclusive.

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3495 Earlier, I made reference to a convergence of events that helped make this critical. Those events are the amount of HSS time being spent on SAP and other projects run by the centre, the SSD £2 million overspend, the over-estimation of ETI receipts of £4 million and the decision to bring the £2.3 million Lagan loss into revenue account. These, combined with the HSSD overspend, created a problem for T & R and a total net budget deficit which breached fiscal rules and resulted in pressure from T & R to contain costs.

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3505 Sir, mention has been made that HSSD is responsible for allocating its resources and that is true, *to a degree*. The problem is that HSSD, like all Departments, has to provide staff to service the SAP project and co-ordinating FTP initiatives, which means that many of the senior HSSD staff are spending a significant amount of time on non-HSSD work. For instance, the Chief Officer represents the ten Departments on the SAP hub project, he leads the transforming support services part of the FTP, he is senior project officer for the Building Business Excellence programme, he is a member of the FTP Programme Management Board. He spends at least one to one and a half days a week on those projects. For that amount of time the Chief Officer is not able to work or run on the HSSD, he is working on projects for the centre.

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3515 He is not the only person on HSSD; one of the most experienced members of the finance team is virtually full time on SAP and so not available for any HSSD work. In total, about 1,500 man days of senior staff time has been spent on central projects this year. One thousand five hundred man days of HSSD time! And, remember, the Department does not receive any financial credit for that time. The Department still has to pay 100 per cent of the staff's time, even though they are not working on HSSD business, and the Department has to pay for those 1,500 man days out of its budget. There is no funding from T & R or the centre, there is no funding to be able to temporarily back-fill those posts – and people from T & R and the centre question why HSSD does not have sufficient resources in the areas... and they suggest management are not doing their job! Well, are you surprised when 1,500 man days of senior management is sucked out of the Department for work on the centre?

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3525 In addition, during July – I think it was Monday, 11th July – all Finance and HR staff across the States were told that their jobs were 'at risk'. They were told they faced losing their jobs because of centralisation of Finance and HR functions. If that is not bad enough, they were told they would have to re-apply for their jobs, either in Department or the centre, but the job descriptions were not out until the end of the week. Now what a ridiculous situation, where staff were told on a Monday you might be losing your job, you have to apply for something but we cannot give you a job description and tell you what the jobs are, you will find out at the end of the

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week... I wonder why morale in some areas of finance across the States is bad. And it is *not* just an HSSD issue. I know somebody wanting an appointment with an officer in another Department and was told she would have to wait *three months* because that officer was so busy on SAP...

3535 Sir, this raises a question which Deputy Queripel mentioned: who determines how much resources from a Department goes into SAP and other projects and what priority gets compared to departmental work? Let us consider a hypothetical situation, where a member of finance staff of a Department is working full time on SAP and the Board of the Department have identified the need for some financial information, in order to get comfortable with their budget and expenditure. In that scenario, who has the final say over whether or not the member of staff can be pulled off SAP, 3540 politicians or officers? The reporting lines for Chief Officers is to the Chief Executive, therefore I suggest that it is the Chief Executive who, as line manager of the Chief Officer, can instruct the Chief Officer as to what the decision should be, whereas the political Board – because this issue is operational – has no authority. So we can have a situation where a political Board is being criticised for not allocating enough resources but somebody *outside* the Department has effective 3545 authority to use those limited resources on non-Departmental work. I admit I do not know if that is what happened in the case of HSSD, but if any Political Board is going to be responsible and held accountable for whether or not there are sufficient resources, then *they*, not somebody outside that Department, should have the final say on those resources.

3550 As I said, it does not relate just to HSSD, it relates to all Boards. In approving the change of reporting lines for Chief Officers, we seem to have got ourselves into a tangle, where accountability and authority seem to be separated, a situation which should not be allowed to continue. If I ran a Board of a Department I would want this clarified. Perhaps the Chief Minister can provide clarity on this issue. I am not suggesting he does so now but perhaps he could give an undertaking to make a Statement to clarify the issue at the start of the January States meeting.

3555 Finally, sir, HSSD has gone over budget by about £2 million, the Minister says. I am not condoning that. All Departments have to stay in budget but, remember, being over budget does *not mean* the money has been wasted. That £2 million has been spent on treating Guernsey people, helping Guernsey people, improving the health of Guernsey people. It has not been, for instance, 3560 paid to a spurious bank account that may or not have the name ‘Lagan’ in it.

Thank you. (*Applause*)

The Bailiff: Next I call Deputy Wilkie, who will be making, I believe, a maiden speech.

3565 **Deputy Wilkie:** Sir, I rise to address this Assembly for the first time on the budget overspend by HSSD and it saddens me to, firstly, say can I make a comment on the self-indulgent, regressive and damaging comments made by senior Members in the media on the HSSD overspend (**A Member:** Hear hear.) No good can come from this sort of behaviour and I fear it will not be known – the full extent of the damage – for some time to come. I sadly believe that the FTP cannot 3570 carry on in its current form because of the message sent to Departments – who *have* to make difficult decisions – if it is unpopular, we will turn on you! In the words of Forest Gump, that is all I have got to say on *that*...

3575 When I first arrived at HSSD, I had a look at our entire Health system in Guernsey and it soon became apparent that the current system had grown organically and only a madman would invent such a system from scratch. It was explained to me that, if you went to your doctor and you were not feeling well, and then you were sent to the medical specialist and he said that you needed an operation in the UK in, say, Southampton, the first time HSSD would know about it is when they get the bill – which is a system that just *cannot* carry on! This is a system that the Board inherited when it was formed.

3580 It is my intention to give you a short overview of the facts on the overspend, as I have seen it. When we were first informed, as a Board, about a £2.5 million projected over-spend, I had a similar reaction to many of you. We had been expecting a much lower figure, with steps that we had taken, and expected to reduce the overspend further before the end of the year. After taking a look over the details of the figures, it did not take a top accounting genius to work out that there had been a large increase in the number of Islanders treated by HSSD, a year-on-year increase of 3585 12%, which equates to an extra 4,000 Islanders treated by HSSD. I just want to touch on an increase of 1,200 Islanders seeking mental health treatment. This could be partly due to improved access but may also be a symptom of increased stress, due to wages not keeping up with inflation. If this situation continues, we may face future rises in demands for these services.

3590 Sir, what we are looking at is a 12% increase in activity, resulting in a 2% increase in expenditure *above* the approved budget. While this is not a situation that any Board would feel

comfortable with, it is, however, I think, understandable. It is also understandable for a Department to take a measure to reduce an overspend, as we all have a responsibility to try and stay within an approved budget, no matter how difficult that decision might be. I have been carrying out some research on European and World Health Organisations; the at-a-glance OECD World Health Statistics Report is some 200 pages long, so I will not bore you with the details of the many reports I have been through. While I am not yet ready to make my conclusions, I will give you a summary of where we are in comparison to other jurisdictions at this time, which may help you in your deliberations.

The good or bad news, depending on your views, is that we are not alone in our current situation. Nearly all countries are trying to reduce health spending, as economies stall. Most jurisdictions are reforming their health services to cope with their current needs and that of what they are calling the 'silver tsunami' to come, the demographic time bomb. Here are a few examples of the way other countries are dealing with this situation. Denmark are going down the private road. They are having a private health system which is treating more people but they are having problems with the quality of care that they are getting for their private services. Germany are using an integrated system, where they have a specialist GP and a physio in the same building, to see people at the same time. This *is* cutting costs and it is seen to be quite successful but it is only in its infancy and we will not know exactly how good it will be for some time to come. France is going for regional health co-ordination, a single place in a region which is controlling the entire health system in every aspect but, apparently, the French GPs are not very happy with this system. The Greek system which had more doctors than nurses – which turned out to be inefficient (*Laughter*) – are now reducing spending by 40% and now that health system is close to collapse.

So most countries are dealing with the reforms in many varied ways. No one country has the perfect solution and yet there is no off-the-shelf answer for Guernsey. We will need to create a bespoke system to take into account our current facilities, available finances and expectations of the Guernsey people. By reforming, we can produce a long term saving beyond the life of the FTP and future proof our Health system to some extent. In the short term, updating the accounting systems, yes, reorganising theatre bookings, improving private income, for example, could help with the 2013 budget challenge. However, any healthcare budget with demand-led costs should have a system with flexibility to cope with peak demands. If you treat an extra 4,000 Islanders, yes, there will be a cost but it will not be a *waste* of taxpayers' money, it will benefit Islanders as a whole. I believe we need a boot and braces, or belt and braces, review of healthcare if we are to deliver a viable healthcare system fit for the next generation. Leaner, more effective services: this is the reason I got involved in politics, but you cannot control an increase in demand.

I commend this Report to the Assembly (*Applause*).

The Bailiff: Does anyone else wish to speak?

Deputy Gollop.

Deputy Gollop: Yes, sir, thank you very much.

That was an extremely able and interesting maiden speech we have just heard from Deputy Wilkie and I think, too, that a lot of my thoughts are not dissimilar to those of Deputy Gillson and Deputy Fallaize because I think that... well, we will come on to whether HSSD made the right judgement call or not, perhaps, in a subsequent debate: the important issue to look at here, is the text of this Report.

One point, of course, Deputy Laurie Queripel raised – and other speakers have raised – is the lines of authority of the Chief Executive Officer. In a way, I am uncomfortable talking about that because we need to know more and he is not speaking in this debate, but I thought originally this came out of some work Deputy Hadley did in the previous Assembly, when he was questioning the appraisal system, which is really to do with performance management, motivation, human resources, best practice and the initiative, whereby the Chief Executive Officer had line management authority, seemed at the time to be a good one – but I do not think it was meant to be used in a policy-based way or in a split tension way. I am not convinced that is the case but, clearly, it is a concern that is being outlined by HSSD, and perhaps other Departments, and needs to be looked at by the Chief Minister and the Policy Council, because the focus of this Report makes clear that they admit, on page 2234, paragraph 4:

'The Health and Social Care System has some major shortcomings, which do not serve the people of Guernsey well.'

They talk about the Social Care system in a broad context which embraces the private sector

and, to a certain extent, our Social Security Department, of which I am a Member. Nevertheless, in paragraph 6, we read:

3655 'Health Service provision is an inherently volatile and activity led business.'

I think it is important to emphasise some parts of this Policy Letter because we had it very late and because there are a lot of arguments and assumptions within it. In paragraph 9, page 2236 – I will read this in full. The items relating to family and friends, care arrangements, learning disability, respite care and mental health review tribunals were a part of the previous debate that
3660 Deputy Gillson alluded to in December 2011. Now all three of those initiatives are vital to the cause of the disabled people. The mental health review is behind schedule, severely so, the respite care, we know, is a huge issue of great significance and we do need to prioritise carers as, indeed, an excellent HSSD-based conference made clear last month. But these items, it says,

3665 'were included within the Department's budget assumptions for 2012, as agreed with the Treasury and Resources Department at that time'

– that is to say, the Parkinson Committee –

3670 'but the funding was never utilised. Despite the fact that no expenditure was occurred against these items, HSSD has not been allowed to count these one-off savings against its budget. This decision was first conveyed to HSSD after the *new* board of the Treasury and Resources Department was established following the May 2012 elections, almost halfway through the financial year.'

3675 Was that a change of policy from the previous Board and, if so, why did the old Board not convey it? Why was there a change and was that fair on HSSD? Lots of questions there.

The Report also makes clear the causal factors. Deputy Bebb, amongst others, has already alluded to those which include, of course, demography, age, health condition, mortality rate and all kinds of issues. You could argue that some of those were predictable – we do have a very small
3680 Economics and Statistics Department which itself is under-resourced – but some of them are not. Certainly, some illnesses are not predictable and it has to be said, visitors to the Island, guest workers, all kinds of people may bring with them different issues. What is interesting, on page 2238, is that the actual expenditure of HSSD has been restrained, whereas the National Health Service despite, as we heard this morning, the much worse economic plight, relatively speaking, of
3685 the United Kingdom and, if you like, the conservative ideology of a majority of the coalition government, the Rt. Hon. David Cameron, the Prime Minister, has committed very strongly to maintain their Health budget – with a degree of significant structural reform – whereas we, in practice, have had one of cutbacks.

3690 Then we come on, again, to various statistics – and I do appreciate that we could have even more, as Deputy St Pier reminded us this morning, about certain differences – on page 2245:

3695 'In other jurisdictions, most notably England, the providers of Health care services are remunerated on the volume of activity. This is why the off-Island acute costs will vary with activity levels, as HSSD pay for every individual case sent to England based on a complex "tariff" set by the Department of Health. The Guernsey systems do not allow for such a sophisticated approach. [...] ...if the Princess Elizabeth Hospital were an NHS provider, it would have attracted [...] £5.8 million in income [in the last year or so]. Even adjusting for the different financial regime in the UK (which accounts for the revenue cost of fixed assets and equipment whereas Guernsey does not)

3700 – which is a deficiency of our Budget debate in itself.

'and consultant costs [which are separate], the additional income would be in excess of £4 million.'

3705 So to overspend by £2½ million, or to get to the point where you will be in that position, is not, in comparative benchmark terms, a great fiscal sin. Indeed, Deputy Fallaize pointed out that our practices, our efficiency, is actually greater than, probably, Jersey and the Isle of Man. I could argue at greater length, and may well in a subsequent debate, about modernisation that Health and Social Services could be looking at, but they do need the resources in terms of manpower, time and budget, spend-to-save initiatives, to get there.

3710 What I am concerned about, and have been so for several weeks now, is that we can support the FTP process on the level of restraining expenditure and on the level of efficiencies of modern ways of thinking of productivity, but we all know that, initially, it got bogged down in toilets and bus fares and all kinds of things. We are now wondering why it was that the Policy Council of the day and the Treasury and Resources Department of the day and their successors did not realise the

3715 obvious truth, that a Department, as Deputy Adam reminded us, with over £100 million budget
has to be the biggest priority for a team of top management consultants, accountants, human
 resource professionals, to go in there and maintain, or enhance, the existing high levels of care –
 which I think is the primary purpose of Health and Social Services – whilst ensuring that you
 could reduce the budget, or at least reduce the scale of the increase by several million pounds. That
 3720 has been a corporate deficiency of this whole Assembly, of which, in a way, I am a part, but we
 should not be taking it out exclusively on the Health and Social Services Department.

So I vote for this Report.

The Bailiff: Deputy Lowe.

3725 **Deputy Lowe:** Thank you, sir.

We have had some very interesting speeches and I commend Deputy Adam for his speech,
 which was very heartfelt, but we know there are problems at HSSD – Deputy Gillson has covered
 them, as have other Members – but this Report... I think we need to get back to what this Report is
 3730 all about because this Report is not asking us to have a complete review around this Assembly
 here, for us to analyse it and have a debate about how we are going to take HSSD forward. This
 Report is asking T & R to pay up the difference for this overspend.

To me, this Report was at the wrong time. This Report should have been in September. We
 should have had this Report in September. Look at the date here: it says, quite clearly, November.
 3735 If there had been a Report in September, saying ‘We are looking like we are going to have a larger
 overspend that anticipated, the projection could be £2½ million, near enough: will the States give
 the go-ahead to do that or, if not, come December, we are going to have to close wards and cancel
 elective surgery.’ I have *no doubt whatsoever* the States would have said: ‘We will support you,
 HSSD, to continue: you cannot cancel surgery with twenty four hours notice, if you leave it until
 December.’

3740 So it has got the wrong date on this Report for me. It is overdue. We should have had it
 beforehand. Listening to speeches today, they are all very commendable but this is not really
 addressing the problems that HSSD have. We need a report from HSSD which could have been
 part of that Report in September or, if not, even a report today to say these are the problems we are
 facing, because they are not going to go away.

3745 I do not want to see us washing our dirty linen in public. That’s not what we should be doing
 here today. We need to move on. We all know there are problems in HSSD. It *does* need a review.
 It *does* need a comprehensive report to this Assembly to see how HSSD will be budgeted for in
 future. But to have this spat between T & R, who are doing *their* job under the mandate given by
 the States, HSSD, Members amongst one another, does this Government no good whatsoever. It is
 3750 bringing the States into disrepute. All I do is ask Members to please keep focused on here, address
 this Report, that they actually re-approve that overspend, we move on and we look forward to a
 comprehensive report in the future of how HSSD will be funded... We can move on from there,
 sir.

Thank you.

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The Bailiff: Deputy Le Lièvre

3760 **Deputy Le Lièvre:** Mr Bailiff, Members of the Assembly, what has happened over the last
 few weeks has been predictable for months, if not for years. It was inevitable – and I am not
 intending to wash anybody’s dirty linen in public.

The purpose of my standing her today is to compare HSSD’s position with other States
 Departments. Reading Health’s brief Policy Letter on its £2½ million over-spend did not make me
 angry, it did not make cross and it did not leave me disappointed – unlike its decision to put back
 key services. All it did was remind me of the reasons why being the Minister of Health, or a
 3765 member of Health, is very different to being on, say, SSD or Education, or Housing, or Home or
 Culture and Leisure, or just about any other Committee, for that matter, especially when it comes
 to budgeting. I am not making excuses for Health. I am simply saying how it is and I am sure that
 Deputy Langlois will not mind me using SSD as a comparator of why HSSD is so very, very
 different. In fact, I want to expand slightly on what he said this morning.

3770 You know, in a previous life, I was head of the Non-Contributory Section of Social Security. I
 knew what it was to over-spend, as is the case this year for SSD – £2 million on £17 million, or
 around those figures. There was absolutely nothing I or my staff could do about it because demand
 for non-contributory services fluctuated outside of our control, in a similar way that HSSD’s do.

3775 But there were key differences in Social Security's favour. My section operated under laws and, as such, had rigid rules of entry i.e. nobody could access the services the section offered, other than by the Supplementary Benefit Law, which set out well defined parameters. The same went for the Public Assistance Law, the Attendance Allowance and Invalid Care Allowance Law, or Housing's rent rebate scheme or Health and Housing's care homes – all of which operated out of my section. Once a person satisfied the rules, they were in and had free access to whatever was available. In fact, we were *encouraged* to maximise the level of benefits disbursed – it was my job – but if they failed to qualify, they got nothing.

3780 I had rigid levels of benefit – PA, SPB, rent rebate tariffs A and ICA, and so on and so forth. My section functioned in a well-defined cosmos. I could see the parameters of my universe and it was, indeed, well defined – to the penny! In some instances, I even had time limits or other factors on my side. But, above everything else, I had a stable, hand-picked workforce that could be recruited locally and which did not require specific qualifications although, strangely, some of my key workers had a medical background. I had 19 staff, a huge budget and virtually no turnover of those staff: they were all local and they did not require licences. Now I've got a lousy memory for names but, given five minutes, I could recall most of them today and I've been gone from SPB for 3790 17 years. It isn't difficult because we had a stable environment or, at least on our side of the counter, if nowhere else.

Budgeting was not hard but predicting the outcome was not easy and, largely speaking, it didn't matter. Once the punters were through the barriers, the cost was the cost. Now, compare that with HSSD. No legal barriers: if you are ill, you are in and you don't have to be very ill to be in. For as long or as short as you like. You do not have to satisfy HSSD staff because your customers are recruited by somebody else – GPs and specialists. There is no time limit to the cost a customer can demand or cause. The cost is the cost, just about. Ironically, the younger and healthier or sicker you are, the greater the pressure on HSSD to do everything it can for you. Without being emotive, what price on a sick baby's head? The sky is the limit and that's the end of it. Who gives a tinker's cuss about an overspend? There is no limit on time: it takes what it takes.

3795 It might go on, if you are seriously disabled or chronically ill, for the whole life of the patient. HSSD can *never give up* and none of us would want it to. HSSD does not operate in a well-defined cosmos. There are *no* clearly defined limits. The organisation is so large that many sections have absolutely no idea what other sections do *because they don't have to*, they don't need to. The other sections function in a different universe. And when they do overlap with a multitude of other agencies, it is fluid in the extreme. It is virtually *never stable* but, above everything else, it has a massive, highly qualified, averagely paid work force, a huge number of whom cannot be recruited locally. The staff are fluid, many are subject to licences and many have family restrictions which make their bonds to the UK and elsewhere much stronger than any connection with Guernsey. And what we must remember is the staff are not operating in a cost effective atmosphere: it isn't their thing! They operate in a care provision environment and, like it or not, when they whip out somebody's bits and pieces, the cost of that operation is not at the forefront of their mind. The focus is on keeping the patient well and alive. To use Deputy Jones' words, they are not bean counters and trying to make them so will have disastrous consequences for our health care locally.

3800 Let us be under no illusion. HSSD is like no other Department. It is *a monster*. I, for one, have no problem with it over-spending, within reason, and 2.5% *is* within reason. We cannot expect to apply normal rules to Health because it simply isn't normal, when compared with Home or Housing or Education or, for that matter, SSD, the other big over-spender we are happy to condone – for good reason. Therefore, I cannot get worked up by this Policy Letter. HSSD have done what they have done. It is a simple as that.

3805 Unfortunately, in my mind, they did not get the whole nine yards. I did not sign the No Confidence letter on the grounds of budgeting, I signed it because of the withdrawal of key services. There is a *massive* difference. And I would say to Deputy Hunter Adam, his Board and his staff, that they have done a good job under the most *difficult* circumstances, in a situation which *was* inevitable. We were always going to hit the buffers. Health was going to hit those buffers first and Education will be second. When it comes to it, I hope that I have the moral fortitude to say 'Enough is enough', as I believe the Board of Health should have done.

Thank you, sir. (*Applause*)

3815 **The Bailiff:** Does anyone...?
Yes, Deputy Dorey.

Deputy Dorey: Sir, I did not intend speaking (*Laughter*) but I would just like to make a couple

3835 of points in reaction to what was being said. There have been some comments about developing the shared services – the SAP project – and I would just like to remind Members what happened when we debated this in October 2011. I will read out the resolutions that this Assembly made:

3840 ‘To direct all Departments or Committees to allocate sufficient resources between both design and implementation phases to ensure the project is delivered successfully.’

3845 That is what this Assembly – the previous Assembly – decided: it was a proposal from the then T & R Department. I can recall that I said, at the time, that I thought the project was wrong, that it did not include the cost of staff that were going to be allocated to it. Perhaps if that had been done, we would have realised the extent of costs, across the States, of it and perhaps we would have back-filled those places, which is what *should* have happened. We can all learn, but I think we have unfairly criticised some of the staff because it was a resolution of this Department to allocate those resources.

3850 The only other thing that I wish to make is in relation to the actual expenditure of HSSD over a number of years. If you go back to 2008, the expenditure increased by 8.5% from the previous year. In 2009 it increased by 13.8%. In 2010 it was 0.4%. In 2011 it was –0.4% and the estimate for 2012, although it might have been changed from what Deputy Adam informed us, was 3.9%. I was not a member of T & R in those earlier years, before this last election, but the only point I want to make is that the rate of increase was unsustainable. I think the allocation of funds for 2010-2011 was a reaction there and I think HSSD did a brilliant job to actually bring the expenditure under control. The key thing is have they cut everything that can be cut and now we have to go back on to the upward cycle? That is reflected in the graph in the Billet.

3855 Thank you, sir.

3860 **The Bailiff:** Deputy Harwood, then Deputy Inglis.

Deputy Harwood: Thank you, sir.

3865 Members, I am sure we all have sympathy with HSSD in the discharge of their duties. And I also suggest we must recognise that, as this Assembly, we have no alternative but to accept the Report produced by HSSD. It is sad, in a way, that the Report is produced in retrospect and is asking for endorsement of commitments that have already been made. That I think is inevitable, given the timing of the Budget and that, in many ways, may be addressed next year or, better, addressed next year if there is a similar issue with over-spend.

3870 During the debate references have been made to FTP. I was not a Member of the States when the FTP was first introduced and there will be a debate on the FTP in January but my understanding – and certainly my research – is that the FTP is part of a wider transformation programme. It was initiated during the previous term of this States to reflect a more corporatist approach towards the delivery of services by the States of Guernsey. This is partially, if not wholeheartedly, in response to a number of reports – the Welsh Audit Office was one, but there have been others – that have been critical of inefficiencies within the departmental system of our Government and Deputy Mark Dorey has reminded us that the SAP was part of that project and was, in fact, approved by this Assembly in November last year.

3875 As part of that transformation programme, the role of the Chief Executive was, and remains, an integral part of that programme. The creation of line reporting from Chief Officers to Chief Executive, again, was part of that transformation but it has clearly changed relationships in a manner that was, perhaps, not fully recognised at the time that that change was introduced. I, for one, accept the need that we do need to clarify – and I had already recognised the need to clarify – that relationship and I am, therefore, happy to come back to this Assembly with a Statement in January. During the debate also Deputy Gillson has specifically referred to the budgeting process for HSSD and I remind you that I made a comment yesterday, in responding to the amendment to the Budget – one of the amendments to the Budget – proposed by Deputy Adam talked about unspent balances, where I said that I thought, also, we do need to review the *whole* budget process, certainly for HSSD, possibly for other Departments as well. I suggest that that is a matter that needs to be followed up during the course of the next twelve to eighteen months.

3880 Sir, I do come back to the point I first made that, in the circumstances, we have no alternative, I think, but to accept the Report from HSSD as, indeed, the Treasury and Resources Department themselves recommend it. They recommend it with regret but I suggest that we accept the recommendation, and we accept the Report, in the spirit in which it was produced.

3890 Thank you, sir.

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The Bailiff: Deputy Inglis.

Deputy Inglis: Sir, Members of the Assembly, a lot has been said already that I was going to highlight but I must apologise if I am duplicating things that have been said and whether or not anything overlaps the debate on the Vote of No Confidence.

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I must commend my Minister's very passionate story on exactly where we are and why we got here. Deputy Fallaize really highlighted where we, as a Government, have major problems that need to be addressed. I would like to go through some scenarios to just get the message home that we, as an Assembly, must understand this is not a fault of HSSD. It is something that has got to a point where we deliver but we, as an Assembly, create the path.

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The word 'budget' is a plan adjusting expenses to the expected income during a certain time. I prefer to call it a snapshot of where we are at a certain time. When dealing with Health, it's more a montage. It is a *huge* organisation that does need specific attention. We can talk about a crisis, or an issue. Is the crisis about overspend? We've all heard the statistics but it's more an issue, in my mind, and it certainly needs addressing.

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When it comes to planning, we all look to data. We look to information to form strategies and, by doing that, we can create a healthy pathway. Healthcare should be based on evidence, supported by robust information. How many people live here? 'Island Hospital' tells us that we will all visit the hospital at one stage or another but, on Friday, they told us there were 66,000 people here. I've heard it is 61,000 or 62, 000. Nobody really knows. The population census is something that we have avoided since 2001. To have that information allows for us, as a Government – HSSD, Education, Home – all of us can make decisions around what we expect to happen in, dare I say, the next ten years, the next twenty years. A population census would give us that information on sex, age, creed and give us the general demographic trends as to where we are going. It obviously makes us focus on the community needs. And information, by whatever means, means better health.

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Let me give you some cost examples. This is the minutiae that has been handed to all of us on HSSD, prepared by senior managers, who are passionate about their job. They are passionate about the Health Service. We went £5,000 over budget on our use of interpreters. Why? Because we don't know what the mix of people in the Island are. If we had known better information, we might have been able to budget better for that. We, as an Assembly, okayed two public holidays in 2011 and 2012. Every time we do that, it costs Health, at a bare minimum, a quarter of a million pounds – we can't claim that back. We, as an Assembly, made that decision: I'm not saying it was a wrong decision but what I am saying is it took a lot of money out of our reserve.

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When you look at the budget that we are given, £1½ million is in grants. We are not actually spending that on Health. The community is not gaining directly from it. Indirectly, yes, it will gain. So, as has been mentioned by the Chief Minister, we seriously need to look at the way we prepare budgets for big Departments that are crucial in our lifestyle and our enjoyment of life. Deputy Wilkie stole a bit of my thunder by talking about the MSG contract. We, as the States of Guernsey, initiated that. It was not done by the HSSD but, just to reinforce what Deputy Wilkie said, we will go to a doctor, a doctor recommends we go to a specialist, the specialist says you need to go away and have an operation, SSD arranges the flight, the patient goes and has the operation, everything's wonderful, we comes back and *we* get the bill *then*. We don't know at all what the cost implications are. I defy anybody in business to allow themselves to be treated, from a budget perspective, in that way. So it *is* being addressed but, unfortunately, we need time. We are going to need about two years to get that sorted out. But it is *most definitely* on HSSD's radar.

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It is quite clear that HSSD is mandated to deliver the product but all of us, as I have said before, are responsible and we need to understand that HSSD *cannot* work in isolation, as it has been alluded we do. The pressure on the Health Service is created by lots of social factors – the ageing population, social and economic pressures, which are becoming increasingly abundant now, and mental well-being. We must play a part in all of those, in delivering by other Departments and organisations, to help transform the Healthcare system. The number crunchers – and I use that word reservedly because I have been annoyed over the last few days by what has been reported in the Press – the inference that *we* within the Department have no idea what's going on... I can assure you we are very clear, and listening to the speeches this afternoon, I think you can understand that we are very focused and we do know what's going on. We don't *like* what is happening, what we're having to do, but I keep going back to *we* as an Assembly have to make those decisions that affect everybody. We deliver those decisions. What *really* worries me is that, when number crunchers push you down on your base cost, the first thing that is affected is quality,

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3955 and I do not want to see quality reduced within our Health Service. It is really, really top class. We must be well aware that we do not want a situation like has developed at the Mid-Staffordshire Trust. That was as a direct result of number crunchers screwing down the cost factor, which I keep hearing all the time. It is a very difficult service to actually put a cost on. I am sure there is surgery work that just sails through but there is surgery work that becomes very difficult to treat and, therefore, very costly.

3960 A new model for the delivery of healthcare is needed that is fit for the future needs of the Island, prioritising health needs to be cost efficient. I would not deny that, but we are looking at the way that we can change that. That is why I mention our contract with the specialists – that is something we need to address. The current system *is* complex but it is unable to cope with significant increases in demand, which is where we had to make those decisions because of the demand put upon us, which we were not expecting. There are lots of ways that everyone can help, but what I would like to finish with is to stress that we need to go further, and we need to go faster on this, and not allow this to bog us down.

Sir, thank you very much.

3970 **The Bailiff:** Deputy Brehaut, and then Deputy James.

Deputy Brehaut: Thank you very much, Mr. Bailiff, and thank you, Members.

3975 If I could just make a couple of comments on Deputy Hadley’s speech that he made earlier, to cover a few points. He did mention locum and agency staff and it is a point that, of course, he will recognise as a member of the Housing Department, that Guernsey never generates enough professionals at a certain level. We won’t have clinical psychologists: we may have one or two but, generally, we expect these people to come off-Island. Where we have locums and agency staff, these are niche specialisms for the time we have these people. It is very difficult to recruit – virtually impossible to recruit to these posts.

3980 There is an irony in all this, with people saying that morale at HSSD must be at rock bottom but, interestingly, in some areas it is not. For the very reason that working adjacent to a person, working and living with a person, doing every procedure with them, day in day out, knowing they are on three times the salary, for some people that morale may have been, ironically, lifted for a period at least.

3985 I have to say to Deputy Hadley, and perhaps Deputy Lowe, to a degree, that we could easily forget that they were on the Department of Health and Social Services. People have referred to this twelve month period that they were – as was Deputy Gillson, who has acknowledged that up until before the election in May – and in May – the first quarter forecast for HSSD in May was £2.5 million, so that figure has been around for a very, very long time. I can’t say I’ve *inherited* a burden of debt from you but there has been an acknowledgement that there has been a significant challenge for HSSD staff and members to meet.

3990 Deputy Hadley remarked that our actions were knee-jerk and I can see that interpretation but, respectfully, if we do get to debate the Motion of No Confidence, I think the average greyhound contemplating whether to chase a hare on an electric rail is at least lost in a moment’s contemplation... This has not been the case with the motion that we may face tomorrow. I recall being at the away day when Deputy Hadley presented the Vote of No Confidence petition to Deputy David Inglis and invited him to sign it. That just might be a little bit hasty!

3995 Again, there is something poetic about these things, the cyclical nature of the problem that the States faces constantly. Politicians have been coming into this Assembly for years, saying ‘I’ve walked the corridors of HSSD. I’ve walked at the Duchess of Kent. It’s an admin block: you’re lost in bean counters, you’re lost in number crunchers. We want people on the ground caring.’ But, ironically, a Report has concluded – probably concluded – we actually need *more* bean counters. That is the problem. We have not had enough people with the abacuses, with the calculators, doing the book work, so we are where we are.

4000 I’ll tell you a little bit of a story, taking you back to the dim and distant past. I’ll read, if I can, from a letter from another Treasury and Resources Department, from another time, to the Minister of HSSD and the Board:

4010 ‘Thank you –’

That’s always a good start! (*Laughter*)

– for your letter dated 25th May 2010 in which you remind me and your Board of the significant financial challenges

4015 facing your Department. My Board welcomes steps that your Department has already taken and those that it is planning to take in order to reduce its expenditure. I note that, based on current information, you're predicting a likely outturn position for 2010 of £3 million over your Department's budget – £3 million over budget. As you say, certain of your Department's major expenditure area is already the subject of projects under the Financial Transformation Programme. It's interesting to note that, with regard to all final placements, you're forecasting 2010 expenditure in this area to fall within budget.'

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It goes on to say:

4025 'My Board and its senior staff will continue to provide assistance to your Department in addressing the serious financial challenges you are facing. My Board and the staff will continue to assist you.'

Now let us contrast that to this. For me, the crux of the problem, until we get really good management of information to properly forecast the impact of changes and demand, is that we are not going to be able to properly control spending. My perception of HSSD's Board is that they do not recognise or perceive that to be a major or, rather, significant factor in the current situation they are facing. Therefore, I do not have confidence that this is the right group.

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The former Treasury and Resources Minister, met with the same scenario, was supportive. Sadly, the Treasury and Resources Minister is not here to say, but a different Treasury and Resources Minister, faced with the *same* problems, concluded that it is the Board and the Board should go. What is interesting is there are two votes of confidence taking place here. There are two. If you are saying we should have come to this Assembly and argued for £3 million. Why? Because the Treasury Minister has not got confidence that 'this group', as we are referred to, are competent enough to deal with the public purse. That is what he has concluded. Now there is also this foreground/background problem we have got with the decision we made, bearing in mind the context of the relationship between T & R and HSSD – I take the point made by Deputy Wilkie before, regarding the relationship, we can't dwell for too long... Again, I note the T & R Minister is not here: his Deputy is here. The T & R Minister has said more to Jim Cathcart, on his BBC programme, regarding HSSD than he has ever said to me. He has given more information and made some very, very difficult remarks, very targeted, very specific remarks about political Members and our staff in media interviews that he has never said across the table when we have met. In fact, what was obvious to me – and I don't want to dwell on the role of civil servants, it is unfair – but I believe the Minister of T & R's inexperience at this stage means that it is a Department lead by advice from senior serving members and, sometimes, guidance does look a bit like leadership. When I have been around T & R, that is what it has looked like to me.

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If you remember, the Chief Officer, Mark Cook, arriving at HSSD – and, incidentally, he is sat in the public gallery today – he has been lauded by all senior members of staff as being someone that help deliver on the FTP. He is highly regarded. But he and his staff have come under criticism that these people sadly haven't got a grip on finances, they can't manage, they don't have the spatial awareness to do numbers. These people are pushed to near exhaustion to meet targets imposed by T & R and by the pressures within the FTP. The Chief Officer arrived at HSSD some however many months or years ago it was, very quickly took £500,000 worth of management out and offered, as Deputy Adam has said, to do a review of the very type that the Chief Executive is now suggesting we do. So the problem was identified very, very early on that the solution is now being, not imposed, but the solution has come possibly a little late and it is unfortunate that our Chief Officer wasn't given the credit and given the support to act on that initiative.

A very good speech by Deputy Fallaie and I hear clearly what the Chief Minister was saying, regarding reporting back in January. There is an emerging problem and I am caught in a dilemma because I know the golden rule is you don't criticise staff. I want to talk about a situation whereby the conflict of a Chief Officer advising you in a certain way 'because that is the corporate direction we are going in', as instructed by the Chief Executive, and the Board having an issue with that. That dilemma, that dynamic, is playing out more and more frequently, and I just want to place on record my concern about what is called an 'Executive Leadership Team'. Big decisions are being made. I have made mistakes: I will be accountable for them There's an interesting thing: we have a duty of care to them but, in conceding them more power, we also make them more vulnerable, because *they* can make mistakes that make the organisation and us less culpable and, potentially, them more vulnerable.

I note that Deputy Gillson reminded us of his amendment and he was right. Deputy Adam and Deputy Gillson recognized, very early on, that HSSD would face a significant problem and, actually, we were accused of shroud waving and we were accused of being emotive. 'You will do that, won't you because, actually, we can't trust you if we give you the money... Now, we know

4075 what you'll do. you're only going to spend it?' – and we had the same discussion with regard to the unspent balances.

But in closing, sir, I would say that my position regarding the overspend is clear. If we would have come to this Assembly, saying that we were overspending by £3 million, we would have been met by the T & R Minister, who has put enormous pressure on my the political Board and on our staff, who would have, effectively, been calling for our resignation by saying we are financially incompetent in going overspent! That is the climate that we were coming in to.

4080 There was a very, very difficult, curious thing happening here because what, ideally, should happen in a perfect world would be for the Policy Council to unite around my good friend, my beleaguered friend, Deputy Hunter Adam, and support him, stand *with* him for trying to deliver the FTP, stand *with* him for trying to do the right thing. But, unfortunately, with the pressure from the *Press*, with the scent of blood with one poor performance at the Policy Council, *they* have resolved that perhaps they don't want to work with Deputy Hunter Adam. It must be impossible for a man I have a lot of respect for to be ridiculed in the *Press*. I feel deeply for his family because it must have been an exceptionally difficult time and, in closing, before I digress too much – and I've run out of water, my mouth is dry – I just want to say *if*, after this debate, you place a Vote of No Confidence, I will stand down immediately. If we can't have a conversation here today, or later tomorrow, and resolve this situation at HSSD in this way, then I *do not* want to subject my staff and my other political colleagues to what will be, actually, washing the *real dirty linen* in public. So I just ask you all to reflect on that over the evening.

4095 Thank you. (*Applause*)

The Bailiff: Members of the States, it is now 5.30 p.m. Can I just have an indication of how many more people wish to speak. I know Deputy James, Deputy Bebb, Deputy Spruce? No? It is just the two further speakers, then, and Deputy Trott – and then Deputy Adam has to reply.

4100 I think, probably, we are better continuing tomorrow morning.

Billet d'État XXVI

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TREASURY AND RESOURCES DEPARTMENT

2013 Budget

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Departmental budgets approved

The Bailiff: Just before we rise – and I do apologise for having to do this – but I need to take you back to the Budget because when we dealt with the Propositions at the end of the Budget, I drew your attention to the Propositions on pages 89 and 90. What I omitted to do, and I apologise, is to draw your attention to the Propositions on page 98 that approve the individual budgets. (*Laughter*) I would not want anyone to say that Departmental budgets have not been approved for next year, so...

4120 **Deputy Brehaut:** You, could ruin somebody's holiday, sir!

The Bailiff: Just for the avoidance of any possible doubt, I will put to you what are II, III and IV on page 98, the Propositions at the end of that Billet.
Those in favour; those against.

4125 *Members voted Pour*

The Bailiff: I declare them carried.
Thank you very much.

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The Assembly adjourned at 5.31 p.m.