



**OFFICIAL REPORT**

**OF THE**

**STATES OF DELIBERATION**

**OF THE**

**ISLAND OF GUERNSEY**

**HANSARD**

**Royal Court House, Guernsey, Tuesday, 20th June 2017**

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**The Clerk to the States of Deliberation**

S. M. D. Ross, Esq. (H.M. Senior Deputy Greffier)

**Absent at the Evocation**

Miss M. M. E. Pullum, QC, H.M. Procureur; Deputy J. P. Le Tocq (*relevé à 11h 32*)

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# States of Deliberation

*The States met at 9.30 a.m. in the presence of  
His Excellency Vice-Admiral Sir Ian Corder, K.B.E., C.B.  
Lieutenant-Governor and Commander-in-Chief of the Bailiwick of Guernsey*

[THE BAILIFF *in the Chair*]

## PRAYERS

*The Senior Deputy Greffier*

## EVOCATION

## CONVOCATION

**The Senior Deputy Greffier:** Billet d'État XIII of 2017. To the Members of the States of the Island of Guernsey, I hereby give notice that a meeting of the States of Deliberation will be held at The Royal Court House on Tuesday, 20th June 2017 at 9.30 a.m. to consider the Item listed in this Billet d'État which has been submitted for debate.

## Congratulations to Members on winning the Petanque

5

**The Bailiff:** Well, Members of the States, before we start the business of the day, first of all a warm welcome to you all.

10 Just a couple of comments from me first of all. First of all, congratulations to the team of States' Members who, at their own expense, travelled to that other Island to the South East of us on Friday, and as you can see from the trophy won the Petanque and came runners-up in the table tennis (*Laughter*) so congratulations to you.

## Procedural

15 **The Bailiff:** Next, I have been asked to say a few words to clarify a couple of the Rules of Procedure and to refer to a number of other matters of procedure following recently comments made by a number of Members of the States which has attracted some further comment in the media.

First in relation to debate, I have been asked to explain the differences between, and the proper operation of, the give way Rule and the Rule that governs points of order and points of correction.

20 Now, the give way Rule is Rule 17(12) and there are a few points to say in relation to that. If a Member wishes a speaker to give way, then the Member requesting the give way should simply stand in that Member's place remaining silent. I think you are aware of that. The Rule says that the speaker should, and I quote:

At all times be aware that another Member may wish to interject.

25 In other words, an obligation is on the speaker to look out for people who may be likely to stand, and when they do, to indicate whether he or she is going to give way or refuse to do so. Now the layout of this Chamber makes that a bit difficult, as we know, and sometimes people are unaware that somebody behind them is standing, so we find ways of drawing that to their attention.

30 But what I want to empathise is that the speaker does not have to sit immediately. We sometimes see people, as soon as it is drawn to their attention that someone is standing, think they have got to sit down. Don't! You do not have to sit down. Just pause for a moment and think, 'Do I want to give way, or don't I?' and if it is going to interrupt your flow of argument and you do not want to give way, do not be afraid to say, 'No, I refuse to give way.' You are not obliged to do so. But once you have made up your mind whether you are giving way or not, you must indicate  
35 to the other person what you are going to do; and if the Member who is speaker says that he or she is refusing to give way then the other person must sit down immediately.

I would also remind you that if there is a give way, the interjection must be relevant to the point that is being made in debate. Sometimes it is a fine line between what is relevant to the point being made, and developing a further speech. That is a matter of judgement for the  
40 Presiding Officer, and the Presiding Officer will indicate if he thinks that the Member is going too far.

So that is the give way Rule, and I think that is reasonably well understood, except as I say, remember you do not have to give way, you do not have to react immediately, you can just pause and think about it.

45 Points of order and points of correction, Rule 17(11), are perhaps less well understood. If somebody wishes to raise a point of order or point of correction, they must stand in their place and call 'point of order' or 'point of correction', but then remain silent. Do not immediately go into what the point of correction or the point of order is. Having called point of order or point of correction, the Member must wait to be invited to speak further by the Presiding Officer. That is  
50 what the Rule says.

Points of order must relate to Rules of Procedure. Properly raised they can be very useful. I am not sure they are very often properly raised, but a point of order might, for example, draw attention to the fact that the Member who is speaking is not speaking on something relevant to the debate before the States. That could be a proper point of order. Or maybe that the Member  
55 speaker, Heaven forbid, might be tediously repeating themselves (*Laughter*) or tediously repeating something else! That could be a point of order. As I say, properly used, they can be quite powerful, and may perhaps be of assistance to the Presiding Officer. I have to say from my point of view, the tedious repetition Rule is a difficult one to apply. What I may think is tedious may not be what somebody else thinks – clearly, the speaker does not think they are being tedious, or they  
60 would sit down – so it may be helpful to the Presiding Officer, as I say.

A point of correction is simply to correct an inaccurate or misleading statement made by the other Member.

So that is Rule 17(11) points of order and points of correction.

I have also been asked to remind Members that all speeches should be through the Chair,  
65 Members should not use the word 'you' and point to Members, not say 'You said this' and 'You are wrong'; it should be through the Chair, 'Deputy so and so said such and such and was wrong to do so'. Always use the third person. When addressing the States generally, do not say, 'If you vote for this it will disastrous'; 'It could be if Members of the States were to vote for something, or if the States were to approve something, it would be disastrous' – always the third person. That, of  
70 course, is especially important to remember in passionate debates on controversial subjects. Who knows, there may be one or two of those over the next week or two?

So, as I say please bear that in mind. It does help to keep the temperature depersonalised as issues, it keeps the heat of debate down, and it is proper parliamentary practice.

75 Another matter I have been asked to draw attention to is the use or perhaps more specifically  
the misuse of electronic devices. Electronic devices are permitted in the Chamber, as you know,  
and may be very helpful and useful, and they can serve a proper purpose. I have been told that  
there is some concern that some Members may on occasions misuse electronic devices and SACC  
may possibly be considering bringing a Proposition to introduce a Rule governing ... That may or  
may not happen, I do not know. I am certainly not going to attempt to define what is an  
80 inappropriate or improper use of an electronic device, I leave that to your judgement.

Finally, the volume of chatter in the Assembly: inevitably there will be some background  
remarks or conversations relating to the current speaker, but any such secondary chatter, if I can  
call it that, should be relevant to what is being debated, and should be kept short. Members  
wishing to discuss other matters, or to hold a longer conversation, should leave the Chamber in  
85 order to do so, otherwise it is both discourteous to the speaker, and of course, distracting to other  
Members in the Chamber who are trying to listen to the debate.

Those are the remarks. Please bear them in mind, especially over the next few days, and next  
week, when you are likely to be in here for possibly long periods of time. It may be hot, it may  
passionate, it may be controversial. Please bear those in mind and hopefully the debate will go  
90 more smoothly than it might otherwise do.

Thank you very much, that concludes the lesson from the headmaster, (*Laughter*) and we now  
move on with the business of the day, Greffier.

## Billet d'État XIII

### POLICY & RESOURCES COMMITTEE

#### **I. Policy & Resources Committee – The States of Guernsey Accounts 2016 – Amended Propositions carried**

##### *Article I.*

*The States are asked to decide:*

*Whether, after consideration of the reports, statements and notes relating to the respective  
Accounts, they are of the opinion:*

*1. To approve the States of Guernsey Accounts 2016*

*2. To approve the following 2016 Accounts:*

*i. Ports*

*ii. Guernsey Water*

*iii. Guernsey Dairy*

*iv. States Works*

*3. To note the following Accounts:*

*i. Social Security Contributory Funds*

*ii. Elizabeth College*

*iii. Ladies' College*

*iv. States of Alderney*

**The Senior Deputy Greffier:** Article I – The States of Guernsey Accounts 2016.

95

**The Bailiff:** Deputy St Pier, the President of Policy & Resources Committee, will open the  
debate.

**Deputy St Pier:** Thank you, sir.

I am pleased to present to the Assembly the 2016 accounts for the States of Guernsey. They are, of course, an historical and factual record of financial performance during the year, and a snapshot of the States' financial assets as at the end of the year.

Although it is the Policy & Resources Committee which lays these before the States for approval, it is of course the Committees of the States who are responsible for managing and accounting of their own resources, and they will have the detailed understanding of the numbers contained within their individual Committee accounts.

I was of course very pleased to report that the overall 2016 surplus was nearly £25 million, a significant improvement on the budgeted position of financial balance and given the indications of a deficit in the early part of 2016 as a result of lower than anticipated revenues and higher expenditure. However, the appropriation to Capital Reserve in 2016 was £23.9 million lower than in accordance with current policy, and whilst this was a necessary short term measure, it is clearly unsustainable, as it would severely limit the ability and necessity to invest in the Island's capital infrastructure.

Revenue income included some £10 million of non-recurring items, including exception investment returns of £8 million, and transfers from the States' unincorporated trading entities of £2 million. Revenue expenditure reduced by 1.3% in real terms between 2015 and 2016, and was £9 million below budget.

I would like to take this opportunity to commend all Committees for the measures that they implemented to reduce in-year expenditure in response to the adverse financial position forecast at the beginning of 2016.

A significant part of this underspend, though, is also of a one-off nature. Therefore there remains an underlying structural deficit in States' finances once the one-off measures and receipts have been removed. The medium-term financial plan in Phase Two of the Policy & Resource Plan details the proposed strategy to achieve and maintain a sustainable position, for a balanced budget over the next four years, and this will enable Reserves to be rebuilt and investment made in future public services to support the delivery of the outcomes set out in the Policy & Resource Plan. Of course, this speech and debates are not opportunities to rehearse the proposals within the medium term financial plan, so I will only reiterate at this stage that the deficit will need to be tackled for a combination of targeted revenue raising from those most able to pay, and a sustainable reduction in the cost of public services.

As a result of the improved financial position the balance of the General Revenue Account Reserve is approximately £32 million, after making allowance for unspent routine capital allocations of £12 million, and provision for the anticipated losses of the Aurigny Group up to the end of 2016. This balance of £32 million represents nearly 8% of a full year's general revenue income, which is in excess of that recommended within the medium-term financial plan of a policy of a target balance of 5%. So, sir, my Committee will consider further and if appropriate make proposals within the 2018 Budget which could include appropriation to the Capital Reserve in order to compensate for the 2016 reduction.

However, as set out in my recent statement, the Aurigny Group is forecasting a loss of some £6 million in 2017, for which provision will need to be made through the General Revenue Account Reserve.

For a number of years, iterative improvements have been made to the presentation and content of the States' accounts, in order to aid their transparency and understanding. There is always a requirement to balance inclusion of a sufficient level of detail to be meaningful with the need to avoid being lengthy, complicated and difficult to navigate. I think the States' Treasurer's Report provides a detailed commentary on the overall financial position and on the various funds and reserves.

The detailed Committee accounts, which I should emphasise do not form part of the audited accounts are included as an appendix. These accounts include a narrative description of the financial performance in the year, which described the overall financial position from a service



150 perspective and give a more detailed view allowing scrutiny of the activities of States' Committees.  
But I will turn to this a little more when laying an amendment which has been circulated this morning, sir.

155 The accounts also include commentary on the likely impact on the financial statement of the adoption of International Public Sector Accounting Standards (IPSAS). It is intended that these standards will be incrementally introduced commencing with fixed asset valuation and accounting. But it is important to not underestimate the scale of the task involved, which will require considerable staff resources and expenditure. Therefore, there is ongoing consideration being given to the timing and extent to which each of the Standards will be adopted, as in some cases full implementation may not be appropriate for the States of Guernsey. For example, the  
160 impact of calculating the funding position of the superannuation fund in accordance with Financial Reporting Standards, specifically FRS 102.

The Policy & Resources Committee is increasingly concerned that these calculations, which incur a cost to the taxpayer to produce, do not give a true representation of the funding level of the public sector pension fund. The Standard demands an assumption of future investment return  
165 equivalent to that of high quality corporate bonds, whereas in reality the fund is actively invested with a diversified portfolio and has been earning a return well in excess of that which would have been obtainable on high quality corporate bonds. Actual returns over the past five years have averaged 5.8% above inflation, whereas the current corporate bond yield is 0.8% below inflation. This severely distorts the position, and can be confusing for the reader of the accounts, which is  
170 somewhat of an irony as, of course, accounting standards are intended to aid the reader of accounts. The accounting standard here is intended to allow for companies to be compared on a like-for-like basis in terms of their pension liabilities, but this has little real relevance for or application to the States of Guernsey.

In 2015 the States agreed revised pension arrangements. The new arrangements replace the  
175 final salary defined benefit scheme, with defined benefits on a career average revalued earnings basis. The changes remove a number of risks from the employer and place the scheme on a more sustainable footing long term. The notes to the accounts show a deficit solely for accounting purposes in accordance with FRS 102 of in excess of £1.1 billion, which is an increase of £480 million on the 2015 position. This is despite the cash value of the superannuation fund  
180 increasing by some 13%, or almost £150 million, in the year due to the strong investment returns.

Sir, now turning to the Capital Reserve expenditure in 2016 was £31.5 million, of which £25.2 million was in respect of the re-capitalisation of the Aurigny Group as agreed by the States in November 2015.

As Members are aware the losses incurred by the company in 2016 were greater than  
185 anticipated and exceeded the funding available from the re-capitalisation and therefore provision for a further £1 million is included within these accounts. Notwithstanding the reduction in the appropriation to the Capital Reserve from General Revenue, the balance increased from £140 million to £159 million in 2016. This was due to share buy-backs by Guernsey Electricity Limited and Guernsey Post Limited, which amounted to £10 million, and over £28 million of  
190 investment return, as well as lower than anticipated expenditure during the year.

In respect of the Bond, despite lending on being at a slower pace than originally anticipated, I am pleased to be able to report that investment returns have exceeded the coupon, and there was a balance of nearly £6 million in the Bond Reserve at the end of 2016, and I am, of course, looking forward to further examination of the Bond at the forthcoming Scrutiny Management  
195 Committee's Bond review public hearing. **(A Member: hear, hear.)**

I have mentioned the strong investment performance, and the positive effect the resulting high returns have had on the financial position, funds and reserves, several times during this speech. Whilst 2016 could be considered to be an exceptional year, the overall returns achieved over recent years have exceeded targets, and I think this is testimony to the Committee's constant  
200 evaluation of its investment strategy and asset allocation, and proactive restructuring of the

portfolio, where appropriate, in order to maximise the opportunity for returns at an acceptable level of risk.

Sir, finally, I would like to just take this moment briefly to thank Deloitte for their professionalism in carrying out the external audit of the States' accounts for the past 10 years. The current external audit contract has expired and a tender exercise is currently underway. However, Deloitte has advised that it will not be submitting a tender response. Notwithstanding our complete satisfaction with the service provided by Deloitte, it is considered to be good governance to regularly change external auditor, and the Committee, of course, looks forward to building a productive relationship with their successor.

So, sir, I ask the Assembly to approve the 2016 Accounts.

**The Bailiff:** Well, before we move into general debate, we need to deal with the amendment. There have in fact been two amendments circulated, I hope, one in advance proposed by Deputy Soulsby and seconded by Deputy Tooley; and then this morning Members should have had on their desks an amendment said to be proposed by Deputy St Pier and seconded by Deputy Trott.

I believe that the position now is that Deputy Soulsby may second that amendment. Is that correct? Is that right? The amendment which says it is proposed by Deputy St Pier seconded by Deputy Trott will be seconded by Deputy Soulsby, and if that one were to be carried I believe the other amendment would not be laid. Is that the position Deputy Soulsby? That is right. Thank you.

So, Deputy St Pier, do you wish that amendment to be read, just so there is no – ?

*Amendment*

*To insert, immediately after Proposition 3, the following Proposition:*

*"4. To direct the Policy & Resources Committee, following consultation with all committees of the States, to consider the most appropriate structure and mechanism for annual reporting of financial performance; service outcomes; and progress on delivery of the priorities set out in the Policy & Resource Plan and report back in the 2018 Budget Report including with appropriate proposals."*

**Deputy St Pier.** No, I will read it, if that is okay.

*Deputy St Pier read the amendment.*

**Deputy St Pier:** Sir, I do, of course, apologise to Members for the late distribution of this amendment. This amendment has been prompted by the amendment laid last week, or tabled last week, by Deputies Soulsby and Tooley, and I am grateful to both of them for engaging with the Committee since that amendment was circulated.

I will perhaps leave Deputy Soulsby, I am sure, to speak, giving her perspective on the original amendment and the reasons for it, but from P&R's perspective, as I said in my speech, the Committee pages of the report are not audited and the content of those is intended to be the responsibility of the Committees. However, inevitably there has been a process of interaction between P&R and the Committees to agree content of those, and this particular year I think there has been some challenge in how that process has worked between P&R and Committee for Health & Social Care at officer level, and so that, I think, drove the original amendment.

However, sir, I think it has acted as a very useful prompt for P&R to really consider what is the purpose of these Committee pages, and when are they best presented to the States, and in what form? Hence the purpose for the amendment that I have now laid. We feel that in the context of the Policy & Resource Plan in whatever form it emerges at the end of next week, there is of course a programme of annual reporting back on the Plan and it may well be that actually as part of that, either part of that or at a similar sort of time, it makes sense for the Committees to also report back on their operational performance, including their financial performance.

So really what this amendment is saying is that we recognise that the current methodology is perhaps not working entirely to everyone's satisfaction. We need to engage with Committees to actually agree what is the most appropriate, and then bring some recommendations back to the States later in the year.

I hope, sir, that this will have the support of the Assembly, and I am grateful to Deputy Soulsby and Deputy Tooley for engaging with the Committee on this, and indeed, with Deputy Soulsby for agreeing to second it.

**The Bailiff:** Deputy Soulsby, do you formally second? (**Deputy Soulsby:** Yes.)

Does anybody wish to debate the amendment?

Deputy Gollop.

**Deputy Gollop:** In the original amendment that we saw, I thought it was the beginning of a short story because there was a lot about the narrative, and I was not quite sure what that actually meant.

But it did strike me as possibly not a million miles away from an issue we have spoken about in the Development & Planning Authority about the nature of organisation of resources, and how it is done. Because, although I will support the amendment, and I would have supported the Deputy Soulsby/Deputy Tooley amendment. The one niggle I had, because these amendments by their very nature are specialist and probably best understood by treasurers and accountants and scrutineers, is that you could end up with a hotchpotch, which you have already got in some ways, and we have been trying to move away from different types of political entity or board or trading body that is publicly owned, from having wildly different ways of portraying the way in which they operate. Should we have standardisation on issues like depreciation on profit and loss, on notes to accounts, on let us say, details of how you account for marketing human resources and so on? Some of the points we may come to later in debate are themselves interesting. Where do you classify some amounts?

So, for some of us who are a little bit lacking in knowledge on these areas – well, I did get a D in an accountancy A-level once! – I think we need perhaps greater clarity on the meaning of accounts, and how they can be compared with accounts that we are more familiar with, perhaps in the private sector or the voluntary sector.

**The Bailiff:** Any further debate?

Deputy Soulsby.

**Deputy Soulsby:** Sir, yes, I am not going to go into a long speech which I thought about having when I was going to lay my original amendment.

Just in response to Deputy Gollop, this amendment is not about the kind of standards in terms of IPSAS, FRS 102 or anything like that. This is purely about the narratives within each Committee and what they say. I do thank the P&R President and the Committee for P&R for engaging with us and coming up with the amendment that we have got at the moment.

I do not want to go into great detail about what has happened this year, it is unnecessary, and it certainly was not anything between the two Committees. I think it was a series of unfortunate events, certainly from Committee's point of view and the back of the debate last year, where Deputy Yerby made here maiden speech and spoke about the desire to improve the communication and demonstrate the values and what we are trying to achieve in our different Committees, that the current narratives did not work, and how we needed to move towards something more meaningful to those people who are reading it and I think at the time, the P&R President agreed with that and believed that the Committee should have that role in ensuring that narrative worked.

So from the Committee's point of view we took that on board and when we saw the proposed narrative we suggested various changes. We put the changes through and took stuff out, so some

295 of the statistics we have got, say on haematology tests, in themselves are not meaningful. There might be other ways of showing what the value of what that information is, but certainly not in the current format. So we thought we had everything agreed and sent it off, and what we ended up with, and what we saw at the final publication, was not what we submitted, and we thought, well, on the back of the debate last year we felt that an amendment was needed.

300 But I do agree that really the narrative does not fit in the accounts. As a historic record it is lost, and really we ought to be looking at the same time we are looking back at that, what has happened in the year, we should be looking forward, and that is what the P&R Plans are all about, so I was quite happy that we can put the two together, and I think we do not have a document at the moment that does that, so I think that that would be really helpful.

305 So, yes, I am very happy to second the amendment.

**The Bailiff:** No-one else is rising.

Deputy St Pier, do you wish to reply?

310 **Deputy St Pier:** No.

**The Bailiff:** We go to vote then on the amendment proposed by Deputy St Pier seconded by Deputy Soulsby. Those in favour; those against.

*Members voted Pour.*

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

315 We move into general debate. If there is any? Yes, Deputy Laurie Queripel.

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

Just a few comments – queries really, sir. I wanted to start with the (Cabernet Ltd) Aurigny and comments about the Bond as well.

320 In regard to Aurigny (Cabernet), I get the point about securing the lifeline routes, I get that bit, and I get the strategic aspect, the importance of securing those routes. But in connection with Aurigny and Cabernet, I have greater concerns about the access to the Bond proceeds. Yes, there is a rule, a trigger really, that can allow access to a Bond loan, in other words borrowing against a secure income stream.

325 Now, I am a layman, I am not an accountant, so I can only give my simple sort of views on this, but it seems to me that rule, that trigger, borrowing against a secure income stream, is not adequate. In making my remarks, I am basing my remarks on the contents of page 15, page 40 and page 116, I am not going to turn to those but if Members want to turn to them as I am speaking then please feel free to do so.

330 Now, Aurigny, of course, yes it has an income stream, but it is suffering losses, and that is why it was re-capitalised by the States some time ago. So the revenue does not cover the outgoings, and in regard to a loan from the Bond, that means that an extra pressure or obligation is being put on a revenue stream which is already not adequate. Now for me that constitutes a great risk. It might be, when you look at the bigger picture, it might be an acceptable risk, but to me it is

335 tenuous.

As Deputy St Pier said, if we look at the President's remarks, The President's foreword at the very start of the report in paragraph 4, Deputy St Pier refers to exceptional investment returns. That might not always be the case that we will have exceptional investment returns – as we know the old saying goes, markets can go down as well as up, and while we have got exceptional

340 returns that might be adequate to cover any shortcomings, but I am really concerned about the fact that, in a sense, we are sort of taking with one hand and giving with the other in the sense of, as I say, Aurigny are running at a loss, and yet they have received a loan from the Bond. How is that loan being covered, when they cannot even cover their day to day operational expenses?

That is why I am tying these two things together, sir, the Aurigny, the Cabernet situation and the Bond, because I am not convinced the trigger, the route of access to the Bond, or getting proceeds from the Bond in a form of a loan, are adequate when it is just about securing that loan against an income stream.

So, I just wonder if Deputy St Pier, or anybody more learned or more knowledgeable than I am in regard to investments and in regard to Bonds, in regard to accounts etc, can perhaps provide some comment on that.

The second point I would like to turn to is the issue of the pay bill, the States' pay costs. Sir, no-one is keener than me to see the pay bill contained and controlled. I think my record over the years has proved that, I have pressed that issue on a number of occasions. As such, I do note with concern that there has been an increase in the number of full-time employees, and in the number of staff in higher pay brackets. I refer to pages 34 and 55 in regard to that, and I will just turn to those quickly. As quick as I can, it is on page 34, we see that there is a list. The number of employees earning between £80,000 and £99,999, that has increased by 24 to 137; the number of employees earning between £100,000 and £119,999 has increased by two to 46; the number of employees earning between £120,000 and £139,999 has increased by one to 28; and in the bracket below £140,000 to £159,999 has increased by two to 21; but the one of real concern to me is the bracket £220,000 to £239,999. There were no employees in that bracket in 2015 and now there are three. Now there are three. So, actually, if you look at the bottom line of that list, it seems to me the number of extra staff are 30 in regard to, over 30 actually, 34 in regard to the movement upwards in regard to salaries being earned. I could be wrong on that, but I do not think I am.

Then we turn to page 55, and that shows us on page 55, further down the page underneath analysis for full time equivalent staff numbers, pay group, established staff 342.7 as compared to 327 in 2015. So, despite the fact that we are purporting, and I am sure making efforts, to get the pay bill under control, and to try and decrease it in some regards. It seems actually towards the top end, the numbers of staff and the pay bill is going up. Perhaps some explanation of that would ... I know the report gives some explanations, but perhaps a bit more detail on that might be helpful.

My suspicion is – and I am going an example of my suspicion in a minute, sir – that the majority of the pressure in regard to the States finding efficiencies, and contain the pay bill, is downwards towards the service delivery end and the people delivering those services, and those people typically are low-paid staff. I have a suspicion that perhaps a directive has come down from further up to middle and to line managers to say you have to find ways to activate, to progress, this programme of savings and efficiencies.

Something that has been brought to my attention is something that is described as a smoothing contract the States are using. Now, another word, or another phrase or two, for a smoothing contract, in my opinion, is a retainer or minimum hours contract, and I am a bit concerned that we are, maybe loosely, moving in the direction of a zero hours approach, and that concerns me greatly in regard to the States as an employer. What these smoothing contracts do, they also limit entitlements in regard to an employee who is subject to them.

So, it seems to me that pressure is towards the sharp end, towards the lower end, to what you might call some of the States more vulnerable employees, and I am concerned we are in danger of increasing the hardship for those people, and these are the people that deliver our services, and in some cases some of these staff members are applying for top-ups, and supplementary benefit. So once again we seem to be taking with one hand and give with the other. That might help the pay bill to look quite good, but it does not help with States' expenditure over all.

So, I really do think that ... I was expecting ... when we spoke about a programme for savings and efficiencies and we spoke about a programme for trying to contain and cut down on staff costs and the pay bill. I was expecting us to work smarter, we have been told it is all about working smarter. I did not expect, from what I can see anyway, most of all the pressure to be directed downwards towards the sharp end, towards service delivery, and towards the staff who

are delivering those services and typically, as I say, being paid small amounts, or comparatively modest amounts.

So I think ways must be found, ways must be found to push some pressure upwards, and exert some control at the higher end of the wage bill, the salary bill.

400 One final point, sir, and I am sure that this can be corrected if this assertion is wrong – I am sure Deputy St Pier will be able to correct this, or at least if it is happening explain why it is happening – but it has been mentioned to me by a few Islanders that the accounts never seem to be signed off. As I say, it could be that Deputy St Pier can address that and say well, actually, they are signed off, or there is a reason why they are not signed off, but I just wonder if they are signed off, if that assertion can be corrected, and if they are not to explain why they are not signed off.

405 Thank you, sir.

**The Bailiff:** Deputy Green.

410 **Deputy Green:** Sir, thank you.

First of all, I would like to take this opportunity to commend all of the Committees of the States for their efforts in 2016 in order to reduce General Revenue spending, and to help produce what is certainly, superficially at least, the first surplus since 2008. A surplus of around £25 million clearly demonstrates progress, sir, But of course, as Deputy St Pier conceded this morning the final figures are underpinned by a number of factors, including a big reduction in the amount put over into the Capital Reserve, as well as by exceptional investment performance amongst other factors. We are not yet into a phase of fiscal sustainability.

415 So, although our accounts compare very favourably in some ways with many other domains within close proximity of ourselves, we should sound, quite properly, a note of caution, I think, given that there remains an underlying structural deficit, once you take out the one-off measures and the receipts and the other things that are referred to in the introduction to the accounts.

420 From a Scrutiny Management perspective, and still in a positive vein, I would like to highlight an area where I am pleased to say that the work of the Scrutiny Management Committee has had an impact in the year since the Election. Members will note that the presentation of the 2016 accounts is measurably different to preceding years. This is, in most part, due to the culmination of a Scrutiny Committee review of the way the States of Guernsey presents its financial information to ourselves and the public at large. I should at this time acknowledge the work of the members of the former Public Accounts Committee, who played a significant role in this endeavour. The Committee's report was finalised in January this year and early sight of that report was given to the Policy & Resources Committee to enable implementation, if possible, of some of the report's recommendations for this year's accounts.

425 It is pleasing to note, and I thank the President of P&R for his letter confirming the adoption of some of the recommendations prior to publication, that the following improvements have been made to the current document: (1) the States' Treasurer's report includes additional information on the investment strategy in the States of Guernsey Bond issue; (2) each Committee narrative includes details of its mandated responsibilities; (3) there is a new appendix which reports all the Health Service related expenditure in one consolidated statement; (4) the accounting policies have been reviewed and where appropriate have been expanded to include further detailed explanation; and (5) there is an additional disclosure detailing the potential effects of moving towards the International Public Sector Accounting Standards (IPSAS) on the financial statements.

430 The published report outlining the Committee's position on the presentation of the States' accounts is now available on the Scrutiny section of the States' website.

435 Sir, the Committee does, however, have to note some points of concern. The first point has, I know, previously been raised on numerous occasions in this Assembly by the former Chair of the Public Accounts Committee, progress towards the implementation of IPSAS standards has been much slower than expected and given that, as we understand it, the funds have been earmarked for this work, the Committee would expect a reasonable level of progress to be made before the

production of the 2017 accounts. Mindful of the comments that Deputy St Pier made earlier, and I will be following that up with a letter to Policy & Resources Committee to outline our particular expectations in that regard.

Secondly, the Committee would expect the improvements that have been made in the clarity of the information in respect of the trading agencies to be mirrored in future in the principal Committees information moving forward.

Thirdly, and perhaps most importantly, the Committee would like to express its disappointment that despite a Resolution of the States confirming that the Committee has the right to scrutinise actively the external audit process, its involvement in the last year has been somewhat limited. The Committee expect to play a more significant role in the future, and I will again be writing to the President of the Policy & Resources Committee outlining how we would envisage that engagement in the future might work.

Sir, finally, looking forwards and towards the medium term financial plan debate we need to follow through on a number of measures, in my view, that will genuinely return us to fiscal sustainability, including credible and clear plans for containing expenditure on an ongoing basis, but also clear and credible plans for raising additional revenues, if we do wish to see genuine fiscal sustainability in the future.

**The Bailiff:** Deputy Laurie Queripel ... Lester Queripel, sorry. Sorry, Deputy Queripel!

**Deputy Lester Queripel:** Sir, you are in danger of tedious repetition there. *(Laughter)*

**The Bailiff:** Surely not, Deputy Queripel!

**Deputy Lester Queripel:** Sir, it seems to me to be a pretty futile exercise for any Deputy to express their concerns about the ever-increasing pay costs with our Civil Service, especially the creation of new roles. Because nothing ever seems to be done to address that, and it will certainly ease my conscience if I can say something about that in the Chamber today. I realise that my brother Deputy Laurie Queripel has already highlighted his concerns, but I want to elaborate and expand on those concerns, and I will do my utmost, sir, to avoid tedious repetition. **(A Member:** Hear, hear.)

Sir, I have to re-emphasise and just mention a couple of points, sir, *(Laughter)* to strengthen my argument. As he said, sir, if we look at page 34 we see that in 2015 there were 112 civil servants earning between £80,000 and £99,000 a year, and that increased to 137 in 2016. There were 114 civil servants earning between £100,000 and £250,000 a year, and in 2016 there were 119 an increase of five, as Deputy Laurie Queripel has already said. The graph tells us three posts come with salaries between £220,000 and £239,000 a year yet they do not appear in the 2015 column. So my first question to the President, sir, is: were those three new roles that were created, or were they vacancies that have now been filled? If they are new roles, is he able, please, to give me job descriptions for those roles?

My great concern is that we seem to be heading in the direction of having too many chiefs and not enough Indians, so surely there is a danger that we are going about recruitment the wrong way. If we look at the previous page, we see that the number of police officers reduced by two, the number of fire officers reduced by one, and the number for nurses and clinical consultants only increased by 11 from 1,001 to 1,012. I realise that in response Deputy St Pier may say that the three roles with salaries between £220,000 and £239,000 a year are for consultants in our health service.

I am not pointing any fingers here, I am just expressing my concerns. I am in no way criticising the employment of consultants or any civil servants on high salaries, for that matter, as long as they are key to our being able to ensure the well-being of our community.

Another question for the President, who decides when new roles within our Civil Service need to be created, and who is monitoring recruitment?

The role of a Deputy and the salaries we receive comes under constant scrutiny from certain members of our community who accuse us all of lining our own pockets when nothing could be further from the truth. How can it be true when some of us are actually working for less than the minimum wage, due to working all the hours we work each week? To state the obvious sir, we could all earn a lot more than we do as Deputies if we were to work the same amount of hours for a private company or running our own business.

Reducing the amount of Deputies by seven for this Assembly has resulted in a saving of somewhere between £200,000 and £250,000 per annum. I believe I am right in saying that, I stand to be corrected. Yet we still have 256 civil servants who earn a lot more than the President of a Committee, five times as much in fact, yet it is the President who gets it in the neck when things go wrong.

So the whole dynamic seems to be somewhat skewed, both in the eyes of the public and in reality. Surely that needs to be addressed, and I am wondering how we can address that? Perhaps a media release would help. I am sure there is a perfectly good reason for our needing seven civil servants who earn between £200,000 and £250,000 a year, but the point I am making here is the salary for just one of those civil servants equates to the total amount saved by reducing the amount of Deputies by seven. Now, sir, as we all know, we are going to be asked to agree to increasing the number of civil servants when we debate Phase 2 of the P&R Plan, and I believe I am right in saying some of those roles are new roles. So, I am sure Deputy St Pier can appreciate my concern and my questioning whether or not we have, or we will end up having, too many chiefs and not enough Indians.

Sir, I want to emphasise at this point that the civil servants I work with on a regular basis are all extremely professional and do an excellent job, but there is not a single Deputy in this Assembly who can possibly be across everything that goes on in every department. We have to put our faith in our colleagues on individual Committees that they will hold their own department to account.

Sir, I will head towards close by asking the following questions. Who is monitoring performance overall of staff within all departments? I suspect Deputy St Pier will say we have a public service reform initiative in place and that our CEO is all over that – in which case I suppose my question really is, who scrutinises the scrutineer? Also who is responsible for overall political oversight? Because the answer to that will be that we are all responsible for political oversight, but as I said earlier no one in this Assembly can possibly be across everything that goes on in every department. So, I would like to hear Deputy St Pier's views on whether he thinks there are ways in which we can step up a gear because surely we need to provide an absolute assurance to the people of Guernsey that it is the Deputies who run this Island and not civil servants.

It may be, of course, that Deputy St Pier will say that the amendment he laid this morning will address that. But I need an assurance, because the amendment tells us that P&R will consider the most appropriate structure and mechanism for annual reporting of financial performance; service outcomes; and progress on delivery of the priorities set out in the P&R Plan. So I need some clarification from Deputy St Pier, does that mean that all of my concerns will be addressed?

Sir, in closing I know I do not need to remind my colleagues of the fact that the wage bill for the States in 2016, as we are told on page 33, was £216,130,000, and I say that for the benefit of our fellow Islanders listening on the radio who may not have read the accounts. I realise, of course, that those salaries include pension packages, and possibly additional packages of some kind, but the fact is that every single penny of every single salary and every single package is paid for by the people of Guernsey.

Thank you, sir.

**The Bailiff:** Deputy Roffey.

**Deputy Roffey:** Thank you, sir.

I want to start with the public sector pension scheme. It is stated on page 16, quite clearly, that the funding under FRS 102 fell from about 63% to about 53% over the last year, and the President



of P&R made a big deal in his opening speech in flagging up how poor a guide that is really to the true state of the pension scheme, because it assumes investment return on the pension fund far lower than he actually expects or is apt to expect to receive. But I am sure there are CFOs up and down the land who would be saying exactly the same thing, that our pensions deficit is not really anywhere near as big as FRS 102 would be suggesting, because we will get a bigger return on our pension fund than we are allowed to assume under FRS 102, but they have to declare FRS 102 as the state of their pension, because that is the extremely prudent stance taken by International Accounting Standards.

I do worry to some extent when Government decides that they are a different beast and that they should be treated differently to everybody else – I mean they are not, they are declaring it, but the indication was almost ‘Don’t take too much notice of this, because really it is a fantasy.’ As I say, Chief Financial Officers would all be saying that as well. In fact, I think it is going to get worse, isn’t there a new Accounting Standard? I lose track of them, FRS109 is it, or something, that is going to be even more parsimonious in the returns that can be assumed?

I worry about this scheme. I know we have just been through the trauma of negotiating new terms for our defined benefits scheme, but it is still going to be a defined benefits scheme. That means all of the risk is sitting on taxpayers of the future. Exactly the same taxpayers who almost exclusively, with one or two exceptions, have had their own access to defined benefit schemes removed. Almost none of them still have the benefit of defined benefit scheme, but they are supposed to be the guarantor of last resort of this defined benefit scheme. To me that is a double whammy and is completely unfair.

I think we have copped out. I think we should be moving with as much dispatch as possible to a new defined contribution scheme pension for new entrants. I realise trying to renegotiate with existing civil servants and other public sector employees, given the experience of the relatively modest changes to a career average scheme, would be absolutely impossible. But I keep being told that the demographics of our public sector are such that there is going to be a significant change over in who we employ in the decade ahead, so surely now, not in 10 years’ time, is the time to consider going to a defined contribution scheme. I do say that, not to save money, I do not want our contribution into that scheme to be any less than we put into the defined benefit scheme, but to remove the risk which sits with this Assembly, it is an illusion really, because the risk does not sit with this Assembly it sits with the people of Guernsey, most of whom no longer have anything like that sort of pension scheme. It is just unfair.

I know in the newly negotiated scheme, if it survives legal challenge, there is a cap to how much we need to put in. I still think if it comes down to it, and we have people with accumulated entitlement and no money to pay it, it will be the taxpayer in 10, 20, 30 years’ time, who will have the moral and maybe the legal responsibility to pick that up, no matter what those changes.

So I ask, it is not the kind of thing to make you popular with the people you work with day in and day out, but I really do ask P&R to follow what just about every responsible private sector firm has done over the last 10 to 12 years, which is moving, certainly for new employees, to a defined contribution scheme to remove that risk. I realise there may be an issue with nurses and teachers that you are trying to recruit from the UK, largely where their comparable scheme is a defined benefit scheme. I do not like have multiple schemes, but we may just for pragmatic reasons have to make some accommodation there. But for our normal, and our high paid – we keep hearing about this morning – in some cases, public sector employees, I really do not think it is a fair risk to put on Mr & Mrs Le Page who are not going to have that themselves.

Moving on to the pay costs we have heard a lot about it this morning. I do not have quite the same emphasis as the two Deputy Queripels. But it is a fact, spelled out quite clearly in the narrative here, that our percentage of expenditure on pay rose to 54% last year, which I think – I stand to be corrected – might be the highest percentage of expenditure there has ever been on staff costs, rather than on non-staff costs.

Now, I want us to have the staff that we need, of course, but I worry that that increasing percentage of staff costs is inside a picture of, actually, incredibly well-contained expenditure

overall. What that says to me is probably happening is that when an edict goes out you will cut 3% of your spending for next year, short termism kicks in, and cutting non-staff costs is usually a quicker route to making savings than cutting staff costs. I do not think we want that sort of short termism. I think if we are going to have the sort of transformation we keep being told about we need long-term thinking. So just like with the pension, I have another suggestion from the private sector, and that is that all the real senior civil servants or senior executives in the private sector that have a real impact on strategy, not 95% of them, but the real top ones that will be determining these things, a large chunk of their pay should not be paid regardless, should not be paid on an annual bonus, should be paid as part of an LTIP, a long-term incentive plan to incentivise long-term thinking over a three- or five-year period; otherwise we will have short termism. We will be saying cut 3%, cut 5%, cut 5%, and those people will be looking to do it in the quickest way possible, and that is not always the best way possible in the longer term.

One final point, I think, on Aurigny. I do not really agree with Deputy Laurie Queripel, that their situation is going to be made worse if they have money from the Bond when they are losing money now, because if it is replacing higher interest borrowings at the moment it is actually going to make those losses slightly lower than they would have been otherwise. We keep recapitalising Cabernet Limited, we do not declare any kind of impairment. I wonder whether we are massaging our bottom line. If we are putting money in and we do not really expect to get it back, treating it as an investment that we expect to get a return on is a bit of an illusion, I think, and I think it is the wrong thing to do.

I have thought about it, sir, and I will give way.

**The Bailiff:** Deputy Laurie Queripel.

**Deputy Laurie Queripel:** I thank Deputy Roffey.

In fact he is making the point I was trying to make in a far better way, so I thank him for that.

**Deputy Roffey:** Okay, thank you very much for that. I am glad I gave way.

All I am saying is, I do believe that ... well, we are not going to discuss Aurigny again; if we start doing it then we will go off on a route, but I just think we need to be very, very honest with our bottom line.

Finally, I cannot help reflecting on something that Deputy Lester Queripel said. If I understood him right, he said that people out there think that Deputies are underpaid.

**Deputy Lester Queripel:** Point of correction, sir.

I never once said I thought they were underpaid, and I never once said that I thought the people of Guernsey said they were underpaid.

**The Bailiff:** You should have paused and waited to be called on a point of correction.

**Deputy Roffey:** Okay. I will go to *Hansard*. It was something along, 'We get less than the minimum wage, if you take in all the hours we work, Presidents get paid an awful lot less than some of their civil servants even though they get all the flack, it feels wrong to me and it feels wrong to the people out there.' I thought it was something along those lines. I do not think it does feel wrong to the people out there. I think if you try to find the percentage of people in Guernsey who thought that Deputies were underpaid, you would find it was actually fairly small.

**The Bailiff:** Deputy Fallaize.

**Deputy Fallaize:** I am grateful to Deputy Roffey giving way. Would he agree with me that if Deputy Lester Queripel is receiving anything close to the minimum wage he is doing an average

655 of more than 100 hours a week on all 52 weeks of the year, and if he is, I think the States have a considerable duty of care to him, and need to find some way of intervening. (*Laughter.*)

**The Bailiff:** Deputy Roffey.

660 **Deputy Roffey:** My understanding about the minimum wage is that it does not apply to self-employed people, which, of course, we are. If he is doing those sort of hours it is because he is a real enthusiast for politics. (*Laughter*) I worry for his health.

665 If we start discussing Deputies' pay now, we will go all over the place, but I could not help making that comment at the end. I think we are actually relatively well paid for doing something that we care about anyway, and most of us, if we could afford to, would probably do it for nothing, because we actually care about the Island that we live in. I am not suggesting it should be done for nothing, because people need to live, and I am not trying to make this an exclusive club, but there has to be a degree of vocation.

670 **The Bailiff:** Deputy De Lisle.

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

I wanted to just make a few comments, one of which is with regard to the Capital Reserve, and its impact on, as Deputy St Pier has made the point, with regard to its impact on deficit reduction.

675 I have been supportive, and continue to be supportive, of the reduction in appropriations to the Capital Reserve while in fact we struggle to balance the books, essentially, and I feel that if we are tackling revenue spending with our 3, 5, 5 programme, there is no reason why we should not also look at the capital spending and the Capital Reserve and appropriations to that. So, I think the two go hand in hand, and I would like to call for in the new Budget to consider that fact, and to continue in that particular direction until, in fact, we have got rid, if you like, of this structural deficit, that Deputy St Pier is talking about.

680 That was one point that I wanted to make. The other one is with regard to corporate tax.

The corporate tax policy, I think, needs further review to avoid GST in the future, and further hikes in TRP. The policy has increased taxes, and charges, on the individual, and eroded benefits to pensioners and young families, in fact, and has placed our finances in deficit, and failed to produce the economic growth that we would like to see.

690 Now, I call for P&R to extend the scope of the corporate tax rate, applicable to companies to reduce the deficit and lighten the burden on the individual. I point to page 5 at the bottom there, where we can see that, in fact, companies or the income taxes collected from companies' amount to about £47 million, which is only one fifth of the tax take from individuals. I think this is something that we really need to look at, because individuals have been strapped, at the current time, with increases, and in fact, new taxes that are being proposed continually.

695 The other point that I want to mention, very quickly, is the importance of fiscal constraint, and also the misuse of public funds, and policy decisions made without informed public consultation and agreement. This is something – and the waste of public money – I think all those areas have to be looked at very, very closely in our considerations with the way forward, as some people have pointed to, we have got to be more fiscally aware of some of the mistakes that have gone on in that past and the way to, in fact, work in the future.

700 So, with that, I leave the point that public service reform which is the rethink, if you like, of public services in the way that they are delivered. I think the delivery of reform should lead to a lot of economies, if you like, within the structure of our income related measures, and I would hope that we can see some benefits, really, to the bottom line, in terms of delivery, of fiscal restraint, really, as a result of public service reform.

Thank you, sir.

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**The Bailiff:** Deputy Inder.

**Deputy Inder:** Thank you, sir.

I was just having a quick read on my electronic device, for Deputy Fallaize's information, sometimes they are quite useful for research. (**A Member:** Hear, hear.) The Public Service Reform Guernsey 2015-2025 states the following outcomes: improved value for money; improved customer engagement; improved performance management; and improved staff engagement and capabilities. But there is nothing in that document that talks about efficiencies of staff in terms of working better, working smarter, and doing it with less staff.

I just want to move on to this figure on page 34. I have done a very rough calculation, and it looks like there are 256 people in this Island that combined get £27 million, which looks like to me around 13% of the total wage bill. Of the 5,500 people that we employ, 256 people get around 13% of that total wage bill. So, I would like to ask Deputy St Pier, is this a reasonable average of senior management to people actually delivering services?

Thank you.

**The Bailiff:** Deputy Yerby.

**Deputy Yerby:** Thank you, sir.

My speech will be much more brief and rather more devoid of hope than my maiden speech was this time last year.

Sir, there is being corporate, and then there is imposing a central narrative on everyone. Being corporate involves trying to understand each other's situation and presenting a picture which we all accept is an honest reflection of reality. By contrast my impressions of what happened here are as follows.

On HSC, Deputy Soulsby was rather more gallant than I would be, my brief interpretation is that we tried to work with P&R on the narrative and our efforts were rejected. Deputy St Pier in his opening speech said narratives should strike a balance between length and meaningfulness, but P&R's choice added length and removed meaning from our narrative. On the SS, and I think this is normal for Committees, we had little sight of or interaction with P&R in respect of our narrative before it was published. Similarly on Overseas Aid, I did not see the narrative before it was published, and I do need to clarify a point on public record.

On page 133 of the accounts, the final paragraph says that there is an additional £152,000 available for emergency aid in 2017, nevertheless as the paragraph above that states, the vast majority of that funding is fully allocated already to programmes, but due to timing some expenditure would not be incurred until the following year. For clarity in 2016 emergency relief funding was allocated following Hurricane Matthew in Haiti, drought and famine in North East Africa and humanitarian crises in South Sudan and Yemen. Again P&R's narrative is not technically wrong, but does give the wrong impression about the availability of funding, as well as our readiness to respond to humanitarian crises and natural disasters.

So, in respect of the Committees that I know I am aware that P&R's narrative is not fundamentally wrong but it is a very idiosyncratic P&R version of the truth. That makes it equally hard for me to be fully comfortable with the way the accounts represent the areas of the States that I am less familiar with because I do not have the inside knowledge to triangulate that with.

I do acknowledge that the St Pier/Soulsby amendment should resolve some of my concerns, which I should emphasise are not with the numbers themselves, but with the political interpretation of those numbers. However, Deputy St Pier did effectively promise the same in the accounts debate last year, and even in the third person, sir, I am sure my impassioned disappointment is clear.

Being corporate does not mean falling in line with the centre. Being corporate means working together as a States, and I feel that these are P&R's accounts, not the States' accounts. So, in the manner of Deputy Parkinson last year, I am voting against the accounts this year. Again, not I would emphasise because I believe the numbers are wrong, but because of my heartfelt disappointment at the way they have been put together, my sense of promise is broken, and my

conviction that P&R are imposing an idiosyncratic view of the fiscal and financial world, even in the accounts, which is not a corporate view, and which is capable of challenge and, indeed, requires that challenge.

I am afraid I do not think my mind can be changed in the course of this debate, but I am putting this down as a marker for the kind of dialogue I would like to see between P&R and the Committees this year, so that I am less grumpy and more hopeful again by next June.

**The Bailiff:** Deputy Paint.

**Deputy Paint:** Sir, some States' Committees have the ability to gain extra revenue over and above their allocations by means of charges on various aspects of what they control. Over the last few years experiments have been carried out using this non-allocated money, non-allocated public money. Many of these experiments and operations have been complete failures. Is there any intention to put curbs and limits of what Committees are able to spend on? Are the allocations to each Committee adjusted to allow for the Committee's ability to gain funds by these extra charges?

I am asking these questions in the hope that these curbs can put some curbs on all the unnecessary spending that we see around us all the time.

Thank you, sir.

**The Bailiff:** Deputy Ferbrache.

**Deputy Ferbrache:** Sir, I am starting at a point that I did not really expect to, and it really is a result of the comments by Deputy Yerby, because the point she is making is corporate does not mean corporate in the Guernsey PLC way that we have all had. People have expressed to us we have all been told Guernsey has got to act like a PLC. Well, a government can never act like a PLC, **(Several Members:** Hear, hear.) because the point of a government is to provide – largely its *raison d'être* is to provide – social benefits in one form or another, and these accounts show that 73% to 74% of the States' income is spent on social matters, if I can call them that. Long may that continue, and that is the real reason for any government, and this particular Government. But governments have to be prudent. They have to, where possible, balance their books, and there are very few governments in the world that balance their books.

These accounts show, and I appreciate the £23.9 million that we did not attribute to capital reserve that we otherwise would have done, and the several items that were exceptional come into play, but subject again to the point that I know Deputy Dorey always makes, and quite properly so, about not putting enough money aside for capital projects. In 2016 the books were balanced.

An allusion was made, by Deputy Green, as to our near neighbours, and in reality I would be much surprised if our near neighbours, and of course we want to work with them in whatever way we can, are not envious of our true financial position **(A Member:** Hear, hear.) because these accounts speak well for Guernsey as a government. Now, I know, as Deputy St Pier said they are a historical analysis and the financial accounts show what we spent and what income was accrued up to the end of 2016.

Next week we will have the Policy & Resources Plan Phase Two – what a grand title that is! We will have the opportunity to discuss the Medium Term Financial Plan or strategy, and I will have a fair bit to say about it then. I will also have another bite of the cherry at Budget time in November. But looking at these figures they are prudent and they are reasonable, but what I do say, is that, as one of my colleagues made a comment yesterday when we had the presentation of the Medium Term Financial Strategy, the figure of £6 million for growth is just not acceptable, and therefore when we look at the 2017 accounts, and the 2018 accounts, and years following, we are going to have to be realistic as to the money that we are going to have to spend.

810 Now, the last thing I want to do, and I hope that Deputy St Pier can give us that assurance – in fact, I am sure he will – is that we ever look at capital taxes, either capital gains tax, or inheritance tax. Those are a no-no. We do not need to touch those. We have to increase our income. The best way we can increase our income, and the most prudent way, would be to encourage business, to encourage growth, because that means more people, and indeed even more corporations, and I appreciate Deputy De Lisle's point, would pay more tax and that means there would be more revenue for the States of Guernsey.

But we should applaud the 2016 accounts. I appreciate that Deputy Yerby will not vote for them, there might be one or two others, but I would anticipate that they will be overwhelmingly approved by the States during the course of this morning, or this afternoon.

820 But what we have got to look at is that we will have challenges, and when we look at it, and again, it is a matter more for next week, but I think I can properly refer to it this week. We have over the last – when I say 'we', I mean the States of Guernsey, of which I was not a Member – we have underspent on Capital Reserves over a five-year period by something like £105 million. I think the figure of £352 million is what we should have put aside, and we have actually put aside 825 £247 million. But we have lived in extraordinary economic times. None of the great experts, all these economists with all their titles and all their experience, really know much what they are talking about, because none of them predicted the 2008 crash; none of them predicted that in 2017 we would have interest rates in England, Britain, Wales of 0.25%; none of them predicted there would not be much above 1% in America. Nobody predicted that. Nobody predicted the 830 economic position that we are in, so the fact that Guernsey has come through it, in the way that it has is a credit to us, and shows what a well ordered and disciplined society we are. There have been mistakes made, there have been decisions made that should not have been made, and they cost us money, but you cannot look backwards, you have got to look forwards, and that is the debate that we should be having in more detail next week.

835 I do absolutely concur with the point made by Deputy Laurie Queripel and developed, not repeated too much, by Deputy Lester Queripel, and that is where we look at the number of States' employees with a package of over £80,000 per year. What that has meant has been well explained. In fact, if you recall, it is explained in the accounts. Until this year we looked at packages of £70,000 or more, but because of inflation of 14 point whatever it was percent, we now look at 840 packages of £80,000. I do not think that particularly matters, but what it does tell us is that the number of people who are on a package of £80,000 plus in one year has increased by 12.5%. I do not know of any other institution that, in harsh and difficult economic times, would increase its higher paid employees by 12½%. I accept the arithmetic that Deputy Inder has made, well I am not sure I accept it, but if he says he has done the calculation broad brush it seems to me to have 845 good sense. We have actually got 119 employees in the States of Guernsey who have a package of over £100,000 per annum. That is a lot of money for a community of 63,000 to 65,000 people. I appreciate that we have got to do everything, we have got a Police Force, we have got a Health Service, we have got all these other things that we have got to meet, that other communities of 65,000 people do not have to meet. But overall, we are where we are.

850 I look at the Bond, and when I was not a States' Member I was an interested observer, but I was not an avid observer. I did not read the Billet from cover to cover. I did not always read *The Guernsey Press*, I did not always listen to *Guernsey Radio*. I was perhaps doing more, what I regarded, at least, as more interesting things with my life at that particular time. But I was not aware, as a citizen of Guernsey, that we were spending £14.6 million on the Bond setting-up costs. 855 I was not aware of that (*Interjection*) and I have got average intelligence, so therefore the average Guernsey man and Guernsey woman, I do not think also would be, or I think also would not be aware that it was going to cost between £14 million and £15 million to set up this Bond of £330 million, and it is still showing as fully owing, and that is the right way to account for it at the end of 2016, as it was at the end of 2015. Now, I fully accept it is right to invest, and that is what 860 we are here for, in your hospitals, in your education system, and in your social housing, I fully accept that, but those are not commercial investments, and what we took out, when we took out

the Bond, was a commercial loan at 3.445% or whatever it is, and most of the money, over £70 million has been lent to Guernsey homeowners. Now we make a small return on it, we borrow at 3.4%, we lend at 3.64%. That is what the accounts show, and another £20-odd million – I think  
865 £27 million or whatever the figures might be, the £20-something million anyway – at the end of 2016 was the Aurigny loans. You call them whatever you will, whatever corporate entity you put in them.

Now, again, Deputy Laurie Queripel I think is right. Clearly, Aurigny has an income stream, but its predicted £6 million was mentioned today by Deputy St Pier, I thought it was £6.3 million in a  
870 previous States' debate, that it is going to lose this year. It lost millions last year. Unless there is something radically done, it is likely to lose £x million, I do not know what that x will be next year.

Now when you look at commercial investments, you generally only lend money to entities that you think, not you think, you are as sure as you can be, that you are going to get your money back at the end of the period. I would be grateful, because these are States' monies, and as  
875 various States' Members have said, particularly Deputy Lester Queripel, every penny that we spend here, same point made by Deputy Roffey, it is not our money, it is the taxpayers' money. It is the money that is paid for by the people of Guernsey when they go and buy a gallon of petrol or when they pay their income tax or when they pay their rates. It is their money. Therefore, when we look at what we are actually doing, we are borrowing money, it seems to me we are, as I say  
880 where we are, we cannot un Bond it, and I know lots of people say it is the greatest investment and it is giving a great return and interest rates will go up. I mean three members of the Bank of England Monetary Policy Committee (MPC) decided they should go up this time. One of them is retiring so probably there will be a bigger majority next time, But they are not going to be too long before they go up, so the return on fixed income investment is probably, at the rate of  
885 return, going to be a good one.

The point was made about an exceptional year and we therefore got a good rate of return, and again, I think it was Deputy Laurie Queripel who said, 'Well, you are not always going to get an exceptional year.' By definition if every year was the same, it would not be exceptional. So, interest rate returns go up and they go down, they have gone up, they might well go down. We could  
890 have a Corbyn government at the end of this year, we could have Mr Trump, perhaps President Trump saying things that he might not otherwise say, I do not know what is going to happen, nobody does, nobody does, But we are in a position whereby we have got a big responsibility, or the States of Guernsey in 2046 will have to write a cheque for £330 million. I would like to be assured that the investments, investments in inverted commas, we have made up to date and over  
895 £100,000 million in the two items I have referred to are secure, and those will be able to genuinely repay the debts that they owe when they are due. There is no point just lending money, Deputy St Pier said, in his opening remarks today; lending this year has not been what we expected. In other words they have not lent what they thought they might lend.

So, we are in a position whereby we have a massive, for Guernsey standards, financial  
900 obligation we are going to have to discharge as an Island in 30 years' time, 29 years' time, and have we really got that covered? So, I would like that, because that does give me some concern, on what otherwise, I think, is a pretty good picture, and it will be an even better picture when my comments are accepted by the States' Assembly next week.

905 **The Bailiff:** Deputy Prow.

**Deputy Prow:** Thank you, Mr Bailiff.

Sir, when the 2015 Budget was debated on 28th June last year, I rose to draw attention, amongst several other things, to the fiduciary balance sheet, and there was a reference to  
910 HM Receiver General, an amount of £15,717,000. Please may I, in this debate, return to a similar reference to an amount of £17,004,000 in the balance sheet on page 24 of the Billet before us.

Sir, this is a considerable sum of money. I ask, through you, sir, if the President saw any merit in publishing the accounts of HM Receiver General. I have checked with *Hansard* at 2420 where the

915 President helpfully, broadly explained the purpose of the fiduciary balance sheet, as holding assets which are not available to fund public services. Deputy St Pier did, however, specifically say:

But I do agree with the general point that Deputy Prow was making, that actually the publication of those would be in the interests of transparency, and that is perhaps something we can pick up with HM Receiver General.

Furthermore I raise the question of accounting for fines collected which the then HM Procureur advised us at 2430 that they:

go round in a circle and come back to the States ... general revenue.

Sir, as I understands it, this is unlike the proceeds of crime which are confiscated from the activity by the Law Enforcement and the Law officers, which end up in the seized asset fund.

920 Sir, therefore I agree with the President of P&R that this entry in the accounts of £17 million, which has increased by over £1 million does require some further detail. Perhaps the President might be able to update the Assembly where we are on this.

Sir, *Hansard* also reports there was applause when I sat down, but the President should not be too concerned by this, as this was, sadly, also my maiden speech. *(Laughter)*

925 **The Bailiff:** Deputy Soulsby.

**Deputy Soulsby:** Sir, there are a few points that I think deserve consideration and should be borne in mind when we debate the Medium Term Financial Plan next week.

930 Firstly, as the President of the Scrutiny Management Committee has pointed out, there appears to have been no movement towards IPSAS. Note 2 gives a bit of a history and possible implications. **(Several Members:** Microphone!)

935 I should point out that note 2.i. on page 29 is not strictly accurate when it says that the States reaffirmed its decision to move to IPSAS in 2015. The actual Resolution which arose from an amendment proposed by myself and seconded by Deputy Trott was that the then T&R should formally commence a phased implementation with effect from 1st January 2016. Now, I do appreciate it is a big job, but I am disappointed that no movement towards its introduction has yet been made. So what does it matter, I am sure there are some here who think this is just an academic debate among accountants. They might be right, but there is a lot of talk about structural deficits, indeed, the P&R President mentioned it earlier, and the need either to save more and/or raise taxes because of it. But have we really, or perhaps it is worse, perhaps better, 940 did we really have a surplus of £25 million last year.

945 We have a fiscal policy to spend 3% of our GDP on capital. Why? If we had proper depreciation we would understand how best to replace our assets and when. And talking about capital the Medium Term Financial Plan concerns itself with the allocation to the Capital Reserve. It is clear the real issue is how much of the Capital Reserve is used. Look at page 116 and whilst £31.5 million is meant to have been spent last year, £25.2 million of it was a recapitalisation of Aurigny. Actual bricks and mortar stuff was £6.3 million. At the same time the pay costs to manage that was £½ million. As an aside those pay costs, as well as others hidden in various 950 reserves do not appear to form part of the analysis in Note 7 on pay costs totalling £216 million. We really need to see a consolidated figure here, again this is something that should be resolved once IPSAS is consolidated.

955 Back to capital. Whilst I appreciate work was done to move projects on, there does seem to be a problem in terms of having a smooth flow of expenditure, which I would not expect if we have enough staff to result in such an annual expenditure. What we need is greater accountability in this area, and I think this is something that may well be resolved through, I think, one of Deputy Yerby's better amendments, to the Medium Term Financial Plan, regarding the creation of a Chief Executive's Report.



On to Health & Social Care: I am pleased to see the amalgamation of the Health & Social Care and ESS accounts insofar as they relate to Health & Social Care, and thank the Scrutiny Management Committee for pushing these changes. I say an amalgam as they are not really a consolidation. I think it is a start, but the analysis needs some refining, and would request this is something passed through the two Committees before it is finalised in future. We really would like to understand how £21 million was allocated as general overhead to those accounts.

Now, I have commented previously on the year end positions as part of my general statement earlier this year. I am quite happy to mention it again. Being able to turn round a potential £4.7 million deficit to a surplus of £600,000 at the end of the year has demonstrated the system grip that has been achieved. Here again the accounts are misleading, or rather do not give the full picture. The Treasurer's report shows an appropriation of £1.15 million to HSC from the budget reserve; however, that does not take account of the fact that HSC set itself a £1.9 million savings target for last year. The reality is that we returned to the Treasury £1.35 million, as not only did we make the £600,000 surplus, but also managed to clear an extra £750,000 of savings, hidden as an efficiency target against the authorised budget on page 87.

Now, that is all in the past, of course. I am pleased to report that the trend started in 2016 is continuing into this year as the full effects of obtaining system grip are being seen. However, we need to appreciate that medium to long term these savings are unsustainable, and on that note I would like to read the paragraph that the Committee had put into its narrative that did not make the final cut, and that reads as follows, and I quote:

However, while transformation of services may allow the costs of Health & Social Care to be contained, and managed more sustainably, the pressures of rising population demand and increasing medical inflation mean it is not possible for the Committee to commit firmly to achieving no real terms growth in its budget in the medium term.

Now, whilst it did not make it into these accounts, it is in the Committee's Policy & Resource Plan, and it is something that we will develop further when we debate the Medium Term Financial Plan next week.

**The Bailiff:** Deputy Dorey.

**Deputy Dorey:** Thank you, Mr Bailiff.

Deputy Ferbrache mentioned me in his speech, and I am pleased that the President of P&R has mentioned in his foreword about the shortfall in the Capital Reserve, and the fact that £23.9 million is due to a reduction in what we should have transferred.

One of my parishioners said that he felt that if we were going to mention that £23.9 million we should have also mentioned the one-offs which had gone into Capital Reserve to balance it, which is the £6 million from Guernsey Post, the £4 million from Guernsey Electricity, and the investment return of £18.4 million from the core investment reserve, above the real terms value of that reserve. So, he felt that if you are going to mention the Capital Reserve issue you should also mention those numbers in your foreword.

I think that, obviously, we should have benefited from those one-off additions to it, as well as putting in the full £23.9 million. So, really the overall figure should be £23.9 million less than the £24.9 million so we should be showing a £1 million surplus.

But actually, when you look at it further, we should also be showing a £3.3 million that we have drawn down effectively from the Contingency Reserve, because the Future Economic Fund and the Transformation and Transition fund were funded from the Contingency Reserve originally. So, effectively, the expenditure, and also the Capital Account Reserve, coming from the delay of FTP. So, effectively, in 2016 we have drawn down £3.3 million from those three sources of income. So, effectively, we are still spending money from our Reserve Fund, because we are spending money from those funds which were funded from the Reserve.

Those were the main items I wanted to say, so I do not think it is a totally ideal interpretation of the situation. I feel that he should have included those details in it, but I do agree with

Deputy Roffey with what he said about pensions. I argued at the time we should have separated the re-negotiation of pensions with existing employees from the pensions for new employees. Not necessarily that a defined contribution should be the right way forward for new employees, but I do think that we should separate out the two, and look at what is affordable, and what is right for new employees. I do not think we will ever get to the ideal situation in terms of pensions for existing employees. By trying to negotiate them, what we do is take a prolonged period of time which results in those benefits for new employees employed during that negotiation period being then a liability for the future. So even at this stage, I would urge you to follow what he has said and try and come up with what is the ideal pension for new employees and we can then put that as part of the terms for our new employees.

Thank you.

**The Bailiff:** Deputy Gollop.

**Deputy Gollop:** Deputy Dorey brings me to my feet, but I have for some time thought about it. Deputy Dorey and Deputy Roffey have referred to a question that goes, in a way, beyond the accounts of the nature of the pension's paradox. But I think a concern that we have in reforming the public sector, is if and when we gradually facilitate existing covenants, or promises, to continue for those on defined benefit schemes, but perhaps introduce new regimes for new workers, you will run the risk, of course, of having two different kinds of employee, having two different kinds of pay structure for the same job. We already discussed that problem with increments

But I will, hopefully not with too much tedious repetition, amplify the points that Deputy Lester and Deputy Laurie Queripel have made, what is intriguing, and Deputy Ferbrache too, is that if you look at the 180, that makes me think of a bulls-eye on the darts board, if you look at that particular barrier, we have increased from 10 to 13 in that period: not a huge number in one sense, although it is more than the number of Principal Presidents we have, for example, and 10 to 13 represents, in broad terms, a 30% increase, which is perhaps even higher than the rate we are going. So, there is a nearly 30% increase in people earning of £80,000. So clearly that is a concern.

One point I believe nobody has raised yet, is although we have seen discipline mostly at the Home Department, for example, on slight reductions in judges, police, fire and so on, we have seen a little bit of support in Home support staff, but I think we knew that was the way to go to minimise costs, but what we have seen in financial terms is a £1¼ million rise in the cost of the teaching profession to Guernsey. I am sure that is money well spent, but it does stand out in one of the figures as being a little bit of a rise from the Education, Sport & Culture point of view. There may be good reasons for that, including for example, either backdating of pay or recruitment and retention of staff for previously vacant posts. But it is still something to watch.

My favourite chart in this package, although one can only look at them superficially, because it is a large document to embrace at this time of the year with so many other things pending, is the Policy & Resources budget because it reveals an intriguing anomaly. The Policy & Resources, round about page 52, I think, for Human Resources Management, which is something we all love at the HUB, has gone up from 19.2% of the budget to 22.4%, a 3% increase, and in numerical terms a budget that started out in 2015 as £5,245,000 seems to have gone to £6,036,000. So something is happening on the personnel front, maybe it is all part of the reorganisation process. But it is, an intriguing jump, and when we look at our capital expenditures, we see overwhelmingly at £31-£32 million £25 million has gone to the refinancing of Cabernet, the restructuring. It is a disproportionate amount of the capital that has gone to something that, perhaps, is more of a financial readjustment than a real investment.

I am also intrigued that when you look at the Transformation and Transition Fund, there has been a significant number of initiatives funded, ranging from the Children's and Young People's Plan to other social endeavours, but nothing there on transport, which perhaps puts into the lead some of the issues that we were considering last week.

1060 There is, of course, an Economic Development Fund and again there are some intriguing points there, for example £1¼ million is set aside for tourism, and £407,000 for the Digital Strategy, whether that means the HUB, what might be quite an expensive rent, or facilities, I do not know, but we are putting quite a lot into these endeavours, and although I do support the digital economy, we do need very much value for money there, and clarity on the objectives.

1065 Other points I would raise are when you turn to the States' Trading Supervisory Board, one sees that the Airport made a notional loss, if I have understood it correctly, of £3.1 million nearly, which is actually an improved performance on 2015, when it lost £5 million, but there we are, we appear to be losing money at the Airport, despite our landing fees and other issues. So that is worthy of further consideration.

1070 The Port Holdings Accounts is a remarkable survivor; it has outlived the Board of Administration; it has outlived Ministers; it has outlived Treasury & Resources; it is still with us. But the Port Holdings Account suggests, yet again, the Harbours and the Airport are cross-subsidising each other. My one minor point of concern about the Harbours is although it is still doing quite well, the volume of business going through the Harbour is below what was expected, which indicates that rather rosy projections of the turnover increasing have not quite met demand.

1075 So there are quite a few points here, I think, to watch and I agree with Deputy Soulsby that it is paradoxical that we have a good news story about the surplus, and then we find that actually due to capital apportionment we are really no better off, and it is interesting that the Report is quite honest in its preface in saying we still have a structural deficit, which is a point some Members, especially Deputy Ferbrache, have been saying for some time, and that deficit is clearly linked to capital issues.

1080 On one other front, you will see relatively good news from the Development & Planning Authority, although we had a slight decrease in the number of planning applications those who did apply in 2016 were up, so much so, that technically Planning Control, I believe, did not cost the States anything. It paid for itself with a little bit beside, and its *per capita* cost per employee is actually good value for money compared to some of the committees in parts of the States that I could name but I will not.

1085 So, I think we should all actually look carefully at the staffing bills in every single Committee and Department, and indeed that is a matter that has been a theme of the debate today, is very much a task for Deputy St Pier, and the team, to move forward with for next year.

1090 **The Bailiff:** Deputy Oliver.

**Deputy Oliver:** Sir, I have to say I am quite confused at these accounts. I am not an accountant, and I will also try not to repeat what has been said, but in regard to the pay costs, it states here pay costs continue to be the largest single expenditure totalling 54% of total revenue spend, of £216.1 million – which is an increase of £1.8 million. We are told this is nominally, largely due to the effect of the number of two years' pay award being front-loaded in 2015, with 0% in 2016.

1100 However, I really would like somebody from P&R to explain to me. I thought once we had signed off the States' accounts, they were kind of set in stone, and they could not be changed. However, if you look at page 135, the pay costs and staff numbers, it states that in 2015 the actual costs for General Revenue were £214.3 million, which has increased this year to £216.1 million in 2016. This is where I am now confused.

1105 I decided to have a look at the accounts for 2015 to see how the States were stacking over the last two years. However, in 2015 in last year's accounts the total for General Revenue was, according to these accounts, £213.6. Now this is some £672,000 different to this year's, and that is where I am just a bit confused, because I thought once they had been signed, as I said, you had to stick with the original figures. So 2015 would just come over and be put in these 2015 accounts and then 2016 or whatever it was, but these are not the same. They are different regarding the pay costs.

So, this where I have a real difficulty: how am I going to be able to say yes to these accounts when now I have actually no idea which figure is correct? Is it this 2015 in the 2016 accounts or is it what we were told last year for 2015 that was correct? I am sure, maybe, there is a completely logical explanation but I just cannot find it.

1115 So, digging down further I wanted to have a look over the last seven years. I know that might be barmy to some people, but I just thought I will have a look and see what the pay increases have actually increased by. Whether these figures are right or wrong, I do not know, because I have been using their accounts, and anyway ...

1120 So, if you take what they were, we have increased, just taking P&R – sorry to pick on P&R, but it is the first one at the top of the list – now I understand that P&R, we have had a structural change in government, so I looked at the old Commerce & Employment and the Policy Council, which is now what P&R are. Back in 2010 it was £12,071; now it is £18,794, which is a 55% increase. All the other departments, some increased, some decreased. Culture & Leisure decreased massively, looking over this time, but I just do not think that we are making best use of the taxpayers' money when we have been told to reduce things and yet P&R have massively increased by 55%. Now, I do know that P&R have taken on board HR and there are IT services so there are a number of other services, but I just do not see how they can increase. They have literally doubled over the last seven years, and I would like to hear about that. But I would really like to hear about why the figures are different from 2015 and the last lot 2015.

1130 Thank you.

**The Bailiff:** Deputy Kuttelwascher.

**Deputy Kuttelwascher:** Thank you, sir.

1135 I just want to say a few words about the Bond issue, because only Deputy St Pier and myself remain in this Assembly who were on the Treasury & Resources Board when that was being handled, and there is one thing that has not really been addressed, is this £9 million cost of the hedge. Now, Deputy Ferbrache said he did not know it was going to cost that. I will tell you something, we did not know it was going to cost that, and there is a simple reason for that: when you hedge, you do not know what the cost is going to be. It is a bet based on whether interest rates will go up or down, and you will not know the cost until the date when you actually issue the Bond.

1140 Now, looking back it was a very uncertain time, because one of the things that was obvious was that the spread that we were going to have to pay over and above what the UK Government might pay was much more than normal because nobody believed that a base rate of ½% was real. If you look at the real world, people pay multiples of that at the moment. If we have a base rate of ¼% a lot of people would be lucky to be able to get a mortgage of 2½% that is a multiple of 10 of the base rate. Now I remember in the 1970's when the base rate went up to 17%; on that sort of calculation, you would have had a mortgage rate of 117% so the real world is way detached from maybe this theoretical base rate. I am not sure that it means a lot.

1150 Now at the time we received advice about hedging and that it was prudent to do that, but with hindsight what we did not receive was any sort of estimation of what it might cost depending on how much of a variance there is in interest rates, that never materialised. If there is a lesson to be learnt that needs to be done in the future, wherever hedging is undertaken. Now, hedging is undertaken by Guernsey Electricity in relation to importation of electricity costs via the cable or the interconnector if you want to be more formal. They also hedge fuel. Aurigny hedge fuel. I would like to see a very, very strict policy on hedging, and whether to hedge or not.

1160 It is true if we had not hedged, if we had not hedged the Bond, we would have been a lot better off, and the out clause could have been that if the interest rates had moved the wrong way and the costs were going to be too high we could have just withdrawn it, and there would have been some abortive costs, which would have been a lot less than the £9 million. So, that is one lesson to be learnt, I think, which never came out in the report on it, and I do not think

Deputy Green and his Committee will learn any more. The question is when to hedge and not to hedge, and to be fully aware of the possible costs in a very uncertain environment. If interest rates had gone up we would have made a fortune, but that is what hedging is all about. It is a bet.

That is what happened, so, if you like, what was wrong with the information received? There was absolutely no data given on the possible cost, depending on the variation in interest rates that may have occurred over this, I think it was a three-week period, and as it happened it went the wrong way and that was the cost. Banks, obviously, were keen to provide this hedge, and the cost was not going to be low, because you are talking about hedging an interest rate over 30 years. That is what happened.

Now, it is water under the bridge. With hindsight we should have had more detailed figures, but I have got to admit the experts who gave the advice at the time said, 'Oh you have got to do this', so we did it, and how often do we rely on expert advice as Committee members or previous board members? On that occasion you cannot say it was right or wrong, all you can say is it cost us a lot, but however, having said that, with the amortisation or the spreading of the costs over the life of the Bond, what is in place I believe is still good value, and I still believe as the years go on you will be pleased you have got it, because we have now got an additional reserve, which actually could be very, very useful.

I want to say a few words about Aurigny. I agree with Deputy Queripel, at the time that the loan was made to Aurigny for the Embraer we had a shareholder's objective they should break even. In that case you would think you would have a pretty secure income stream, but that has not materialised. So, at the moment the loans to Aurigny do not meet the criteria for the Bond. I do not think that was engineered, but that is what has happened, because who is paying the Bond money that will go into the Bond fund? It is you and me, the taxpayer, through General Revenue, through subsidies.

We also recently agreed to provide an overdraft facility and their accumulated losses are something like £32 million or something. In fact, when it was recapitalised there was provision made for future losses, and they have lost all that a bit too quickly. It would be interesting to know what the interest rate is that is being provided on this overdraft, because the interest rate that is demanded by our Treasury department is related to the return they like on investments, and I guess it would be extremely high, but does it matter because the taxpayer will pay anyhow?

So, the question now is with Aurigny, can it ever actually be in a break even position or a profitable position, and if it cannot, then at the moment, under current rules, you could not give them any more Bond money to buy aircraft or anything else. So, it is an unfortunate situation, but they are right, practically we have run into that situation, but the other Bond loans like the GHA and elsewhere I think that is safe as houses, pardon the pun, because even if the GHA disappeared off the face of the earth, everything reverts to the ownership of the States, same with Guernsey Electricity, if they require Bond money to build an interconnector to France.

So, that is my view on the Bond. I think it is still a good situation we find ourselves in. I am not concerned about it being repaid. There is a separate fund and all the money goes into that Bond management thing. And there is more in it. We are actually making money on it at the moment, so I do not find that is a concern. But the Aurigny situation is now an anomaly and how that is addressed, well ... you tell me.

Thank you sir.

**The Bailiff:** Deputy Le Tocq.

**Deputy Le Tocq:** May I be relevé, please, sir?

**The Bailiff:** You wish to be relevé? Yes, you may.  
Yes. Alderney Representative Jean.

**Alderney Representative Jean:** Thank you, sir.

1215 At the risk of a bit of forelock tugging, as was previously mentioned in this Assembly, not that I  
have got much forelock to tug, may I take this opportunity to congratulate the Policy & Resources  
Committee and the Treasurer for the production of clear, albeit rather voluminous, set of  
accounts. In the context of being efficient, one does have to question whether compiling and  
printing such a vast amount of financial information truly represents best value for money for the  
1220 taxpayer. There will always be those who say there needs to be more information and there comes  
a point where one has to question what value is being added by producing such a massive  
amount of information, which only a handful will properly digest, or use for making significant  
decisions.

1225 Nonetheless, this is what we have, and I fully accept to this voluminous document Alderney has  
made its own contribution, with audited accounts of both the States of Alderney and the Alderney  
Water Board. These Alderney accounts have been approved by the States of Alderney and so are  
presented here for noting. They do, however, demonstrate that the States of Alderney has  
exercised appropriate financial constraint. At the same time, it has been working on a number of  
initiatives aimed at increasing economic activity. Economic activity on Alderney means direct  
1230 Bailiwick benefit. It is helpful to see the introduction on Appendix VII on page 143 which provides  
an analysis of income and expenditure attributable to Alderney.

I have only one query on this section, which I anticipate will need to be addressed to either the  
President of Policy & Resources Committee or the President of the States' Trading Supervisory  
Board, and this relates to the expenditure of Aurigny, where it declares its operating loss in  
1235 respect of the Alderney routes. In 2015 the cost was declared of £1.2 million, whereas in 2016 the  
cost more than doubled to £2.7 million. I am not seeking to challenge the accuracy of those  
figures, but simply flag up that without any additional explanation in this section, it is difficult to  
appreciate the cause of that particular jump.

1240 Furthermore, it is not immediately clear whether we will see a similar scale of fluctuation in  
future years. Clearly, we hope not, as it would be good for Alderney and for Guernsey, for us to  
see stability in respect of our air route connections. Undoubtedly, the outcome of the Aurigny  
Review, and the subsequent decisions of this Assembly, may impact on these numbers. However,  
we have to be careful not to focus entirely on the numbers in isolation from the wider economic  
benefit which arises out of having a frequent and reliable air service.

1245 **The Bailiff:** Deputy Trott.

**Deputy Trott:** Sir, I am grateful to my friend for giving way, because I am able to provide  
some clarity around these numbers.

1250 Sir, the losses referred to by Alderney Representative Jean of around £1.4 million in whenever  
it was, 2015, were independently audited and confirmed, so that number is a fact. The losses  
associated with the Alderney route of £2.7 million, Aurigny have requested that they receive  
similar audit verification, and my understanding is that the STSB are considering as to whether or  
not that it an appropriate use of funds. The £1.4 million was not adjusted by the auditors, and  
1255 therefore one can, I think, rely on the £2.7 million as being an extremely accurate estimate,  
notwithstanding my prior comments.

**Alderney Representative Jean:** Thank you, Deputy Trott. I am grateful for the answer.

1260 I would also draw Members' attention to the paragraph at the bottom of Appendix on  
page 143 which points out that the gross economic contribution to the Bailiwick of Guernsey of  
the e-gambling sector in Alderney is estimated to be £25.7 million. E-gaming took its roots in  
Alderney through a combination of commercial drive and good legislation, (**A Member:** Hear,  
hear.) supportive Government and transport links.

1265 Over the years the way businesses are run and greater use of technology and communication  
has resulted in a reduction in business travel, but we must not, and I would emphasise, *must not*  
lose sight of the fact that effective and affordable air links are economic enablers.

One cannot accurately predict the future, but it would be short sighted if we as a Government were to focus on a financial loss on a particular route, which seems itself to be a large number. In truth, however, it is barely 10% of the added value created for the Bailiwick by just one industry sector, which would not and could not remain in Alderney without effective transport links.

I will be supporting the approval of the accounts in their entirety, and I have to say I will be disappointed if the audit shows that the £2.7 million is correct, because to me the future of Aurigny, and the future of our States, depends on communication and business being able to get in and out of Alderney, and what I see coming out of deficit is always, if the deficit remains ... I mean last year we had another £11 increase on the fares to Guernsey. Now, at £122 to come here, we are in a situation where more price rises will come. It is not a good situation, it is not good and something has to be done to try and curtail it or make it more economical, and make it work, and possibly part of that is in reducing the fares so that the planes are full, and so that Alderney can breathe again, have business, and pay more income tax to you.

Thank you, sir.

**The Bailiff:** Anyone else?

Alderney Representative McKinley.

**Alderney Representative McKinley:** Thank you, sir.

The accounts have drawn a few Alderney related matters to our attention, and Mr Jean has outlined some of them.

While Alderney is rightly proud and privileged to have its own legislature, it recognises that it is in partnership with Guernsey, and that the relation is for our mutual benefit, I hope, both economically and socially.

Mr Jean mentioned Appendix VII on page 143 with the analysis of income and expenditure attributed to Alderney. The Appendix records the estimated cost of transferred services: for clarification the transferred services are not services which Alderney takes from Guernsey, nor are they services which Guernsey gives Alderney, as though it were a benefactor. Rather these are part and parcel of a piece of legislation passed immediately after the War, whereby both Islands with the support of the UK Government agreed fiscal union. The result is that apart from a relatively minor domestic charges such as parish rates and some permits, Alderney and Guernsey residents are subject to exactly the same taxes, customs duties, social security charges and the like. The money raised is credited to the States of Guernsey. It also means that Guernsey and Alderney residents are able to receive the necessary education, policing, health and social care, welfare support and other services for which we are enormously grateful. To all intents and purposes these are single service areas which are delivered uniformly across both Alderney and Guernsey.

While the Islands appear to have differences of view, it is fair to say that we all benefit from high quality professionally delivered services in these areas. This is both positive for residents and a strong selling point when promoting the Island to potential incomers.

Meanwhile, I note the references on page 106 and elsewhere to expenditure of £170,000 on urgent runway repairs at Alderney Airport. We are most grateful that the States' Trading Supervisory Board continues to maintain the runway in a safe condition. But I would remind Members that these patching repairs have become increasingly necessary, because the runway is really nearing the end of its working life. It has reached a stage where it needs, or will soon need, complete refurbishment. On a recent visit by Guernsey Deputies, I think they saw for themselves what I am talking about, and the cost is going to be considerably more than £170,000.

I would also like to pick up on the expenditure on the Alderney Breakwater. We know from the policy of interest that the Committee for the Environment & Infrastructure and the Policy & Resources acting through the Alderney Liaison Group have shown that the Breakwater is not forgotten. We are, however, acutely aware that a number of years ago steps were taken, as part of the Financial Transformation Programme, to reduce expenditure on the Breakwater. In the last few years, and possibly as a consequence of those cut backs, there have been some significant

breaches on the outer face of the Breakwater. These have been at the point where the masonry superstructure sits on to the underlying rubble mound. As a result the entire maintenance budget in certain years has been used to fix the holes, and this has left virtually nothing to spend on the important regular maintenance, and has created a vicious circle as a result of lack of routine maintenance. The structure is at even more risk of costly damage and larger holes.

We do fully understand the financial pressures that all Committees face, but we are concerned on behalf of the Bailiwick that in this case it may be penny wise and pound foolish. The reason for this is that the Breakwater is not just a big wall, its maintenance is the most important part of the Bailiwick's contribution to defence and international reputation. We are aware that the Committee for the Environment & Infrastructure is considering the options for the future investment in this structure, and they plan a visit on 27th June, but unfortunately I shall be down here at a States' meeting, but all the same we are grateful it is happening.

Deputy Brehaut and his team have been keeping us informed, but we know there are still considerable discussions required and consultation to take place before any major scheme can be contemplated, let alone obtain the necessary funding. We have serious sympathy for the Environment & Infrastructure Committee and that it is seeking to maintain an asset of national significance not just for its size and historical value, but most importantly for what it means in respect of the Bailiwick's commitment to the United Kingdom.

While we look forward to the ongoing dialogue about its future we also ask Policy & Resources Committee, when considering budgetary allocations, for future years, to take such national factors into account, and to resist the temptation to see the Breakwater as an Environment & Infrastructure or Alderney related problem.

Having said all of that, we are very grateful for all that you do for us here, and I too will be supporting the approval of the accounts.

Thank you, sir.

**The Bailiff:** Deputy Trott.

**Deputy Trott:** Thank you, sir.

Sir, I will start, if I may, with the comments made by the previous speaker. It is important to remember that while we are in fiscal union, we have a duty as the Guernsey States' Assembly to justify expenditure, prove value for money, and the like. Whilst I think it is an entirely sensible idea to rehabilitate the Alderney runway, and that indeed is the conclusion of independent advisors, it is curious, because I think there is some read across that those advisors did not consider it appropriate to extend Alderney's runway.

Now, sir, if one adds in the losses associated with Alderney Airport, which are currently at around £1 million a year, and if one believes the Aurigny figures, and I for one think they are probably pretty close to the mark, then it is easy to see that the cost of providing air services into Alderney at the moment, to the Bailiwick of Guernsey taxpayer, is at least £3½ million. So these are very material sums, indeed, for a community of the size of Alderney's. That is not to say, sir, that we should not listen very carefully to what the Alderney Representatives have said.

Now, sir, Deputy Oliver made some references, and I am sure the President of P&R will try to address those in a little bit more detail, but I would remind her, and indeed, Deputy Yerby that these are audited figures, these figures have been scrutinised by independent auditors, and if there is restatement difference, probably I would think, to better compare numbers, the current numbers against historical numbers that would have been with their full knowledge and approval.

Now, sir, Deputy Lester Queripel laid down an interesting conundrum for the President. He said we need to assure the public that it is us as Deputies that run the Island. Well we do not, we cannot. *(Laughter)* What we do is we set policy and we make laws, and we do our best to hold our civil servants to account, and our public sector workers to account; but it is they, the public sector workers, who run the Island, the people who sweep the roads, the people who fill the aeroplanes,



1370 the teachers that teach our children, the nurses that nurse us when we are sick and so on. We do not run the Island. Our job is an important one, but I think it is disingenuous to suggest that –

**Deputy Lester Queripel:** Point of order.

1375 **The Bailiff:** Deputy Lester Queripel.

**Deputy Lester Queripel:** Sir, Deputy Trott is misleading the Assembly by misinterpreting what I said. He knows full well, sir, that I am talking about the civil servants at the top who earn really high salaries, I am not talking about the essential workers who actually run the Island, sir, I think it is important to clarify that.

**Deputy Trott:** That is interesting, sir. I often misinterpret things that are said differently the first time round, (*Laughter*) and my good friend Deputy Lester Queripel said, 'We need the President of P&R to assure the public that it is us Deputies who run the Island.' So I apologise for that misunderstanding and misinterpretation.

Now, sir, Deputy Ferbrache was fair, to a point, he explained to us that before he was back as a Member of this States he did not read everything in detail, but now of course, he is back in this States, one I think could infer from that that now he does. If he had read everything in detail he would know that the KPMG Report into the Bond concluded that the costs associated with the hedging, that Deputy Kuttelwascher went into in some detail, was entirely reasonable and, indeed, normal in market conditions that were prevailing at the time, and indeed, for issuances of that size.

What Deputy Ferbrache did not do, and I think he should have, as President of Economic Development, is remind all of us and, indeed, any listeners, of how open for business Guernsey is, and indeed, how successful, how successful, our economy has been over the last few years.

Deputy St Pier quite recently gave a statistic in a speech he gave, which I think is about as illuminating as any that I have read or have heard of in recent years. He said that in 2015 Guernsey's economy was 10% larger than it was in 2007. So, far from the doom and gloom picture post Zero-10 that Deputy De Lisle paints, our economy has grown in real terms by 10% since 2007. But let's look just a few miles to the south, as you did in your opening remarks this morning, to Jersey's economy. Jersey's economy is 10% smaller in 2015 than it was in 2007. Very significant contraction at a time of quite material expansion for Guernsey's economy. So, if I was looking to invest in either Island, if I was looking to bring my family here, I would have no hesitation whatsoever in choosing Guernsey, and let me tell you why.

If one turns to page 3 of the States' Accounts and, in particular, the comments associated to the States' Treasurer, he tells us in 1.7:

Income tax receipts from individuals showed a nominal increase of £7.5m (3.1%) which, based on the December 2016 RPIX of 1.6%, is a real terms increase of 1.5%

Now that is the best indicator of the underlying performance of our economy for the reasons that others have given. We get most of our taxes from ETI, and most of our expenditure as a public sector is associated with wages. But overall, our economy has grown in that key indicator by 1.5% in 2016. That is fabulous.

Also, sir, on a like-for-like basis, there was a real terms decrease of £4.9 million, 1.3%, and as a result of that we met the fiscal framework target of a real terms freeze on aggregate States' revenue expenditure.

So, if I was looking to come here, what would I be looking to check? I would be looking to check how fiscally prudent, how fiscally conservative, how sensible this Assembly is when it comes to managing money, and it is all there, sir. But there is more, because the final section on that page refers to our overall reserves, which increased by a staggering £65 million, to £600 million at the end of 31st December, 2016. If you extrapolate down into that, sir, we know that our Bond

reserves and our Capital Reserve mean that over the course of the next few years that there is £350 million, or possibly even more with future appropriations, that we can spending on capital infrastructure improvements, as long as the criteria is met. That is an extraordinarily positive position, and one that we should do much more trumpeting.

Now, sir, Deputy Yerby has decided to vote against the accounts, and I have to say for such an intelligent Member of the States I find this odd. I found it odd when Deputy Parkinson chose to do the same last time, and for similar reasons, because they are both intelligent Members of the States. But remember the accounts are a factual record of expenditure, independently scrutinised. I am very happy to give way.

**Deputy Yerby:** The accounts may be, but my entire speech was around the narrative in the accounts, which is not.

**The Bailiff:** Deputy Trott.

**Deputy Trott:** Indeed. Okay, some of the narrative Deputy Yerby does not consider correct. However, what one is being asked to note is the accuracy of the numbers, not any of the narrative associated with it. The two things are separate. Whilst I accept her point, the point is that her function is to accept the accuracy of the numbers. If she does not do that she calls into question the integrity, I think, the integrity of the auditors, who have prepared these accounts under the Accounting Principles that this Assembly currently approves and endorses.

Sir, I have a number of other things, but they appear trivial alongside the – so I shan't continue with the speech, other than to say that for years I have been criticised as being a Member of the States whose glass is half full for being too optimistic. I was criticised for that when I was Treasury Minister; criticised for that when I was Chief Minister and, interestingly, criticised for that when I spent four years on the back benches. *(Laughter)* But my view has never changed. Because we are sensible, particularly with expenditure constraint, because we are sensible in the way that we manage our reserves, and because we take our time to decide on what significant infrastructure projects we want to pursue, we have managed our fiscal position extremely well over the last 15 or 20 years, and investors into the Island recognise that.

Thank you, sir.

**The Bailiff:** Deputy Tindall.

**Deputy Tindall:** Thank you, sir.

Sir, I thank Deputy St Pier for summarising the positive news indicated in these accounts, with the caveats expressed. I also agree with the views expressed by Deputy Ferbrache on our economic position compared to others, and I too am a glass half full person.

However, in order to really understand the points raised by him, as in Deputy Ferbrache, the two Deputies Queripel and Deputy Inder regarding Civil Service pay. Considering the extensive areas of government Guernsey has to deal with, I would appreciate statistics for other jurisdictions for comparison.

I wish also to take up the importance of clear communication. I found it especially helpful for the explanation with regard to the effect of FRS 102 by way of example, as to why some financial Reporting Standards may not be suitable in Guernsey, and I hope the amendment will assist, so that such information is supplied in the narrative which is more easily understood. Perhaps even a glossary would be helpful.

I note there is also information such as the profitability of the Guernsey Registry, the cost of the National Risk Assessment for Anti-Money Laundering and Countering Terrorist Financing Purposes, and the initiatives, successful or otherwise, of the Future Guernsey Economic Fund. It also, surprisingly, highlights that there is a States' guarantee in place with Barclaycard for an

1470 unlimited amount of credit card sales in respect of un-flown flights. I did first read it as unknown flights, sir, so I do apologise for that.

I am also grateful for the information provided by the Alderney States, which highlights the importance of the Alderney Gambling Control Commission and e-gaming, and the flow of funds into the coffers, which should be to our mutual benefit.

1475 I note the comments, on a lighter note, made by Alderney Representative Jean about the cost of printing this document, and I would also just politely point out that page 166, and 167 are actually duplicates, and removing this page may actually go a small way to saving money next year.

1480 However, if I can find my page, one of the things that I am particularly interested in was how to actually ascertain the information from the accounts, because I wanted to try and use an example of how much we actually spent on sport in 2016. I see the Sports Commission received £226,000; Sports Guernsey received an unspecified sum from a total pot of £170,000 of the Events Group's pot, there was a sum called 'other' of £472,000, sport, no doubt, Guernsey Deputies will excel at when playing Jersey next year; and a gym refurbishment of £111,000; and some £319,000 referred to in the Sports Loan Fund. I do not know what these actually mean, so that is why I am highlighting them, but a rough total of £850,000 yet Beau Séjour made a substantial profit, and outdoor activities provided an income. As I say I use this as an example for clarity, so that I can actually follow this through the accounts.

1490 But primarily I wish to understand why we are being asked to approve the accounts. I say this because the Development & Planning Authority were asked to note them for their Committee. When this was queried by Deputy Lester Queripel we were advised we were being asked to note as the information was factual, this point just being made by Deputy Trott. An explanation would enlighten me, especially in preparation for the debate on the amendment I and Deputy Lester Queripel have laid to the P&R Plan next week. If we were to note all the accounts submitted, it may even lead to a unanimous vote.

1495 Thank you, sir.

**The Bailiff:** Deputy Brehaut.

1500 **Deputy Brehaut:** Thank you very much, sir.

At the bottom of page 78, it says the following, bearing in mind all Committees had a 3% savings target it says:

Therefore, comparing like with like, gross revenue expenditure remained broadly similar between 2015 and 2016. The Committee underspent its Authorised Budget by £611k.

1505 Now the word of the day is narrative, isn't it? And that is the bit of the narrative I like. I have to say, what I do not like, or did not like is the narrative regarding modest overspend with regard to a piece of cycling infrastructure. I think if this in accurate record, and it is, of expenditure in 2016 we have to ask ourselves ... bearing in mind the Committee for Environment & Infrastructure published a post-implementation report, which said clearly that the cycling infrastructure was costed at £85,000 even before we arrived to start the work, and was completed for £114,000, if we put the £29,000 or whatever it is difference, the idea that a Committee, that the States actually, is tainted with a loss of control back to the old days of overspends is more than unfortunate.

1510 I would just ask in light of, perhaps, more recent overspends that we just keep a perspective, and also have a little bit more confidence in our own processes. What I would ask though, or would point out, I think the £1 million limit on when a post implementation review kicks in, I personally think that is too high, because clearly with overspends of £150,000, £200,000 the community are clearly concerned, and I think a post implementation review is probably the way forward with all overspends, of any nature, by any Committee, and bearing in mind the acute focus on States' spending.

Now, Environment & Infrastructure have a number of large projects that are dealt with actually under delegated authority, and do not need to return to the States, but there is, quite clearly, public interest in the work that Environment & Infrastructure do, because the work is just so visible. For example, Admiral Park, the wall on the East Coast, that will need, we estimate at this time about £680,000 spent, as a flood defence. If we look around the Vazon area, we would be looking to spend, potentially, £760,000 in that area; if we look to L'Ancrese East, we would be looking to spend in excess of £1 million. These are big numbers, but it is crucial that we get the support of the Assembly to carry out these projects. Now the reason I raise that, is that whenever sums are large, and they are undoubtedly, there is correlation between public interest, understandably. But I would just ask Members just to have the confidence in E&I and in the engineers to deliver on these projects, and respect the processes that we have with regard to delegated authority so not every project has to come back to the States. There may well be exceptions, and in fact we have been asked to do that with one in particular, L'Ancrese East. But for example Icart Headland, it was suggested that the States should make a decision on what we did at Icart rather than E&I, so I just note that.

Actually, although I will not vote against the accounts, I agree with Deputy Yerby's observation on narrative. I think every time you see the E&I accounts, it is dominated by observations on the bus services; when you look at the mandate on page 78, you appreciate just how much more there is.

With regard to the Alderney Breakwater in particular, and I am afraid I have become a Breakwater bore over the years, because I took an interest in the Alderney Breakwater some years ago, The Admiralty effectively walked away from the Alderney Breakwater in 1872, when 500 metres of it collapsed, and I think is still visible, if anyone is bothered to look at images on digi-maps, so we see that the people who were building the Breakwater realised that it was a challenging project. I do not want to be too flippant, but I think it is safe to say, if you just look how many breaches there have been the only thing Alderney Breakwater has done consistently is try to fall apart, because that is the nature of the construction. The rubble mound beneath it, which at the extreme end is in about 130 feet of water, moves and with that settlement there is always the risk that it undermines the structure above it. Now there is a sum, and it has been identified in the accounts, but I can tell the Alderney Representatives that we received a letter from P&R recently agreeing to release £320,000 for maintenance of the Alderney Breakwater over the 2017 and 2018 period. I was wrong, and I owe you an apology, I was told that the States' engineer was in Alderney yesterday, when he wasn't, but they are up on the 27th simply because we were told that there was damage to the wall visible at low tide, so the engineers are going to work on that. I do take the point, the Alderney Breakwater is seen as this immovable, this constant, this permanent, it is the sort of metaphor for the relationship with Guernsey, and if all is well with the Breakwater – I am not going to mention the wrong way – all is well with Guernsey, and we certainly do focus on that element.

I have nothing to add other than that.

Thank you, sir.

**The Bailiff:** Anyone else?

Deputy Parkinson.

**Deputy Parkinson:** Thank you, sir.

Just one or two points I would like to clarify in relation to these accounts.

The accounts are commendably clear about the surplus recorded of £24.9 million last year, and also commendably honest that that is largely a result of reducing the transfers to Capital Reserve by £23.9 million, as well as other extraordinary and one-off items. But fortunately for Guernsey and the investment in our infrastructure the reduced transfer to Capital Reserve was partly made up by funds transferred from Guernsey Post and Guernsey Electricity totalling £10 million, in the

form of purchases of their own shares back from the States of Guernsey, and investment returns of £9.7 million.

So, as a result the States was able to spend nominally £31.5 million on capital investment in 2016. Sadly, of course, this is far less than we would be expected to spend under our fiscal policy, and even if the £31.5 million had been invested in bricks and mortar and new schools and so on we would still be, I think, in a position of substantially under investing in that infrastructure.

But the reality is that most of that £31.5 million was in fact invested in the re-capitalisation of Aurigny, £25.2 million out of £31.5, leaving only £6.3 million invested in other things which are set out in the accounts, and which, frankly, are just bits and pieces of stuff, each no doubt valuable in its own way, but does not represent significant investment in our infrastructure.

What is not quite so obvious from the accounts is what happened to the investment in Aurigny. Note 13 on page 39 shows that the investment in Aurigny at the end of 2015 stood at £5.1 million, less a provision for accumulated losses of £21.4 million, and at the end of 2016 the provision for accumulated losses had reduced to £957,000 but the investment in Cabernet Limited, which is Aurigny's parent company, remained at £5.1 million. So, on the face of it the States spent £25.2 buying new shares in Aurigny, and that increased the value of the investment from £5.1 million to £5.1 million. In book-keeping terms I think what has happened is that the States acquired the new shares in Cabernet, and the proceeds were used to write down the provision for losses, which we see in the accounts, but the shares, which have to be shown in the accounts at their fair value under accounting conventions were, effectively, written off. So, the value of the investment, therefore, did not change. And the effect of these transactions is that the States put £25.2 into Aurigny in the year and immediately wrote it off, and that was the very large, the lion's portion of all of the capital investment that the States made in 2016. This is clearly not sustainable.

Now, Deputy Trott alluded to the fact, and Deputy Yerby earlier, that I had voted against the accounts last year. Not because I disagreed with them as a factual record of what happened but as I explained last year, to signal my disapproval of the fiscal policy which the States has adopted. I am no more satisfied with that policy this year than I was last year. So I am going to vote the same way.

We cannot run the States in anything like the medium term or the long term without making adequate capital investment in our infrastructure. We have not done that, and we have basically been running down the infrastructure, because over time it will deteriorate, to prop up or to mask a fiscal deficit which results ultimately from our tax policies.

Now regrettably, I do not want to jump forward to the debate next week, but I do not see any sign that the fundamental issues in our fiscal policy are going to be addressed any time soon. Nevertheless, because I do not agree with it, and because I think it is ultimately very damaging to the Island, I am going to vote against the accounts again. I expect, I might be joined by someone else in the rebellion this year, this will be exciting, and I will be in distinguished company, I may say, but that is my position. The accounts reveal that the States are pursuing fundamentally unsustainable fiscal policies, and we are simply not investing enough in our infrastructure, and for that reason I shall vote against them.

Thank you, sir.

**The Bailiff:** Deputy Le Clerc.

**Deputy Le Clerc:** Thank you, sir.

It is just a quick question, picking up on points that other Members have made, and that is regarding Aurigny, and I had already noted the amounts in the Alderney accounts. Just some idea, if Deputy St Pier will know if we will be debating the two Aurigny reports, at some point in the future. Because I think it is, from the message that I am getting from the floor today, is that everybody is concerned, and that will give us an opportunity to have a real debate regarding those issues.

Thank you, sir.

**The Bailiff:** Anyone else?

Deputy St Pier will reply to the debate.

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**Deputy St Pier:** Thank you, sir.

Thank you to all Members who have participated in the debate.

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Beginning, sir, with Deputy Laurie Queripel. Quite a number of Members spoke of some concern about the pay costs, in essence, and so I will seek to address some of those points as I go through. In particular relation to zero hours contracts and the so-called smoothing contracts, which is a term that was used, we do have a number of individuals who are contracted on that basis, but that principally is in relation to those who are, for example, bank nurses, supply teachers, who are there to support, cover, in essence, so it is limited and there is nothing new about those arrangements.

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Deputy Queripel also expressed some concern about the use of the Bond proceeds to lend on to Aurigny. Again, I think this has been addressed by others in the debate, but of course, at the time, there was no expectation that losses would be long term and enduring, and indeed, during several debates during the last Assembly, of course, there was an expectation that the airline would be breaking even. I think the point has been made by others, of course, that by refinancing the interest costs for Aurigny have fallen by £1 million in 2016, so there has been significant benefit by the access to lower cost money. Of course, whether Aurigny will continue to be loss making, of course, is a matter for the States to make some decisions following the strategic review, which again, was mentioned by a number of people. Perhaps I will return to that as well.

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Sir, in relation to the number of full time equivalents, I think quite a lot of reference was made to the table on page 34. I think the first point to make, sir, in relation to this table is, of course, it relates to all of those in public service. A number of Members used the term civil servants; this is much greater than the civil servants. This is all who are engaged in the public service. It is worth noting, I think, that although the number of established staff has gone up by 55, of course, the pay cost for that group, at the top of that page, has actually gone down. So, it is not so much the number of staff but the composition of staff and ultimately overall pay costs that we should be focusing on.

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In relation to the higher earners, which again, I think, drew some attention, which is the analysis on the following page, page 34, sorry I was referring to page 33 earlier. Bearing in mind that this is not just civil servants, it relates to all public servants, that of course, includes hospital consultants, it includes also the Crown officers, the judges, the magistrates, so if you look at the 45 employees who are costing the States over £140,000 in 2016, the breakdown of that number is 15 hospital consultants, 8 Crown officers, judges, magistrates, and others in law enforcement; 21 established staff, including 10 lawyers, so just to make the point that it is not all about high paid senior civil servants.

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Deputy Laurie Queripel also question who the three new staff were in that line. Again, given the small numbers of people I think we have to be a little bit sensitive because we will actually identify individuals, but I think I can speak generically about the reasons why people might move around in that table, for example, if one of the individuals within that category of hospital consultant or Crown officer, for example, were to move post during the year and perhaps they were not there for the full year of 2015, that might provide one explanation, and, of course, we have had a number of movements at a senior level, during 2016.

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Sir, the final point that I think that, particularly, Deputy Laurie Queripel was seeking was confirmation that the accounts are signed off. I can confirm that, they are signed off on the date which appears, the 26th May. The fact that my signature does not actually appear on the printed copies before you does not mean that the accounts have not been signed off. They are always signed off, and there are indeed hard copies with the signatures of myself, States' Treasurer, and

Deloitte on them. So, hopefully that gives the reassurance that Deputy Laurie Queripel was seeking.

1675 Deputy Green, sir, I thank him for acknowledging the changes that have been made, and I look forward to further engagement with the Scrutiny Management Committee, particularly in relation to the adoption of IPSAS, and the role of the external audit, and I noticed he is going to correspond with me further on that.

Sorry, forgive me, sir, I think the reference to new roles was actually Deputy Lester Queripel, not Laurie.

1680 In terms of who decides on recruitment, well, it depends very much on where we are in the process of developing new services, or whether it is a routine service. So, clearly, if it is part of the normal management of existing services then the responsibility for signing off on recruitment lies within the normal lines of management. Again, I will not say within the Civil Service, because that, of course, is not a term that necessarily always applies. Clearly, however, if there are new positions  
1685 being created, then you would expect some political sign-off and oversight to be provided.

But who is monitoring performance overall? That again, I think, linking back to where I referred to in my opening speech, is the responsibility for the Committees to provide oversight of their own expenditure, and what is going on within their Committees lies with them. There can be no single person within the States, as I think Deputy Lester Queripel was alluding to, who could  
1690 possibly have the entire picture and be able to control it all, whether it the Chief Executive or the President of P&R, so in essence, the responsibility has to be a shared one, and it is shared at Committee level. So, for example, Deputies De Lisle and Inder were also raising questions in relation to the number of staff and, of course, within the Committee for Education, Sport & Culture, of course, the number of staff on page 66 for that Committee increased by seven with an  
1695 additional cost of £2 million in the pay costs for that Committee.

So, it is the responsibility of all of us within our Committees to have an understanding of what is going on to ensure that we are getting appropriate reporting to us, as part of the normal process of oversight during the year.

I will give way to Deputy Inder.

1700

**Deputy Inder:** Thank for giving way, sir.

You made the point about control sort of or otherwise over the various Committees. It is un-often that the actual Committees ever get sight of the new recruitments or the new positions which are made. In fact, in my very short experience, we get a hand held up, 'this is not our  
1705 business'. Some I think with the greatest respect, I do not know where you were going –

**The Bailiff:** Through the Chair.

1710 **Deputy Inder:** Sorry, I beg your pardon, I do not know where Deputy Gavin St Pier was going with that, sir. In my very short experience we have little or no control over the recruitment process. We rarely hear about it, people just turn up, and we find out about it too late.

1715 **Deputy St Pier:** All I can reiterate is that in response to Deputy Lester Queripel's question, the political responsibility for the management of budget, all budget, pay and non-pay, rests with the Committees that have been allocated that budget. How Committee choose to discharge that, how they respond to the kind of information that Deputy Inder has alluded to, is a matter for those political Committees.

I will give way.

1720 **The Bailiff:** Deputy Lester Queripel.

**Deputy Lester Queripel:** Sir, I thank Deputy St Pier for giving way.

Sir, the difficulty is we often get told, in fact, we always get told, Deputies should not be involved in operations, they are not really allowed to get involved in operational issues, which strengthens Deputy Inder's point, of course, sir.

Thank you.

**Deputy St Pier:** Sir, I do not think I can add much more to that. It is the responsibility of individuals to question and to receive information in relation to financial performance during the year, and to seek information as to what is going on within those Committees and what is driving those numbers. There is very little more I can add to that.

Deputy Roffey raised some concerns in relation to pensions and, in particular, the suggestion that P&R did not particularly like FRS 102. That is true, but the point is we need to use relevant Accounting Standards, and our concern, or what we are questioning is whether FRS 102 is the right Accounting Standard for accounting for pensions for a public body such as the States of Guernsey. We have not yet had an alternative preferred methodology for accounting for pensions, but it needs to be in accordance, I absolutely agree, with approved Accounting Standards, but there may well be another one which is more relevant to us which we should consider using, rather than FRS 102.

I would challenge, in essence, Deputy Roffey's assertion that the defined contribution schemes necessarily shift all the risk. We have of course, as a result of the adoption of the Care Scheme, shifted the... the only risk that actually wholly rests with the employer now is in relation to investment return. All the other risks, for example, the longevity risk around – in other words the length of people's living and therefore how long they will be claiming a pension – those risks are now all shared.

But going back to defined contribution schemes, of course, if in essence you put the responsibility entirely on the individual to provide for their own retirement, albeit with contributions from the employer and the employee. If that investment is poorly managed, let's take an example of somebody who sticks everything in high risk equities and the day before they retire those go seriously south, then actually, the States could well end up standing as behind that individual in terms of supplementary benefit. So, if a pension pot has disappeared then the taxpayer, ultimately, still could end up picking up the responsibility for those individuals. So, it is a subtle point, but I do not think that defined contribution is, necessarily, the *panacea* to everyone's problems in relation to pension, and I think it is also worth emphasising the point that higher paid employees, in essence, those broadly earning above £80,000, are already in a defined contribution scheme in respect of the salary over and above that level, so we have capped our exposure on the defined benefit side and created a defined contribution element for the high earners. So, I think we have addressed the issue, certainly in relation to those who would have been entitled to the very highest pensions under the defined benefit scheme.

Sir, the accounting for Cabernet and accumulated losses which do appear on the balance sheet, and Deputy Parkinson, I think, helpfully referred to the recapitalisation as well. I think it is something that we do need to take a look at. It is probably not as clear as perhaps it might have been, and I think we need to review that in the context of the IPSAS that I referred to, the IPSAS Standards, and what is most appropriate in relation to the accounting for, in essence, what is a fixed asset to us.

In relation to the increase of pay as a proportion of the whole, that of course, is exactly what the Medium Term Financial Plan and the savings plans are all about, reducing the size of the public sector. We have accepted, and I have stood here several times in the last year referring to the fact that the Public Service Reform Programme will lead to a reduction in the size of the public sector.

Deputy De Lisle, in essence, endorsed the decision to reduce the appropriation to Capital Reserve until the deficit was dealt with, But I think, Deputy Parkinson again made this point, and we totally accept it, that it is not a sustainable position. Again, the Medium Term Financial Plan does need to address that.



1775 Deputy De Lisle also made his normal reference to corporate tax reform, that appears in every  
accounts speech that I have heard him speak on, and every budget speech that I have heard him  
speak on, and I will give him the same response that always give: that is, that we continue to keep  
corporate tax reform under review in light of international developments, and, of course, there  
1780 have been substantial changes in relation to that particular part of the tax base in the last five  
years. Of course, I thank him too, for his support for public service reform.

Deputy Yerby is going to vote against the accounts. Of course, the narrative that has upset her  
is not part of the accounts, but nonetheless I accept that that is her right to choose to do so.

Deputy Paint questioned the amount of income that is generated. I think this is, in essence, a  
reference to some Committees having a source of operating income, and whether that then  
1785 provides them with free money, if you like, to spend at will on anything they wish. I think, in  
essence, that is what he was driving at. I thank him for raising this point with me before debate,  
and again, I can repeat what I have, in essence, said to him before. Of course, the operating  
income for each Committee, and the ability for Committees to raise revenue as operating income,  
is governed by a directive, which gives very clear guidance as to the level of fees that should be  
1790 charged, whether something is entirely for the public benefit, whether there is a private benefit  
attached to it, or whether there is a shared benefit, and that gives very clear guidance as to the  
level of cost recovery which Committees can engage in, through that directive, and there should  
therefore be consistency as well, between Committees.

I think others have already addressed Deputy Ferbrache's points in relation to the Bond, and  
1795 seeking assurance that there will be sufficient funds in 2046 to repay the £330 million. That is the  
purpose of the Bond Reserve, that is why it was set up in the way it was, so that we gradually build  
that reserve from the loan receipts, repayments of the loans from any excess over the interest  
charged any surplus in investment returns that will ensure that we do have the funds available to  
repay the Bond in 2046.

1800 Deputy Prow asked about HM Receiver General's Fund. We have been in dialogue, and remain  
in dialogue, with the relatively new HM Receiver General with a view to reviewing the makeup of  
the funds, and also considering their publication. We will continue that dialogue, so I thank  
Deputy Prow for raising that particular point.

Deputy Soulsby raised the question of the adoption of the International Standards, and again, I  
1805 think the Report does make reference to this, that we are looking to progress the adoption of  
those Standards, and I referred to it in my speech, we need to do it in a graduated fashion. There  
is an awful lot of work involved in doing so, and we will be starting with fixed assets and the  
valuation of those, and I would expect that to be part of the 2017 accounts in due course.

I thank her, also, for her comments around the consolidation of the Health accounts, well the  
1810 combination rather than consolidation, and also the suggestion that there needs to be ongoing  
dialogue in relation to that. I am certainly very happy to continue that.

Deputy Dorey, I think, made some very valid points about the contents of the President's  
foreword, and referring to one particular part of the movement on the Capital Reserve and not  
another, I think that is a fair observation. There was not any particular reason for omitting that  
1815 information, other than space, but I do take the point that he made. I will certainly keep that in  
mind for the future.

I think his analysis also of the source of funding for the Future Guernsey Economic Fund and  
the Transformation Transition Fund I think it was probably correct, ultimately those funds did  
come from what was called the Contingency Reserve, But of course, it was as a result of decisions  
1820 made by this States during the Budget debate around the reorganisation of our reserves, for that  
very purpose. Now from memory, I am sure Deputy Dorey will correct me if I am wrong. He was  
not particularly in favour of it at that time, and I do think his comments will continue to reflect his  
views in relation to the decision by a majority of the States at that time.

Deputy Gollop, I just draw his attention to page 57 of the accounts which provided some  
1825 explanation for the movement in relation to HR, there is a comment there. Forgive me, 58. He  
referred to 57.

Similarly, for Deputy Oliver who was questioning the restatement. That is dealt with on page 31 of the accounts. There is a note, note 3 on page 31 that provides an explanation for the restatement, which, again, Deputy Trott referred to in his speech as well, a sort of rationale for that.

Also Deputy Oliver questioned the rise in the costs of Policy & Resources, but actually, of course, the starting point is the combination of Policy Council and Treasury & Resources, many of those functions coming together, together with Human Resources and Finance, I am not sure we are necessarily comparing like with like.

Deputy Tindall made a very valid point, I think, around whether we should be noting or approving the accounts. Of course, the traditional Proposition has always been to approve, akin to a shareholders type meeting. Of course, we did have an issue around this a few years ago, in relation to a Proposition to approve the accounts for Guernsey Financial Services Commission, and that was subsequently changed to a 'to note' Proposition. I will certainly take the point away because I think it certainly may have equal application, I think we need to consider the implications of doing so, given the fact that the accounts have been approved by Policy & Resources already, and signed off by us and the auditor, therefore whether it is still the requirement that it should be approved in this place, I will certainly take that point away and consider it.

I think Deputy Brehaut's point about actually providing some perspective and context, and having confidence in our processes is a very valid one, because I think it is very easy to give court with a lack of perspective sometimes in the context of an organisation that is as large as the States.

Then, finally, returning to Aurigny, sir, Deputy Le Clerc was looking for some assurance that the States would have an opportunity to debate the two reports, and the single set of recommendations, which Policy & Resources produced as a result of those reports. The next stage, sir, is the three Committees, the Committee for Economic Development, Policy & Resources and the States' Trading & Supervisory Board are now considering those recommendations, and whatever emerges from that in terms of some kind of decisions may or may not require Resolutions of the States. So at this stage I cannot give a categorical assurance of what and when there will be any debate in this place, but given the nature of some of the recommendations, I think it is highly likely that there will be a requirement for some decisions to be taken here, and that it will be appropriate for there to be a debate here. But I cannot be much more categorical than that. I hope that gives some reassurance to Deputy Le Clerc.

On that note, sir, I close and seek the support from everybody, including quite possibly Deputies Yerby and Parkinson, to approve the accounts.

**The Bailiff:** Members, we come then to vote on the Propositions. For those who have a printed set of accounts, they are set out just inside the cover page. I will take them separately so that those who wish to do so can vote against.

The first Proposition is to approve the States of Guernsey Accounts 2016, which I assume means approving everything up to and including page 51. (**Deputy St Pier:** Yes, sir.) The Appendices start with Appendix I on page 52, and Members will note that that page is headed Committee Accounts and Commentaries and states:

The following pages do not form part of the audited financial statements and are presented for information purposes only.

So what Members are being asked to approve is pages 1 through to 51 inclusive. I put those to you now. Those in favour; those against.

*Members voted Pour.*

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

Proposition 2 to approve the following 2016 accounts: Ports, Guernsey Water, Guernsey Dairy and States' Works. Those in favour; those against.

*Members voted Pour.*

1875 **The Bailiff:** I declare them carried.

Proposition 3 to note the following accounts: Social Security Contributory Funds, Elizabeth College, Ladies' College, and States of Alderney. Those in favour; those against.

*Members voted Pour.*

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

1880 Finally Proposition 4, which was added as a result of the successful amendment laid by Deputies St Pier and Soulsby. Those in favour; those against.

*Members voted Pour.*

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

That concludes the business this morning.

### **Notice of Annual General Meeting of the Commonwealth Parliamentary Association Guernsey Branch**

1885 **The Bailiff:** Can I remind Members that when we rise tomorrow at 4.30 p.m. there will be the Annual General Meeting of the Commonwealth Parliamentary Association (CPA) Guernsey Branch, of which everybody here is eligible as a member, unless they have opted out. There will be a special guest, Sir Malcolm Jack, who was the Clerk to the House of Commons from 2006-2011, and who first commenced service in the House of Commons 50 years ago in 1967. Among other things he was the editor of the 24th edition of Erskine May, *Parliamentary Practice*. So those who  
1890 wish to do so may wish to stay not just for the AGM but to have the benefit of meeting Sir Malcolm Jack asking him any questions and to meet him, there will be an opportunity. He will be speaking and there will be an opportunity to meet with him both formally and informally. That will be when we rise tomorrow at 5.30 p.m.

1895 **Deputy Roffey:** Ah, I think it must be a slip of the tongue, you said earlier at 4.30 p.m.

**The Bailiff:** Oh, 5.30 p.m. sorry.

1900 **Deputy Roffey:** I thought I had missed something, okay.

**The Bailiff:** That was wishful thinking maybe on my part (*Laughter*) I assume that the debate tomorrow will continue to at least 5.30 p.m. It will be 5.30 p.m. tomorrow. Sorry, I apologise for the confusion.

So, we will rise now and resume tomorrow.

1905

*The Assembly adjourned at 12.40 p.m.*