



OFFICIAL REPORT

OF THE

STATES OF DELIBERATION

OF THE

ISLAND OF GUERNSEY

HANSARD

Royal Court House, Guernsey, Tuesday, 28th June 2016

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Law Officers

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

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B. L. Brehaut, R. H. Tooley

St Peter Port North

Deputies, J. A. B. Gollop, C. N. K. Parkinson, L. C. Queripel, M. K. Le Clerc,
J. I. Mooney

St Sampson

Deputies L. S. Trott, P. R. Le Pelley, J. S. Merrett, G. A. St Pier,
T. J. Stephens, C. P. Meerveld

The Vale

Deputies M. J. Fallaize, M. M. Lowe, L. B. Queripel,
J. C. S. F. Smithies, S. T. Hansmann Rouxel

The Castel

Deputies R Graham L.V.O, M. B. E, C. J. Green, B. J. E. Paint,
M. H. Dorey

The West

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D. de G. De Lisle, S. L. Langlois

The South-East

Deputies H. J. R. Soulsby, H. L. de Sausmarez, P. J. R. Roffey,
R. G. Prow, V. S. Oliver

Representatives of the Island of Alderney

Alderney Representatives L. E. Jean and S. D. G. McKinley, O. B. E.

The Clerk to the States of Deliberation

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

Absent at the Evocation

Deputy M. P. Leadbeater; Deputy D. B. Jones (*indisposé*); Deputy J. Le Tocq (*relevé à 11h 15*);

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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

The Senior Deputy Greffier: Billet d'État XVIII – 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 28th June 2016 at 9.30 a.m. to consider the items listed in this Billet d'État which have been submitted for debate.

Photographs for media

5 **The Bailiff:** We will just pause for some filming. I think that the still cameraman would like everybody to face the cameras. So if you could do that, and smile.

Anyway, have you got all the photos and footage that you require? Do you need a moment longer? Just one moment longer.

10 I am not sure whether they are allowed to stay with the cameras in the Public Gallery, that is the problem. I think I am waiting for the States' Assembly & Constitution Committee (*Laughter*) to agree the arrangements. (*Interjection*) I think we need to consider that, because I have no objection to sustain, but you can see it takes up half the Public Gallery if we had a debate that was controversial, where members of the public wanted to come, the media would also be wanting to film it, and then we would have an argument as to who has priority. I think the position is that we
15 are waiting for the States' Assembly & Constitution – no... Mr Procureur.

The Procureur: Well, sir, they can stay but they cannot take photographs! (*Laughter*)

20 **The Bailiff:** I think that is enough filming, we will rise very briefly to enable the cameras to leave.

Billet d'État XVIII

POLICY & RESOURCES COMMITTEE

The States of Guernsey Accounts 2015 – Debate commenced

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 2015

2. To approve the following 2015 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 above Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications.

25 **The Bailiff:** Those who wish to remove their jackets may do so, as it is summertime, apparently.

We will now open the debate, which will be opened by the President of the Policy & Resources Committee, Deputy St Pier.

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

Sir, I am pleased to present to you, and Members of the Assembly, the 2015 Accounts for the States of Guernsey. These are, of course, an historical and factual record of financial performance during 2015, and a snapshot of the States' financial assets as at the end of the year. Although it is important that these accounts are properly considered and understood, nothing, of course, can be done by this Assembly to change that historical performance.

35 However, it will be vital that over the coming months, and years, Members act to ensure that some of the issues facing this Assembly, which are described in these accounts, are tackled and resolved. Although, it is the Policy & Resources Committee which lays before you the accounts of the States, it is of course the Departments and Committees of the States who are responsible for managing, and accounting for, their own resources. Therefore, if there are any questions in
40 relation to individual Department or Committee accounts then these will be best answered by the Department or Committee in question, as far as is possible, given the changes to the recent Committee structures, but I will, of course, attempt to respond to questions which arise in debate to the extent that I am able.

45 It is also worth remembering that we are asked today to approve not only the General Revenue Accounts but also those for the Ports, Guernsey Water, States' Works and the Dairy, which were prepared by the Public Services and Commerce & Employment Departments, but were signed off by the States' Trading Supervisory Board.

There are two key themes emerging from these financial statements, which I have highlighted many times before, but which will be key in the future decisions of this Assembly. Firstly, the narrow and unsustainable tax base resulting in reduced revenues and, secondly, the continued financial pressures in delivering health and social care services. The shortfall on budget and real terms reduction in general revenue receipts, particularly in relation to Income Tax, highlights the first of these issues. Income Tax receipts from individuals fell by 0.4% in real terms in 2015, even after freezing personal allowances. This appears to have arisen as a result of a decrease in the number of those economically active in our economy, and in turn, highlights the vulnerability of relying on this narrow tax base as the population ages. Yet more worrying is the 20% real terms reduction in Income Tax receipts from companies, despite collecting an additional £3 million as a result of the extension of the 10% Income Tax rate to fund administrators. The 2015 receipts from banks suffered from the effect of downward adjustments to payments on account in respect of that year, but also through material repayments in respect of previous years. The analysis undertaken by our Income Tax team suggests that the impact of this downward readjustment will continue in 2016 and beyond.

As I set out in my foreword to these accounts, it has become clear that there is more to the deficit in States' revenues than cyclical conditions and the inherent lags in some revenues. It is likely that there is a structural element to our deficit which highlights, once again, the vulnerabilities set out in the Personal Tax, Pensions and Benefits Review, and the need to put in place an integrated tax system, which is sustainable. This will be one of our key challenges in this term, and in particular the need to grow the productive economy resulting in a broadening and diversification of the tax base, as well as the maximisation of revenues from the existing tax base.

The second issue worth consideration is the continued financial challenges associated with delivering health and social care services locally. The expenditure in delivering health and social care services in 2015 increased by 6.5% in real terms to £119.5 million, and represented a 1.6% overspend against authorised budget. I know that the President of the Committee for Health & Social Care will be speaking on this further in this debate.

The framework for public service reform has recognised the long-term sustainability challenges of these services, given the ageing population and the rising costs of care. That is why a programme to transform health and social care services has been initiated, which is intended to design, build and transition to a delivery model for these services, which is both sustainable and affordable, within the context of the long-term fiscal and demographic forecasts. However, this kind of transformation takes time to properly plan and execute, and it is imperative that in the meantime every effort is made to deliver affordable services within the context of the overall funding envelope. It is clearly not sustainable to continue to have service areas which continually overspend, spend more in real terms year on year, and therefore impact on the ability to deliver other public services.

The need to address the financial position and arrest the decline in financial performance in this area in the short term is obviously a matter for the Committee for Health & Social Care supported, of course, by the Policy & Resources Committee. However, the longer term sustainability issues, and the decisions surrounding the prioritisation of expenditure on public services will be matters for the whole of this Assembly.

The fiscal challenges faced in 2015 resulted in an overall deficit of £24.5 million, which was a deterioration of £14 million from 2014. This deterioration is even more disappointing when set in the context of a balanced budget which was put together on prudent assumptions and included budget measures totalling some £9 million. This deficit is not simply academic, or paper based, it is very real and has a real impact.

In 2014 the States restructured the General Revenue Reserves and closed the tax strategy element of the Contingency Reserve, which had been made available to fund deficits since the introduction of Zero-10. At that time a total of £22 million was distributed to the General Revenue Account Reserve, as a modest reserve, available to manage in year shortfalls in income, short-term cyclical variations, and other timing issues. That balance has now been erased and the Reserve is

100 overdrawn to the tune of £2 million. That is why it is imperative that efforts are made to balance
the books in 2016 in order to avoid any further drawdown on this account, as the only other
option available to fund any deficit would be withdrawals from our long-term reserves.

Sir, before I close, I would like to draw Members' attention to the balance sheet on page 17 of
the accounts, the States have net assets on this balance sheet of almost £540 million. In addition,
105 and not currently valued and accounted for on the balance sheet, are the property assets of the
States, worth at last £1.5 billion. Furthermore, the miscellaneous accounts reveal that the Ports
have assets totalling £246 million; Guernsey Water, £138 million; Social Security, £835 million;
States' Works, £10 million, and the Guernsey Dairy, £6 million. A total roughly – roughly totalling, I
should say, these assets show a balance which exceed £3 billion in totality. It is of vital importance
110 that this Assembly focus, not only on the income and expenditure position of the States, but also
on the management and optimisation of these significant assets. As set out in my foreword to the
accounts, ensuring an appropriate return is obtained for all States' assets, be they investment,
property or trading, will also be a vital component of helping relieve the pressure on the existing
tax base. It is Policy & Resources' present intention to bring proposals to help ensure this as part
115 of the Budget later this year.

Sir, I ask the Assembly to approve the 2015 accounts.

The Bailiff: Deputy Lester Queripel.

120 **Deputy Lester Queripel:** Thank you, sir.

The Bailiff: Deputy Queripel, I know you are in some pain. Is it easier for you to sit or to stand?

Deputy Lester Queripel: I think I am alright to stand, sir.

125

The Bailiff: All right, well, if you need to sit, then you may do so.

Deputy Lester Queripel: I thank you for your concern, sir.

I have several questions for the President. I am asking them because his Committee are
130 mandated to co-ordinate policy, including leading the policy planning process, the allocation of
resources, including the States' Budget, facilitating cross committee policy development and
external affairs.

The first of those questions is in relation to the graph on page 11, which tells us that £75
million was loaned to the Guernsey Housing Association to refinance existing borrowings for the
135 development of social housing. My question is this: does that mean that that money is in addition
to funds already held by the GHA? If it does, can the President tell me, please, the total amount of
funds now available to the GHA?

I ask that question primarily because there are currently 165 of our fellow Islanders waiting to
be housed who have mobility problems, and there are no properties available to them. So GHA
140 need to build a lot more to keep up with demand. Of course, that will also mean more work for
our construction industry, who often say in the media the States are to blame for a decline in the
industry. That will be especially beneficial to our economy, of course, if the GHA use local labour.

My second question focuses on pay costs. The graph on page 24 tells us that in 2015 90 senior
States' employees earned more than £110,000. Now, I fully appreciate that there were eight
145 reductions in staff, earning more than that amount, but there were also 11 increases in staff
earning more than £110,000. So all in all, sir, that is obviously three more staff members added to
the payroll, earning more than £110,000. There were nine increases in the number of staff earning
between £150,000 and £169,000, and there were two increases to the number of staff earning
between £190,000 and £209,000 per annum. This, sir, at a time when the public are crying out for
150 a reduction in staff in our Civil Service.

My questions in relation to that issue are these. Number one: what is the rationale behind reducing the number of Deputies by seven, to save less than £1/4 million pounds a year, bearing in mind that, in the main, the majority of Deputies earn approximately £35,000 per annum, to then increase the amount of civil servants who earn more than £110,000 per annum? Question number
155 two: is the trend liable to continue to carry on increasing the number of civil servants who earn that sort of money? Who actually decides that those new employees are needed anyway? Because, contrary to public opinion, the Assembly do not have any say whatsoever in deciding what new roles need to be created, and how many civil servants are needed on those kind of salaries? Finally, on that issue: is the President able to give me the job descriptions for the two
160 additional posts that pay between £190,000 and £209,999 please? I look forward to the President's response to those questions, because, sir, like a lot of things in politics, that scenario does not make any sense to me whatsoever.

Another question I have relates to our being told on page 25 that £41,289,000 was spent on services and supplies in 2015. Sir, my question is, can the President give me an assurance that
165 wherever possible, services and supplies are provided by local businesses.

Page 71, paragraph three, it tells us that pay costs within the Environment Department increased by 18% in 2015, from £3.9 million to £4.6 million, an increase of £700,000. We are told that three additional posts were created, purely to implement the Transport Strategy. Bearing in mind that the Strategy is now nowhere near as comprehensive as was first envisaged, due to a
170 number of successful amendments being laid to the original proposals, can the President please tell me whether or not those three new members of staff are still employed by the Environment Department? Or have they been redeployed to another Department, thereby reducing staff costs for 2016 at the Environment Department, but increasing staff costs at another Department?

We are told in the same paragraph that some one-off staff restructuring costs were incurred by the Department in order to prepare for the new States' Committee structure. Then we are told on
175 page 129 that those staff restructuring costs amounted to a staggering £350,000. But there is nowhere else in this document, as far as I can see – although I stand to be corrected by the President – that tells us how much it cost other Departments to prepare for the new States' Committee structure. I am wondering why that is, sir, and I am hoping that the President can shed
180 some light into what is, for me, an incredibly dark corner at the moment. It is made even darker by us being told at the bottom of page 73 that the Environment Department gave £3/4 million back to the Budget Reserve due to the delay in agreeing a funding source to enable the implementation of the Transport Strategy. Now, I am sure there is a simple explanation to all of that, sir; I look forward to it in the President's response.

On page 130 we are told that £53,764 was spent on minor overspends on previously approved projects. But we are not told what those projects were, and we are not told where those
185 overspends occurred, and I would like to have seen a list of those projects. So can the President tell me please what those projects were? Also, is he able to give me an assurance that minor overspends will be detailed in future States' accounts please? Because I think the States and the
190 public have a right to know where their money is going, and £53,764 certainly is not a minor sum, as far as I am concerned, especially when we have a duty to account for every penny spent of taxpayers' money.

On the *Sunday Phone In*, sir, I referred to costs at the Harbours, and I had a phone call last evening from a gentleman who told me that he had worked at the Harbour for over 40 years, and
195 since he retired he has been replaced by three people, who apparently are now needed to do the work previously done by one person. I am hoping the President can give me some satisfactory answers to my questions, because although we are told on page 1 of the miscellaneous accounts that there was a Harbour surplus for the financial year, of £1,286,000, it certainly looks impressive on paper, and gives the impression that there is no cause for alarm. I believe there is cause for
200 alarm, because at least half a dozen Islanders have called me telling me they can no longer afford the mooring fees for their little 12- or 14- footer boat, so they have had to sell that boat. I am sure my good friend Deputy Trott will have something to say about that, when he speaks, sir.

205 So how do we reduce costs at our Harbours? Well, the first question that needs to be asked is, do we have too many chiefs and not enough Indians? In 2014 Guernsey Harbours Business Plan, on page 6, told us there are 73 staff employed at our Harbours. We are told we have a harbour director, who has a PA, and we are told we have a health & safety manager, a harbour master, who has four deputy harbour masters, a capital delivery manager, a leisure manager, a technical works manager, four technical works supervisors, a finance manager, a compliance manager, a commercial manager, a deputy marina manager, a crane driver foreman, and a senior signals officer.

210 So, all in all, sir, it would appear we have about 20 employees in positions of authority, supervising just over 50 staff – one supervisor for every two-and-a-bit members of staff. Just as a previous Assembly had to bring the GFSC under control because they had allowed their costs to spiral out of control, then perhaps it is time for this Assembly to bring costs at our Harbours under control, especially since we are told on page 2 of the miscellaneous accounts that the Harbours now employ 80 people – seven more than two years ago. I am wondering how many of those seven are chiefs and how many of them are Indians.

220 My question sir, to the President is: does he have any concerns about the situation at our Harbours? Can he give me an assurance that P&R will give serious consideration to instructing the States' Trading Supervisory Board to undertake a thorough review of the current and future employment policies at our Harbours? If the President's reply to that question, sir, is no, then I would ask the Scrutiny Committee to undertake such a review, and to also look at how much autonomy the Harbour Authorities actually have. I believe they have complete autonomy to do whatever they like within the Harbours. I may be wrong about that, but I think that needs to be looked into.

230 I know I am not the only Member of this Assembly who is concerned about what is happening down at our Harbours, sir. Deputy Paint and I have been banging our heads against a brick wall for months about the whole Harbours issue. We got absolutely nowhere in the previous Assembly, despite all our efforts. So I am looking for an assurance from the President that attempts will be made to bring the Harbour Authorities under control.

235 After having said all that, sir, I am only too aware that we are told on page 5 that the principal officers have reviewed the cash flows, and projected income and expenses, over the next 12 months, prepared by management, and deemed the Ports to have adequate financial resources to meet their obligations. But I am not talking about meeting obligations, sir, I am talking about us, as politicians, having a duty and a responsibility to uphold the traditions of Guernsey. I am talking about our fellow Islanders being forced to sell their boats because they can no longer afford the costs associated with keeping them, thereby denying them the pleasure that had been afforded, and affordable, to hard working people for decades.

240 Sir, I have asked the President a number of questions – 10 by my reckoning – and I have given him advance notice, so I am hoping he is able to answer the majority of them. I want to thank him, sir, in anticipation of the time he may have spent trying to find the answers. Whilst I heard what he said in his opening speech, I appreciate that I could have addressed some of these issues by approaching the Departments themselves, behind the scenes, as it were, but I felt it important to highlight these issues during debate in this Chamber, in an attempt to attain the openness and transparency we so often speak of. After all, this is our debating Chamber, and this is one of the few places where we can hold Departments to account.

245 Sir, I would like to conclude by first of all praising the Policy Council, because we are told on page 47 that the Council saved £16,000 in 2015 by reducing consultancy costs through better use of internal resources. Seeing as how I am totally opposed to the use of consultants, especially overseas consultants, I applaud the Policy Council's approach. They have used internal resources. I understand that to mean that we already have civil servants in place with the knowledge and the experience so we really do need to use them.

This is a major concern to me, sir, because when I asked the question some years ago as to why did we use so many consultants when we have civil servants on high salaries with the

255 experience and the knowledge, I was told it was to avoid any future litigation should things go
wrong. I think that is disgraceful, sir, and really does need to be addressed. The Policy Council
have done their best to address it, so all credit to them to doing so. I would like to hear the
President's views on the future use of consultants when he responds, sir, please. The question I
would ask is: will P&R be insisting that Departments only use the services of outside consultants if
260 we absolutely do not have that knowledge in-house? Because it makes no sense to me to employ
civil servants, earning more than say £70,000 a year, who have the knowledge in certain areas and
then not utilise their skills and their knowledge. That trend has got to stop. I am looking for an
assurance from the President that P&R are going to be all over that in the next four years. So that
makes 11 questions I have asked the President, sir.

265 I would also like to praise the Royal Court, because we are told on page 105 that the Royal
Court underspent their budget by £276,000. Those savings came from the Bailiff's office, saving
£66,000; Court services, saving £48,000 and client services, saving £162,000. Those are
considerable savings, sir, which I feel deserve to be recognised, and that credit be given to all the
staff involved in Court proceedings. But I hope that does not mean that our good friends, the
270 Sherriff and the ushers, have had to take a drop in their salaries, because they do an excellent job
and deserve every penny they get.

Sir, in closing, while I was speaking to one of my colleagues yesterday, he said that this debate
should not take long, because what is done is done, it is in the past, and there is no point in
questioning it. Well, obviously, sir, I do not see it that way, because I think we need to be asking
275 questions. I have asked my questions because I have genuine concerns and I am hoping the
President is going to allay some of my concerns today.

Sir, I would like to thank my colleagues for listening to my somewhat forensic analysis of these
accounts. I hope they found at least some of what I have said useful.

I would just like to inform my colleagues, sir, through the Chair, if I may, that once I finish this
280 speech I shall be retiring to the library to listen to the rest of the debate on the radio, because I
am having to endure the pain and inconvenience of having two slipped discs, which means I
cannot sit down for very long, I cannot stand up for very long, I cannot lay down for very long, in
other words I am going to fidget. I felt it important to inform every one of that, sir, because I do
not want to – I give way to Deputy Brehaut, sir, and appreciate it if I can sit down.

285

The Bailiff: Deputy Brehaut.

Deputy Brehaut: Thank you.

It is because Deputy Queripel said he would not be in the room, so while he is in the room, and
290 there were questions to the President of Policy & Resources, I just need to point out that this
Assembly – *this Assembly* – approved the increase of staff at the Environment Department; it was
part of the Integrated Transport Strategy. One of those posts was not adopted by the Department
once the legislation was amended.

With regard to the £600,000 on restructuring, that decision and that expenditure was not taken
295 by the Environment Department, and it is actually odd that it sits in that column. It was a Policy
Council decision following the review, this is the Machinery of Government. There was an element
of restructuring; that decision, that expenditure, was agreed by the Policy Council, not by the
Environment Department, although it sits on our balance sheet.

Thank you.

300

The Bailiff: Deputy Queripel.

Deputy Lester Queripel: Thank you, sir.

I thank Deputy Brehaut for that.

305 Sir, the reason I am leaving the Chamber as I say is because I have to fidget, I am afraid. I do not want rumours to circulate that I am leaving the Chamber because I am not interested in what anyone else has to say, but I felt it important to clarify that.

Thank you, sir.

310 **The Bailiff:** Thank you.
Deputy Green.

Deputy Green: Mr Bailiff, thank you.

315 First of all, I would like to start my comments on behalf of the Scrutiny Management Committee with an acknowledgement that the political landscape, as it were, that we find ourselves in has obviously changed very dramatically over the last few days, and the legacy which we see our position in the world, and how the world views us, has inevitably changed. Undeniably, we enter a period of uncertainty but we endorse the view that the President of the Policy & Resources Committee has made publicly, which is that this is no time to panic and inevitably there will be opportunities as well as challenges ahead.

320 Sir, we want to put on record, that there is some good news within these accounts that the Committee wishes to acknowledge. I will not be able to focus entirely in this statement on good news, so to speak, because that is not the current reality that we face, but I do think it is important to provide a degree of balance in the official view of the Scrutiny Management Committee this morning.

325 So let's start with a few positives. In the income and expenditure statement it details that in 2015 we have a revenue surplus of £15 million, an operating surplus of £8 million – that is after routine capital – and when considering the long-term trend from 2009, we have ongoing revenue expenditure that is at or below inflation. In terms of the balance sheet, more generally, we clearly have substantial monies in the bank, so to speak, and looking towards 2016 on revenue expenditure, there are still legacy financial transformation project savings, and indeed a 0% pay deal is in place for many public sector workers for this year.

330 In terms of the general economy, business confidence is described as 'okay' and undeniably we have very low levels of unemployment. However, the somewhat down beat nature of the President of Policy & Resources' statement is clearly justified, sir, by the figures that are in front of us, and indeed, given the political and economic conditions facing the Island.

335 We do have to reflect this morning therefore that the 2015 accounts clearly do contain significant bad news. Overall, our public finances reveal a general revenue deficit of £25 million after the transfer for capital spending is taken into account. The vast majority of this deficit can be specifically attributable to a shortfall in income. Clearly, and as acknowledged by Deputy St Pier, this is a structural problem rather than a timing issue.

340 Sir, the Income Taxes collected from companies decreased by £9.9 million in 2015; by my reckoning that is a 19.3% reduction. Clearly, these figures are disappointing, given the stated desire to broaden the tax base and to widen the scope of company taxation and indeed, as Deputy St Pier mentioned, on a practical level the level of repayments is obviously relatively high and, given these figures, it does inevitably raise some issues about the current approach on corporate taxation. Coupled with overall general revenue income being down, spending has increased. The net revenue expenditure has increased by £14.6 million, or 4.2%, so very clearly, Mr Bailiff, the fiscal and economic plan target of a real terms freeze on aggregate States' revenue expenditure has not been achieved year on year.

350 Indeed, the numbers of staff employed across the States of Guernsey has also risen significantly, albeit largely related to the former HSSD Department. This increase in staffing, together with a significant increase in agency costs, has contributed directly to a significant overspend within the former HSSD, and that is, of course, despite the significant additional funding being provided to that Department both in terms of revenue and capital.

360 Sir, however, with the health and social care benchmarking exercise by BDO in progress, there is, of course, some expectation that this process will lead to some sustainable reduction in revenue costs over time for that Committee, although whether those reductions are realistic and deliverable in the real world, of course, remains to be seen. The proof of the pudding will be in the eating.

365 Sir, the year-end overspend of the former HSSD was £1.9 million. That is, of course, after the additional allocation of £3 million that was made from the Budget Reserve during the course of the year. Given what the former HSSD spent in 2015, it seems unlikely that the new Committee for Health & Social Care can limit their 2016 spending to their *de facto* revenue budget of £118.5 million, whilst utilising the £2.3 million allocated funds needed to deliver the desired transformation changes, as the BDO report indicated.

370 So, in summary, this is the year for Health & Social Care to demonstrate that they can and will control their spending. However, concerns must exist on whether the Health & Social Care Committee can deliver the intended transformational changes in 2016 within the budget that has been allocated for this year, and perhaps the President of Health & Social Care can provide some comfort, and further information, on that matter when she speaks later on in this debate.

So, given the States' current overall financial position with income falling, it does require that either health spending is controlled or additional monies found within other areas of the public sector.

375 Sir, the assertion that changes in full-time equivalents for the public sector a rise of 72 overall is entirely related to HSSD seems to be only part of the story. The former HSSD has seen an increase in full-time equivalents of 85 on these accounts, but we have also seen changes whereby the former Education Department has seen FETs fall by 30 and the former Home Department has increased by 16, and these significant changes would appear to warrant some form of explanation in this debate. In addition, it is clear that the costs associated with the employment of senior staff within certain Departments has also escalated significantly, with the former Policy Council a major concern. I know Deputy Lester Queripel a moment ago was singing the praises of the Policy Council, but it is clear the Policy Council's wage bill rose by £1.1 million from just over £4 million in 2014 to almost £5.2 million in 2015. Needless to say the Scrutiny Management Committee will be paying close attention to this area. Furthermore, and of significant concern to the Committee, Social Security contributory funds have an operating deficit of £16 million before return on investments.

380 Sir, in a nutshell, our revenue income is down and our total spending is up, with aspects of the staff members heading in an upward direction. Also there will undeniably be pressure during this term for support for the required social and environmental policies. Indeed, we already have Resolutions from the Social Welfare Benefits Investigation Committee pending that will require funding, and indeed this Assembly has already voted for £750,000 for the Island Games.

390 With regard to the balance sheet, of specific concern is the investment performance for both Social Security contributory funds and the former T&R funds in 2015 are well below target. This equates to a multi-million pound impact on the public purse. The Committee will seek to ensure that the recommendations from the Public Accounts Committee's 2016 investment review are implemented fully.

400 Sir, the Bond remains a concern to many members of the general public and for many Members of this Government. Clearly, we can now see that only £120 million of the £315 million, after fees, has been lent on. Whilst we fully understand that the programme should rightly be seen as a 32-year venture, as it is undeniably a long-term initiative, there are certain questions to be answered, and I can confirm, sir, that the Scrutiny Management Committee will be fully considering a review into the process around the decision to proceed with the Bond, including the ongoing management of the funds, within the coming weeks and months.

405 More generally, in this debate the picture that emerges from these accounts is something of a perfect storm for our public finances. The time must surely be now for the States as a whole to get

a firm grip on the public finances and to eliminate our budget deficit in a sustainable, effective and fair manner, and also to ensure that the return on our investments and assets are maximised.

410 It is becoming clear that the proposed 20-year vision for Guernsey's new Government may well need to question the current fiscal framework. It may be worth considering at some stage whether the historically based Financial Rules that we currently work under, continue to represent the best, or indeed the only, way forward for this Island given the current challenges.

415 Sir, on a related matter, once again the overall clarity of the content within the accounts is, in our view, poor and does not appear to have improved significantly over the last few years. This, in our view, leads directly to a lack of transparency – something which prompted the former Public Accounts Committee to conduct a review of how similar jurisdictions and large commercial organisations present their annual accounts. The new Scrutiny Management Committee hope to release a report on this area later this year, having considered any additional issues within the 2015 accounts. Sir, ultimately, greater clarity of presentation of material within the accounts will
420 only tend to help enhance transparency and we would urge Policy & Resources to take steps towards that in the future.

Mr Bailiff, in conclusion, Guernsey cannot continue to run a budget deficit beyond this parliament. Action must be taken to bring the public finances back into balance, and this
425 Assembly can be assured that the Scrutiny Management Committee will be looking to play a significant role in challenging policy and expenditure decisions that do not support that overall aim.

The Bailiff: Deputy Fallaize.

430 **Deputy Fallaize:** Thank you, sir.

It is ironic that today is 10 years to the day exactly since the States started debate on, what was called, the Fiscal and Economic Strategy – 10 years to the day – because the accounts that we are debating today could be subtitled the Consequences of the Fiscal and Economic Strategy that was put in place 10 years ago.

435 I am not talking about what is commonly referred to as Zero-10, which is just a way of describing company tax arrangements, but at that time, when Zero-10 was agreed by the States, a Fiscal and Economic Strategy was established around it, and it revolved around reducing the basic rate of company tax to 0%, making various changes which would raise some additional revenue to address the shortfall that had been left, by raising social insurance contributions, but leaving a
440 gap of about £40 million to £50 million per year in public finances, which would be addressed by drawing down on the Contingency Reserve in the short-term, while reductions in public expenditure and economic growth managed to provide a long-term solution. That was the thinking of the States at the time.

445 It was always denied that there was a structural deficit and, in very ambitious terms, the States believed that reducing public expenditure and quite spectacular rates of economic growth would somehow eliminate the deficit. The Strategy was always likely to fail; it has failed since it was put in place and the accounts that are presented today are a commentary on the failure of that Strategy.

450 The States were told that this Strategy would fail at the time. Oxera, which was a company of economic analysts, were engaged and they advised the States at the time that, under the central assumptions of public expenditure and growth, the deficit which was likely to arise was £38 million a year. The States set up their own independent working party, which included certainly somebody on-Island experienced in the finance industry and an economist off-Island; and their advice to the States was that further revenue raising measures would be needed, unless there
455 were spectacular rates of economic growth. The structural deficit is most likely to be between £30 million and £40 million per year. That is what the States was advised at the time. The States decided, essentially, to ignore that advice and has done ever since, and that is why we have a structural deficit.

460 Now there is some progress in these accounts in that, as Deputy St Pier said in his opening
speech, there now appears to be an acceptance – eventually, 10 years after the event – that this is
a structural deficit. That it is not simply a matter of cyclical problems. But we are still in an
environment where the stock response to this deficit is it will be dealt with by reducing public
expenditure and higher rates of economic growth. We are collecting, as a Government, ever
diminishing amounts of revenue as a percentage of the size of our economy – down from 28% or
465 more 10 or 15 years ago, to 26% or perhaps slightly under 26% today.

Now, that is partly because we have detached the collection of revenue from GDP, because of
the general rate of company tax now being 0%. But, nonetheless, it is going to be ... I know it is
not popular to say this: it is an extremely populist position to say that we can deal with this deficit
entirely through cutting public expenditure, and maybe we can, but we are entering this phase as,
470 certainly on a per capita basis, one of the lowest spending jurisdictions in Western Europe,
particularly when compared with the Isle of Man and Jersey.

Now, maybe our Government is so uniquely brilliant and resourceful that Guernsey alone can
succeed in this experiment; Guernsey alone can continue to reduce public expenditure in relation
to the size of the economy without cutting services, even though we already have about the
475 lowest rates of expenditure in the western world. We also continue to believe that just around the
corner there will be such spectacular rates of economic growth that they will deal with the deficit.
There are people who have stood at the Election who have promised that if only we can get our
economy moving then we will be able to deal with the deficit. Guernsey, not quite alone but
almost alone amongst jurisdictions of the western world, has experienced quite considerable
480 economic growth in real terms in recent years. Our economy grew by 13% in real terms between
2009 and 2014. It is going to require, as I say, quite spectacular rates of economic growth for
growth to resolve this deficit. Now we need to do everything we can to grow the economy. I do
not doubt that there is more that can be done, but we cannot continue to see that as a primary
way of resolving this deficit.

485 We are also entering this problem, or not so much entering it but having to face up to it, in an
environment, as Deputy St Pier quite rightly consistently tells the States, where we have a
contracting workforce, and in addition to that we are plainly a jurisdiction hugely over reliant on
direct taxation. So this is almost a perfect storm; we are trying to address this problem when the
workforce is contracting.

490 The latest announcements that we had a couple of weeks ago, in response to the deficit being
larger than was forecast, really were scraping the barrel. Formal controls over recruitment with a
full review and approval by Chief Secretaries. I mean Members want to go on to the front line of
the Health Service, in particular, and understand the effect that that kind of directive has. There
are posts – unfilled posts – in our Health Service, which have been unfilled for considerable
495 periods of time, where recruitment processes are already under way, which now are having to be
frozen as a result of these sorts of directives. We are told that we are going to have an increased
focus on limiting the amount of paid overtime. Every Government that is in financial difficulty
always brings up the issue of consultants. That is easy. That is another populist thing to say, 'We
will bear down on the cost of consultants.'

500 Now all these things are necessary; it is not that we ought not to do these things. Of course we
ought not to hire more staff than are necessary, of course there ought not to be more paid
overtime than is necessary, and of course, we ought to engage consultants only when necessary.
But to present these things in response to a structural deficit of at least £25 million a year is
scraping the barrel. It is only £25 million a year because we are not investing what we know we
505 need to invest in capital infrastructure. If we made appropriate appropriations from general
revenue to the Capital Reserve the deficit would be even greater than it is.

So we have had 10 years of this, we have had 10 years of burying our head in the sand and
hoping that restraining expenditure and growing the economy somehow is going to deal with this
structural deficit. It is not. The Policy & Resources Committee has got to accept that it is not and

510 has got to come to the States promptly with a credible and sustainable fiscal strategy, because we do not have one.

I wholly endorse Deputy St Pier's attempts to build from the ground up a policy and resource plan. I am more positive about the process than some colleagues are, but the Policy & Resources Committee has a serious problem in respect of the policy and resource plan, because it is very
515 difficult to put in place a credible plan without a credible fiscal strategy, because the fiscal strategy has to underpin the policy plan the States has. This is going to take courage. It is going to mean either, or perhaps a combination of, cutting services – *seriously* cutting services – or raising taxes. There are no other ways around this. We have tried every other possible way. It needs a degree of courage, but above all it needs leadership from Policy & Resources.

520 So I would like the President, when he replies, to outline how and when the Policy & Resources Committee is going to lay before the States a credible fiscal strategy, which is capable of taking this Island back into fiscal balance, which is long overdue and now very urgently necessary.

The Bailiff: Deputy Roffey.

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

I agree with a lot of comments about the macro situation just highlighted by Deputy Fallaize and I will return to that at the end of my speech. But I want to deal with a few specifics first.

530 Like most Members, when reading this document I was extremely disappointed. I think my disappointment really came in two ways. First of all, obviously, that the deficit was higher than originally estimated but, secondly, that the outcome, to my view, was really quite shamelessly spun by P&R as being solely as a result of lower than expected revenues. That is really only part of the cost. The fact is that in 2015 spending was considerably higher than in 2014. In fact it was 4.9% higher and, allowing for inflation, that is an increase in real terms of 3.9%.

535 Now the States' target, which is very well known to everybody, is a 0% increase in real terms. So the States not only missed their own target, they were not even in the same ball park. Now, whether that is because the target was unrealistic or because they did not take sufficient stringent action to comply with it, is open to question. But it was a huge missing of the spending target. Why did that happen? Well, clearly it was not helped by our £8.4 million or 7.5% increase in
540 spending on health and social care.

Now, while I think, personally, that expecting a real terms freeze in this particular area of service delivery is unrealistic – in fact I would go further and say it is away with the fairies – a real terms increase of 6.5% is clearly completely unsustainable. Now, one reason for this huge leap in spending by the erstwhile HSSD is set out in paragraph 3.20. This says that there was an increase
545 in the whole time equivalents employed by the States across the *piste* of 72. It also claims and I quote here that this was:

'... entirely attributable to the Health and Social Services Department where staff numbers increased in order to address the recommendations of the Nursing and Midwifery Council Review and the Recruitment and Retention Taskforce'

550 If this is true – and I have absolutely no reason to disbelieve it – then it is the sort of over response which is utterly unaffordable. Now, I do know that the former HSSD were very much between a rock and a hard place, with all sorts of potential consequences if they resisted some of the recommendations of the Nursing & Midwifery Council. But I really think there needs to be some sort of pushback and some sort of compromise in these circumstances. Yes, sometimes there needs to be an adoption of, what has become a dirty word, 'the Guernsey way'. We are struggling to provide a range of services for a community of just over 60,000 that would normally be provided for a community of half a million or more. You cannot do it by absolutely aping what
555 is done in the NHS. There needs sometimes to be tailoring. It does not mean lower standards, but it means doing things slightly differently.

560 One thing I can say to Members from experience is that if Guernsey seeks to implement all of the proposals from every outside review team and every royal college of this and royal college of that, that does an outside review on our health and social care services, then pretty soon spending in this area would be low to the point where we will not be able to do anything else in the public sector because all of our money will be going in one direction.

565 But, to be fair, it is not just HSSD who saw a big increase in staff costs last year, as has already been pointed out by Deputy Green; last year saw the Policy Council's wage bill rise by more than 25% to £5.2 million. Superficially, I am afraid that, to me, there appears to be all of the signs of an increasingly expensive political centre, with a rather supine States of Deliberation accepting that trend, almost unquestioningly, in the face of meaningless buzz words about transformation or customer focussed service ethos's. I really hope that is not true, but that is how it appears to me at the moment.

570 Moving on, and as the Scrutiny President pointed out a while ago, the Bond Reserve suffered a reverse of £5.5 million in 2015. Now, I agree with him that this must be worthy of deeper consideration and I look forward to the outcome of any possible review, which I think should be carried out by a panel that includes disinterested – not uninterested, but disinterested – experts in the field.

575 Sir, perhaps one of the most worrying parts of the miscellaneous accounts is the revelation that the Ports account has slipped from a profit of about £1 million in 2014 to a loss of about £4 million in 2015. Now, that might be just a one-off caused by – I hate to mention the term – PFOS. I do not know I cannot tell by looking at the accounts whether that was the case or whether this is a worrying underlying trend. I do not know if Deputy Smithies has yet sufficiently across his brief to be able to help me on that. If not, perhaps somebody else would be able to help him, but on the surface that is something that needs to be explained.

580 Sir, I am not really talking on behalf of Scrutiny now, I am talking very much in my own right, but I have got a few bugbears I want to mention. Our superannuation funding level is shown in the accounts as being below 63%, according to FRS102. I wonder if enough is being done to secure the future of this scheme, and even more importantly, the future taxpayer who will have to meet those obligations. Now, I know the limited reform that the States have agreed are now subject to legal dispute and I do not want to pour oil on troubled flames, but, I am really alarmed about this. I know there are many people who say that FRS102 is not the right way to actually estimate the real funding situation, because it takes the current return on investments rather than an actuarial view of what they are likely to be in the longer term. But we keep hearing in this Assembly that our accounts should mirror those of the commercial world, and that we should not try and do something different. We are the commercial world; every company has to use FRS102 to estimate the funding position of their pension schemes. On that basis, I do not think we can pick and choose which bits of the commercial world we mirror in our accounts and which bits we do not.

595 On that basis, we have only got a 63% funding. I wonder if we should be going further. I am not in any way suggesting that we renege on our responsibility. That deficit relates to rights and amounts that have been built up under the current scheme. I am not suggesting we renege on that, but going forward I think we might have to be more radical. Very few of the Guernsey taxpayers who will actually have to underpin this scheme are working in the private sector, these things have the luxury of any sort of defined benefit pension scheme. It does not matter whether it is final salary or career average, or whatever, they just do not get defined benefit schemes. The typical occupational pension scheme these days is of the defined contribution sort. Now, this is not usually the employer, and in this case the employer is the States, which means the taxpayer. It is not normally them stinting on the amount of money they put in; they normally, typically, put in the same sort of amount. But the risk that is inherent in the investment scenario is put on to the individual.

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I think that going forward, certainly with new entrants, we should be considering whether we should be doing that, rather than being the only major employer in Guernsey that sticks with a scheme that just about every other employer has left behind.

610 Another personal observation: we see in the accounts a big increase again in the lock proof funding of Beau Séjour; now, I wonder if we are funding healthy leisure pursuits on the back of a very unhealthy and growing Island addiction to scratch cards and, if so, is that something we should really be doing and encouraging? Instead of just tut-tutting a couple of times a year when it is highlighted, I think we have to be looking at Beau Séjour funding and leisure funding, and it
615 should not be dependent upon people who sometimes cannot afford it, going in and buying multiple scratch cards. I know that sounds like the nanny state and if people want to spend their money like that they can do so, but it does worry me.

A far happier revelation in the miscellaneous accounts is the rude health of the finances of both Elizabeth and Ladies' Colleges, despite the tapering of the States' grant in recent years, and
620 despite the dire warnings some years ago that this would inevitably lead to their collapse and the consequent increase in the burden on the States' sector and those schools closed down and everybody had to be educated in the States' schools. I think when we hear those siren voices in future we should remember that it is not always the case. (**A Member:** hear, hear.)

Finally, coming back to the macro situation, the bottom line about this document is that it
625 shows that our bottom line is very sickly. I wish I had spoken before; I do agree with Deputy Fallaize that tinkering probably will not get us out of this. Yes, of course, we need to contain spending wherever possible, but we are going to have to look at how our income can increase. I do not think economic growth, unless it is incredibly clever economic growth, on the scale that would be needed would just fuel population growth which would add costs to the infrastructure
630 and everything that we would have to do.

So I do think we are going to have to look at our tax system. I know there are some in this Assembly who think fine – sir, I am not pointing to my left, I was just gesticulating – the way to do that is take more from the corporate sector. Ideally – *ideally* – I would actually like to do that as well, but I would have to say that if we do that in a way that makes us uncompetitive, then we will
635 just be shooting ourselves in the foot, (**A Member:** Hear, hear.) and reality for me, sir, certainly in the short-term at least ... we are going to have to look at individual Islanders.

So I want to put my plea down now, that if we do that we look at those with the broadest shoulders in order to take the most without burden. I do not say that because I am some 'Corbynite' socialist that wants to soak the rich for the sake of it, I do not, I actually wish there was
640 no need to put any extra tax on the wealthy at all. I wish they were free to spend all of theirs in our economy, and it could circulate around, but we do need to bring in more money and I can see that, for the ordinary person on a modest income, I think we push them with the height ... I know they are not taxed to heck compared with some other places, but when you look at our cost base in the Island – the cost of housing, the cost of services, the cost of goods – I think we have pushed
645 them as far as we can, and I think it is reasonable now to look at those with the biggest financial ability to give a bit more and expect them to do so, given that there will still be probably only a lot of taxes that they would pay elsewhere that they do not pay here at all.

I am not ... I will probably get the answer, 'We are looking at 20 means plenty.' I am not sure that that is sufficient given the scale of our structural problem. I think we need to go beyond that.
650 It is the responsibility of this whole Assembly to tackle this deficit, and hopefully not just by the end of the term, but actually by the middle of the term, I think, rather than the end of the term.

I came to the States hoping to really make things better in lots of ways, but I have almost given up on that already! (*Laughter*) If I could go away seeing a healthy surplus and a reasonable amount being spread across the Capital Reserves I think that would be a result in itself. But I do
655 not think we are going to get there by tinkering. I think we need something more major. I do not personally think that things like consumption taxes that hit the poorest the hardest is the way to go. I know there is a concern about over reliance on taxes related to income, but to be honest they are there, there is a fragility but they are by far the fairest way of raising revenue. So that is

660 my two pennyworth. I am sure that P&R can be looking at this issue over the next few months,
and I am saying that those Islanders who are in a position, without a great deal of pain, to give a
bit more should be expected to do so.

A Member: Hear, hear.

665 **The Bailiff:** Deputy Parkinson.

Deputy Parkinson: Thank you, sir.

670 Well, I am grateful first of all to Deputy Fallaize for reminding us that today is the anniversary
of the debate in 2006, which adopted what was called the Future Economic and Tax Strategy, and
I share his analysis of the consequences of that, and his views on what has happened since.

675 I would like to just add a little bit more colour though to that. The Resolution back in June
2006 was that up to half of the then Contingency Reserve could be used to fund the shortfall
during the first stage of the Strategy, and at that time the Contingency Reserve stood at about
£200 million. So the States earmarked £100 million to fund the deficits that they knew were going
to arise as a result of the adoption of the new Strategy.

680 The first stage was due to last three to five years, they said. So, in other words, by 2011 to 2013
the States would step back review what had happened and, if necessary, take further measures to
deal with any structural deficit that emerged as a result of it. Well, sir, I became Minister of
Treasury & Resources in April 2008 after Zero-10 had been introduced in January and, although I
did not agree with the Strategy, it fell to my lot to implement it and, of course, almost the first
thing that happened during that term of Government was there was a massive world-wide
financial crisis in the summer of 2008, which was not my fault Deputy Roffey (*Laughter*) and which
plunged the States and the economy into some disarray and, of course, was used at the time, and
has been used since, as an explanation for the lack of growth that followed the implementation of
685 Zero-10 and the consequent persistent ongoing deficits. Notwithstanding that Zero-10 actually
nearly was replaced in 2009 when the UK Government told us that they were no longer prepared
to defend it, but then, as they often do, they flip-flopped and about a year later decided that
perhaps it was ... they were ready to go along with it after all, and so this States soldiered on.

690 The circumstances were still the aftermath of the 2008 financial crisis. Ongoing deficits were
expected and indeed were planned. They had been anticipated in the original 2006 plan. We were
not due to review the first phase, as it was called, of the new Strategy until as early as 2011, so we
soldiered on. 2011, in fact, was the last full year of my term of office, but also, I have said, the
earliest year in which the review of the first phase could have taken place in the Strategy as
conceived, but in view of the lingering effects of the financial crisis, and having regard to the
695 political cycle, it was left to the States of 2012-16 to undertake the review that had been
promised.

700 The accounts for 2011, which were the last set of accounts that I signed, showed the balance
on the Contingency Reserve – the tax strategy part of it, because it had been divided into two –
stood at £104 million. So, in fact, at that point the tax reserve to fund the Strategy was bigger than
it had been in 2006 when it was resolved to set the reserve up. So that was another reason why
we as T&R board – and there was only one other surviving member of the board, Deputy Langlois,
who sits near me in the Assembly, but we as a T&R board – decided, in effect, to run with the
Strategy until after the Election, because there was no immediate cause for panic. We had £104
million in the Tax Strategy Reserve, and at that time the balance on the Revenue Reserve account
705 was £17 million. So we handed over, if you like, a position where the funds available to fund
ongoing deficits stood at £121 million.

Now, despite the 2006 commitment to a review of the first stage of the Strategy, the Assembly
of 2012-16 effectively chose not to conduct that review. They did conduct a Personal Tax,
Pensions and Benefits Review, and a proposal was contained in that to introduce GST, but as part

710 of a tax neutral package. In the event the Assembly rejected the GST proposal – and Deputy St Pier has confirmed since then, and confirmed again very recently – that GST is off the table.

715 Meanwhile, of course, the deficits have continued every year of the last term and they are running at roughly £30 million or so a year. In 2014 the dwindling Tax Strategy Reserve was merged into the Revenue Reserve and in these accounts the combined balance of these two funds has reduced to £4 million. Today we have just been told that the current balance is negative £2 million. So from a position where the 2012-16 States inherited £121 million to support the Fiscal Strategy, we are now down to -£2 million and the States has burned through £123 million of our reserves. There is nothing left.

720 Now, some will say that the deficits have been caused in part by transfers to the Capital Reserve, and there are plenty who point to the operating surpluses and say things are not all that bad. But, to my mind this is simply irrelevant. In the first place, capital investment is a normal and necessary part of the expenditure of the States, but more importantly, it does not really matter what the money was spent on. As late Deputy Bell used to say, you cannot have the penny and the bun. The money has gone, or is going, and it is no longer available to fund the ongoing deficits.

725 Now, last month Deputy St Pier told us that we face a deficit in 2016 of £10 million to £15 million if we take no action. He suggested various measures, which have been commented on by other speakers, which he thought could reduce this deficit by £5 million to £10 million, I think he said, but clearly there was no way out of a £10 million to £15 million deficit in what he was proposing. Since then, world financial markets have been thrown into turmoil by the Brexit vote. There were no new investment funds – or practically none – launched in Guernsey in the months leading up to the referendum, because of market uncertainty.

730 It seems very unlikely that activity will return to the investment fund sector before the restoration of normal conditions or some confidence in the financial markets. So we find ourselves today in a position where the review of the first phase of Zero-10, which was promised in 2006, has effectively never happened, where the States face continuing structural deficits and where there are downward risks to public revenues in the future outlook. Yet, against this background, Deputy St Pier has ruled out a review of our Corporate Tax Strategy. That was part of the platform on which he successfully sought election to his current position as recently as last month.

740 Sorry – I give way.

The Bailiff: Deputy Fallaize.

Deputy Fallaize: I am grateful to Deputy Parkinson.

745 Would he not agree with me that the series of problems or weaknesses he describes is compounded by the fact that we appear to have ignored our fiscal framework, because we are meant, according to this fiscal framework, to have identified measures to eliminate deficits within two years of their identification, and to have eliminated them within five years of their identification, and we are effectively now 10 years since the identification of the original deficit, and so that the fiscal framework is clearly being completely ignored?

750 **Deputy Parkinson:** Well, certainly that is very clearly the case, but the States have, in effect, broken their own word to review the first phase of Zero-10. It is perfectly consistent for it to ignore its own fiscal framework and, of course, that fiscal framework would require much higher investments in the Capital Reserve, for example, than we are currently making; and I should remind Members that the projected £10 million to £15 million deficit for 2016 would result, despite a reduction in the transfers to Capital Reserves of £10 million. So, but for that measure we would be talking about deficits this year of approaching £25 million, ignoring the effects of Brexit.

760 Now, a month or so ago I was unsuccessful in trying to persuade this Assembly that a review is not only overdue, it is in fact essential, and I tried to persuade the Assembly that we had to conduct a full review of our fiscal policy alongside the development of the States' Strategic Plan,

765 because, as Deputy Fallaize has said, it is clearly essential if we develop spending plans for the next four years, or whatever remains of this term of Government when we pass the plans, we need to have the resources to fund our spending proposals. However, the Assembly chose not to listen to that advice, and we are now in the position I have described, where effectively we have an ongoing structural deficit, no solution in sight. GST has been ruled out by the last Assembly; it has been re-confirmed by the President of Policy & Resources that it is off the table. The Assembly has effectively rejected my proposals to review the Corporate Tax system and we are left with Deputy Roffey's proposals to soak the rich. *(Laughter)*

770 So I am deeply unhappy with the position that we find ourselves in, and I can only express my frustration here, as a backbencher, by voting against these accounts. Now this will not make any difference. The accounts are an historical record, they are the fact, and whether the States votes to approve them or not, those are the accounts. *(Laughter)* But I have no other options here. Voting against the accounts will register my protest and express my frustration at the situation that we find ourselves in, and I find myself in. So that is what I am going to do. I am standing really to explain why, when we get to the end of this debate and I do vote against the accounts, all Members and anyone caring to listen to this debate and in the public will understand what that vote means.

780 Thank you, sir.

The Bailiff: Deputy Laurie Queripel.
Deputy Le Tocq, do you wish to be relevé?

Deputy Le Tocq: Thank you, sir.

The Bailiff: Deputy Laurie Queripel.

Deputy Laurie Queripel: Thank you, sir.

790 Sir, I will not be making any comment on behalf of the Scrutiny Management Committee. That task has been very ably handled by Deputy Green and Deputy Roffey.

I just want to take a few minutes, because my contribution will be a mixture of my own observations, and points that have been brought to my attention by fellow Douzeniers and fellow parishioners.

795 Sir, I am going to start at the very beginning because it is a very good place to start – as the song goes – with the President's foreword, on page 1, including the policy responses, which are a bit further down the page. Because I want to be fair in my comments. Clearly, Deputy St Pier and the Policy & Resources Committee acknowledge the seriousness of our financial position, and bullet point two in the policy responses, and I will just read it, sir:

'A strong focus on the requirement to deliver public service reform as expeditiously as possible, in order to realise 'reform dividends' from transformation in the delivery of services.'

800 Now, sir, that comment, bearing in mind our financial position, is entirely appropriate and necessary, and actually the key word in there, to me, is 'expeditiously'. I do not accept the fact that it is going to take 10 years to have this public sector reform come to completion. It needs to be speeded up in my opinion, and I am hoping that the Policy & Resources Committee will get behind that and call for swifter action on that.

805 But what is less acceptable – and Deputy Roffey has referred to this – is the first and second lines of the second paragraph near the very top of the page, and I will read those:

'This weakening of the States' financial position is entirely attributable to income which was £26.5m ... lower than budgeted.'

That, sir, to an extent is looking through the telescope from the wrong end and dismisses some other factors, and the main factor for me is the States' financial position in part – *in part* –

810 can clearly be contributed to expenditure failing to match income. Because if we get really serious about efficiencies and savings, it still is not enough, but we do need to get serious about it. If we get serious about it and we do it quickly and it still is not enough, as Deputy Fallaize has said, we will need to raise more revenue, and that will need to be done in a fair and equitable and informed manner. But, sir, it is simply not sustainable for outgoings to be increasing when revenue is decreasing.

815 Now, I know Deputy St Pier is as concerned about that situation as I am, and one of the key issues is pay costs – they have increased by £10 million during the course of 2015. It is the increases at the top end in particular, in staff numbers and salaries, in the higher pay brackets that is hurting. This has been referred to already in debate. The Policy Council did not set a very good example in that regard during 2015. We need to grasp that nettle, sir. That is one nettle that we need to grasp. I will be writing in due course to Deputy St Pier and the Policy & Resources
820 Committee on that matter, and it is a bit like Ground Hog Day for me, because I wrote to the Policy & Resources Committee during the last term about that issue and we sort of went round the houses and nothing was done, but we need to grasp that nettle. Pay costs, particularly at the higher level, need to be tackled.

825 Now, sir, on page 4, paragraph 3.7 and 3.8, we are told about the decrease in the size of the local workforce, and this has resulted in a real terms decrease in respect of tax collection from individuals, and Deputy Fallaize has already referred to this, but I think that whole area bears some more analysis; it cannot just be due to retirement and fewer people working. The questions I would ask are: have some sectors of the economy stagnated or even shrunk and contracted in regard to their output and their value? For whatever reason, has the value of some jobs in certain
830 sectors been lowered?

I have asked for this work to be done before in the past and Deputy St Pier, as T&R Minister, told me that some work would be done in this area. I have not seen any results of that yet. I think it would help us if we could do that work, take some more detailed analysis of this area. I think it would help us to better understand what is going on and what we might need to do to maximise
835 the return of the existing tax base. After all, that is one of the policy responses on page 1, sir: the maximisation of the return from the existing tax base. I do not think it is purely down to fewer people working. I think there is more to it than that and I think we need to do some work in that area. How can we do anything, or do the right thing, if we do not fully understand all the issues or have all the information or data to hand?

840 Now, sir, on page 8, paragraph 4.1, we are told, under the heading Balance Sheet just about half way down the page, just over half way down the page starting at the end of the second line:

'... it should be noted that the assets are limited to financial assets as it is currently not the policy of the States to capitalise fixed assets.'

Then it goes on to say further down from that, the second and third line from the bottom of the paragraph:

'... this will be incrementally introduced commencing with fixed asset valuation and accounting.'

845 Now, sir, I think that work really needs to be done, because when money is tight there is a tendency to give a lower priority to fixed assets, but they depreciate nonetheless. Failing to account for that can sort of, in a way, understate or under estimate or underplay a difficult financial position. So I hope that work is going to be done and I would rather it would happen more quickly than incrementally.

850 Now, sir, on page 10 there is a bit of information about the Bond and perhaps it could be concluded that measures taken to – for want of a better expression – ensure the viability of the Bond, or make it pay or to service the Bond, have been quite risky. The unallocated portion, which is well over half of the Bond at the moment, was placed partly in the long-term fund and partly in the medium-term fund.

855 Now this means, or could mean, that Bond money was, and is, exposed to higher risks, normal
equities, private equities, sometimes referred to as asset strippers, property and hedge funds. We
know hedge funds are not always seen in the best light, they can be sometimes questioned from
an ethical point of view. So in regard to Bond management decisions, as highlighted actually, by
the recent released Public Accounts Committee report, some potentially risky moves were made
860 in order to try and make the Bond pay for itself, or to service the Bond. You could say the market
was risked and it did not work out too well; and when we look, on page 30 we are told that the
Bond Reserve has decreased by £5.1 million, so perhaps that tells its own story.

So the Bond story continues on page 11, and the content of that paragraph 4.18 and the
content of the paragraph is meant to be reassuring. I have no doubt that that intent is sincere, but
it all sounds rather speculative to me, because we are assuming that the unallocated funds will
865 eventually be lent on. What about this, for example, the trading bodies can access cheaper money
elsewhere, that money will then not be used by those trading bodies, and what about the
ongoing cost of the Bond management? After all, we are told, on page 17 and 18, that the Bond is
a long-term liability, it is going to run until 2046, so I think that paragraph 4.18, although it tries to
be comforting, it is quite speculative. We do not know – we *simply do not know* – how these
870 things are going to work out.

Now, sir, as you know, Deputy Kuttelwascher, wants the Airport runway extension back on the
agenda. I have got no problem with debating that, it might be a reasonable idea, but what really
caught my eye were the words, attributed to him in a *Press* article of June 22nd, regarding a
possible use of the Bond proceeds, roughly I think about £30 million, to fund the project, and I
875 quote – this is talking about the unallocated amount of the Bond funds, as it were:

'The money would be better used on projects than sat in a bank account. As long as it is sat there uninvested, there is
a risk if there is another financial crash.

Now, sir, that immediately raises two issues for me. The risks attached to the Bond in regard to
investment choices – that is the first. Number two, the prospect of using the Bond for something
it was not intended for.

I will give way to Deputy Kuttelwascher, sir.

880

Deputy Kuttelwascher: Thank you.

The Bailiff: You have switched your microphone off rather than on.

885 **Deputy Kuttelwascher:** Sorry about that.

Sir, the Bond proceeds can be used for capital projects with an income stream. Now we know
that Harbours and Airports are now under States' Trading Supervisory Board, and I am assuming
the idea is to commercialise them, not privatise. There is a Ports holding account, there is an
income stream, to be associated with that particular group of companies, the Airport and
890 Harbour.

But, not only that; it is possible to raise money via certain charges for such a thing. So it is not
impossible that the Bond could not be used, if it can be paid back with an income stream. That is
all. That would have to be put in place. But it is something that would have to be reviewed and
developed.

895 Thank you, sir.

Deputy Laurie Queripel: Sir, I thank Deputy Kuttelwascher for that contribution. I take his
points on board, but the idea of lengthening the runway would be to bring more business in, to
bring more income into the Island. Now, that may not happen. There is no guarantee if we
900 lengthen the runway we are suddenly going to be invaded by easyJet and other companies.
(*Laughter*)

905 Sir, it may be actually the Bond proceeds or some of the Bond proceeds are used to finance extending the runway. Actually you might have to pay back that money via existing income rather than increased income, because we have attracted no extra business through the lengthening of the runway. So, I understand the point, but it is still a speculative idea.

Now, sir, on page 20, Note 1.ii. we read that:

'Investments in States Trading Entities in respect of Guernsey Post Limited and Guernsey Electricity Limited ... [were told that] ... There is no ongoing impairment review for these entities.'

Now, sir, I am only a layman, but I take the reading of the accounts very seriously, I do my research, as best I can, and it seems to me actually, I have done some research on impairment reviews, I have looked at the KPMG website, and it says this about them:

'The main purpose of impairment testing is to bring the carrying value of a business in line with its recoverable value, which is the higher of the fair value less cost to sell and the value in use. In more practical terms, this means that the book value of a business should not exceed what the owners of the business expect to receive either from its open market sale or through its continuous use.'

910 Now, I think actually we are missing a trick there. I think that work should be done, and I would ask the Policy & Resources President if actually that is being looked at. It may be something for the States' Trading Supervisory Board, but I would say that we are missing something there, and that is something we should be looking to do.

915 In *ix* in Note 1 of page 20, we are told investments are included at ... all of that actually, all that; not just *ix*, but all that stuff about investments. I am told – as I say, I am a layman in as far as accounting is concerned, but I am told – that investments can include derivatives, which apparently can be quite nasty things. Private equity may have associated liabilities which are disclosed but not on a balance sheet, and these could constitute a skeleton in the cupboard, so to speak.

920 So, is further work being done? Perhaps there is more detail required. Are we being told enough? Are we being told about the derivatives and the fact that they could come back to bite us or be a skeleton in the cupboard in the future? I wonder if Deputy St Pier could make some comments on that: the place of derivatives in regard to our investments and the risk they might present to us.

925 Now, sir, on page 25 we are told the cost of recruitment was £2.2 million save a few pounds. To my mind, that is a fairly significant sum and yet there is no detail, and I think that sum of £2.2 million warrants a bit more explanation, a bit more detail. It is too late now, of course, but I wonder if in the future the Policy & Resources President might consider the fact that we should have some more detail around those recruitment costs and what they entail.

930 Page 29, sir, Note 13 which is headed Debtors and Prepayments, this is only split between two categories. There is no further detail in regard to prepayments, and those prepayments contain the upfront cost of the Bond, we are back to the Bond again – £14.589 million – but actually the prepayments amount to £20.4.24 million. So what about the balance? According to my calculator that is £5.835 million. So that has not been accounted for. What was the balance of those prepayments, sir? We know that the majority was in regard to the Bond, but there is still over £5 million that has not been accounted for. Once again, perhaps Deputy St Pier can explain that, or perhaps once again in the future we can have some more detail on that.

940 Pages 49-52, which are the accounts for T&R, show 242 staff, pay costs of £12.5 million. That is an average of £51,600 per staff member. Quite a lot of high earners in there. But I would imagine that most of those are doing, as it were, coalface work at the Income Tax Office. Now, surely the different nature of the Income Tax Office function means that its costs should be more separate and identifiable and, once again, I wonder if Deputy St Pier can comment on that, and perhaps we can have that included in future accounts.

Page 51, sir, we are told about non-pay cost, in the first paragraph, second line:

'The majority of this increase (£0.6m) related to ICT expenditure, including increases of £435k on software maintenance and licensing and £154k on Hardware maintenance.'

945 Now, this kind of expense seems to be occurring on a fairly regular basis. It is clear technology is going to play a large part in business and Government in the future, but it seems to be a regular expense, and not only for T&R but across all Departments, as it were. We were promised a few years ago, I think – sort of mid-term, last term – by Deputy St Pier, that a cost benefit analysis in regard to IT and the use of technology would be forthcoming, and I have not seen that report. I
950 may have missed it. I have not seen that report yet and I wonder if Deputy St Pier can do us an update on that in regard to the cost benefits of adopting and using technology more, clearly more as we go forward. I wonder if we could see some work on that.

On pages 65 and 66, in the Education's accounts, Education staff numbers are 1,085; 186 of that are non-teaching. I do feel there is a bit of an explanation required there. I do not know if
955 once again Deputy St Pier can give us some information or Deputy Le Pelley, as the President of Education, Sport & Culture; but I wonder if we could have some explanation there, because it does seem like a lot of staff who are not involved in frontline work. It is 186 that are not teaching. There could be a very reasonable and good explanation for that, but I wonder if we could have a bit more information around that.

960 I suppose a similar case could be made in regard to the former HSSD staff – 1,874 staff, of which 976, so just over half, are nurses. Now of course, I appreciate that Health provide a numerous, a great plethora of services across their Department, but I do wonder if that could be further explained as well, sir. Only half of that staff number are nurses. A bit more detail around those jobs, job descriptions, what they do etc. I think would be helpful.

965 So, sir, I will leave it there. There are some other points I would like to raise, but I am going to leave it there. I am going to write to the Policy & Resources Committee anyway about some ideas in regard to pay costs, so I might just pose some more questions to them when I do that.

Thank you, sir.

970 **The Bailiff:** Deputy Yerby, and then Deputy Paint wants to speak.

Deputy Yerby: Sir.

The Bailiff: Is this your maiden speech? It is your maiden speech, yes.

975

Deputy Yerby: Yes, sir.

The way we organise our accounts demonstrates what we value, and goes some way to explain why the States behaves as it does. What we see here is what we will get come Budget time, unless we spend some time thinking about it now, as many of those who have already spoken have so
980 clearly shown.

I read through the accounts carefully – not only that, I read back through the headlines of the budget reports and annual accounts of the States for the last 15 years, tracing how the States' financial position has changed, observing its relentless upward march; looking back with envy on the years of £50 million plus operating surpluses, which must now seem like a lifetime ago.

985 For me, as a relative newcomer, it is important to familiarise myself with the historical context, which my more experienced colleagues clearly already know well. These accounts are, of course, little more than a snapshot in time. To give them real meaning and, more importantly, to understand where we can and should go next, it is vital to ground the numbers we see today in the story of what has happened up until now. That will hold even more true when we come to
990 debate the Budget at the end of the year.

For the purpose of this speech, perhaps I need not have bothered with all of that depth, and I went full circle through 15 years of history and landed back on the first page of this year's account, and that finite is where I am going to stay.

995 Sir, I said that the way we organise our accounts demonstrates what we value. On page 1 we
are reminded that the States has failed to meet one of its own essential objectives, the
requirement to maintain budget sustainability. The non-achievement of this target is a recurrent
theme throughout the accounts. Paragraph 1.3 and 3.16 of the States' Treasurer's Report advises
that the States has not met the target of a real terms freeze in revenue expenditure as set out in
our Fiscal and Economic Plan. With so much attention given to such targets in the accounts, it is
1000 clear that we value them and want to meet them. Indeed, the President of Policy & Resources, in
his foreword, tells us that the present situation requires policy responses. He is right, of course,
and financial balance must continue to be a priority for us. But is it the only thing that we value? Is
it the only objective that we hold?

1005 Sir, the previous States are condemned by many of its surviving Members as one which made
too many strategies and achieved too little change. Speaking as someone who wrote some of
those unfortunate strategies, (*Laughter*) I wholeheartedly share Members' frustration and I hope
to be part of the States that will be known for rolling up its sleeves and making the changes that
matter in Islanders' day-to-day lives. But I call my colleagues' attention to those strategies now,
because they too contained objectives – objectives which go to the heart of what it means to
1010 govern responsibly, objectives which reflect our responsibilities to each other, to those who are
marginalised and disadvantaged, to the generation who have given us our future, and now
deserve dignity and respect in retirement, to the generations yet to come, our children's children,
and to the world that they will have to live in.

1015 Members will agree with me, I am sure, that these objectives are integral to our duty, as a
States, to the community. They might even agree, and I hope at least one person will recognise
the quote, that while it may be vital that we work within the fiscal framework and its concept of
long run permanent balance, nonetheless it is not enough for any Government to be focussed
exclusively on, or to be defined by, the economy and the health of its public finances. Yet it is only
– *only* – the fiscal framework and the solitary objective of long run budget balance that gets a
1020 mention in these accounts.

While I agree that such balance is important, it is only this that shapes our proposed policy
responses. I share the view already put clearly by Deputy Green and Deputy Fallaize, amongst
others, that this is not enough and we must think again about how we organise our resources to
achieve what we, as a States, are obliged to achieve. I know some States' Members – although a
1025 minority, as I think the Island Games vote bears witness – believe that economic flourishing is all
that matters: get the money right and the rest will follow. I recognise some of that thinking. I
agree that our prosperity is the bedrock of our comfort, wellbeing and security as a community. I
consider the Committee for Economic Development to hold an important role within the States,
and will be holding them accountable for delivery, especially considering that much of this year's
1030 deficit is due to shortfalls on the income side, which their work alone can stimulate.

I came into the States thinking that part of our role would be at least to safeguard our
economic success, and to nurture further development. The UK's momentous decision last week
to leave the European Union may make that a far higher bar to clear, but we owe it to our
community to try and do so.

1035 But, sir, I must differ from the belief that money is all that matters, that this one objective is
enough. The money is only ever a means to an end. The end is how we live well as a society. If our
policy responses are not geared towards achieving that, through the way we manage our public
finances, they cannot be considered fit for purpose for a Government.

1040 In fairness there is some recognition of this in the accounts, in particular for each Department
we are given a narrative, giving us a broad outline of what that Department has done with its
money over the past year. The narratives could do with some improvement and I hope we can
work together on this as a States over the course of the next four years. Perhaps I should not
tease, but we have no explanation on page 50 of how it happens that the Treasury & Resources
Department increased its establishment by just 0.4 of a whole-time equivalent staff member while

1045 increasing its staff wage bill by £0.4 million. On the face of it that is the jammiest part time job I have ever seen! (*Laughter*)

More seriously though, none of the departmental narratives link their yearly spending to the impact that their work is having on the community. We have had this conversation within the Committee for Health & Social Care, and we are committed to revising our narrative and our source of activity data in particular, so that in future it reflects more meaningful and externally comparable information about what is happening within the Island's health and social care system, and what that means for people's real lives.

1055 We are a Government, we can do better than simply saying what things we have bought and how many people we have paid with the money we are given – though those are important. We owe it to our community to demonstrate how the money we have spent, the money which they have pooled and put towards the protection and improvement of their society, has helped us to deliver that which we are obliged and mandated to deliver. Not the things we have bought, but the changes they have made. So that is page 1.

1060 The policy responses we are offered to help achieve our objective of budget balance include disciplined financial management, service transformation, promotion of economic growth, improving our tax take, and ensuring a financial return from States' assets. All are necessary, as Deputy Fallaize put it, but not sufficient.

1065 All are perfectly adequate responses to that particular challenge in isolation. But what happens when we start to integrate our social and economic objectives when shaping our policy responses? What happens if we work in the idea of being a happy, healthy or inclusive community into our financial planning? How would these policy objectives evolve if we caveated the need to return to budget sustainability with the requirement that this should be done in a way that actively minimises inequalities in health, or improves educational outcomes across our population, for example. What if the President's foreword had recognised the need to achieve budget balance, but in the words of one of my colleagues on the Committee for Employment and Social Security, also acknowledged that no decent Government should balance its books on the backs of the poor? (**Several Members:** Hear, hear.)

1070 The objectives that we bear in mind when we set our Budget, and the objectives that we monitor when we consider our accounts, influence what we as a States consider to be important, and shape how we behave and what we prioritise, both collectively and within our Committees. Financial balance is an important part of the picture. I agree we must continue to treat it as a priority, but it is of little value of itself unless we also understand what it is we are supposed to be doing for the people of Guernsey and Alderney with the money that we do have. That is an area which needs more work. It is not simply the question of developing a vision, which I am sure the President will reference in his summing up. It is a question of integrating those values in the day to day work that we do, and how we monitor what we have achieved.

1080 Sir, this is not the accounts speech that I had intended to write. I had expected to be giving an impassioned dissent of my much loved and much despaired of Health & Social Care Committee. After all, its financial position is obligingly dramatic and demonstrates the significance and complexity of the work which we must do. But since I found myself a member of the Committee, I do not wish to protest too much or too often. We have challenges, which are well known, and which we will continue to work through, as those before us have done. I happen to share Deputy Roffey's view expressed last time that all those who have tried their hand at running HSSD have done so with extraordinary commitment and integrity, and that none of them deserves the way this Assembly treated successive Health boards

1090 during the last term. (**Several Members:** Hear, hear.) I believe my President and fellow Committee members will continue to do the same, and I trust that this Assembly will be wiser to the complexity of the challenges that are faced by HSC, and the fundamental importance of a sustained period of stability in achieving the kinds of long-term change we need to see in Health & Social Care. I hope our President's commitment to openness, which will no doubt be evident in

her own speeches, will help to demonstrate how we are dealing with the many financial, social and ethical challenges the Committee must face, not just in the once a year update provided by the accounts, but on a regular and ongoing basis.

1100 In closing, sir, I have rather laboured the point this morning that unless our social and economic objectives are integrated with each other, and unless we are conscious of them both when we are planning our finances, the achievement of one will inevitably lose out to the other. I have laboured it because I believe we can do it. I agree as much as the next person that a long-term financial imbalance is not desirable, and that closing the deficit must be a priority for this
1105 States. We may, of course, disagree on how that should be achieved, but we must surely agree that in doing so the social consequences of our actions must carry equal weight with the financial ones, and that we must seek to attain our objectives in a way that is consistent with our broader duties to the community. I believe that we are a States who will prove that we are capable of using public money both prudently and purposefully, and we must make it a priority to do so.
1110 *(Applause)*

The Bailiff: Deputy Paint.

Deputy Paint: Thank you, sir.

1115 Very short and sweet. *(Laughter)* I wonder if – perhaps not quite so sweet! – *(Laughter)* Deputy St Pier could tell me and the Assembly if an itemised breakdown of accounts for any Committee or trading entity within the States would be available if requested?

The Bailiff: Deputy Smithies. Again, this is your maiden speech, I believe.

1120 **Deputy Smithies:** It is, sir.
Thank you, sir.

There have been several references in Members' speeches to the States' Trading Supervisory Board role in managing our trading assets, and quite rightly so.

1125 Deputy Roffey has kindly and wisely commented on my relatively recent association with the Board. However, it is my intention to continue the work started by the Supervisory Sub Committee of the Policy Council. The trading assets must be made to work, to obtain a good return on investment, but – and there is always a but, and in this case there are many – the assets must not be sweated, and, but – to use two conjunctions where perhaps one would have done – in hard
1130 times it is the responsibility of the Trading Board to make sure that individual families do not suffer.

In part, I echo Deputy Yerby here: we cannot, and must not, impose unreasonable price rises, which is the easy option. We need to – and this is a management speak warning – work smarter. Strong costs controls and reductions in waste and rigorous business plans and, if necessary,
1135 deferment of wants and the prudent implementation of needs. I hope that I will concentrate on making our assets work and, in response to Deputy Lester Queripel, get costs under control. Deputy Roffey, again, has mentioned the effect of PFOS and doubtless this did cause considerable problems, and although hopefully it is a one-off, will demonstrate how fragile finances are. I will leave it perhaps to the President of P&R to respond fully on that.

1140 Unfortunately, the Trading Supervisory Board will not be fully constituted until September, but the management are on side and do realise the urgency in getting to grips with the problems apparent in all the activities for which they are responsible. But – and there is another one – with finite resources things will have to be prioritised, so do expect progress, but not instant results.

1145 There is an intention to make an early and substantial contribution to general revenue, but this can only be done by revising plans which were already part of previously agreed business plans.

Thank you, sir. *(Applause)*

The Bailiff: Deputy Ferbrache.

1150 **Deputy Ferbrache:** Sir, the purpose of any debate ... you know you have heard a good debate when you feel both enlivened and informed, and so far at quarter to 12 I feel pretty enlivened and pretty informed. I commend the maiden speech – and she stroked the ball almost to the boundary – of Deputy Yerby, when she said, amongst other things, that money is not a means to an end, but if you do not have the money you will not be able to achieve any ends. (**A Member:** Hear, hear.) That is what we have got to be radical about, because, again, we have heard some really radical
1155 speeches – and I mean that in a plus sense – because there are two words that have stuck in my brain as a result of this debate so far, and also in reading the accounts, and they are ‘radicalisation’ and ‘middle classism’, I do not even know if the second one is a word; it is one I am going to use. Frankly, we have had too much middle classism in the States and in the way that this matter has been presented so far, and not enough radicalisation.

1160 Although I perhaps do not quite agree with all the words said by Deputies Fallaize and Roffey and Parkinson in their excellent speeches, I agree with the sentiments of those. We have got to do something different. There has been too much drift, too much inactivity, and not enough purpose. This is my 59th day as a States’ Member, and what do I feel I have achieved in 59 days? Absolutely zero! So in the four years that I have got left in the States, if I am spared, I would hope that we can
1165 achieve a lot more, because Deputy Yerby rightly says that the Committee for Economic Development is an important Committee, and they will be held to account at the end of the term if they have not done a great deal in trying to improve the economy of these Islands. They can only do it if there is radicalisation. If there is purposefulness, we do not have enough of that, we have not had enough of that.

1170 That said, we have got much to be thankful for. These accounts do not tell a pretty bleak picture at all – in fact, most economies, whether great or small, would be delighted to have a set of accounts like these – but what they do do is show that the States, over a period of years, has not really done very much at all. Deputy Parkinson talked about there was supposed to be a review between 2011 and 2013. That has not happened. I do not know why it has not happened
1175 because this is my 59th day back in the States.

Deputy Lester Queripel, I thought, made a very good speech and the image it created, because words create images in your mind, because that is how you think ... There was something in the *Sunday Times* just a day or two ago, where it had a picture Brexit; it had those cavalry men charging into the Valley of Death in the Crimean War, and it made me feel if not ‘*guns to the left of them and guns to the right of them*’, but when I heard Deputy Lester Queripel’s speech – the justification of managers to the left of them, managers to the right of them ... we have too many
1180 managers in the Civil Service, we pay them too much, we do not get enough productivity.

Now we have lots of good people in the Civil Service, we have lots of good managers, but again, Deputy Queripel in his example – sorry Deputy Lester Queripel; Deputy Laurie Queripel’s
1185 speech was also very good, Deputy Queripel, (*Laughter*) but Deputy Lester Queripel in his speech – gave an analogy of one Department where there is one manager to every two and a half people, and he also referred – and I know we have all had these apocryphal stories that we see things on wonderful journals like *Your Shout* and those people have got opinions about everything – not always consistent, not always much common sense, but they have got opinions about everything
1190 ... (*Laughter*)

But he had somebody he said spoke to him recently who worked at the Harbour for 40 years. I think I know who that person is, I think that is a person that was at school with me, and if it is the person I think I was at school with all those years ago, he is a person of commendable common sense. He is a man who has done well in life otherwise than this and he wanted to speak to me
1195 recently and I could not because I was doing Committee for Economic Development business and doing other things, and he was going to tell me that he had left the Civil Service at the end of his 40 years of service to be replaced by three people. I do not know why he is replaced by three people, because I think that is indicative of the Civil Service, indicative of the lack of control of the middle classism that we have had.

1200 Our figures at page 2 of the accounts show that our general revenue is £3.1 million down, our reserves are down by £29 point something million to £538 million. Our economy is flat, our GDP is growing but only slightly. None of that is good news, yet we have much to be optimistic about. We look forward. Brexit was not the result we expected – even the leavers expected, and Boris Johnson is probably quaking in his boots now (**A Member:** Hear, hear.) thinking, ‘What on earth am I going to do? What I really wanted to do was get 48% of the vote so I could get a Cabinet job and kick David Cameron out in two or three years.’ It has not quite worked out like that and he has now got foisted with the responsibility that he does not want, and frankly he will be able to dye his hair, ride his pushbike and do all the other things he can, but he will have to grasp the mantle of Government pretty soon.

1210 We have got to grasp the mantle of Government now, because we have drifted too long – £140 million worth of deficit from 2010 to 2015. The President of Policy & Resources was telling us three weeks ago that we could have £10 million to £15 million deficit this year if we do not do something. As one of the speakers said ... I think it was Deputy Roffey; his words imprint themselves upon my mind, but age has withered me so I cannot remember everything, although I used to be able to. But Deputy Roffey was talking about a system whereby ... no, Deputy Fallaize it was. They look alike! (*Laughter and interjection*) Deputy Fallaize – well one is big me and the other is mini me, you will have to decide which! (*Laughter*)

1220 They were saying that in relation to our system in relation to what we have got, putting just a freeze on overtime and a freeze on employing people is not going to work. It is good in its own particular way. Now, what we should, as a Member of this States, tell the public of Guernsey is we have been naval gazing in our 59 days in the States largely. We all spent – I maybe in the minority of one; if I am so be it, I do not care a jot – two half days at Beau Séjour with outside consultants, promoted by Policy & Resources telling us about our vision for 20 years’ time, whether we should be the happiest place in the world, the securest place in the world, or whether saving the world was too grandiose, what a waste of time, what a waste of money. Well, we have not got that time and that money to spend. If we were talking about policies for 20 years’ time, policies for 10 years’ time, policies for next year, that would have been time well spent. I am not going to those again so do not invite me. (*Interjections*) Thank you, that will save your time and my energy.

1230 But, in relation to all of that we have a system, and again let me just talk about the Harbour and the Ports. We could talk about others too, but I look at those accounts, I am not asking a question, I am making a statement. Page 1 tells us that the income between 2014 and 2015 went up by just over £100,000. Page 16 tells us when you look at pay costs and staff non-pay costs, and I imagine that is ancillary costs to pay. Somebody will tell me if I am wrong, in due course, that that went up by over £506,000. Income goes up by 0.47 of 1%. Expenditure on salaries goes up by 4.75%. Where is the sense of that? How is that justified? We go back, and we see that there were seven principal officers of the previous Committee responsible for Harbours and Airports up to 30th April 2016. There are now eight. So we have now got one person, and I do not know, Deputy Lester Queripel might well think and I might well think that that person probably falls into the £70,000, £80,000, £90,000, £100,000 per year capita rate. I do not know, but it is too much and we cannot afford it.

1240 As President of the Committee for Economic Development I spent a most informed hour or so last Friday afternoon with a Dr Andrew McLaughlin and a Professor Geoffrey Wood, and over the last six years or so, there has been something produced called the Annual Independent Fiscal Policy Review, and Professor Wood has produced it now for five or six years, and Dr McLaughlin joined him last year. Dr McLaughlin became, in July of last year, the CEO of the Royal Bank of Scotland International.

1245 They are both Scottish, they do have a sense of humour. They did not think the food in Dundee was good; they thought the food in Guernsey was better! So that is something for our tourist industry, lets proclaim that.

1250 But in relation to them, they have told us lots of lessons in the report that they did as recently as October 2015, and they will be producing another one, I assume, in October 2016. What they

say, and just some of the quotes from some of their reports, and I am sorry to be a little anodyne, but that is the way we should be. Because again, the way I think, the way I remember things is I get mental images in my mind, and the two that really I had in my mind before this debate started were radicalisation and middle classism, but the two I had whilst I was thinking about it last night were freshly squeezed orange juice and muesli, because that gives me the image of the middle class, and that middle class of wonderful people, they do great things in the world, and they have advanced economies and civilisations in a magnificent way. But middle class of itself does not work. You have got to have the Roffey, the Fallaize, the Parkinson type of style, some degree of radicalisation.

The other one was because ... well I was a child of the 1950's but 1960 was the year I was trying to pick up girls, and failing abysmally, (*Laughter*) when I was going to discotheques, as they were then called, and when I was listening to groups, as they were then called. One of the groups I listened to was called *Cupid's Inspiration*. They were not that famous, but they had one hit, and there were two lines from that hit. I am probably misquoting them, 'Yesterday has just departed, tomorrows not yet started.'

Now, these accounts are yesterday has just departed, tomorrow is about to start. We have got to do something about tomorrow. We have got to do more than we have been doing today, and to say that we will get it right at the end of the four-year term is not satisfactory. The President of Policy & Resources and his Policy & Resources Committee should be coming back in the next two to three months. If they have got to work through the summer that is what they will have to do, and come back with a radical package for us to consider in September and October. That is what they need to do, because time is not stopping.

We have had Brexit the dust is in the air, we do not know where it is going to settle. I think, I could be wrong – I have been wrong once or twice in my life – that in due course, but I do not know when due course will be, that will actually be advantageous for the Channel Islands, but that is just a thought, those with considerably more intellect and knowledge of these matters than me may think differently and they may be right. But I look forward with optimism because that is all you can do, look forward with optimism and give people confidence; and really I think despite – I do not mean it in a critical way – the somewhat negative comments – and they were not meant negatively, they were meant constructively – I think everybody in this Chamber has that view, albeit, it is how we get from *A* to *B*. But let's get *A* to *B* by not two afternoon sessions at Beau Séjour talking about the vision thing, but talking about practical positive ways of making society better in every way, in the Deputy Yerby way, because I support the things that she said – well said, indeed. Again, I commend her on that. But we have got to get the money in to be able to do it, and we are not getting the money in.

So to go back to the annual fiscal review of last October, they said this at page 3:

'The Fiscal Framework commits the States to "long-run fiscal balance". Given that the General Revenue budget has been running ... a deficit for some years now, the States will need [I emphasise that word] to achieve a sustained period of surplus to meet this criterion. It is our view that in order to meet the spirit of this criterion, the States should be aiming to achieve surpluses in the region of 3% of GDP over the medium term ...'

– which they define as five to seven years.

GDP is about £2.4 billion. They are talking about a figure of today's figures of £60 million to £65 million surplus. We have got a deficit of £25 million. So we have got to turn that round to £90 million and over a consistent period. That is going to take a heck of a lot of doing, and we are not going to be doing that next year.

They also talk about the Bond which has a total value of £330 million. They also say later on that is the best rate anybody has got a bond unless it has been guaranteed by the British Government. But it cost £14.6 million. I was just a mere observer from outside the States, half of you were here, perhaps slightly more were in the States; why on earth did you not ask questions if it was going to cost £14.6 million to set up? If you did not ask those questions you were in default of your duty, because if the people of Guernsey and people of Alderney and the people of Sark,

1300 and everybody else in this Bailiwick who is affected by that – because we are all affected by it –
knew it was going to cost £14.6 million, they would have asked us, they should have been told but
they were not told. Poor middle class, bad Government.

Page 4, the professors, or doctors or whatever they are called, say this:

'The projected increase in service costs, particularly in health and social care, is difficult to quantify accurately, but there can be little doubt the pressure will be considerable.'

1305 We are very lucky we have got a Health President who I think will do an excellent job, but even
she is not a magician and she needs support. We need to make the Health Service much more
efficient. The costs will go up but, in my view, there are great inefficiencies in the system, which I
know she and her team will do their best in ensuing years to change and to improve.

They also concluded at the end of that paragraph:

'... it is unlikely that the States of Guernsey can continue to provide services in the way [that] it does if it is to achieve long-term sustainability. Structural change will be necessary.'

1310 Deputy St Pier said on the 8th June, 'Well, we now realise that is just not cyclical, it is going to
be structural.' They must have read that in October. Why has it taken them from October to June,
which is eight months, which is a heck of long time in economic terms, to come to that
conclusion?

1315 Deputy Parkinson and I may disagree over the territorial tax provision, but at least he realises
that there is something wrong and we need to radicalise it. Deputy Roffey and I, as poor
Guerseymen, may disagree over the 'soak the rich' strategy; we may well disagree over that, but
something needs to be done. But he is right, he is right; my own profession has benefitted
considerably, massively. We have been paid far beyond our competence. (**Several Members:**
Hear, hear.) I do not say that as a jest, I say that in actuality. I say that truly. The lawyers of
1320 Guernsey are good, but they are not good enough to have earned the salaries that some of us
have earned. They would not have earned those elsewhere. So they have a duty – and they are not
the only ones – to put something into this society in some way or another more than giving the
other £100 to charity, or doing a charity cycle run round east coast of England.

Deputy Brehaut: A rebate maybe.

1325 **Deputy Ferbrache:** Yes, thank you, Deputy Brehaut, that was a great interruption, but I cannot
remember what you said! (**Deputy Brehaut:** Rebate!) (*Laughter*) But, in relation to that, we go on
with this, I think, so informative report. They also talk about migration and things, and we have
got to be realistic with people, there is no point promising apple pie and cream, and all that kind
of stuff. There is a figure in here which shows that, by 2075 if we do not have net migration, no
1330 net migration, if the population stays flat we will have just over 20,000 people earning a living.
That is not going to sustain anybody. We have got to have net migration according to their
figures of 300 per year to have a growing economy. Anything less than that we will have a
decreasing economy we will have people ... the economy just will not be able to sustain the
ageing population.

1335 We carry on. I am nearly finished because I am running out of energy. They say on page 19:

'Ensure that identified deficits will be addressed within 5 years of their appearance ...'

We have not done that, Deputy Parkinson has proved that.

'... and that measures to counter identified structural deficits are agreed within two years of their identification.'

And they say this:

'In order to meet the requirement for permanent balance, and to achieve this medium-term objective of building the Core Investment Reserve, the States will need to achieve a sustained period of surplus. We believe that in order to satisfy the permanent balance criterion and build the reserve, the States should be [achieving].'

And it comes back to this point:

'... achieve revenue surpluses in the region of ... about £65m per annum ... over the medium term ... five to ten years.'

1340 We have got to do all those things and a lot more. We have got to free ourselves from unnecessary regulation, we have got to get rid of this middle classism, we have got to be radical, we have got to be a can do society. If we can do all of that the future is bright.

The next two or three years are going to be difficult, but if we just potter round and do what the States has done in numerous years, not just in the last four, then we will not be in a better
1345 financial position in four years' time, we will be in a much worse one.

Let's be a radical Assembly, let's do things properly over the next four years.

The Bailiff: Deputy Soulsby.

1350 **Deputy Soulsby:** Sir, I was actually really nervous before today, it was not just because I was expecting lots of questions on Health & Social Care, but I was nervous because it is my fault that everybody is here today just debating the accounts. I was really concerned that it would just be the same as we always have before and it would be [*Inaudible*] between other debates. But, although the President of the Policy & Resources might not agree, I actually think it was the right
1355 decision. I think it will continue to do so while we face the challenges we do. I am actually delighted that, particularly, Deputy Yerby used the opportunity to make her maiden speech, and as well as all the quality of the points raised today, even if they do cause me headaches ... and that leads me on to Health & Social Care.

Sir, as Members will know, and in response to Deputy Green, I will be making a statement
1360 tomorrow about the current financial position at Health & Social Care and what is being done to address the current overspend, and Deputy Ferbrache might like to know more radical transformation. So by way of a prelude, and to scene, I thought that today I should highlight various aspects of these accounts that pertain to Health & Social Care. I should just begin by saying that none of the Committee nor the previous board, for that matter, were given sight of
1365 the narrative before publication. When the current Committee did review it at the last meeting, as Deputy Yerby mentioned, it was felt that the various analyses probably were not the most useful to indicate how Health & Social Care has performed in the previous year. Those Members may know the Committee is looking to publish KPIs on a periodic basis that do just that – vital signs showing trends and performance – and we would like to see these forming part of next year's
1370 narrative.

Members should also know that the previous board were not advised there was such a significant overspend until the first week of December when we heard it would be just under £2 million. Prior to that it had fluctuated month on month but evidence to that date had indicated that any overspend would have been in six figures. We were then advised that several agency
1375 invoices had not been recorded. That coupled with some major off-Island acute cases that came to our attention or were billed at the end of the year, we found that we were in a completely different position. Considerable effort was put in at the end of the year, led by the previous Minister, which resulted in mitigating the overspend by £600,000 that is in three weeks – £600,000.

1380 However, after that with year-end postings this finally resulted in an overspend of £1.9 million. Now, it is also worth pointing out, as Deputy Tooley did to me just earlier today, that this is considerably lower than the £5.3 million deficit at the Airport. In fact, the total Ports deficit is actually double that of HSSD's overspend last year. But I am grateful to the Chief Executive and the States' Treasurer for the action they have taken to help ensure that what we experienced at

1385 the end of last year will not be repeated. Not least of which I believe is the right thing and moving the finance function into Policy & Resources.

But that aside, I would just like to focus on the reasons for last year's overspend, as well as other matters that are worth highlighting to Members. The increase in the use of agency nurses has been purely a result of the need to ensure we can maintain our services safely, arising from the recommendations of the NMC Review, and current regulatory requirements. I will speak more about that later in reference to Deputy Roffey's comment. The latter has become a major issue across the health sector since the publication of the Francis Report into the failings at Mid Staffordshire in 2013 and heavy emphasis on safe staffing levels. This, together with a reduction of training places in the UK by 6,000 in five years, has directly impacted on the availability of nursing staff. In the short-term scale available in order that we would continue to operate at safe staffing levels we have needed to recruit agency nurses.

Actually, I would just like to say thank you to all our nurses, permanent, bank and agency. We should be grateful to them for ensuring that throughout what was an extremely difficult time after the NMC Review we continued services with minimal disruption. From a financial point of view, our problem with using agency nurses is that the budget does not cater for the premium at which they are charged out. It should also be noted that agency nurses do not get all that premium, but understandably with no security of tenure or other benefits their rate is higher than that of permanent staff. Agency rates can vary but can be up to triple a standard equivalent permanent member of staff. As much as we will be wanting to minimise agency nurses, and I will talk about what we are doing about that tomorrow, they will always, always, be needed. It is not like in the business world where you can generally cope before a new recruit arrives. Staffing levels have to be maintained. What I am saying is that with a budget that does not include some allowance – just some allowance – for an agency premium, Health & Social Care is already starting on the back foot. It has been estimated, although it is admittedly a simple calculation that the unbudgeted premium paid for agency staff, in total, last year was approximately £3 million.

Now in terms of staffing numbers as presented in these accounts, it is worth pointing out here that whilst the numbers of average full-time equivalent staff are shown to have increased from 2014 to 2015 by 85, the actual increase in staff in 2015 was 49.8. All but one of the appointments were made as a result of the approval of the policy letter in July 2015 relating to the Maternity Services Improvement Plan and Governance, Recruitment and Retention Task Force, Children's Services Diagnostic and Secondary Healthcare contract work. I would also like to point out that the authorised budget for FTE was 1,931 for 2015, although the extra FTE as shown in the narrative was 1,875. In other words, the increase represents recruitment activity within approved FTE limits.

However, as I just said earlier, I would like to respond to comments made by Deputy Roffey. He spoke about how we cannot just do what the NMC and Royal Colleges tell us. Well, in terms of the latter, I can assure you that the previous board, and SSD who fund secondary healthcare, robustly challenged the recommendations of the Royal Colleges, and this continues.

As my predecessor said before he took to the seas, we need to consider what is proportionate and appropriate to an Island about 25 sq. miles, 63,000 population in the middle of the English Channel. However, with respect to the NMC Review, HSSD was not between a rock and a hard place, it was on the rocks. That report put us in the same place as Morecambe Bay and we were referred to in the same sentence in a further report in 2015. The Guernsey way was considered a negative, although frankly I think was an unfortunate, and what we would all mean by the phrase ... It was a Guernsey way that I fell in love with when I came to this Island 26 years ago, and I think it was an inappropriate phrase to use. If the HSSD board had not acted as it did, the consequences would have been the Hospital would have closed, as nurses would not have been able to practice. HSSD was in a parlous state – we can say that now. The student nurses could not train and we lost a whole cohort. At the same time the GMC stopped validation of all medical practitioners on the Island. That is why the previous board had little alternative but to act, and act swiftly.

1440 Now, saying all that, the previous board and current Committee are well aware of the regulations being imposed on us. Quite frankly, there are real concerns in the UK, as I mentioned earlier, at how far that regulation has gone, and which explains some of the chronic issues in the NHS. Regulation does need to be proportionate, and we need to consider a different regulatory model that fits our needs, and I will address this tomorrow as part of my statement about how we move to a more sustainable service.

1445 Moving on to the number of off-Island acute cases. As I stated earlier these increased substantially in the last few months of the year. Trends in off-Island have increased because there were some incredibly high cost cases at the end of the year that just blew the budget. Again I will refer to how we manage these tomorrow. Off-Island complex cases however, have reduced as a result of an intentional decision to look after people on-Island as far as possible, this has had a knock-on effect on the communities' team budget. However, as we have employed more people on-Island to enable the care to take place here. However, this is a preferable option for the families involved, and in the long term is transformational and should result in savings.

1450 Now, I would like to draw the attention of Members to page 77, that covers net revenue expenditure by service area in Health & Social Care. Seeing 18% working in central services, it is easy to come to the conclusion that these are all civil servants, and that Health and Social Care is top-heavy with administrative staff. We have heard a lot of concerns about this today, and I think many of the comments are valid. However, the staff included here are porters, housekeepers, estates and laundry staff. In fact, of the 389 in that category, about 25% would be considered to have an administrative role, and that is in such areas as HR, IT, finance, governance, purchasing, record keeping.

1460 I would also like to highlight the loan to the Guernsey Employment Trust, the narrative makes it look like this was a new service in 2015. However, this was originally inter-works, and the payment in the year represents staff and ancillary costs originally in the main HSSD accounts. Since its creation, the number of people with disability, health problems or disadvantages who have been placed in employment has grown and early indications are this has been a success and an example of real transformation.

1465 Finally, I would like to end on a high note, and focus on one area that has seen significant improvement over the last year, and that was the management of routine capital expenditure. This is now a robust process with the development of a rolling replacement programme, and an action plan to deal with the historic back log. I would like to thank staff for the work that has been put into this, and look forward to Policy & Resources and Health & Social Care working together to help streamline the procurement process.

1470 Sir, this is just a review of last year. We very much need to look to the future in Health & Social Care, and that is what I will be doing tomorrow.

The Bailiff: Deputy Gollop.

1475 **Deputy Gollop:** I too concur that we have heard some excellent speeches and some useful strands forward. Deputy Roffey mentioned the paradox of the Corbynists and Deputy Ferbrache about the conflict between middle classisation and radicalism. Well, I am just thinking maybe I should join the Corbynists as new job opportunities at present it would appear. But, I too share a number of the concerns and I am sorry, if perhaps Deputy Smithies has jumped in at the deep end here, because I have misgivings, personally, about the corporate governance we have given the new Trading Supervisory Body. We all, of course, wish its President the best possible health outcomes, but I think as a Committee that only has two politicians on it is difficult given the fact that I think it will be the subject of many questions in the States, and many issues, because of the nature of its transformation, regardless of its particular mandate.

1485 I must admit I am a dinosaur, in that I still like to believe politicians should have a role in micro management and in operational concerns, because I think, actually, when you listen to the voices

of the electorate, most of their concerns are about operational issues rather more than visions, and policy somewhere in between. We will come back to that.

1490 The reason I mentioned the trading boards is this is certainly no comment on the new movement going forward, and if Deputy Fallaize is right, you will get on to the board a whole range of talents that will bring a lot to the table. But, of course, most of these entities in the past were part of the Public Services Department, and that is the history in the accounts – the yesterday, as Deputy Ferbrache pointed out. There are certainly a lot of unanswered questions there, for a casual reader at least.

1495 For example, Deputy Tooley has not spoken yet but she made the comment that the issues Health & Social Care have had are perhaps on a lesser scale than those boards, and there is certainly an element of truth in that, because when one looks at ... The Ports have been mentioned a lot, and how they manage their affairs. I was slightly perplexed when Deputy Ferbrache pointed out that – I think it was Deputy Ferbrache – there had been a rise in income of, 1500 I do not know, £100,000 and a cost increase of staff perhaps of £600,000. Because I remember the reason, though to be fair, why we went down this new course a couple of Ministers ago in PSD, was because we wanted to commercialise operations and make the Harbour more commercially efficient, rather than operationally run, so perhaps there is an irony there somewhere. But, it is 1505 early days yet, I suppose. We have done, perhaps, the Ports, quite a lot, but we have only casually mentioned the Airport, and it is true that from a superficial impression of the account one is looking at a dramatic increase in the loss at the Airport, for various extra costs – costs of £3 million extra – it has made a substantial loss. Now, how much of that is connected with litigation and how much of that reflects other structural issues, we do not know, but clearly that is a matter that has to be considered.

1510 On the health front, I will accept and probably agree more with Deputy Soulsby than Deputy Roffey, that the reality of the situation is that we have to, to a degree, ensure our health regulatory framework is comparable to European countries, especially the United Kingdom, not because we want to compete, but simply because we need our professionals insured and regulated to the appropriate standards. But I noticed there was an increase of at least £1 million 1515 nearly £2 million in off-Island placements again, for acute care. I think that is an area that certainly the new Health & Social Care could look at, which goes slightly outside of the arrangements we have made.

There have been two general unsustainable, perhaps, cost rises. I would slightly contradict what Deputy Lester Queripel said a few hours ago about the Environment Department's role, 1520 because, of course, we took on the active travel unit staff for a purpose, to improve road safety and fulfil the Transport Strategy that the States voted for and never, of course, rebutted or repudiated. Now, I suppose some people's approach to the Transport Strategy, because it certainly received a mixed response on the doorstep, and in other respects, might say that elements of it were middle class policy. But if that is the case and, of course, we do know the 1525 Transport Strategy benefits disabled people and less well-off people, who perhaps cannot necessarily afford their own cars, or are not in a position to, but if it is a middle class policy and the general populous representatives do not like it they could, of course, reject and put forward an alternative transport strategy, or none at all – if you could have no transport strategy, because even no strategy is a form of strategy! But I would urge States' Members not to pay lip service to 1530 policies, especially middle class policies, if they do not support them. I think maybe that is part of the radicalisation we need in this Assembly.

I think one could go for a tooth comb and find some worrying trends in the accounts. I have flagged up one or two, there has been a significant increase, I think, in the cost of running the Water Authority as well, and one could make reference to the fact that the Home Department has 1535 seen £½ million cost increase in law enforcement, and another £800,000 one off amount I believe on the Emergency Calls Centre. Again, that could be a spend-to-save initiative, but it just increased their budget somewhat this year.

1540 As always, Deputy Soulsby made an excellent speech about Health & Social Care but I half
expected her to wear here old hat as well, the Public Accounts hat, and her professional hat in that
respect. Because she, many times, pointed out that these accounts lack clarity. I think they have
1545 improved, although they certainly could do with more work, but I still think as both Deputies
Queripel, amongst others, have said that the accounts lack detail, it is very hard to identify what is
being spent and where, for example I notice in Economic Development historically there was an
increase in tourism marketing spent, but not in other respects, and I wondered: was that achieved,
was it a good thing, did it achieve KPIs.

So you want the outcomes as Deputy Yerby and others have hinted at, to be reflected in the
accounts. You want greater detail for us as lay members, as Members who are ultimately more
than non-executive directors, who have to oversee and set policy which includes budgets. We
need to know that the money is being well spent and why it is spent. We need, in my view – and
1550 perhaps I am in a minority here – to have greater knowledge of what senior officers are paid. We
heard one Deputy Queripel say that some officers especially in the Royal Court are extremely
good value for money, which I am sure is true, but maybe that is true for other civil servants, or
maybe it is not.

We have to have that information about incremental pay increases and so on. I think we need
1555 much more information in the accounts and much more clarity on what is being spent where and
why, and Deputy Soulsby has already been vindicated in one respect, in that there is greater
transparency on capital assets and on depreciation in some areas. Well, that is a process that still
has not gone throughout the States, and of course we will need, I suspect, in the future greater
clarity on the rise and fall of investments, and what they mean to the accounts as well. So that we
1560 are in a complete position to understand the issues.

So I think there are a lot of issues to consider here, and we do need (a) more information and
(b) more understanding of what States' Members can do to ensure that operational parts of the
States do not undermine strategy.

1565 **The Bailiff:** Deputy Kuttelwascher.

Deputy Kuttelwascher: Thank you, sir.

When I left home this morning I was feeling quite upbeat. I walked through Candie Gardens, it
was not raining, the birds were singing and a complete stranger walking the other way said, 'Good
1570 morning,' and smiled. I thought it is going to be a good day.

After the first few speeches, I was led on the path to depression really. It was all awfully
negative, highlighting negatives, negative comment, not only that, some off-the-cuff solutions on
how to do things better, and then Deputy Ferbrache spoke and I was back on to the path of
elation.

1575 Sir, Deputy Fallaize focused on what appeared to be our commitment to maintaining a deficit
budget. Now, I go back to the *Hansard* 2014, I thought he made a comment similar to Deputy
Conder – the former Deputy Conder – and Deputy Conder said this back in 2014 when we
presenting the 2015 Budget. He said:

'In rising to speak I wish to congratulate the Treasury Minister and his team [I was on that] on their efforts to achieve
and deliver a balanced budget. Which surely must be an imperative for this Government and in many cases was a key
promise which we made to the electorate in 2012 and that was the case in my ... I thank the Treasury & Resources
team for enabling us to come near to delivering this budget.'

1580 And that was the intent. There was a little spin over a certain £4 million, which was taken out of
the Revenue Budget Reserve and the excuse for that was, 'Well, it was covering an FTP amount
which was expected to be delivered.' Now what actually happened, as with all budgets, they are
nothing more than educated guesses; you make assumptions, presumptions, predictions,
whatever, and they were actually horribly wrong after the event, which we can tell by these
accounts. But, nonetheless, it was meant to be a balanced budget. At the time it was suggested

1585 that the shortfalls that were evident or in this particular period were cyclical and therefore the
2016 Budget was a budget of hope, if not wishful thinking, that these cyclical downturns in
relation to say the profitability of banks and others would not continue to be in effect, and that
has not happened.

1590 So we need some radical thinking; I completely agree with Deputy Ferbrache and, believe it or
not, there are going to be some radical suggestions made to P&R as regards taxation and other
things, but you will just have to watch this space.

1595 Deputy Parkinson gets back to his usual thing about Zero-10 and the possibility of territorial
taxation, but I have to remind you territorial taxation is taxing profits, and the reason our tax take
went down in one sector in the finance sector and those companies that were taxed was they
were not making the profits. You could have a situation where nobody makes any profits in the
commercial sector and you would not raise any tax.

1600 Now, there is an interesting issue with GDP, I have just had an interruption here. The problem
is GDP is not reflected in our revenue. There is a disconnect and one of the disconnects, I think,
quite obviously, is if you have a normal or standard rate of zero, if all the growth had to be in
companies which have a zero rate of taxation there will be no benefit generally to GDP unless
those companies pay big bonuses, if you like, and therefore they are taxed normally as income. So
I do not think, necessarily, taxing companies more is the answer because, as we were told on T&R
in the last term, we are actually taking as much from companies as when Zero-10 was in place.
1605 How was that done? Well, there was more than a 10-fold increase in TRP for the commercial
sector – not yet – and the other thing we did is we forced companies to pay Social Security, which
on salaries of now up to £137,000, it is very expensive to employ people in Guernsey if you are
paying those sorts of salaries, compared to say Jersey where they only pay Social Security up to
£45,000. So that was just – or is it a bit more? I do not know – it is about £45,000.

1610 So, we are between a rock and a hard place here. If we were to start introducing taxes on
companies on top of these things that we already do, compared to our nearest competitor, Jersey,
we would be in a very uncompetitive position, and we have had already cut ... at least one
substantial finance company went to Jersey last year, and that was not the only reason.

1615 **Deputy Parkinson:** Sir, on a point of correction, can I ...?

The Bailiff: Deputy Parkinson.

1620 **Deputy Parkinson:** In 2007, if memory serves me well, tax paid by companies in Guernsey
totalled something like £157 million and, if Deputy Kuttelwascher looks at these accounts, he will
see that tax paid by companies in 2015 was something like £41 million. I absolutely fail to see how
he can argue that the tax collected from companies today is the same as it was before Zero-10.

1625 **Deputy Kuttelwascher:** Yes, he has misconstrued what I said. I said the companies were not
taxed on profits, but they had to pay 10 times as much on TRP, and they had to pay Social
Security. If you add up what extra they have to pay in Social Security and what extra they have
paid in TRP, we were told that they equated to what they would have paid in tax, had those not
been in place and their way of paying tax anyhow.

1630 **Deputy Parkinson:** Deputy Kuttelwascher is persistently misleading the Assembly. The total
TRP paid by everyone in these accounts is £19 million. That includes all the TRP paid by
individuals. Even if all of that £19 million had been paid by companies, you are nowhere close to
closing the gap between £157 million and £40 million. It is completely absurd to say that the
companies are paying in other ways the amount of tax that we have foregone.

1635 **Deputy Kuttelwascher:** Again, you miss out Social Security. We were informed at T&R last year that that was the situation. Now, one would have to review the figures, but we will have to leave that for the Treasury Department, because that was information given to us.

1640 Having said all that, experience, success, is often built on mistakes, and the assumptions made in presenting the 2015 Budget were way off the mark, and we all accept that. Now, we have to accept that, and tinkering is not the answer. This is something that Deputy ... we need some radical thinking on this, and there will be some on the way, believe me. If our suggestions and our advice – which is our job, to give advice – if they are not accepted then you can expect a plethora of amendments whenever Budgets are presented in the future, like October.

1645 There are ways of raising quite large sums in the short-term while we think about everything else including Brexit, which is the big unknown; and, to me, we have often heard that there are opportunities in this. Could someone identify one? This is what we have to be doing now, P&R, and they last night sent us all a policy letter which I will hope will be debated this week.

1650 What they are doing? They have to assess exactly the impact of say Protocol 3 being withdrawn and what the impact is in detail, list is. There may be hundreds of different impacts. At the same time, if there are opportunities they have to be identified, and I have not seen one yet. If they are identified they have to be pursued with some vigour, and promoted and followed and delivered. But I have not yet seen one. I have heard a lot of speculation of what, might this or might that, but I have not actually seen one.

1655 I have a son who works for a big fund manager company in London, and he happened to be on holiday in France, and he sent me an email; I think he said, 'I don't think I will come back'. That fund manager had its biggest outflow of funds since the credit crunch in a single day. They were all euro denominated funds. Where is the opportunity? That in itself was unfortunate news for them. The good news, if you like, was the day the Brexit vote was announced the Friday, the FTSE fell 8% and then clawed it all back and was only down 3½%. Europe, on average, fell about 9% and did not claw anything back. So it seems that the effect was more on them than us.

1660 But anyhow, these are all things that will impact on decisions in the short term, and it will be very important, in the next Budget, we understand the real risks and do something in the short term to mend our finances, which is possible; and Deputy Ferbrache has come up with a most brilliant idea, which I will support, and will be presenting later, in the short term.

1665 So, at the end of the day, I will support this Budget, obviously, because at the end of the day it is an historical document. It has identified issues and, to me, it is nothing more than a way to learn from experience, and building on that experience of acknowledging errors and mistakes, making everything better in the future by doing that. That is what success comes from: you learn by your mistakes. If you do not learn by your mistakes you get nowhere.

1670 I was once asked, what is the difference between 30 years' experience and one year's experience repeated for 30 years? We are more in that second category, not quite, and that is the issue. You have got to accept reality, stop dreaming and let's do what is required. We will have a go. I will have a go. Deputy Ferbrache will have a go, my colleague Deputy Mooney will have a go, and so will our two other Committee members. So we will see what happens. *(Interjections)*

1675 **Deputy Brehaut:** I think you may have left out the female members of the Department inadvertently or...

Deputy Kuttelwascher: I said our two other members. *(Laughter)* I could do all the names if you like, one by one, but never mind, sir – and that brings us to lunch!

1680 Thank you, sir. *(Laughter)*

The Bailiff: I did not realise you were just filibustering! (*Laughter*) I see there are quite a few people who still wish to speak, so I propose that we rise and resume at 2.30 p.m.

*The Assembly adjourned at 12.30 p.m.
and resumed its sitting at 2.30 p.m.*

Billet D'État XVIII

POLICY & RESOURCES COMMITTEE

The States of Guernsey Accounts 2015 – Debate continued – Propositions carried

The Bailiff: Deputy Dorey, as we resume debate on the States' Accounts.

1685

Deputy Dorey: Thank you, Mr Bailiff.

I just want to pick up a few points that have been made, and just make a few more comments myself.

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We start off ... the headline figure is £24.5 million. I think Deputy Kuttelwascher referred to the £4 million, which really means that it is ... because if you look on page 2 you see that General Revenue Account Reserve is £4 million. So really the deficit we are talking about is £28½ million. But you also have to add in the Economic Development Fund and the Transformation Transition Fund, so you then get up to draw downs on those up to £30 million – is effectively the deficit that we had for 20015. As has been mentioned, we are also short of the 3% that we need to put into the Capital Reserve, which is part of our financial framework.

1695

There is also the £5 million we are short on the income on the Bond against the coupon that we have to pay. I must admit I was desperately disappointed about this, because I asked the question back in the March statement that the then T&R Minister made, and I followed it up several times. It took an awful long time to get the information that we were in fact £5 million down on the investment income against the interest we have to pay.

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The deterioration of the situation, I think, is highlighted because in the States' Strategic Plan, which was there between 2008 and 2012, there was a prediction forecast going forward, and they were forecasting five years forward, and for 2015 they were forecasting a surplus of £29 million and a surplus of £37 million in 2016. So I think that illustrates that the situation has very much changed, and the deterioration that we have had in our finances.

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What I suppose is so worrying, which has been mentioned by others, is in fact in this time we have not had a recession; we had a recession for one year, 2009; all the others we have had GDP growth in those years. Some would say we have not had a rainy day, but we have used up so much of our reserves in just financing general running of the Island. I think that is where our problems are. We have to face reality and tax or cut our expenditure, and I am not saying one or the other, to be able to get back into a situation that we are in surplus not deficit.

1710

People say, 'Well, what have we done?' Well there was a review of corporate taxation that was done, and it was reported back in the beginning of the Budget of 2013, which was debated in December 2012, on that corporate tax changes. We then had a review of Personal Tax, Pensions and Benefits, which was debated in the Assembly in April 2015. Some of the outcome of that was 20 means 20, but we have not had any progress on that. There were environmental taxes which I think picked up the point of Deputy Yerby that we need to think beyond our deficit situation and

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1720 how we can make improvements with our economic situation, and if we tax people who are abusing the environment perhaps we could have a better Island by encouraging better behaviour or better activities in the Island. But that Proposition, which was a Resolution of the States, said that they were to report back by March 2016. We have not had a report. So the point I am trying to make is that we have done reviews, we have reached conclusions, but action has not been taken. I am not saying that these would meet the deficit in total, but they would make some contribution to it.

1725 The other one I would like to mention is share transfer duty, which I highlighted in the debate on the Budget – the last Budget. Again, in the Budget report it said there would be a policy letter in early 2016 and we still have not seen that and we are still getting property which is changing ownership by share transfer and we get no money from that, where we should be. We know it is a problem. It was identified back in 2011, but every time we have said we were going to come back
1730 to this Assembly we have not done it.

Deputy Fallaize talked about property and Oxera's report, which was privately funded, when we were discussing the Zero-10 proposals. That, as he said, suggested a major increase in property taxes. I am just saying we cannot avoid taking some action. We cannot just continue, when we have effectively, I do not believe had a rainy day, continued to use up our reserves.

1735 I think it was highlighted when I went round at election time, when one particular elector said to me, 'This is a beautiful Island. We do not want our services cut. We want to keep it as a beautiful Island. Just go away and increase Income Tax.' She said we do not want GST, because we know the administrative costs of that. We know you can increase Income Tax without having any additional costs of collection. She said, 'I know it will not be popular, but that is what you need to
1740 do. You need to make the unpopular decisions.'

I think that is what we need to do as an Assembly, because we spent too long reviewing, looking and not making decisions. We have to make some significant decisions, and they will not be popular, and this is the time to do it. It is not trying to do a review which takes two years and coming back late in the four-year term, when the chances of it getting supported by this
1745 Assembly are far less. Political parties always make the most unpopular decisions as early as possible, because they have got a chance to recover, and we as politicians are no different!
(Laughter)

In the foreword, it talks about that it is the population problem which has contributed to the deficit, but really that is not an acceptable excuse. We have known how the population is going to
1750 change for a long time. It has been as easy to predict as anything. So to say that, 'Oh, because we have got more retired people that is why we have got a deficit,' is just not an acceptable excuse. We have to be better than that. We have to plan so that we can get back into surplus and not make what I think are fairly weak excuses.

If you actually look at the information, what is interesting is that of the 60- to 64-year-olds
1755 only 61% are actually in employment, and 'in employment' covers being employed or self-employed. Yes, it drops for the 65- to 69-year-olds down to 30%, but just because somebody goes over 65 it does not mean they are not making any economic contribution to this Island. They might not be in employment, but they have still got income which they are paying tax on.

But, interesting, when you look at population, I think it is mentioned, that it has reduced by
1760 750 people over four years in the foreword, but if you actually look at net migration figures, there has been, over the four years up to the middle of 2015 – which is the latest figures that are available – a net migration of 607 people, which has probably been more of a contributor to the facts of the number in working population than those retired.

Just moving on to a couple of points that have been made, Deputy Roffey, I think, and others
1765 have spoken about the Ports holding account and the Airport and PFOS. If people turn to page 23 in the Miscellaneous Accounts, it explains that and people complain about information not being available; but under the sub-heading of Guernsey Airport it talks about legal fees of £4.2 million have been charged in the 2015 accounts, in respect of the advancement of the High Court case. So it is explained why the Airport is in a deficit situation and it has explained the reason why.

1770 People have also spoken about the Harbour. I will not go through it now, but if people go back
to the March 2012 Billet, which was a review of the Harbour done by a consultant, perhaps not
popular these days, but they highlighted a large number of problems at the Harbour and that is
why there needed to be significant managerial changes there in order to fix the situation. If you
read that report – and I urge you to do if you have got a chance; it is called The Review of
1775 Guernsey Harbours by Fisher Associates; it is in the March 2012 Volume II Billet – It outlines a
whole lot of problems in terms of the running of the Harbour, which had to be improved, and the
management of the Harbour had to significantly change; and that is why there were significant
changes done by PSD, before I was a member of it, to improve the situation.

Sir, I just follow up by saying, to sum up really, we have got a deficit, we have to do something
1780 about it. We have to do it now. I do not believe we can carry on and just come up with an excuse
each time when there is a minor problem, that we are back into a deficit situation. We have to
have our finances with a surplus that is able to take a minor problem, because every year
something will go wrong, and we can just come up and say every year, 'Well, if this had not
happened we would not have gone into deficit.' We have to have our income robust enough that
1785 it can take a small hit each time, because there will always be something that goes wrong. So I
urge P&R to make the unpopular decisions and come back with something significant to correct
our finances.

Thank you.

1790 **The Bailiff:** Deputy Prow. This will be your maiden speech.

Deputy Prow: Thank you, sir.

Mr Bailiff, I have stood up towards the end of this debate, and I am very glad that I have been
able to listen very carefully and have gauged the mood of the Assembly before speaking.

1795 I have to say that I am very encouraged by what I have heard today. What I craved for post-
Election was a States that was, to quote Deputy Ferbrache, one that rolled up its sleeves and took
actions, rather than one that writes noble uncosted strategies. Refreshingly, in my view, this
debate has been both lively and full of ideas that could be actioned.

I am privileged to be a member of both the Health & Social Care and the Home Affairs
1800 Committee, and I can report to this Assembly that both Committees are well on message. In terms
of outcomes, the wellbeing, safety and security of the Islanders are paramount. All this costs
money. In my view, Deputy Ferbrache, Deputy Soulsby and Deputy Yerby made powerful
speeches. I have taken the following from them, that we need radical solutions to grow the
economy. We need to ensure that we do not ever become distracted by our duty to the
1805 electorate, and we must meet the needs of the residents, especially the vulnerable. We were
rightly reminded of the increasing economic financial and delivery pressures on Health & Social
Care, and that the responsibility goes beyond that Committee and rests with the whole of this
Assembly. I do not wish to repeat many of the other excellent and eloquent speeches made today,
to which we all have listened. I hope the key messages have been hammered home to the
1810 President of Policy & Resources.

Before I sit down, I do have some specific questions, just to prove that I read all 178 pages,
(*Laughter*) which was nearly as long as Deputy Lester Queripel's speech! (*Laughter*) I refer, in
particular, to the President's foreword and the Treasurer's Report, page 6, 3.13 to 3.19, and I quote
from it regarding the challenges faced in building a budget. I would ask the question: to meet
1815 those challenges, does the President agree there needs to be a change in the way States' budgets
are built; and that rather than relying heavily upon the previous year's Budget, and the tax take
forecasting, that a fundamental financial prioritisation debate is needed and the concept of zero
budgeting is introduced as soon as it is feasible, and that the tax base vulnerability be more
accurately measured and addressed?

1820 I also refer to the primary financial statement balance sheet fiduciary, page 19, and I note this
refers to an entry HM Receiver General £15,717,000. Does the President see any merit in

publishing the accounts of HM Receiver General, together with the States of Guernsey Accounts? Could I ask if this might clarify where all fines and proceeds of crime confiscation orders imposed by the Courts are accounted for?

1825 Thank you, sir. *(Applause)*

The Bailiff: Deputy Langlois.

Deputy Langlois: Thank you, sir.

1830 The year 2006 has been mentioned earlier during the course of this debate as the birth year of our Fiscal and Economic Policy, as amended. It is quite interesting, looking back to that year and comparing it with what happened last year, because, in real terms, general revenue expenditure in 2015 was within 1% of expenditure in 2006. That is largely because the £15 million increase in the HSSD's budget over the intervening years, and the £15 million increase elsewhere in the
1835 expenditure, was offset by transferring £30 million of expenditure to Social Security by means of reduced grants from general revenue. So what at first sight seems to be a very tight control of our expenditure ... there is an element of smoke and mirrors.

It also does highlight the fact that when we replace the Fiscal and Economic Policy, which reached its best before date in 2012, and is in urgent need of revision, we have to take
1840 expenditure on Social Security into account. I know there have been moves towards that in the last four years, but we still have not integrated our expenditure on the Social Security side of things with general revenue expenditure, and until we do we are never really going to get a clear picture of what is happening in the Island.

We have operated surpluses, I think – and Deputy Kuttelwascher pointed out last year – of
1845 £8 million operating surplus on general revenues, hence the deficit once capital transfers have been taken into account. Now, that figure compares to real terms surplus of 38 million in 2006. The reason for the £30 million difference in surpluses is that we have only made up £45 million of an almost £75 million loss of revenue since 2006 – a loss brought about by reducing our basic corporate tax rate of 0% in 2008. That loss would have been even greater if I had not taken into
1850 account the rise in commercial TRP rates, when working that figure out. So, of that £45 million that we did make up, £7 million came from higher duties and domestic TRP rates, but the remaining £38 million came from increased Income Tax receipts. It was those latter receipts which really bailed the States out. We did not increase Income Tax rates; they just grew as the economy grew over those years, and that is really what has saved our bacon.

1855 That is really why the most important issue facing the States is putting together a fiscal and economic strategy – I will call it, rather than policy, because I think the strategy will have to include a whole series of coherent sustainable policies, which will eliminate the structural deficit.

I do not think it is necessary now to explain what one might include in those policies, but the necessity to have something which is balanced and which will eliminate this £30 million structural
1860 deficit is absolutely crucial. We are not going to solve the problem by removing 80-year-olds' free TV Licences or tinkering around raiding family allowances or praying for growth. None of that is going to work. We have got to have a fiscal and economic strategy, suitable for the years to come. We simply really have not addressed that. We have had reviews, we have had States' Resolutions, but we have not put it together in a coherent strategy, and if we learn anything from this debate
1865 today – and I think several of the speakers have made a similar point – we have to get to grips with this problem, and not just hope it goes away, hope that Economic Development comes up with some great ideas for growing our economy; because it has not worked and it will not work. We have got to address that problem.

Thank you, sir.

1870

The Bailiff: Deputy Graham, I think you were rising. Do you still wish to speak?

Deputy Graham: Thank you, sir.

1875 I had not actually intended to speak today, because I did not really think I had any wisdom to contribute to what has been a discussion of the legacy of the last States, but one or two things that have been said today provoked a couple of thoughts in me, which I think are worth ... certainly are germane to the way we carry things forward, and I think they are better let out than kept shut in.

1880 My modesty in wanting to say anything really was compounded by the fact that we have had this wonderful tour of the horizon, philosophically. I think we may wait for Deputy Trott to complete the entire width of it – perhaps that is to come! We have also had the, if I can characterise it as, drawing down into the detail from Deputy Lester Queripel. I am left with the thought that if that is what Deputy Lester Queripel is capable of when he is in pain, we can look forward to some treats when he is fully fit! (*Laughter*)

1885 The first thought that was provoked was from in among the *tour de force* by Deputy Peter Ferbrache, where the phrase ‘middle classicism’ or ‘middle classology’ escaped his lips. I think I know what he means, or what he meant. But I, personally, hope that the way forward is not going to be characterised by a class approach to these things. I am going to tease him a little bit here, because a few years ago when he was a Member in a previous incarnation he and I exchanged a fairly robust set of letters in our different offices, which were rather reminiscent of when we were kids and we used to say, ‘My dad is bigger than yours!’ It really became a case of, ‘Well, I am more working class than you!’ (*Laughter*) I think with the last letter we probably dead heated, Deputy Ferbrache.

1890 The reason I mention this to the Assembly is that I was left feeling at the end, ‘Well, what was the point of that really?’ because we actually lost sight of the issue, and that was some years ago, but coming forward to today I was reminded of this. Also it was very germane to the canvassing in the Castel just a couple of months ago. I would maintain that the Castel is a fairly diverse parish. We have some of the biggest States’ housing estates: Les Genats, we have the one at L’Aumone; we have Pre de Quartier ; we have the big estates like the Villocq behind Vazon, Mare de Carteret and Grandes Rocques, which are largely characterised by those who are either in their own properties or rented property; and we have even got some of your self-confessed rich lawyers, or overpaid lawyers in the countryside. In other words, it is a pretty diverse parish, and I really found that very often the aspirations and the issues that were in front of the Castel electorate went right across, if I can call it, the social divide. So, in gently teasing Deputy Ferbrache, I do hope that we can afford to have ideas on the way ahead, or concepts, which are not literally to divide by the class issue.

1900 The second thought I had was provoked by Deputy Charles Parkinson who, I believe, wrongly inferred – and I think he was referring to the elections on day one – or took the wrong message, anyway, from the fact of his non-election as President of P&R. I think he took that as a sign that the Assembly is not minded really to contemplate, if necessary, a major revision of the fiscal structure. Speaking for myself, that was not the case. I have to say I did not vote for Deputy Parkinson to be President of P&R, but it was for no reason at all to do with his attitude to the fiscal structure at all.

1915 Of course, this goes a bit wider, in my view, than the business of Zero-10, although we have all tended to focus in on Zero-10 whenever Deputy Parkinson is holding forth. But, I think it goes wider than that, but I think he was wrong, sir, in inferring that from the events of day one. I have got a feeling that the whole issue of our fiscal structure, and in particular Zero-10, is still awaiting the jury. I have a strong hunch that post the pro-Brexit debate in the United Kingdom, faced with a potentially revoltist, and certainly rather frightened EU and probably also a nervous OECD, we may not have heard or seen the last of Zero-10 and its alternative.

1920 Deputy Parkinson finished with the view that he would vote Contre in approving these accounts. His logic, as explained, was impeccable in doing so and I have to say that if I had regarded the accounts really as a sort of, how can I put it, a *credo* being handed down from the previous States to us, a *credo* to follow in the future, I think I would have been minded to do the same, but I am a much more charitable person, I regard it really as a confession (*Laughter*) made

in a rather communal confessional; and, being a reasonable chap, I do accept the *mea culpa* that these accounts constitute, and also the issues and the lessons that flow from them.

The Bailiff: Alderney Representative Jean.

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Alderney Representative Jean: Thank you, sir.

I found the speeches today very interesting. I enjoyed Deputy Yerby's first speech, full of principle and all the aspirations of a new and caring Deputy – of which, I have no doubt, there are many in this Assembly.

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Deputy Ferbrache's speech was positive and a show of intent upon the serious situation we do face. He is not wrong. We must put this right, and stop the naval gazing. It is over.

I want to assure you that my colleague and myself are here to help. Deputy Ferbrache has cheered me up, all we want to do is help, and what is bad for Guernsey is bad for Alderney too. It needs – *definitely* needs – more radical thinking.

1940

I also liked Deputy Parkinson's speech and I cannot help but express the view that there will be an important role for Deputy Parkinson, and it is important that there is.

It always seems, or sometimes seems, that Alderney is critical and I would like to assure you we are grateful too, and I express that gratitude for all the services provided by Guernsey, and there is much good will towards Alderney. The Board of Education at St Anne's School, HSSD for the services we receive from them, and the many other boards that contribute to Alderney.

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The financial review is making good progress and Alderney's Government will have to step up to the plate and earn its place by taking more of its own responsibility.

We must all play our part in this brave new world and as I finish I would like to say thank you to HSSD. There is a view of provision of health services in Alderney which will, after the Dr Lyons inquiry, improve things generally. I also found Deputy Soulsby's speech very good and very interesting; it contained a lot of points.

1950

I was also interested to hear Deputy Chris Green and I would also like, if I may, to thank you at HSSD for the excellent care two members of my own family received; my wife Caroline had a knee replacement and, yes, recently my daughter Marie-Claire had a baby boy and I am now a grandfather. They were on Sausmarez Ward and Loveridge Ward, and I am so grateful for the kind care that they received.

1955

There is a lot to go on in this States in the next four years, and I approach the next four years positively. I face the electorate in November in Alderney and I have decided that I *will* stand again, because I believe I can contribute here in this Assembly and help Guernsey, Alderney and the Bailiwick. The 'Bailiwick' is a word that means to me 'together', and we are in this together and we are in this to sort it together, and that is what I really want to do, and so does my colleague, Mr McKinley.

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Thank you, sir.

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The Bailiff: Deputy Brehaut.

Deputy Brehaut: Thank you very much, Mr Bailiff.

With regard to the comments made by Deputy Dorey, I could not agree with him more that there is certainly scope, or potential, to look at environmental taxes. Potentially, the potential for these large super yachts that come in – they are not here for very long, they fill up with fuel, which in effect is duty free, and they are away again. I do not think that is the most responsible message to send out.

1970

This morning we returned to a familiar theme, which I have to say always disappoints me, when Members of this Assembly, who are the employer, then refer to our employees, and say that we are overstaffed, they are overpaid. I met a friend the other day who told me when he retired they had to employ three people to replace him, or words to that effect, because I have seen and heard all of that before, and know how dangerous that can be. How many times do people, whether on

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1980 this top bench or sat elsewhere, in this Assembly say things like, 'Staff at the PE are overpaid, they are overstaffed, there are more bean counters than necessary at the PEH, there are more managers than patients'? Yet, every review, subsequently, of PE or Hospital services have said, 'How do you manage with so few people? What do you mean you do not have anyone in clinical governance? What do you mean you have not got a senior figure in this role?' So, I think at times we could be a little bit more responsible, as the employer, when we refer to our employees.

1985 With the Harbour in particular, everyone, I am glad that Deputy Dorey referred to that report; the Harbour was not in a good state. There were a number of legacy issues that the new team have taken on, and to a large degree are playing catch up on what could be considered, perhaps, neglect in some circles.

1990 But I will declare my interest, by the way; my wife happens to be a nurse. You may have heard me say that before, but I just wanted to spend some time on this, simply because of the level of spend at Health & Social Care, and historic spend with regard to nursing agencies.

1995 Now, we say that the problem with recruitment on Guernsey is seen in the light of the UK context. We know that the UK have difficulty recruiting, so Guernsey is not alone, but interestingly, in the 1980's and 1990's when the Agenda for Change was introduced into the health care system through the NHS and then on to Guernsey, if you – as my sister-in-law was at that time – were living in the North of England – and she was a midwife – and nursing assistants or nursing auxiliaries were receiving an A or B grade, and getting a B grade was the lowest end, the bottom scale was A, so if you were very lucky as a nursing assistant or nursing auxiliary, you would get an A or B Grade. Auxiliary nurses on Guernsey were paid C grades, which is two pay grades up, because Guernsey then recognised that Guernsey had a recruitment problem over and above the UK.

2000 So we should not compare ourselves to the UK. We know we are in a completely different position, because Guernsey has always had issues in recruiting people. So Guernsey paid UK trained staff rates to the untrained nursing equivalent. I was a health care assistant at that time, and I was receiving pay that trained colleagues in the UK could never receive.

2005 Also what happened, and is relevant, in the early 1990's with the pursual of the Agenda for Change and the idea of professionalising, not that it was not, but broadening the professionalisation within the nursing structure, it meant that we lost a number of extremely good long serving nursing assistants, who were fantastic carers but they did not want to do NVQ Level 2 or 3 or 4, so they came out of nursing, and that left a void that took some time to fill, if it ever did.

2010 Then to compound that problem, the enrolled nurses – because the structure was staff nurse, enrolled nurse, nursing assistant – maybe did not want to convert to become a staff nurse so they left, so we are still trying to catch up with that.

2015 Now, we are far too reliant on agency staff, and I know that is a statement of the obvious, I know everyone would rather we were not. We have become far too reliant on agency staff, and there are risks within that. Without wishing to offend or imply anything, agency staff are just nurses; they are not better than existing nurses, they just are nurses that happen to be available; and they are transient, they go from one place to another, which in itself creates issues with regard to clinical oversight and governance. If you are working in a place for three months or for six months or for nine months are you really looking to the next three-year and five-year period?

2020 Of course, you are not; you are here to work, you are here to go home and a certain type of person would become an agency nurse. So there are issues, in my view, with clinical governance and ultimately with accountability.

2025 Now, the morale – and I do not want to compound it by giving this speech, but we know that morale – within the Hospital environment is very low, and just to give one graphic example, or one example then, of where people are employed by the Department of Health & Social Services, sorry, as it was, they do that two years as an employee of the States, they then take their retention bonus, no irony intended, they take their recruitment and retention bonus and they leave, but they come back as agency staff. They come back. They like Guernsey, they liked working here,

2030 they took the retention bonus, they have had a break, then they come back as agency staff and, of course, they have assistance with accommodation and other add-ons that local staff do not have.

Now, Deputy Luxon said, in his speech perhaps two or three months before the Election, that we, the States, were looking to recruit about 60 staff from the Philippines. I know within the answers he gave at that time, I think he said perhaps possibly it was likely to be 40 rather than 60. The reality, I thought at that time, was probably 20, but I think we would be very lucky from that if we may see four or five, so that illustrates the nature again of the recruitment issue that we have.

2035 The States do do things to encourage nurses back into nursing. Nurses do go back into nursing, but then what they do, unfortunately, is take up positions within surgeries, so although they retrain, they do not always find themselves back on the ward, they become practice nurses.

Now, I am sorry to labour the point but the time is now, the problem is now, the shortages of staff are real and, sadly, now I am afraid morale is particularly low.

2040 Now in regard to any KPMG report or recruitment task force, I do not believe – these are short-term fixes, these are not absolutely remedies ... When we look to encourage people to stand for election as a Deputy we say that we want people of the right calibre, you want people who are clearly able, and to entice people into this Chamber we say, 'Well, perhaps £35,000 or £40,000 might be the figure that gets the right people in. Well, if you are a nurse and you have been nursing for 20 or 25 years, you may be a ward manager after, as I say, 20 or 25 years' experience, you might be looking to earn £35,000 or £40,000 for having people in your care, and with real life and death issues.

2045 So, sorry to stress the point and labour the point on one very narrow issue, but I think that Guernsey ... my point is this really: the millions of pounds we are spending on agency staff ... Deputy Roffey said earlier that the Guernsey way is still a way forward, and I think that expression was picked up and very misused; it implied a sort of regressive stubborn culture – I do not think that was the case at all. Guernsey needs to do something in the Guernsey way that is creative and different. That may mean moving away from the Agenda for Change package and, once and for all, for Guernsey perhaps to stand aside, recognise it is difficult to recruit nurses and do something in real pay terms forever, rather than to pump millions of pounds in during the peaks and troughs and, in doing that, hopefully retain the number of staff that we have, or the long serving numbers of staff, rather than to have this perpetual multi-million pound churn every year.

2055 Thank you.

2060 **The Bailiff:** Deputy De Lisle.

Deputy De Lisle: Thank you, sir.

2065 Sir, my interest is like others in the States in the way forward, essentially. I prefer an evolutionary approach, essentially, rather than something more revolutionary, because I think in that we can put in a road map, if you like, a forward road map, that is sympathetic with the population at large.

2070 I feel that the President's foreword actually provides a very good start, and just looking at what he has put down there, in order to return to a budget as sustainability, he is talking discipline in managing expenditure; he is talking about delivering public service reform; growing the productive economy; maximising the return from existing tax base; and ensuring a return on the States' assets. Now, that provides a very useful start, I believe. I think I would like to commend that as a beginning, because the initiatives tabled in the President's covering letter are very comprehensive to a degree and set a robust start, if you like, to delivering a balanced budget. It is, as I would see it, part of a continuing review of fiscal policy.

2075 Now, I also commend efforts made by Treasury last term to extend Zero-10 to comply with that of other Crown Dependencies. I think Deputy St Pier mentioned the extension to fund administrations as one example, but there was a lot of additional extension too to the Zero-10, to sort of integrate the measures that had already been made by Jersey and the Isle of Man. In so doing, about £15 million had been brought in, which I think was a very commendable imitative, in

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terms of realising that evolutionary way forward, if you like. I would like to see some of that encouraged and continued. So I would encourage further efforts to broaden the scope of the Zero-10 tax policy further, so that all companies pay a fair share of the tax burden annually.

2085 Now, the challenge faced by the UK with the Brexit vote provides, I think, an opportunity for P&R to review again fiscal policy, not only in ways that the President's report has laid for us in a very useful sort of road map, but also to review again, more broadly, the fiscal policy in relationship with the dynamics of the UK situation and what they will be looking forward to. Of course, we can also look at extending, perhaps, the corporate tax policy.

2090 I would like P&R to take a lead and I have suggested this in the last term, in this area with Jersey and the Isle of Man, the other dependencies, and to work with them to make adjustments, together, with the tax policy.

2095 So I think that can be done in an evolutionary way, without going beyond that and doing, perhaps, what some others have been suggesting, and in a revolutionary way, because I want to try and lighten the burden on the individual in the future, and be very cautious there, because I think already the burden is mounting on the individual to the extent that we are losing people.

2100 The cost of living to young families, I would like to stress, in Guernsey through the withdrawal, for example, of universal Family Allowance payments, and the tax relief on mortgage interest, and the child allowance scheme for single parents – all these things mount up and are affecting the younger group. Then, of course, we have got the pensioners, which we cannot forget, and the cost of living to pensioners, and I do not think they should lose their health benefit grant and the exemption from prescription charges, nor be forced to sell their homes to pay for long-term care. The proposed introduction of individual taxation would add significant costs to those living on fixed incomes. So I think we have got to be cautious there. This is where I prefer an evolutionary approach rather than something too dynamic which could spill over to really commit hardship to different sectors of our population.

2105 Thank you, sir.

The Bailiff: Does anyone else wish to speak in this debate?

Deputy Trott.

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Deputy Trott: Thank you, sir.

2115 I shall be brief. I thought Deputy St Pier set the tone for what is needed in his opening remarks, with one sentence: we need to grow the productive economy. That is fundamental to our future, and never more important following the recent decision in the UK. The protection and promotion of our economic interests is now absolutely paramount.

2120 Let me give an example of why that is so important. Deputy Fallaize, sir, in his interesting memorial to the events of 10 years ago today, I remember them well because I hardly slept the night before, such was the anticipation after; I think it was, 117 public meetings in the lead up to that particular debate. But I will remind him that once the States had made that historic decision, our economy grew the following year by 7% – an absolutely phenomenal performance –

I give way.

2125 **Deputy Parkinson:** Sir, I think if Deputy Trott examines the States' statistics he will find that the number was 2.6%. *(Laughter)*

The Bailiff: Deputy Trott.

2130 **Deputy Trott:** We have had this before, sir, from Deputy Parkinson. No, the number was correct.

Sir, the failure of the fiscal policy has had little to do with our growth rates, our growth rates have been really quite impressive, bearing in mind the global conditions that have prevailed since 2008. Our problem has been our complete inability to stick to our own Fiscal Rules. The most

2135 recent example is graphically described within the States' Accounts. Our revenue expenditure grew by 3.2% after taking into account inflation for 2015, when our own fiscal policy said there should be no real terms growth. So this Assembly, or rather the previous Assembly, this place, sanctioned and agreed those significant increases in public expenditure. That is where the problems have been.

2140 Now, sir, my good friend Deputy Parkinson tells us he intends to vote against the accounts, basically because he does not like what has happened in the past. Well, that is a little bit like denying the Holocaust. It happened, it is true. Whilst we may not like it, the accounts are an accurate description of what has happened in the last. Indeed, Deloitte, the auditors, tell us that they have been properly prepared in accordance with our existing accounting policies. So voting against them, sir, is a complete nonsense.

2145 But I could have stayed sat down had it not been for my friend, Deputy Ferbrache. Now, his speech was genuinely fascinating, sir. He told us that in 59 days he had achieved nothing. *(Laughter)* Now, I say to him, sir, do not worry, Deputy Ferbrache, because we will judge you after your first 100 days in office, and just as I was thinking that, and calculating that there were 41 days for him to do something significant, he came up with an absolute stroke of genius, some real direction to this Assembly. He told us that he wants the legal profession to pay more, and he explained why: apparently, they are paid far in excess of their worth. *(Interjections)* Well, sir, I nearly uttered an expletive when I heard that. That came as a real shock to me, I have to say, after 2150 16 years in this Assembly, but I want to reassure him, sir, this did not fall on deaf ears! *(Laughter)* P&R will listen to his wise words and do our best to correct this injustice that appears to have prevailed for a number of years.

2155 Now, sir, my equally good friend, Deputy Laurie Queripel, again, gave us a description of the Bond Fund, and he is probably aware that the UK's performance has been downgraded, or the expectation of the UK's performance has been downgraded, by some of the rating agencies. There is an inevitability following the decision of last week, and that is that in the short to medium term, at least, the UK's fortunes are likely to suffer. That is likely to mean that long-term borrowings, like 2160 those that this Assembly entered into, are likely to see the coupon prices of this, the cost of this, of these borrowings, rise quite substantially in the years ahead and it may well be – and, indeed, I predict, sir – that it could, over the next decade or so, transpire to be one of the finest decisions this Assembly has made. We shall see.

2165 Now, Deputy Roffey, he is another one, sir; he is always entertaining. I love listening to him, I have to say, and for many years reading what he has had to say as well, which has kept me current with his views. *(Laughter)* Now, Deputy Roffey believes the ultimate *panacea* is to tax higher earners. Well, I draw his attention to the Personal Tax and Benefits Review that the previous Assembly considered. There were not a lot of higher earners, Deputy Roffey. In fact, I believe that those we – most of us in this Assembly – would consider to be higher earners represent only 2170 about 2% of those who contribute through earned income to us. There are an awful lot that fall into that sort of £30,000 to £60,000 bracket, the so-called middle income earners that get squeezed time and time again, but those at the higher end are surprisingly few in number, and we need to be extremely careful how those, usually entrepreneurs, how the tax on them is harvested. So I give that word of warning.

2175 Other than that, sir, I have thoroughly enjoyed the debate and look forward particularly to the President's summing up.

Thank you.

2180 **The Bailiff:** I do not think you will have to wait long. Nobody else wishes to speak, so we will hear from the President, Deputy St Pier.

Deputy St Pier: Thank you, sir.

Sir, actually I would like to begin by actually wishing – although she has now left the Assembly – Deputy Hansmann Rouxel a very happy birthday! I meant to do that at the beginning of –

2185 **(Several Members:** Ahhh!) my speech, but omitted to do so, but I am sure we all wish her a very happy birthday. She has obviously been enjoying herself considerably today! *(Laughter)*

Sir, I would like to thank everybody for their contribution to the debate. As it has been quite a long debate, I am not going to necessarily pick up every point from every individual.

2190 However, if I could perhaps begin with Deputy Lester Queripel's points – and there were obviously a considerable number of them. He questioned the £75 million that was loaned to the Guernsey Housing Association, and I can confirm that that, of course, was the refinancing of the existing borrowings, which had previously been with commercial banks, with the benefit of the lower fixed rates. Of course, that was part of the rationale behind the raising of the Bond. So it is not an addition to the funds borrowed by the GHA, but merely a refinancing of existing
2195 borrowings.

He also questioned, sir, the availability of funding to enable the GHA to do more, and I would say to him that actually the capacity of the GHA is not limited by access to funds, because that is readily available through the States' support. It is, in fact, the access to land, and that has been the biggest restriction, and one of those issues that Treasury & Resources, in the prior Assembly, was
2200 working very closely with the Housing Department to try and find those suitable sites that would enable them to continue their good work.

He then questioned the number of employees earning over £110,000. There was a reference to the rationale for reducing the number of Deputies, but of course that was not ... The rationale for reducing the number of Deputies in the States' Review Committee's report was, of course, not a cost cutting measure; that was perhaps a welcome side effect, but that was not the driver. I think it was perhaps misleading to link those two. But the table on page 24, of course, discloses gross remuneration of those employees, not just their salary, and of course that includes the employer's contributions in respect of social insurance and the pension as well. Of course, the increase in the number of employees in that table is a combination of both new and amended posts, or simply as
2205 salaries change. This is an issue which is raised every year and those bands have not been reviewed for many years. I actually think there may be some merit in looking at that, because it does, I think, perhaps give a bit of a misleading impression, because it continues to be the same question each year in that regard.

In terms of who is deciding which employee is going to do which roles, of course the services are under the responsibilities of what were the boards and are now the Committees, and they are required to operate within their agreed cash limit, and of course have the flexibility to introduce posts as they see fit to deliver the services within their mandate. So that, of course, is the responsibility of the boards and Committees.
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Two new employees earn more than £190,000, and he requested that I give further details of that. There were, in fact, no new employees in 2015; the movement represents existing employees, one of them being a hospital consultant and another one being a magistrate who moved in 2015 out of one band below and into the new band, which is the problem I described previously.
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In relation to local procurement, of course, the local procurement policy is set out and it does seek to ensure that as much is procured locally as is possible. We will continue to review that local procurement policy. Over 50% of the £41 million that he referred to, relates to medical care and medical supplies, of course, which, of necessity, much of which is sourced off-Island, but we would estimate around about 30% to 35% of the £41 million comes from local suppliers.
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We then had a series of questions relating to the Environment Department and actually I think Deputy Brehaut did address some of that but, specifically, in relation to the three posts: the active transport communications officer and the road safety officer posts are assigned full time, as part of the Transport Strategy approved by the last States; and the third post is a shared role with the post holder having delegated responsibility not only for the Transport Strategy, but also for other traffic and licencing matters that sit within the Environment Department's remit. So the increase in pay costs in 2015 does not just relate to the Transport Strategy, but includes other areas including
2230 the one-off reorganisation costs. I will come on to that in a moment.
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We then have a reference to the £750,000 going back to the Budget Reserve, and that is a combination of income, pay and non-pay costs, and it is not directly linked to the previous questions and the posts that had been appointed which related to the Transport Strategy.

2240 In relation to the question on page 129 and the £350,000 that Deputy Queripel referred to, it would, I think, perhaps not be correct to describe this as funding to prepare for the new system of Government. No direct funding was given to any Departments or Committees for the purpose of preparing for the changes, as a result of the States' Review Committee process. The States approved the use of funds from the Transitional and Transformation Fund to implement the SRC changes, and only in fact £3,000 was spent in 2015, the majority of costs came in during this year, 2245 which is as you would perhaps expect. So the £350,000 referred to on page 129 was in respect of some of the staff restructuring that I referred to earlier.

We then had minor overspends of £53,764: 'Can the President tell Deputy Lester Queripel what those relate to?' Well, the minor overspends actually relate to three capital projects of St James' Chambers lighting repair, Wheadon House roof replacement and the Baubigny Arsenal reroofing. 2250 Could I give some assurance? I was asked that overspends would be detailed in future accounts; sir, I think there is a balance to be struck here. Clearly, to detail every single overspend would make these accounts even lengthier and perhaps more impenetrable to some readers than they currently are. Of course we are very happy to respond to the sort of questions that Deputy Lester Queripel has asked, for specific items, but I think it would not necessarily improve the quality of 2255 the accounts to list every single item and we have to remember on many projects, of course, there would similarly be minor underspends as well.

We then had a series of questions, sir, in relation to the Harbours from miscellaneous accounts. I think we need to emphasise here, sir, and I think particularly the focus was on, 'Could the President of P&R give an assurance that we would be keeping a watchful eye on the States' 2260 Trading Board, and asking them to reduce the staffing costs at the Harbours?' I do think we have to be cognisant of the system of Government that we have put in place. The States' Trading Supervisory Board is responsible for the implementation of the States of Guernsey policy in relation to the trading assets, of course, of which the Harbour is one. The structure of operations to deliver that agreed policy is the responsibility of the States' Trading Assets Management Team, 2265 and of course the members of the board, when they are fully appointed. I have no doubt whatsoever that Deputy Smithies heard the comments which Deputy Queripel and others were making in relation to the Harbour and will be taking that into the Committee room when exercising the responsibilities of overseeing the Harbour.

But, sir, in relation to the return on assets, which I will refer to again a little bit later, it is the 2270 responsibility of the States' Trading Supervisory Board to drive the efficiency of the Harbour. It is not something that I would suggest can be driven from the floor of this Assembly. I think that would be inappropriate.

In relation to consultants, Deputy Queripel asked some questions there. I think everybody in this Assembly must acknowledge that at some times consultants are required and necessary, 2275 simply because we do not have the expertise internally or indeed on-Island. The policy that I referred to in my statement a couple of weeks ago in relation to revisiting the policy on the use of consultants is something which the Policy & Resources Committee will be considering imminently, I would hope, perhaps next week, that would enable the reassurance that perhaps Deputy Queripel was looking for can indeed be given.

2280 Sir, Deputy Chris Green spoke in his new capacity as the President of the Scrutiny Management Committee, and I think probably the issue I would focus on is in relation to the Bond, and I would say to him publicly what I have said to him privately, which is that the Policy & Resources Committee welcomed the Scrutiny Management Committee's decisions to review the Bond. We feel that that would indeed be welcomed, to have the benefit of that public scrutiny. So we look forward to engaging with his Committee in that regard. 2285

Deputy Fallaize, sir, referred to the reliance on growth since the adoption of the policy 10 years ago. I think it is important, sir, to remember that that, of course, was not to the exclusion of a

2290 number of other things. Quite a number of other things, of course, have been done. It was, as he said, part of a programme which included control of expenditure, but of course also changes were made to existing indirect taxes and Social Security as well, and we should not forget that it was not a one-legged policy relying just on growth.

I think as a point of correction, sir, he suggested that recruitment had been frozen following the statement I gave. That is not, and should not, be the case; recruitment should be continuing to take place, but it should simply be subject to greater oversight and challenge. I would also emphasise, sir, that that is a response to the position that the States finds itself in 2016. I was not suggesting that that is an appropriate structural response. It is merely a response to the immediate issue for this year that that additional challenge does indeed go in.

2300 I can confirm that the structural – a number of Members made this point, sir, in debate and I will touch on it elsewhere – response will come through the budget process, and through the Budget later this year; and leadership will be provided by Policy & Resources on this year, because I think Policy & Resources, the Committee, is unanimous in acknowledging, recognising and agreeing with many Members of this Assembly, that a return to fiscal balance, and indeed fiscal surplus, is essential during this term and it does need to be underpinned by a plan.

2305 Sir, Deputy Roffey questions about the disclosure in relation to the PFOS accounts, and I think Deputy Dorey has actually dealt with that particular issue.

2310 Sir, in relation to Deputy Parkinson's comment, I think there was an interesting revisit of history, but I think there were some elements that were missing. Of course, there was a corporate tax review undertaken between 2010 and 2012, and it became the States' focus when it looked possible that Zero-10 may have to be changed, because that was the driver at the time. But the review concluded in late 2012, and I quote:

'On the basis of the five principles set out, the current Zero-10 regime, revised to be compliant, that is without deemed distribution, has been determined to be the best option for Guernsey. It is a regime that provides certainty and preserves Guernsey's international competitive position on which our economic and fiscal model is based.'

And it went on to say that:

'With revisions and the proposed marginally broader extension of the 10% rate, the States set out a clear stable path for corporate taxation and the 2010 formal corporate tax review can be considered closed.'

2315 So it was indeed undertaken, sir. On the basis of that review, T&R then announced its intention to launch the Personal Tax, Pensions and Benefits Review to deal, of course, with personal taxation. Therefore, far from relying on economic growth alone, the States have undertaken systematic reviews of the entire tax base, considering all options for putting public revenues on a stable footing and, of course, in the meantime, Treasury & Resources has continued to increase indirect taxation and broaden the 10% intermediate rate of taxation as far as possible. These measures have raised some £48 million in real terms over the period, and enabled T&R to show the root back to a balanced budget which, of course, was originally planned in 2015.

2320 So it is important, I think, to bear in mind that other things have changed over the period. It has not been a static period. Not least, of course, the big decline in bank corporate profitability, as a result of compressed margins, because of the extended period of very low – historically low – interest rates. That, of course, is what has caused the deficit in 2015. So we are over simplifying things to say the world looked like this in 2006, it looks like this in 2016 and we have done nothing in between. We have done an awful lot in between and the world has continued to move, and it will continue to move again, of course.

2330 I think the other thing, Deputy Parkinson also suggested that £104 million had been consumed in the last term from the Tax Strategy Contingency Reserve. Of course, he omitted that £7 million of that was transferred to the Economic Development Fund, and £25 million to the Transition and Transformation Fund, as well as the £22 million going to the General Revenue Account Reserve.

So again just to provide some detail on that. Also, of course, an additional £10 million a year has been aside into the Capital Reserve as well. That happened, I think, in 2013 and that period on.

2335 Deputy Laurie Queripel urged us to speed up reform, and again that is something that I spoke about in my previous statement. He again referred to the Bond, he referred to impairment reviews. Well, impairment reviews could be done, sir, but I think of course you have got to remember that we are never going to dispose of these assets; there is no plan to dispose of them, so is there really any value in us engaging in that process? I think in any event, we will need to go through that as we transition to a new accounting framework. But to do it of its own, at this point, 2340 I think would add little value, and just be very distracting.

He also questioned the policy around derivatives. Well, of course, derivatives are part of a normal portfolio and normal portfolio management, and this is normal accounting policy. The risk is to be managed by investment managers; that is what they are there to do and that, of course, is overseen by the Investment and Bond Sub Committee.

2345 There were then a number of detailed questions around pre-payments, recruitment costs and detailed numbers of questions around the tax staff and the cost benefit analysis of information technology. I think some of those detailed questions are probably best dealt with with Deputy Laurie Queripel outside this Assembly, if I may, sir. Other than I would just like to say in relation to the cost benefit analysis of information technology, I would expect that to be part of the business case for any new technology, that that analysis is done; that is what the business case is for, so it is on a case-by-case basis, rather than, I think – as perhaps Deputy Laurie Queripel was implying – as 2350 a sort of more holistic review of the cost benefit analysis for information technology as a whole.

There are some detailed questions around pages 65 and 66 on non-teachers, and again I would perhaps urge Deputy Laurie Queripel to contact the Committee for Education, Sport & Culture. I think the question in relation to HSSD on page 76 was dealt with by Deputy Soulsby. 2355

Sir, Deputy Yerby's careful analysis, which I have to say with which I agree, I would simply say in response to her that the accounts are, of course, a financial record, but I think they could bear more narrative, and I think the responsibility for that does very much lie with the Committees. The point of the departmental narrative is to explain what has been delivered with the financial resources which have been allocated to that Committee, and therefore I welcome the suggestion that these need to be improved and to be more meaningful. Certainly, it sounds as if the Committees that Deputy Yerby is on may well be facing that request from her, and it sounds as if that is expected to come from, certainly the Committee for Health & Social Care, sir. 2360

In relation to Deputy Paint's question about seeking an itemised breakdown for a particular Committee or trading area – that absolutely as a Member of this Assembly if you approach the requisite Committee it should be available ... I certainly know there is another Member of this Assembly who has done that in relation to the Committee in which they are involved, and I think it is a question of sitting down with the appropriate individuals, either the chief secretary or the finance business partner, to go through the detail as required by the Member. So I would encourage Deputy Paint to follow that up as he sees fit. 2370

In relation to Deputy Smithies' comments, sir, there was a suggestion, I think, in relation to this issue about the sweating of the assets or obtaining a return on assets. I just want to return to this because it is a very important point that we should not lose sight of. We have round about £450 million of assets within our trading entities: Guernsey Post, Electricity, Water, States' Works and so on. At the moment we have an expectation of a return on those assets of precisely zero. Even with a modest expectation of a return on capital – or a return on assets, I should say – that could make a substantial difference to our financial position. It is entirely reasonable for us to embark on an exercise which says that those assets should be producing a return for us as the owners. 2375

2380 Now, I absolutely hear and understand Deputy Smithies' point about the need to protect the users of these assets, but that does not mean that we will necessarily achieve that simply by price rises imposed by the States' Trading Supervisory Board. I think it is a question of that board

providing the requisite oversight to ensure that does not happen. Of course, we are in a wonderful position to ensure that does not happen, because we own those businesses.

2385 I suspect, sir, in many cases, those businesses are well managed but could perhaps be more efficiently managed, and that is what we should be aiming for, and we should be expecting a reasonable return on those assets; and that is something that Policy & Resources are very keen to ensure does happen, in the right way and in a controlled fashion; and absolutely acknowledging the issues which Deputy Smithies referred to.

2390 Sir, Deputy Ferbrache gave a lengthy and rousing speech, but I think I can precis it, and in fact I can precis it down to three words, and it is quote from his speech, which is this – sorry, a bit more than three words:

‘Something needs to be done.’

I absolutely agree: something needs to be done.

2395 Deputy Soulsby – routine capital. She acknowledged the progress on the routine capital budget within the Committee for Health & Social Care, and I think that is absolutely right; there has been significant progress as a result of very close working between the two Committees, and that is to be welcomed.

2400 Sir, Deputy Dorey again, I think, addressed this question of when are we going to the plan that addresses the structural deficit, and I think I have dealt with that by assuring the Assembly that that is planned for as part of the Budget process.

2405 He also made a point, sir, about the net migration contributing to the shortfall in revenues. Of course, what I said, sir, was not necessarily about people retiring. I said it was a reduction in the number in our actively working population. That, of course, would include those who are leaving the Island as well as those who retire, so I think the point is well made, but I do not think it necessarily contradicts what I said, certainly in my speech today, sir.

2410 Deputy Prow ... Sorry, forgive me, sir, jumping round. A couple of detailed questions from Deputy Prow, in relation to the challenges of building the Budget and how we go about that process. I think it is fair to acknowledge – and many of those Members who have been involved in this process for a while will have noticed – it is a bit of a hybrid between an incremental approach i.e. last year, plus a little bit more, and bottom up budgeting. We do need to engage in more fundamental reviews from time to time, which of course takes us to this zero-based approach.

2415 I think, of course, that is exactly what we have done through the priority base approach taken in some of the biggest areas ... of course, the BDO report undertaken last year, between Treasury & Resources and HSSD, as a way of informing decisions regarding which services to invest in further, which to disinvest and which to cease. And, of course, that work is absolutely informing transformation in that area – and I know Deputy Soulsby will be speaking about that further in her statement to the Assembly tomorrow. And indeed that process is exactly the same process we wish to embark in with both the Committee for Home Affairs and for Education, Sport & Culture.

2420 In relation to the fiduciary balance sheet, of course that does contain assets which the States are holding on behalf of somebody else, which are not available to fund public services; and in addition to that, of course, some of the funds are managed by States’ Committees, other than simply being invested with other States’ funds. Specifically in relation to HM Receiver General’s Fund, it does fall into that category, and I think the publication of accounts is a matter for the Receiver General, but I think I do agree with the general point that Deputy Prow was making, that

2425 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.

2430 There was also a question of whether the fines and proceeds of crime ... where they end up. Much of that is in relation to forfeiture orders and so, as I understand it, does end up in the Seized Assets Fund, which is another fund set up specifically to receive those proceeds. Is that not correct, sir?

The Procureur: Not the fines. The fines go round in a circle and come back to the States of Guernsey general revenue.

2435 **Deputy St Pier:** Excellent. The forfeiture orders would be ...

The Procureur: Confiscated, yes.

2440 **Deputy St Pier:** Deputy Brehaut referred to environmental taxes, and that of course is something that the Policy & Resources has been directed to return to the Assembly on, and again we do propose to bring that back as part of the Budget this year.

2445 Deputy De Lisle was more in favour of an evolutionary approach; Deputy Ferbrache was radical, Deputy De Lisle was evolutionary. I certainly can confirm to Deputy De Lisle, as I have done on several occasions over recent years, that Policy & Resources, in its new form, is absolutely committed to continuing and supporting the previous policy of Treasury & Resources to pursue evolutionary and opportunistic reform of corporate tax – of course, having regard to both the international environment and our competitiveness. So I think it is a continuation of the policy on which I am pleased to hear Deputy De Lisle endorse.

2450 I can also confirm that of course I will, in my new role, continue to pursue dialogue with the Isle of Man and Jersey, sir.

2455 I think, one final point to pick up – and forgive me, I missed it first time round – in relation to Deputy Roffey: I think there was a suggestion that the no real terms growth target had in some way been abandoned. I think what has happened is we have simply changed the way it is applied to the budgeting, so that we do not actually have to continually rebase it. That was a problem that we were experiencing in previous years. There was, of course, an exception in relation to Health & Social Care, and that may have been what Deputy Roffey was referring to.

Sir, with that, I hope I have addressed most of the key concerns of most Members. I will ask Members to support the approval of the accounts.

2460 **The Bailiff:** Well, Members, there are three Propositions. I suggest we take them separately.

The first Proposition is to approve the States of Guernsey Accounts 2015. Those in favour; those against.

Members voted Pour.

The Bailiff: I declare that Proposition carried.

2465 Secondly, to approve the following 2015 Accounts: Ports, Guernsey Water, Guernsey Dairy, States' Works. Those in favour; those against.

Members voted Pour.

The Bailiff: I declare that carried.

Thirdly, 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.

2470 That concludes today's meeting. There will be another meeting starting at 9.30 a.m. – oh, Deputy Kuttelwascher.

**Procedural –
Scheduling of Brexit debate**

Deputy Kuttelwascher: Sir, I do not know –

2475 **The Bailiff:** Can you put your microphone on?

Deputy Kuttelwascher: I do not know if it is in order under our new Rules of Procedure, but yesterday was circulated a Policy & Resources paper regarding to its actions relating to the Brexit, and it was suggested that some Members may want to debate this sooner rather than later, rather than 20th July.

2480 So, if it is in order, I would like to propose a motion that it is added to tomorrow's business. It is only 25 pages. I have read it. There are four rather, shall I say, uncontentious Propositions to it, and I was wondering if we could decide today to add it to our business tomorrow.

2485 **The Bailiff:** I do not think there is any provision within the Rules that would enable that, Deputy Kuttelwascher. Are you proposing that we ...?

The Procureur: Oh, I struggle with these new Rules, but I have had a look at it. I think if we are doing it technically right, that is a decision which should be put and made to the States at an ordinary meeting of the States, (**The Bailiff:** Yes.) and there is an ordinary meeting of the States tomorrow. (**The Bailiff:** Yes.) This is an extraordinary meeting – a special meeting or something.

The Bailiff: I will not be presiding tomorrow, but as I understand it, there will be consideration tomorrow as to when that policy letter is to be debated.

2495 **The Procureur:** I imagine that P&R are going to make a proposal for future business, and that any Member can suggest something else under the new Rules. Is that not the way it works, Deputy ...?

2500 **The Bailiff:** Deputy St Pier, do you wish to speak about what you will be ...?

Deputy St Pier: Yes, sir.

My understanding, having consulted with the Deputy Bailiff, who will be presiding tomorrow, is that events, as I understand it, should evolve this way: I will begin the ... there are, I think, two meetings tomorrow. (**The Procureur:** Yes.) At the beginning of the first meeting I will make the statement that I intended to make; at the end of that ordinary meeting, there is what is now the normal process of considering the order of future business. (**The Procureur:** That's it.)

2510 At the moment if we do nothing, the Brexit paper will not be debated until at least 21st September, so the very least we need to do is to submit an amendment that would bring that forward to 7th September. There is then a request under Rule 2(4), I believe, for the Presiding Officer to consider an additional meeting, which would be a request to have that on 20th July.

2515 There is also the opportunity at the beginning of the next meeting, tomorrow, or the second meeting, to submit a Proposition under Rule 18, which needs to be drafted overnight. That requests that we debate it sooner rather than later. That would then give the States the option of debating it as part of the proceedings this week, alternatively 20th July, alternatively 7th September, or if we do nothing, 21st September. Those are the options available.

The Procureur: Encyclopaedic, sir!

2520 **The Bailiff:** Indeed. We can tell that the Deputy Bailiff has been advising, not me! (*Laughter*) Deputy Fallaize.

2525 **Deputy Fallaize:** Sir, could I just ask, through you, is the Policy & Resources Committee going to propose that the policy letter be debated then, tomorrow or after tomorrow's meeting's business is finished, because it would be quite helpful, I think, to know overnight whether that is going to be proposed?

2530 **The Bailiff:** It would be helpful for Members to know because those who have not read it, unlike Deputy Kuttelwascher, would then have a chance overnight to do so.
Deputy St Pier.

2535 **Deputy St Pier:** Sir, the informal feedback I have had from Members is, I think, to be fair to say, very divided on this, so I think it is a decision for the Assembly. To facilitate that, I think it is appropriate that the Policy & Resources should submit a request under Rule 18 for an urgent Proposition, it then becomes the decision of this Assembly. If they wish to do so, they can take that opportunity; if not, the suggestion would be 20th July, would be the most suitable date as originally envisaged.

2540 **The Bailiff:** So, if I understand correctly, are you saying that there is a possibility that that policy letter may be debated tomorrow?

Deputy St Pier: That is correct, sir.

2545 **The Bailiff:** So those who wish to prepare for that debate may wish to read that policy letter overnight, so that they come prepared tomorrow for any debate that may be held tomorrow, but that will be something for you to decide tomorrow, whether you do wish to debate it tomorrow, or some subsequent date, of which 20th July is a possibility, other dates could be proposed, otherwise it may be 7th September, or later in September. So, I hope that is clear! *(Laughter)*
Thank you very much.
That does conclude the meeting. We will now rise.

The Assembly adjourned at 4.01 p.m.