

The States Accounts 2020

The Accounts have been produced again.

GPEG previously released a detailed paper analysing all aspects of the financial statements entitled 'Good, Consistent Information, Consistently Good Decisions' based on the 2019 accounts on 9 March 2021. A copy of the paper can be found here www.gpeg.org.gg/good-consistent-information.

The Accounts remain in a very bad way. They are not in any regular form of financial accounting with the 2012 Billet requiring the adoption of a recognised, more normal, and useful, framework called APSAS still not implemented. Apparently, we will have to see a transition to APSAS over a "number of years". From discussions with the States Treasurer there is clearly no firm plan or timetable to get on with this save for preparatory property valuation work. There is neither the resource, or the priority being applied to get this far from huge move to normality made. Certainly the 2021 accounts are intended once more to be produced in a unique and highly idiosyncratic form.

No-one should be content with the mish mash we have. Different States owned entities and activities account for the same things in different ways. We then add apples to oranges to produce the Accounts. Professional accountants should flinch at this.

The Accounts omit the assets and liabilities and operating losses of such significant activities of the States as the Ports and Airport. The reader is confused by transfers and adjustments to and from

Funds and Reserves with Adjusted Deficits that really convey very little and bear no resemblance to a normal concept of gain or loss. The States Treasurer freely admits these defects.

You might well ask what the purpose of preparing such Accounts is. We do.

Producing these really far from first class Accounts has serious costs. Decisions are innocently made on extracting figures from the Accounts as if they were meaningful. We have major decisions coming up to deal with the States deficit – do we want to set up new taxes without thoroughly understanding our financial position?

There are other costs – for example when the Bond issue was done much effort was needed to show a normal picture to the funders and rating agency. Quite likely we could have paid a lower interest rate with normal accounts. Financial markets like their norms.

Complacency needs replacing by urgency; given a sensible political priority and some modest staffing increase it is clearly possible to get to a more normal and useful set of accounts for 2021.

In summary ensuring that the financial statements are prepared in accordance with recognised accounting principles would ensure that these issues are rectified, and the auditors could, at last, issue a true and fair opinion. This would enable clear and consistent reporting on which Deputies and voters alike could use as a basis for their decision making.

You cannot do a good job with the wrong tools.

More expensive than Covid.

You would probably believe that the biggest States overspend for 2020 would be Covid costs, stated in the accounts at £84m. However, this not the biggest bad news in the Accounts – the main pension fund for States Employees had £33m put into it in 2020 but the Accounts still show an increase in its deficit for the year of £154m (say £4,000 per taxpayer) – roughly twice Covid. Covid will go away.

The computed Pension hole, net of assets allocated to the scheme, is now £1.2bn and is not going away. Managing this down should be a critical priority for government. The hole exists because several generations of political leadership chose to do nothing or far too little.

Although the Accounts disclose these figures, they are not used in arriving at an annual deficit or surplus for the States. Perhaps because they are thought too frightening? An actuarial review is coming soon. Moving the payments to the fund up to a level where the deficit is planned to be paid off in twenty years might well double the £33m current annual contribution rate.

Refer to our paper released on 14th December 2020 entitled 'Beware of the Hole!' which can be found here www.gpeg.org.gg/beware-of-the-hole .