



**Comptroller and Auditor General**

**Oversight of Arm's Length Organisations**

**29 June 2017**



JERSEY AUDIT OFFICE

# Oversight of Arm's Length Organisations

## Introduction

- 1.1 Modern government relies on delivery of services not only directly by ministerial departments but indirectly through other bodies. Such organisations may be:
  - established by government; and/or
  - substantially funded by government; and/or
  - given a statutory power to levy charges to cover some or all of their costs.
- 1.2 There are good reasons why government may determine that it is more appropriate to establish or fund bodies rather than undertaking activities directly:
  - to demonstrate independence from political influence, as in the case of certain regulatory functions;
  - to draw different skills and outlooks into managing an activity; and
  - to leverage additional sources of funding that would not be available to government.
- 1.3 But the establishment or funding of Arm's Length Organisations (ALOs) is not without potential costs and risks:
  - potential inefficiencies arising from running smaller organisations, each of them with their own administrative and back office functions;
  - the costs of governance of separate organisations, including relating to the operation of a board and preparation and audit of annual accounts;
  - the costs of oversight of the activities of ALOs with a view to providing assurance that bodies are delivering what the States expected them to deliver; and
  - increased barriers to securing changes in patterns of service delivery.
- 1.4 Jersey is no different from other governments in having a number of ALOs. But the establishment or funding of an ALO does not relieve government from a responsibility for ensuring that good governance is being demonstrated, effective internal control is in place and value for money is being secured. Where funding flows from government to an ALO, the relevant Accounting Officer has a personal responsibility for the application of public funds and, ultimately, the relevant Minister has a political responsibility. It is essential that the organisations funded by the States are not regarded as out of sight and out of mind.
- 1.5 There is no definitive definition of an Arm's Length Organisation. However, to give an indication of the significance of such bodies in the context of the States' activities:

- 38 'significant grants' (each being over £75,000) with a total value of £38.2m were paid in 2016;
- 3 bodies with statutory fee levying powers levied fees totalling £15.9m in 2015.

1.6 The breakdown of these bodies by sponsoring department is given in Exhibit 1.

### Exhibit 1: Arm's Length Organisations by sponsoring department

Department	Amount (and number) of 'Significant grants' (see Note 1)	Amount of fees raised by bodies with fee levying powers (see Note 2)
Chief Minister's Department	£2,930,000 (6)	£15,852,000 (3)
Economic Development, Tourism, Sport and Culture	£16,687,000 (14)	-
Education	£4,428,000 (4)	-
Health and Social Services	£224,000 (1)	-
Jersey Overseas Aid Commission	£10,147,000 (1)	-
Social Security	£2,355,600 (3)	-
Channel Islands Lottery Fund	£1,250,000 (1)	-
Tourism Development Fund	£76,000 (1)	-
Ports of Jersey	£90,000 (1)	-

**Notes:**

(1) From States of Jersey Annual Report and Accounts 2016

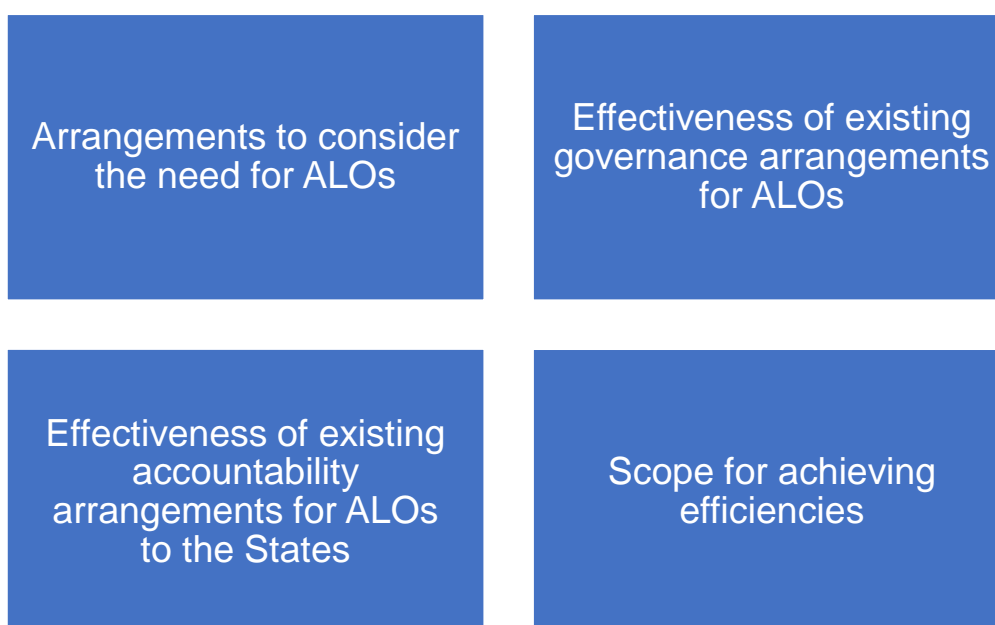
(2) From annual accounts for the year ended 31 December 2015

- 1.7 The Chief Minister announced, following the publication of my report on the Jersey Innovation Fund, that an external accountant would be engaged to review all funding arrangements with outside organisations. This announcement reflects the importance of robust arrangements to demonstrate that effective internal control and good governance is in place within ALOs.
- 1.8 The continuing financial pressures on the States heighten the need to be able to demonstrate that value for money is being secured from ALOs.

### **Objectives and scope of this review**

- 1.9 The review is a high-level overview that evaluates four dimensions that are considered in turn in the remainder of this report (see Exhibit 2).

### **Exhibit 2: Areas considered in the review**



- 1.10 The group of bodies I have chosen to review in this report is diverse including bodies that:
- have a statutory power to levy fees; and/or
  - are in receipt of grant funding in excess of £100,000.
- 1.11 The review does not extend to:
- strategic investments;
  - tribunals;
  - the Brussels, London and Caen offices of the States;
  - the Overseas Aid Commission; and
  - schools.

1.12 The review does not evaluate the effectiveness of arrangements for grant payment as this is the subject of a separate review that I am currently undertaking.

## Approach

1.13 This review involved a high-level consideration, through document review and interviews, of the arrangements relating to a sample of ALOs of different types across four departments of the States (see Exhibit 3). The review was based upon information provided by officers of the States and did not involve seeking information from the ALOs themselves.

### Exhibit 3: ALOs in sample

	Grant funding (see Note 1)	Fees levied (see Note 2)
<b>Chief Minister's</b>		
Jersey Competition Regulatory Authority	£493,000	£678,000
Digital Jersey	£1,227,000	
Jersey Financial Services Commission	£249,000	£14,643,000
<b>Economic Development, Tourism, Sport and Culture</b>		
Jersey Arts Trust	£730,000	
Jersey Heritage	£2,733,000	
Jersey Opera House	£464,000	
Visit Jersey	£5,100,000	
<b>Health and Social Services</b>		
Citizens' Advice Bureau	£224,000	
<b>Social Security</b>		
Jersey Advisory and Conciliation Service	£378,000	
Jersey Employment Trust	£1,977,000	

#### Notes:

(1) From States of Jersey Annual Report and Accounts 2016

(2) From annual accounts for the year ended 31 December 2015

- 1.14 The review also considered the results of internal audit work.
- 1.15 I will be undertaking further detailed reviews of individual organisations to see how arrangements are working in practice once the review announced by the Chief Minister following the publication of my report on the Jersey Innovation Fund has been concluded.

## Arrangements for considering the need for ALOs

2.1 Well performing organisations consider:

- how the work of ALOs supports organisational objectives;
- the continuing need for the activity performed by an ALO; and
- if so, whether an ALO (as opposed to, for example, direct provision or contracting out) represents the most appropriate means for performing the activity.

2.2 Not only should ALOs operate within any statutory framework applicable to them but their work should be linked to corporate and departmental objectives.

2.3 Documentation seen during the review rarely linked funding for or the continued existence of a body established by the States to corporate priorities. However, in instances, there was stronger evidence of linkage of continued support for ALOs to organisational objectives. For example, Social Security demonstrated a strong linkage of funding of the Jersey Employment Trust to its objectives of health and wellbeing and of financial independence.

2.4 In the United Kingdom, the government instituted a programme of triennial reviews of all Non-Departmental Public Bodies (NDPBs) which aimed to answer two questions (see Exhibit 4).

### Exhibit 4: Scope of triennial reviews of NDPBs in the United Kingdom

#### Is this still needed?

- Are the functions still needed?
- Is an NDPB the appropriate route for delivery?

#### If so:

- What is the body's capacity to deliver improved efficiency and effectiveness?
- Do control and governance arrangements comply with corporate governance principles?

**Source:** *Triennial Reviews: Guidance on Reviews of Non-Departmental Public Bodies*

2.5 In Jersey, some reviews relevant to the functions of ALOs have been undertaken. But these do not follow a consistent framework such as that adopted in the UK. For example:

- the former Education, Sport and Culture Department commissioned a firm of accountants to advise on the level of financial support required by Jersey Heritage;
- after a review of support for tourism, the former Economic Development Department established Visit Jersey and transferred to it responsibility for activities previously performed in-house; and
- the Social Security Department sought to place reliance on a report commissioned by the Jersey Employment Trust from the University of Dundee on user perspectives of the service provided.

2.6 However:

- there is no specified requirement for a minimum frequency of review;
- there is no framework for questions to be asked or the approach to be adopted;
- there is no requirement for reviews to include within their scope the relationship of ALOs with other government departments;
- there is no drive to consider the continuing provision of funding from a corporate perspective, including the identification of the most appropriate lead department;
- who commissions a review is not specified; and
- who undertakes a review is not specified.

2.7 There is therefore an increased risk that organisations are funded where their work or mechanisms for service delivery no longer best promote the objectives of the States. Moreover, the absence of a clear programme of reviews, adopting a consistent approach, means that opportunities for cross-departmental working are not maximised.

2.8 For example, in 2016, Economic Development, Tourism, Sport and Culture made major grants totaling £1,651,000 to three organisations delivering performing arts: the Jersey Arts Trust, the Jersey Opera House and the Jersey Arts Centre Association. Officers have explained to me the different focus of the organisations in question and their customer bases. However, there has not been a 'blank sheet of paper' review of whether it is appropriate for the States to continue to support the number of organisations that it does currently and whether, as a funder with limited resources, it would be appropriate to achieve some rationalisation.

2.9 From time to time new ALOs are established. But, in addition to the absence of an agreed framework for review of ALOs, there is no consistent framework for evaluating whether a new ALO is appropriate.

2.10 In summary, establishment of and financial support for ALOs is a tool available to the States. However, there is no clear framework that drives either the establishment of ALOs or their periodic review. This increases the risk that ALOs do not contribute effectively to the objectives of the States.



## **Recommendations**

- R1** Routinely demonstrate how the continued use of ALOs is linked to corporate and departmental objectives.
- R2** Adopt a States-wide approach to structured review of ALOs, challenging whether functions are still needed, whether the route for service delivery remains the most appropriate, whether greater value for money can be secured and whether the lead department remains appropriate.
- R3** Establish States-wide oversight of the structured reviews of ALOs, ensuring that such reviews of all ALOs are completed over the life of the Medium Term Financial Plan.
- R4** Align the timing of reviews of organisations operating in similar areas to facilitate consideration of whether rationalisation of States' support is appropriate.
- R5** Apply the principles developed for the periodic review of ALOs to the evaluation of proposals for the establishment or funding of new ALOs.

## Governance arrangements for ALOs

### 3.1 Well performing organisations:

- set clear corporate standards for the governance of ALOs; and
- take reasonable steps to satisfy themselves that those arrangements are operating as intended and achieving their intended outcome.

### 3.2 The mechanisms for demonstrating that the arrangements are operating and delivering their intended outcomes may be operated departmentally or corporately.

### 3.3 For grant recipients, Financial Direction 5.5 includes several requirements, including those designed to ensure that recipients' controls and corporate governance arrangements are sufficient (see Exhibit 5).

#### Exhibit 5: Minimum standards prescribed in Financial Direction 5.5

Departments to award a grant only where the objectives of the States are achieved most effectively through award of a grant rather than direct expenditure
Recipient required to outline controls they intend to operate to ensure public money is spent in a proper manner and for the purposes intended
Written funding agreements
Specified requirements for funding agreements for funding over £100,000
Provision of accounts (audited where funding is over £100,000)
Provision of a grant assurance statement in specified format confirming how the grant was spent and the outcomes achieved in comparison with the original terms of the grant
Payment to States where assets funded by States disposed of

### 3.4 The Financial Direction is written in the context of grant schemes where a States department develops a scheme and seeks applications, rather than in the context of the long-term relationship between the States and these ALOs. The Financial Direction does not include:

- an explicit requirement to consider whether funding should be provided by way of a grant as opposed to a contract for service provision: for example, Health and Social Services has moved from grants to contracts for the clear majority of its expenditure with the voluntary sector;
- an explicit requirement to evaluate the effectiveness of the controls put in place by ALOs; and
- a focus on measurement of delivery of objectives by ALOs.

3.5 In recent years, internal audit has identified and continues to identify instances of non-compliance with the requirements of Financial Direction 5.5. For example:

- for 2014 no Grant Assurance Statement had been obtained from the Jersey Legal Information Board that had received a grant of £100,000 for the year; and
- for 2015 no formal review of the grant of £4,870,000 paid to Jersey Finance Limited was undertaken meaning that it was not possible to evaluate whether value for money had been secured.

3.6 There is scope for learning across the States about the mechanisms for ensuring that the core requirements of the Financial Direction are consistently applied. For example:

- the Chief Officer for Social Security recently took on the role of Chief Officer for Economic Development, Tourism, Sport and Culture. He is working to ensure that the comparative rigour of arrangements within Social Security are applied within Economic Development, Tourism, Sport and Culture. For example, he has overseen the introduction of a checklist for officers in the department to document compliance with the requirements of the Financial Direction before grant payments are made. However, he recognises that there is more work to be done; and
- the Jersey Financial Services Commission (JFSC) is largely funded by levy rather than payments made by the States. However, when the Commission assumed responsibility for supervision of Anti-Money Laundering by certain professions, such as estate agents, no levy arrangements were put in place and, instead, the Chief Minister's Department makes an annual payment to the JFSC to cover the cost of this work. There is no formal funding mechanism or assurance statement in respect of this payment. In consequence, the requirements of Financial Direction 5.5 have not been complied with and it is not possible to demonstrate that all the funds advanced have been applied for the intended purpose. The new Chief Officer for Digital, Financial Services and Competition has recognised the weakness in the arrangements in place and is working to establish a formal funding agreement and associated controls over payments.

3.7 There are no overarching principles driving the governance arrangements for ALOs. As a result, the rationale for differences in the constitutional nature of bodies, the number of members of governing bodies, whether they are or are not remunerated (and, if so, by how much), by whom they are appointed and the internal reporting arrangements is not clear. Some of the differences between bodies are detailed in Exhibit 6.

## Exhibit 6: Oversight arrangements for ALOs

	Statutory status	Appointment of members of governing body	Number of members of governing body
<b>Chief Minister's</b>			
Jersey Competition Regulatory Authority	Statutory body	Appointment by the Minister	7 (2 executive and 5 non-executive)
Digital Jersey	Limited Company	-	5
Jersey Financial Services Commission	Statutory body	The States Assembly on nomination of the Minister	10 (1 executive and 9 non-executive)
<b>Economic Development, Tourism, Sport and Culture</b>			
Jersey Arts Trust	Charity	-	8
Jersey Heritage	Charity	-	9
Jersey Opera House	Limited Company	-	5
Visit Jersey	Limited Company	-	8
<b>Health and Social Services</b>			
Citizens' Advice Bureau	Charity	-	10
<b>Social Security</b>			
Jersey Advisory and Conciliation Service	Statutory body	The Board subject to the approval of the Minister	6
Jersey Employment Trust	Charity	-	10

3.8 Differences between bodies may be justifiable but should be based on common principles, rooted in securing good governance and value for money. Instead, over time, a patchwork has developed.

3.9 One significant weakness in the oversight of corporate governance arrangements of ALOs is the presence on the boards or equivalent of States officers who also have a role in overseeing the relationship with the ALO. This gives rise to a blurring of accountability for good governance and a risk of 'self-review' i.e. officers of the States reviewing the governance arrangements

of which they were part. The Chief Executive of the Chief Minister's Department has acted to secure the removal of Accounting Officers from these roles. At the same time he has recognised that there are circumstances where attendance by officers of the States at the meetings of boards or equivalent, without voting rights, provides valuable intelligence and insight. Social Security has gone further and decided that officers should not routinely attend meetings of the boards or equivalent of ALOs. Where officers attend meetings, it is important to understand the reasons for their attendance and what they should and should not do.

- 3.10 In summary, the current framework for the governance arrangements of ALOs needs strengthening. The relevant Financial Direction has not been written in the context of organisations established by the States or substantially funded by and economically dependent on the States. It is not fit for purpose for this group of entities, including bodies that receive no or minimal grant but are established by the States. There have been a number of instances of significant non-compliance with the Financial Direction. The States has allowed a patchwork of internal governance arrangements for ALOs to develop without a clear rationale. Although Accounting Officers are no longer members of ALOs or equivalent, there are no common principles governing the attendance of other officers at ALO board or equivalent meetings.

## **Recommendations**

- R6** Establish clear corporate arrangements, including Financial Directions, that are specific to the funding and oversight of ALOs.
- R7** As part of the preparation of the States' 2017 accounts, require Accounting Officers to confirm that they have effective arrangements in place for compliance with a revised Financial Direction 5.5.
- R8** As part of the structured review of ALOs, review the appropriateness of the constitutional arrangements for ALOs to ensure that they are justified and appropriate in the context of good governance and value for money, including:
- the constitutional nature of bodies;
  - the number of members of governing bodies;
  - whether they are or are not remunerated (and, if so, how much);
  - by whom they are appointed; and
  - internal reporting arrangements.
- R9** Establish a clear corporate framework for the role of States officers attending meetings of governing bodies of ALOs, including what they should report to Accounting Officers and when.

## Accountability arrangements for ALOs

### 4.1 Well performing organisations:

- set clear expectations for ALOs;
- translate those expectations into measurable activities, outputs and outcomes; and
- monitor performance in delivering activities, outputs and outcomes and take appropriate action.

### 4.2 The mechanisms by which ALOs are held to account for performance are not prescribed in Financial Direction 5.5 or elsewhere. Arrangements in place are variable. Although I would anticipate differences to reflect, amongst other things, the scale and nature of activities of the ALO, I am concerned that:

- the frequency of meetings varies to the extent that it does;
- in instances, such as in Economic Development, Tourism, Sport and Culture, there is no clear distinction between meetings related to monitoring performance and those related to the development of policy;
- the formality of meetings, in terms of agendas, minutes and action points, varies (see Exhibit 7). I recognise that for some ALOs there have been recent improvements in the minuting of meetings or that such improvements are planned.

## Exhibit 7: Meetings between ALOs and States officers in 2016

	Meetings with Chairman Number (of which minuted)	Meetings with management Number (of which minuted)
<b>Chief Minister's</b>		
Jersey Competition Regulatory Authority	2 (0)	4 (0)
Digital Jersey	3 (0)	10 (0)
Jersey Financial Services Commission	12 (0)	See note below
<b>Economic Development, Tourism, Sport and Culture</b>		
Jersey Arts Trust	2 (2)	21 (11)
Jersey Heritage	13 (7)	31 (20)
Jersey Opera House	1 (1)	8 (7)
Visit Jersey	10 (7)	18 (6)
<b>Health and Social Services</b>		
Citizens' Advice Bureau	0 (0)	6 (3)
<b>Social Security</b>		
Jersey Advisory and Conciliation Service	1 (1)	0 (0)
Jersey Employment Trust	1 (0)	12 (0)

**Note:** Numerous meetings between officers and Jersey Financial Services Commission but no formal record maintained.

**Source:** Information provided by States officers.

4.3 Some departments establish clear expectations of information to be provided to monitoring meetings. For example:

- Health and Social Services has agreed that for the Citizens' Advice Bureau it will receive the information on activity reported to its own Board as a basis for monitoring; and
- Social Security has specified information requirements for monitoring the Jersey Employment Trust.

However, expectations are not consistently specified.

- 4.4 There have been different degrees of progress in specifying Key Performance Indicators. Ideally these should be able to capture not only levels of activity but also resources expended and the impact of those resources (see Exhibit 8).

#### Exhibit 8: Performance indicators

Economy	Efficiency	Effectiveness
• Cost of unit of input	• Cost per unit of output	• Impact for resources used

- 4.5 Developing appropriate performance indicators is not without challenges:

- the units of output are clearer for some ALOs than for others. So, for example, the numbers of individuals advised by the Citizens' Advice Bureau is easier to define and measure than the volume of activity by Digital Jersey; and
- measures of effectiveness are easier to establish for some ALOs than for others. It is easier to attribute the impact on employment of an intervention by the Jersey Employment Trust than it is to establish the impact on the island's economy of the work of Digital Jersey.

- 4.6 The level of sophistication of Key Performance Indicators varies substantially:

- Social Security has been active in developing effective Key Performance Indicators for grant-funded bodies. In the case of the Jersey Employment Trust, it is using the same metrics to evaluate the effectiveness of the Back to Work interventions that it does for the services delivered by its in-house staff;
- Health and Social Services receives and uses the same measures of activity and satisfaction for the Citizens Advice Bureau as used internally by management; but
- in the case of ALOs funded by Economic Development, Tourism, Sport and Culture and Chief Minister's Departments, insufficient work has been done on agreeing a formal suite of performance measures.

- 4.7 Where officers perform both a 'policy' role and oversight of delivery there is a blurring of responsibilities. Social Security has recognised a need for formality in the monitoring process and has identified and trained staff on performing a role akin to that of a Contracts Manager.

- 4.8 In summary, there is no over-arching framework for securing the accountability of ALOs and, in practice, arrangements vary substantially between departments. An over-arching framework would assist in ensuring that appropriate accountability is secured.



## **Recommendations**

- R10** Establish a corporate framework for management of the relationship with ALOs, with minimum standards on monitoring, meetings and documentation.
- R11** Wherever possible separate the management of the relationship with ALOs from policy development.
- R12** Where appropriate undertake elements of the management of the relationship with ALOs, such as the review of financial information and internal controls, across departments to secure efficiencies and promote learning.
- R13** Roll out Key Performance Indicators for all ALOs, seeking where possible to develop KPIs for economy, efficiency and effectiveness.

## Scope for securing efficiencies

- 5.1 ALOs within the scope of this review receive funding from the States of £13.6m and raise funds by levies of approximately £15.3m per annum.
- 5.2 Well performing organisations satisfy themselves that efficiency is being secured by ALOs by:
- benchmarking against comparable organisations;
  - challenging budgets and ways of working; and
  - promoting collaboration and, where appropriate, rationalisation, to drive efficiencies, including in the costs of governance of organisations.
- 5.3 They also recognise that there are:
- costs of internal governance of ALOs. Even in the cases of bodies where membership of the governing body is unpaid, there are costs of administration and accountability, such as the engagement of external auditors;
  - potential inefficiencies in small organisations duplicating back office functions; and
  - costs of oversight of ALOs by government. These comprise mainly the time of officers managing the relationship with ALOs.
- 5.4 It is likely that costs are proportionately higher for smaller organisations. In determining the number and nature of bodies to fund, well performing organisations take into account such costs.
- 5.5 Generally, there is periodic review of expenditure against budget and in instances there is active consideration of specific cost saving measures. For example, Social Security has worked with the Jersey Advisory and Conciliation Service to identify opportunistic savings as a result of moving premises and staffing changes following the departure of a member of staff.
- 5.6 There has also been some work to review the overall cost base of organisations. For example, consultancy work was undertaken on the cost base of Jersey Heritage and the scope for reducing States' support.
- 5.7 However:
- benchmarking is not consistently used;
  - there is no evidence of routine application of zero-based budgeting; and
  - in many instances budgets are rolled over from one period to another, adjusted only for departmental targets for efficiency savings. But there are examples of more sophisticated approaches: whilst Social Security has applied uniform efficiency savings for some grants, it has actively engaged with grant-funded bodies on the timing of savings over the period of the Medium Term Financial Plan.

- 5.8 There is always the scope for economies of scale in operations. Such economies might be secured by:
- rationalising the bodies established and funded (see above); and
  - collaborative working with the States or between ALOs on, for example, office accommodation.
- 5.9 There has been very limited progress in this respect. Many ALOs are procuring their own back office functions. Whilst the States has encouraged the procurement of a common ticketing system for the performing arts providers, there is more to do to drive efficiencies.
- 5.10 The costs of oversight of ALOs are not routinely calculated and, indeed, in most cases officers found it difficult to identify the proportion of time allocated to management of the performance of an ALO as opposed to wider engagement with the ALO about policy issues. As a result, the whole cost of an ALO – including the cost of oversight – is not being taken into account in evaluating the effectiveness of the ALO in delivering the States' objectives.
- 5.11 In summary, mechanisms for demonstrating that ALOs are delivering value need to be developed and, in particular, take into account the additional costs of effective oversight of ALOs.

## **Recommendations**

- R14** As part of a programme of strategic review of ALOs detailed in R2 above:
- develop benchmarking of budgets;
  - adopt zero-based budget reviews;
  - consider the scope for savings through collaboration with other ALOs, the States and/or other organisations.
- R15** Collect information about the cost of oversight of ALOs and use to inform decision-making.

## Conclusion

- 6.1 ALOs can be a valuable part of the framework for service delivery. But there is a risk that they are out of sight and out of mind. As a result individual decisions, rooted in history and developed by individual departments in the absence of corporate frameworks, are not reviewed and a myriad of different arrangements is perpetuated.
- 6.2 The value of the services ALOs provide and the use of the ALOs as the vehicles for delivery should be challenged routinely. A consistent corporate framework is needed for review of the continued operation of ALOs and their capacity to deliver. This should lead to a periodic programme of fundamental reviews of ALOs. The principles underlying that corporate framework should also be used to evaluate whether to establish new ALOs.
- 6.3 The current framework for the governance arrangements of ALOs needs strengthening. The current Financial Direction is not written in the context of organisations established by the States or substantially funded by and economically dependent on the States. It is not fit for purpose for this group of entities, including bodies that receive no or minimal grant but are established by the States. There have been a number of instances of significant non-compliance with the current Financial Direction. The States has allowed a patchwork of internal governance arrangements for ALOs to develop. Whilst Accounting Officers are no longer members of ALOs or equivalent, there are no common principles governing the attendance of other officers at ALO board or equivalent meetings.
- 6.4 Effective oversight of ALOs is vital. But in practice oversight of ALOs is variable. There are no corporate standards for key aspects of oversight of ALOs. Practice, such as in relation to documenting meetings, varies. The use of performance indicators to monitor delivery by ALOs varies substantially.
- 6.5 The States cannot consistently demonstrate that value for money is being secured from ALOs. Benchmarking of costs is not consistently used. No information is collected on the costs of oversight of ALOs. It is therefore not possible to establish the total cost of delivery via an ALO, including the oversight of the ALO, and take that total cost into account in decision-making.
- 6.6 Following my review of the Jersey Innovation Fund, the Chief Minister announced the engagement of an external accountant to review all funding arrangements with outside organisations. There is an opportunity for the States to build on that review and the recommendations in this report to ensure that value for money from ALOs can be demonstrated.

## **Appendix I: Summary of Recommendations**

### **Arrangements for considering the need for ALOs**

- R1** Routinely demonstrate how the continued use of ALOs is linked to corporate and departmental objectives.
- R2** Adopt a States-wide approach to structured review of ALOs, challenging whether functions are still needed, whether the route for service delivery remains the most appropriate, whether greater value for money can be secured and whether the lead department remains appropriate.
- R3** Establish States-wide oversight of the structured reviews of ALOs, ensuring that such reviews of all ALOs are completed over the life of the Medium Term Financial Plan.
- R4** Align the timing of reviews of organisations operating in similar areas to facilitate consideration of whether rationalisation of States' support is appropriate.
- R5** Apply the principles developed for the periodic review of ALOs to the evaluation of proposals for the establishment or funding of new ALOs.

### **Governance arrangements for ALOs**

- R6** Establish clear corporate arrangements, including Financial Directions, that are specific to the funding and oversight of ALOs.
- R7** As part of the preparation of the States' 2017 accounts, require Accounting Officers to confirm that they have effective arrangements in place for compliance with a revised Financial Direction 5.5.
- R8** As part of the structured review of ALOs, review the appropriateness of the constitutional arrangements for ALOs to ensure that they are justified and appropriate in the context of good governance and value for money, including:
- the constitutional nature of bodies;
  - the number of members of governing bodies;
  - whether they are or are not remunerated (and, if so, how much);
  - by whom they are appointed; and
  - internal reporting arrangements.
- R9** Establish a clear corporate framework for the role of States officers attending meetings of governing bodies of ALOs, including what they should report to Accounting Officers and when.

## **Accountability arrangements for ALOs**

- R10** Establish a corporate framework for management of the relationship with ALOs, with minimum standards on monitoring, meetings and documentation.
- R11** Wherever possible separate the management of the relationship with ALOs from policy development.
- R12** Where appropriate undertake elements of the management of the relationship with ALOs, such as the review of financial information and internal controls, across departments to secure efficiencies and promote learning.
- R13** Roll out Key Performance Indicators for all ALOs, seeking where possible to develop KPIs for economy, efficiency and effectiveness.

## **Scope for securing efficiencies**

- R14** As part of a programme of strategic review of ALOs detailed in R2 above:
- develop benchmarking of budgets;
  - adopt zero-based budget reviews;
  - consider the scope for savings through collaboration with other ALOs, the States and/or other organisations.
- R15** Collect information about the cost of oversight of ALOs and use to inform decision-making.



JERSEY AUDIT OFFICE

KAREN McCONNELL  
COMPTROLLER and AUDITOR GENERAL

JERSEY AUDIT OFFICE, LINCOLN CHAMBERS (1ST FLOOR), 31 BROAD STREET, ST HELIER, JE2 3RR  
T: 00 44 1534 716800      E: [enquiries@jerseyauditoffice.je](mailto:enquiries@jerseyauditoffice.je)      W: [www.jerseyauditoffice.je](http://www.jerseyauditoffice.je)