



Office of the Comptroller and Auditor General
Remuneration of Board Members

24 October 2019



JERSEY AUDIT OFFICE

Remuneration of Board Members

Background

- 1.1 Board members - both executive and non-executive - have a vital role. They are responsible for the good governance of an organisation, establishing and monitoring the effectiveness of the system of internal control and setting a tone from the top. Appropriate remuneration, reflecting the demands of the roles and market factors, is one element of securing and retaining people with the right skills to serve as Board members.
- 1.2 Senior staff remuneration, both for individuals and in total, is high profile. For UK listed companies there is an increased focus on both:
 - disclosure of executive remuneration which is reflected in the Remuneration Report included in the Annual Report and Accounts; and
 - oversight as reflected in the provisions of the Corporate Governance Code.
- 1.3 For the public sector, interest is heightened. Citizens legitimately expect that:
 - remuneration and terms and conditions of employment of those providing public services are transparent and justified to recruit and retain skilled individuals; and
 - the total remuneration of Boards and similar bodies is justified.
- 1.4 The States:
 - have a 100% or controlling interest in four 'strategic investments' (Jersey Telecom, Jersey Post, Jersey Electricity and Jersey Water);
 - have control over three subsidiary companies the results of which are consolidated in its accounts (Andium Homes, Ports of Jersey and the Jersey Development Company);
 - have established bodies with statutory powers and the power to levy or charge fees to meet all or some of their costs (such as the Jersey Financial Services Commission); and
 - have established or facilitated the establishment of bodies (such as Visit Jersey) to which they provide substantial funding.
- 1.5 The remuneration and numbers of non-executive and executive directors (or their equivalent) vary substantially between organisations. Similarly, there are substantial variations in the arrangements for oversight of remuneration of Board members.
- 1.6 I have highlighted concerns about, and made recommendations relating to, the oversight of:
 - States owned companies in my reports *The States as Shareholder - Jersey Telecom* (July 2014) and *The States as Shareholder - Follow-up* (March 2019);

- Arm's Length Organisations in my reports *Oversight of Arm's Length Organisations* (June 2017) and *Arm's Length Organisations - Visit Jersey* (December 2018); and
- human resources matters in my report *Role and Operation of the States Employment Board* (March 2019).

1.7 The States have a strong interest, as shareholder, sponsor and funder, in ensuring that there are appropriate and transparent arrangements for remuneration of Board members so that public confidence is maintained.

Objectives and scope

1.8 In this review I have:

- collated comparative information on remuneration and key terms and conditions for non-executive and executive directors (or equivalent) of States owned companies ('companies') and selected statutory bodies established by the States ('statutory bodies') and bodies substantially funded by the States ('funded bodies');
- evaluated the adequacy of the arrangements that the States have in place to oversee the remuneration and terms and conditions of the non-executive and executive directors (or equivalent) of such bodies; and
- evaluated the adequacy of arrangements for securing transparency about the remuneration and terms and conditions of non-executive and executive directors (or equivalent).

1.9 In this report I consider each of these objectives in turn.

1.10 My work has not extended to:

- the arrangements for grant-funded bodies that are not established by the States or that are not substantially funded by the States;
- the arrangements for staff of companies, statutory bodies and funded bodies who are operating below Board level;
- the internal governance arrangements relating to remuneration in place within companies, statutory bodies and funded bodies; or
- forming a view on what appropriate levels of remuneration should be, including assessing the merits of the positions taken by the parties detailed in the Case Study in Section 3 of this report.

How much are Board members paid?

2.1 I collected and analysed information covering:

- the seven States controlled companies. Six of those companies are limited by shares and one by guarantee. Of those limited by shares, four are wholly owned and two majority owned. Of the majority owned companies, one is listed on the London Stock Exchange. The results of three of the companies are consolidated in the States' accounts and those of the other four are not;
- three bodies established by statute (Jersey Financial Services Commission, Jersey Competition Regulatory Authority and the Data Protection Authority); and
- five bodies that receive substantial funding, and in some cases virtually all their funding, from the States (Digital Jersey, Jersey Employment Trust, Jersey Finance, Jersey Heritage and Visit Jersey). I recognise that the proportion of States funding has varied and is likely to vary over time. For example, the Jersey Employment Trust was historically almost entirely dependent on States funding but is working towards a position where it has substantial alternative income streams.

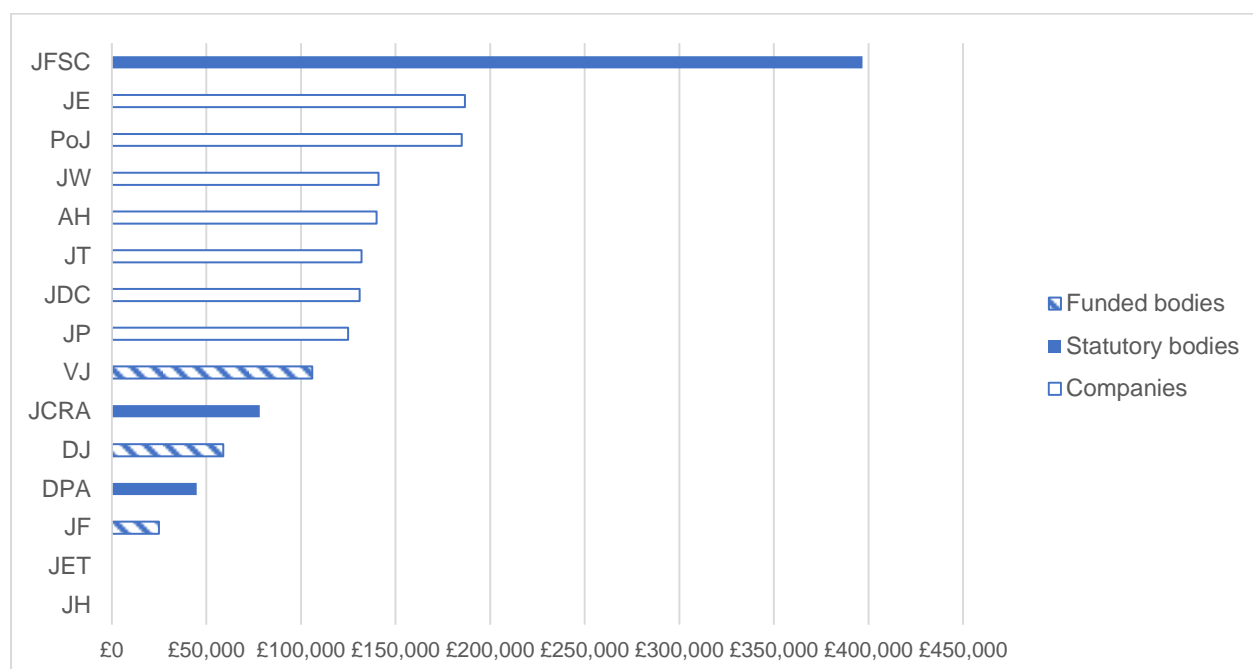
2.2 In the exhibits that follow I have used the abbreviations for bodies set out in Appendix 1.

2.3 Exhibit 1 sets out the total remuneration of non-executive directors (or equivalent) of the companies, statutory bodies and funded bodies for which I collated information. I have not extended the analysis to cover the total remuneration of Board members as different organisations have different numbers of senior employees as executive directors.

2.4 The analysis shows that:

- the total remuneration of non-executive directors of companies is similar but, to the extent that there is variation, it is related to turnover; and
- there is significant disparity in the total remuneration of non-executive directors of companies, statutory bodies and funded bodies, ranging from the Jersey Financial Services Commission to two bodies where all non-executive directors are unpaid.

Exhibit 1: Total remuneration of non-executive directors (or equivalent) for 2018



Note 1: Full year values are included even where a post was vacant for part of the year. This approach includes an element of judgement. For instance, for the JT Group there were several changes in both personnel and responsibilities during 2018. In this case values are based on my estimates of remuneration of the post-holders at 31 December 2018 using information disclosed in the published financial statements.

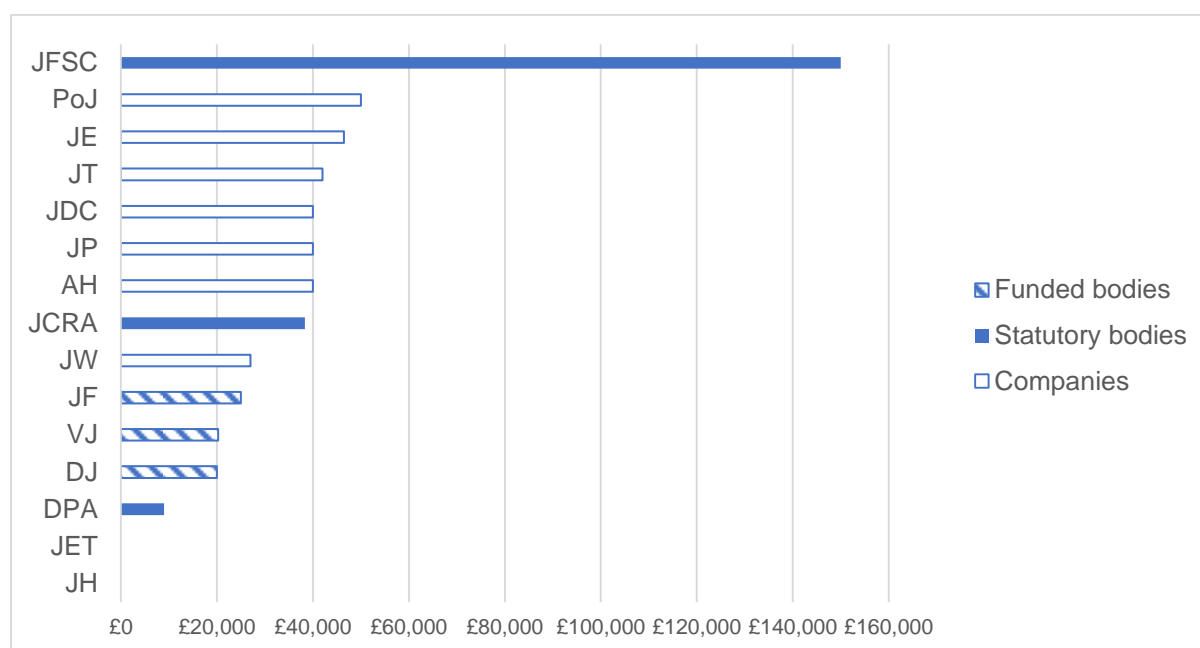
Note 2: The Jersey Competition Regulatory Authority (JCRA) and Guernsey Competition and Regulatory Authority (GCRA) operate under the umbrella of the Channel Islands Competition and Regulatory Authorities with common Board membership. Remuneration is shared between the JCRA and GCRA. This exhibit reflects the JCRA element of remuneration only.

2.5 Exhibits 2 to 4 set out the remuneration of the Board Chairs, other non-executive directors (or equivalent) and chief executives (or equivalent) of companies, statutory bodies and funded bodies covered by my analysis.

2.6 Summary information on the remuneration of Board Chairs is shown in Exhibit 2. My analysis shows that there is:

- relatively less variation in the remuneration of Board Chairs of companies, with a general correlation between the size of company and remuneration;
- a high level of variation in the remuneration of Board Chairs of statutory bodies reflecting the substantially higher remuneration of the Chair of the Jersey Financial Services Commission. I recognise that this role has a significantly higher time commitment and that market forces are relevant to determining remuneration; and
- a difference in practice for funded bodies, where the non-executive directors of some bodies are not remunerated.

Exhibit 2: Remuneration of Chairs for 2018



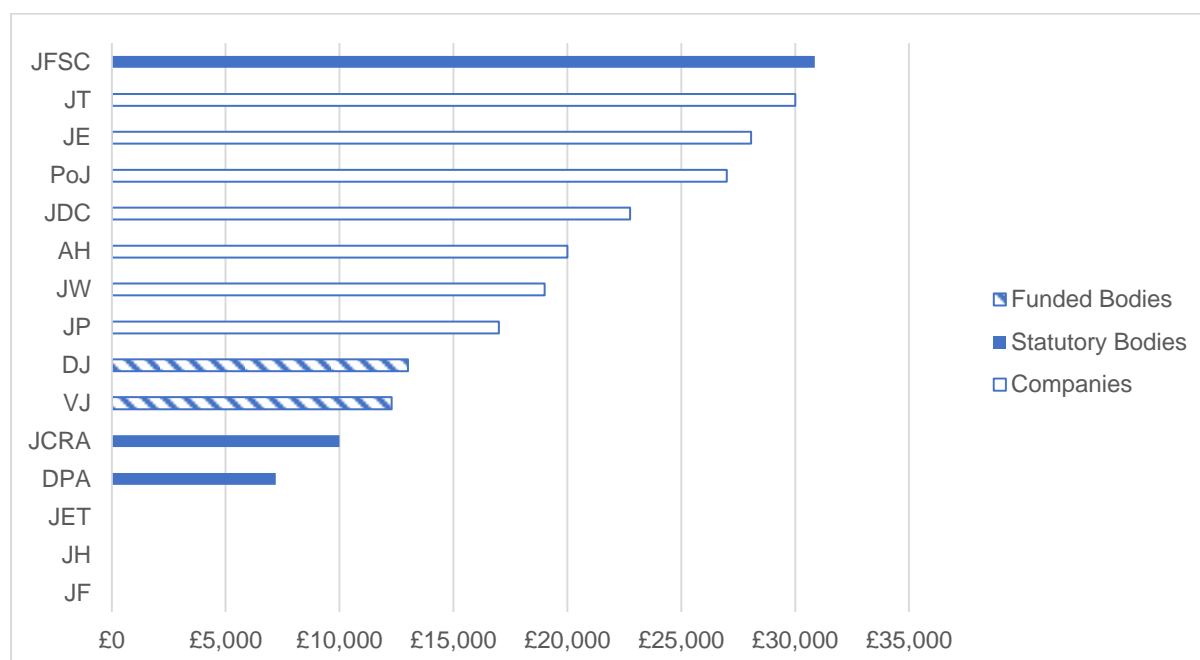
Note 1: Full year values are included even where a post was vacant for part of the year. This approach has involved an element of judgement.

Note 2: The Jersey Competition Regulatory Authority (JCRA) and Guernsey Competition and Regulatory Authority (GCRA) operate under the umbrella of the Channel Islands Competition and Regulatory Authorities with common Board membership. Remuneration is shared between the JCRA and GCRA. This exhibit reflects the JCRA element of remuneration only.

2.7 Summary information on the average remuneration of non-executive directors (or equivalents), other than Chairs, is shown in Exhibit 3. My analysis shows that:

- there is greater disparity in the remuneration of other non-executive directors of companies than of the Chairs of those companies. Generally, remuneration is higher for the non-executive directors of larger companies (meaning those with a higher turnover);
- there is a high level of variation in the average remuneration of non-executive directors of statutory bodies; and
- for the majority of funded bodies, non-executive directors, other than Chairs, are not remunerated.

Exhibit 3: Average remuneration of non-executive directors (or equivalent) other than Chairs for 2018

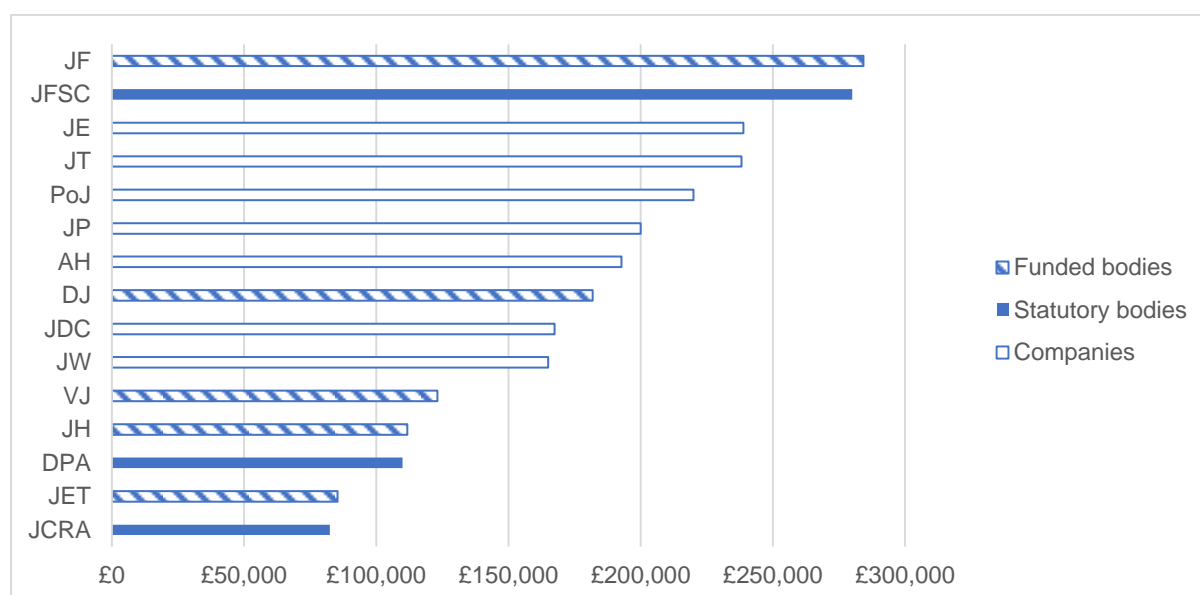


Note 1: Full year values are included even where a post was vacant for part of the year. This approach includes an element of judgement. For instance, for the JT Group there were several changes in both personnel and responsibilities during 2018. In this case values are based on my estimates of remuneration of the post-holders at 31 December 2018 using information disclosed in the published financial statements.

Note 2: The Jersey Competition Regulatory Authority (JCRA) and Guernsey Competition and Regulatory Authority (GCRA) operate under the umbrella of the Channel Islands Competition and Regulatory Authorities with common Board membership. Remuneration is shared between the JCRA and GCRA. This exhibit reflects the JCRA element of remuneration only.

2.8 Summary information on the basic pay of chief executives (or equivalent) is given in Exhibit 4. The further analysis I have undertaken demonstrates that there is a broad correlation between turnover (in the case of companies) or expenditure (in the case of statutory bodies and funded bodies) and remuneration.

Exhibit 4: Basic pay of chief executives (or equivalent) for 2018



Note 1: Basic pay includes all immediate remuneration in cash rather than kind not linked to performance, including any elements described as an additional allowance.

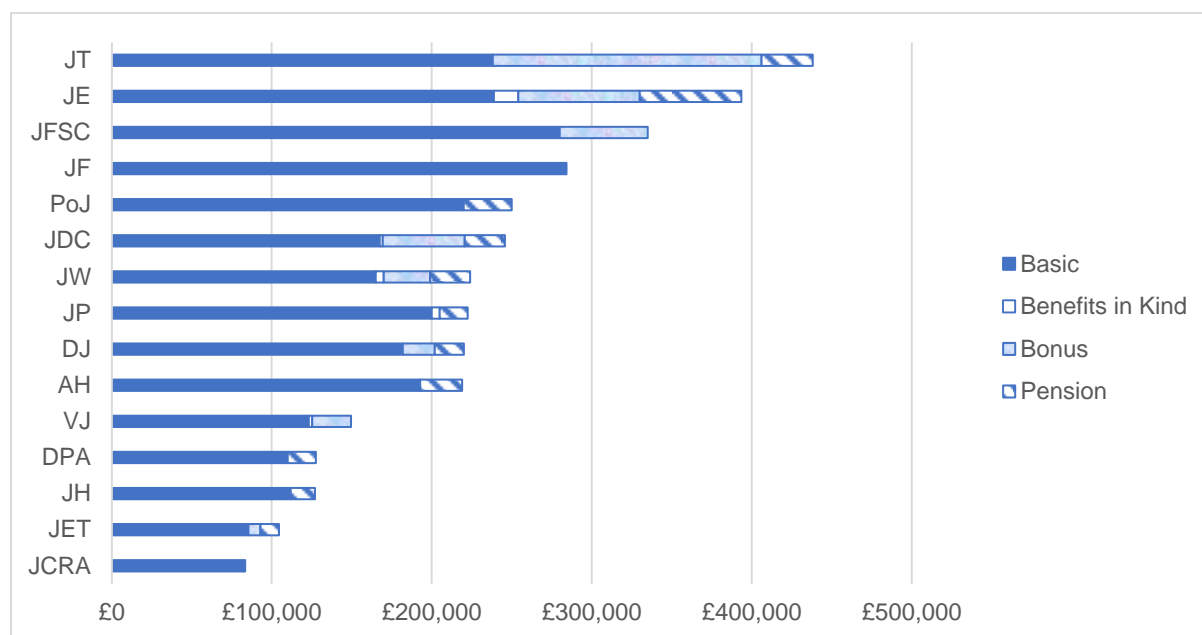
Note 2: Full year values are included even where a post was vacant for part of the year.

Note 3: The Jersey Competition Regulatory Authority (JCRA) and Guernsey Competition and Regulatory Authority (GCRA) operate under the umbrella of the Channel Islands Competition and Regulatory Authorities with common Board membership. Remuneration is shared between the JCRA and GCRA. This exhibit reflects the JCRA share of total basic pay.

2.9 Basic pay is one element of remuneration. Total chief executive remuneration, including bonuses, pension benefits and benefits in kind, is more variable (see Exhibit 5). In particular:

- bonus payments are a common feature of remuneration packages other than for the smallest bodies. In one case bonus payments amounted to over 50% of basic salary; and
- pension benefits are variable. Pension contributions vary in amount and, in one case, the Chief Executive retains membership of a defined benefit pension scheme with a substantial employer contribution.

Exhibit 5: Total remuneration of chief executives (or equivalent) for 2018



Note 1: Full year values are included even where a post was vacant for part of the year.

Note 2: Basic pay includes all immediate remuneration in cash rather than in kind not linked to performance, including any elements described as an additional allowance.

Note 3: Where an employer contributed to a defined benefit pension scheme, the contribution in the year rather than the increase in the value of the benefits in the year is included above.

Note 4: The Jersey Competition Regulatory Authority (JCRA) and Guernsey Competition and Regulatory Authority (GCRA) operate under the umbrella of the Channel Islands Competition and Regulatory Authorities with common Board membership. Remuneration is shared between the JCRA and GCRA. This exhibit reflects the JCRA share of total remuneration.

How good are the arrangements to oversee remuneration of Board members of companies, statutory bodies and funded bodies?

3.1 Effective oversight of companies, statutory bodies and funded bodies includes consideration of the appropriateness of Board remuneration to inform actions as the sole or majority shareholder and funding decisions as appropriate.

3.2 I am concerned that there are weaknesses in the arrangements in place:

- there is no clear, consistent articulation, through memoranda of understanding and funding agreements, of the corporate governance standards in relation to remuneration that should apply to companies, statutory bodies and funded bodies. Such arrangements could include the establishment and operation of Remuneration Committees and the adoption of pay policies;
- there is no body with responsibility for oversight of Board remuneration and it is not obvious where such a responsibility would lie. It does not obviously fit with either the shareholder role of Treasury and Exchequer or the partnership role of Growth, Housing and Environment. In my report on the *Role and Operation of the States Employment Board* (March 2019), I identified that there was no body with a strategic oversight of remuneration for bodies beyond the Ministerial and Non-Ministerial Departments even where these bodies were owned, controlled or funded by the States. The responsibilities of the States Employment Board do not extend to the bodies covered by this review. Although the Jersey Appointments Commission oversees the process for appointment of certain States appointees, Board members and senior staff of States owned companies and Arm's Length Organisations, its role is strictly limited. In particular, it has no role in relation to remuneration, terms and conditions or termination of employment;
- there is no overarching policy for the remuneration of Board members of companies, statutory bodies and funded bodies. Such a policy could establish, for example, the overarching framework within which decisions could be made on:
 - total Board remuneration;
 - individual remuneration;
 - terms and conditions of employment;
 - benefits in kind; and
 - the appropriateness and terms of reward schemes.

It could address the factors relevant to establishing remuneration levels, including appropriate comparators and market factors. In the absence of such a policy, there is no framework within which States Treasury and Exchequer (in respect of companies) or officers in sponsoring departments (in respect of statutory bodies and funded bodies) can assess the appropriateness of the remuneration and composition of remuneration of Board members; and

- there is, as yet, no overarching approach to the management of the relationship with statutory bodies and funded bodies. I recognise that there must be flexibility in applying such an approach in light of the nature and complexity of a body and its performance. However, the absence of an overarching approach means that individual Government of Jersey officers overseeing the relationship with individual bodies do not have a consistent approach to considering Board remuneration as part of agreeing funding.
- 3.3 Memoranda of understanding have been key mechanisms for the management of the relationship between the States as shareholder and States owned companies. However, these did not consistently set out expected corporate governance standards in relation to remuneration. Nor did they consistently set out the States expectations for remuneration of Board members, including in relation to the process of engagement. Indeed, in the absence of an overarching policy framework, it would be difficult to do so.
- 3.4 In the case of Andium Homes, the absence of a robust framework and lack of clarity contributed to a protracted and tense exchange between the Government and Andium Homes about Executive Director pay that is still not resolved (see Case Study).

Case Study: Interaction between the Government of Jersey and Andium Homes relating to Executive Director pay: key events to 14 October 2019

Date	Action
July 2014	Andium Homes was incorporated. The Memorandum of Understanding between the Minister for Treasury and Resources ('the Minister') and Andium Homes provided that: <i>'any material changes to either the structure or quantum of remuneration paid to the Directors for their executive responsibilities in the business are to be approved by the Guarantor in advance of their taking effect.'</i>
December 2014	Andium Homes raised Board remuneration policy and proposed increases in Executive Director remuneration with the Minister. The Minister indicated that he did not believe that the proposed pay was 'warranted or justified'.
May 2015	Following the incorporation of Andium Homes, its Board proposed increases in the remuneration of its two Executive Directors of 40% (from £118,706 to £166,000) and 55% (from £87,202 to £135,000). The Minister declined to support the proposals.
December 2015	Following a review commissioned by the Government's Human Resources Department, the Government proposed

Date	Action
	increases of 14% (to £135,000) and 15% (to £100,000).
March 2016	The Andium Homes Board proposed 'compromise' increases for the two Executive Directors of 26% (to £150,000) and 38% (to £120,000) to take effect from July 2016.
April 2016	The proposed 'compromise' increases were agreed by the Assistant Minister for Treasury and Resources ('the Assistant Minister').
November 2016	The Andium Homes Board discussed a recommendation of its Appointments and Remuneration Committee to implement a proposed adjustment to the basic pay of the Executive Directors to match market median in conjunction with the signing of new contracts of employment.
November 2016	<p>The Minutes of a meeting between the Chair and officers of Andium Homes and the Assistant Minister and Government officers record, under 'Any Other Business', that:</p> <p><i>'Andium are shortly to roll out new contracts for all Andium staff. As part of this roll out it was confirmed that the Board had adopted a market median policy on remuneration for its employees.'</i></p> <p>Following this meeting, the Andium Homes Board agreed to implement the recommendation of its Appointments and Remuneration Committee.</p>
January 2017	The salaries of the two Executive Directors rose to £189,000 and £141,000. Despite the terms of the Memorandum of Understanding and the April 2016 decision of the Assistant Minister, the Andium Homes Board did not seek the explicit approval of the Minister for Treasury and Resources.
September 2017	<p>Andium Homes' Appointments and Remuneration Committee reported to the Board that, based on a review of performance, it would not be recommending a Discretionary Recognition Award for either of the Executive Directors.</p> <p>The Andium Homes Board accepted this recommendation but agreed to <i>'review the appropriateness of this scheme for the level of seniority to determine if an alternative and more appropriate reward mechanism should be put in place for the Executive Directors.'</i></p>
November 2017	<p>The Andium Homes Board approved:</p> <ul style="list-style-type: none"> • a 2% increase in the base pay budget; • the application of the base pay policy to the Executive

Date	Action
	<p>Directors from 1 January 2018; and</p> <ul style="list-style-type: none"> a new Discretionary Reward Scheme solely for the Executive Directors providing for a maximum bonus of 10% of basic salary, subject to delivery of the Business Plan objectives and commencing with performance for 2017. The Board did not seek the explicit approval of the Guarantor in accordance with the terms of the Memorandum of Understanding.
January 2018	The basic pay of the two Executive Directors rose by 2% to £193,000 and £144,000.
May 2018	Andium Homes' Appointments and Remuneration Committee recommended payment of bonuses to the Executive Directors under the new Discretionary Reward Scheme.
June 2018	Andium Homes provided a copy of its Annual Report and Accounts to States Treasury and Exchequer in advance of its Annual General Meeting. This disclosed the substantial pay increases to the Executive Directors from January 2017 of which Government officers were not previously aware.
July 2018	The Minister for Treasury and Resources met the Chair and members of the Appointments and Remuneration Committee of Andium Homes who explained that they believed that the communication at the meeting of November 2016 about moving to market median pay for all staff had provided the basis for proceeding.
July 2018	The Chair of Andium Homes wrote to the Minister seeking retrospective approval for the increases in the basic pay of the Executive Directors and for the first time advising of the Discretionary Reward Scheme for Executive Directors.
August 2018	<p>The Assistant Minister replied:</p> <ul style="list-style-type: none"> 'reluctantly' giving retrospective approval to the increases in basic pay; determining that the basic pay of the Executive Directors should be frozen for the next three years; and declining to give consent to the Discretionary Reward Scheme and requiring that any payments made under it be recovered.
September 2018	The Assistant Minister, as part of agreeing the Ordinary Resolutions at the Annual General Meeting, approved the 2% increase in Executive Director basic pay from January 2018

Date	Action
	of which he was not aware when he wrote his earlier letter.
October 2018	<p>The Assistant Minister wrote to the Chair of Andium Homes stating that, having taken counsel from both Ministerial colleagues and others, he proposed:</p> <ul style="list-style-type: none"> • reconfirmation of the commitment made by Andium Homes in July 2018 that formal written approval of any further changes to Director remuneration would be sought in advance of implementation; • the remuneration process for the Executive Directors is separated from the company's 'market median' policy with immediate effect, in line with the April 2016 letter from the previous Assistant Minister; • the base pay for the Executive Directors is frozen at the level approved at the most recent Annual General Meeting with immediate effect for the next three calendar years with a further review after that period to be undertaken; and • the bonus scheme, which did not have the Guarantor's approval, is terminated with immediate effect with no further bonus being accrued or payment made.
November 2018	<p>The Chair of Andium Homes wrote to the Assistant Minister stating that the Board had 'endorsed the agreement' to:</p> <ul style="list-style-type: none"> • seek prior approval for any increase in the basic pay of the Executive Directors; • not seek to increase the basic pay for 2019; and • cease the Discretionary Reward Scheme for Executive Directors but make proposals for performance related payments to Executive Directors if the Board thought them justified.
November 2018	<p>In answer to a question in the States Assembly, the Assistant Minister, in referring to Executive Director remuneration for Andium Homes, stated:</p> <p><i>'... we did have a situation where pay negotiations had taken place before the Minister and I took office. Following those negotiations and the implementation of that pay increase, there were, how shall I put it, robust discussions had by myself and the board. Following that robust discussion, mutual agreement to both the satisfaction of myself and that board have been reached.'</i></p>

Date	Action
November 2018	<p>The Assistant Minister wrote to the Chair of Andium Homes stating that, following consultation with Ministerial colleagues and officers, under the terms of the Memorandum and Articles of Association of Andium Homes, he was giving directions:</p> <ul style="list-style-type: none"> • from 1 March 2019 to revert the basic salaries for the Executive Directors to those approved in April 2016 - £150,000 and £120,000 adjusted for subsequent pay awards to other Andium Homes staff; and • to recover payments to the Executive Directors under the unauthorised Discretionary Reward Scheme. <p>The letter also set out that:</p> <p><i>‘... between now and March 1st 2019 the Guarantor will undertake a review to establish a new pay policy for Andium Homes Limited executive remuneration which will provide clear guidance for the Board on how it should set executive pay in the future.’</i></p>
November 2018	<p>The Assistant Minister emailed the Chair of Andium Homes sharing the terms of reference for the proposed independent review of Executive Director pay and setting out the timetable for the proposed review.</p>
December 2018	<p>The Chair of Andium Homes wrote to the Assistant Minister to <i>‘note the scope of the independent review’</i>.</p>
January 2019	<p>The Guarantor appointed independent consultants to undertake the review of Andium Homes’ Executive Director remuneration.</p>
February 2019	<p>The Chair of Andium Homes wrote to the Assistant Minister:</p> <ul style="list-style-type: none"> • advising him that Andium Homes had taken legal advice; • highlighting the Board’s duties under the Companies (Jersey) Law 1991; • stating that the Board would act on a direction relating to Executive Director remuneration, providing that it had the powers to do so and that it was validly executed; and • suggesting that the outcome of the independent pay review is awaited.
February 2019	<p>The Assistant Minister wrote to the Chair of Andium Homes stating that, as the independent review had not been</p>

Date	Action
	completed, he was extending the effective date for implementation of the steps set out in his November 2018 letter to 1 April 2019.
March 2019	The final version of the independent review of Executive Director remuneration was shared with the Chair of Andium Homes.
March 2019	The Chair of Andium Homes wrote to the Assistant Minister requesting a further extension to the effective date for implementation of the steps set out in the Assistant Minister's letter of November 2018.
March 2019	The Assistant Minister responded asking for Andium Homes Board's conclusions by 17 April 2019 and extending the effective date for implementation of the steps set out in his November 2018 letter to 1 May 2019.
April 2019	The Chair of Andium Homes wrote to the Assistant Minister for Treasury and Resources with the Board's proposals for Executive Director remuneration based on the outcome of the independent review.
May 2019	The Assistant Minister wrote to the Chair of Andium Homes rejecting the proposals as they were ' <i>not aligned to the recently commissioned independent report</i> '.
May 2019 - 14 October 2019	There was informal dialogue between the Government of Jersey and Andium Homes but the issue of Executive Director remuneration remained unresolved.
October 2019	The Chair of Andium Homes notified the Minister and Assistant Minister that an Executive Director of Andium Homes had resigned in August 2019.

Recommendations

- R1** Assign responsibility for the development and oversight of a policy for Board remuneration covering companies, statutory bodies and funded bodies.
- R2** Develop an overarching policy for remuneration of Boards of companies, statutory bodies and funded bodies detailing principles to take into account in determining:
- the level of remuneration; and
 - the composition of remuneration, including the nature of reward schemes.
- R3** Review and revise as necessary memoranda of understanding with companies in light of the Board remuneration policy, when agreed.

- R4** Establish mechanisms for reflecting the Board remuneration policy, when agreed, in funding agreements with statutory bodies and funded bodies.
- R5** Provide support to officers overseeing the relationship with statutory bodies and funded bodies on the application of the Board remuneration policy, when agreed.

How good are the arrangements for transparency of remuneration of Board members of companies, statutory bodies and funded bodies?

- 4.1 In the UK, listed companies are required to make extensive disclosures about remuneration of Board members in a Remuneration Report, published as part of their Annual Report and Accounts. Similar reporting requirements apply to many UK public sector bodies. The States of Jersey make extensive disclosure of senior staff remuneration in their Annual Report and Accounts.
- 4.2 Historically, there has been no specific requirement for public reporting of remuneration in their Annual Report and Accounts imposed on:
- States owned companies through memoranda of understanding (although, as Jersey Electricity is listed on the London Stock Exchange, the reporting requirements for listed companies apply); or
 - statutory bodies and funded bodies through funding agreements.
- 4.3 As detailed in Exhibit 6, the extent and nature of reporting has varied across companies, statutory bodies and funded bodies:
- some of the funded bodies do not make their Annual Report and Accounts available on their websites; and
 - for the bodies that do make their Annual Report and Accounts publicly available, the extent of disclosure varies substantially. Some of the bodies make extensive disclosures in line with the requirements for listed companies. Others adopt other recognised reporting frameworks that require more limited disclosure of remuneration. Some omit elements of Board remuneration or do not provide a breakdown of Board remuneration.

Exhibit 6: Reporting of remuneration by States owned companies, statutory bodies and funded bodies in their Annual Report and Accounts

	Published accounts for financial year	Remuneration of non-executive directors	Remuneration of executive directors	Nature of benefits	Composition of remuneration
Andium Homes	2017 (Note 1)	Yes	Partial	Partial	No
Jersey Electricity	2018	Yes	Yes	Yes	Yes
Jersey Telecom	2018	Yes	Yes	Yes	Yes
Jersey Post	2018	Yes	Yes	Yes	Yes (Note 3)
Jersey Water	2018	Yes	Yes	Yes	Yes

	Published accounts for financial year	Remuneration of non-executive directors	Remuneration of executive directors	Nature of benefits	Composition of remuneration
Ports of Jersey	2018	Yes	Yes	Yes	Yes
Jersey Development Company	2017 (Note 1)	Yes	Yes	Yes	Yes
Data Protection Authority	None (Note 2)	-	-	-	-
Jersey Financial Services Commission	2018	Yes	Yes	No	No
Jersey Competition Regulatory Authority	2018	Yes	Partial	Yes	No
Digital Jersey	None	-	-	-	-
Jersey Finance	None	-	-	-	-
Jersey Employment Trust	2018	N/A	No	No	No
Jersey Heritage	2018	Yes	No	No	No
Visit Jersey	2018	Yes	No	No	No

Note 1: As at 14 October 2019, the Annual General Meetings of Andium Homes and the Jersey Development Company had not been held and their 2018 Annual Report and Accounts had not been published. I am advised that the Annual General Meetings have been deferred at the request of the Guarantor/Shareholder.

Note 2: The Data Protection Authority was established in 2018. As at 14 October 2019 it had not published a 2018 Annual Report and Accounts but has plans to do so in early 2020.

Note 3: Pension contributions and health insurance are aggregated.

4.4 In January 2019, following the experiences with Andium Homes, the Assistant Minister for Treasury and Resources wrote to the States owned companies requiring them to make extensive disclosure in their Annual Report and Accounts of the remuneration of each executive director, including:

- total remuneration for the year split by basic salary, bonus, pension contributions and benefits in kind;

- total remuneration for the previous year; and
 - remuneration as a non-executive director of a body outside the group for which they worked as an executive director.
- 4.5 However, while this development is welcome, I am concerned that no corresponding requirement was imposed on statutory bodies and funded bodies.

Recommendations

- R6** Require funded bodies to publish an Annual Report and Accounts, including through making them available on their websites.
- R7** Require companies, statutory bodies and funded bodies to include, as a minimum, within their Annual Report and Accounts:
- total remuneration broken down between basic pay, bonus payments, benefits in kind and employer pension contributions for non-executive and executive directors with comparative figures for the previous year; and
 - a short statement of policies in place in respect of remuneration, including the key features of any bonus scheme.

Conclusion

- 5.1 An effective relationship between Government and the States owned companies, statutory bodies and funded bodies is essential for the delivery of high quality public services. As detailed in paragraph 1.6 above, I have previously reported and made recommendations on how the Government of Jersey manages those relationships and many of those recommendations have yet to be implemented.
- 5.2 One area that generates public interest and should be subject to effective oversight is the remuneration of the members of the Boards of the bodies that the States own, have created, or fund. The remuneration of the Boards of those bodies should be demonstrably appropriate in the circumstances. That does not mean that variation in remuneration is a bad thing but that variation should be objectively justifiable.
- 5.3 However, it is difficult to demonstrate the appropriateness of Board remuneration in the absence of a clear overarching policy. This in turn would influence the documented relationships with companies (through memoranda of understanding) and statutory bodies and funded bodies (through funding agreements). It would also influence the subsequent oversight of those organisations.
- 5.4 Such a policy should include a framework within which:
 - the envelope for Board remuneration is established;
 - individual Board member remuneration is established, taking into account relevant factors, including comparable roles and market forces; and
 - the components of pay packages, including in particular the nature and terms of bonus schemes, are determined.
- 5.5 To progress the development and subsequent oversight of such a framework, it is necessary to establish and empower an appropriate body to oversee that framework. Currently it falls outside the remit of Treasury and Exchequer, Growth, Housing and Environment, the States Employment Board and the Jersey Appointments Commission.
- 5.6 There is also a need for enhanced transparency about the remuneration of Board members of some of the organisations reviewed. This would provide the public with readily accessible information on Board remuneration in a similar way to that for senior States officers.
- 5.7 This report has focussed on remuneration but reinforces my concern, reflected in previous reports, that insufficient priority has been given to overseeing the relationship with companies, statutory bodies and funded bodies. In my view strengthened oversight, including through determining and monitoring compliance with minimum corporate governance requirements by companies, statutory bodies and funded bodies, is necessary. The establishment of a high profile Board, drawing together senior officers with an interest in finance, policy, delivery and governance, would provide a focus for the oversight of such bodies.

Recommendations

- R8** Strengthen arrangements for oversight of the States relationship with companies, statutory bodies and funded bodies, including through:
- determining and monitoring compliance with minimum corporate governance standards; and
 - establishing a high profile Board, drawing together senior officers with an interest in finance, policy, delivery and governance, to provide a focus for the oversight of companies, statutory bodies and funded bodies.
- R9** Implement the recommendations contained in this report carefully considering and in the context of the recommendations made in my reports:
- *The States as Shareholder - Jersey Telecom* (July 2014);
 - *The States as Shareholder - Follow-up* (March 2019);
 - *Oversight of Arm's Length Organisations* (June 2017);
 - *Arm's Length Organisations - Visit Jersey* (December 2018); and
 - *Role and Operation of the States Employment Board* (March 2019).

Appendix 1: Key to abbreviations used for companies, statutory bodies and funded bodies

Abbreviation	Operating name	Official name where different
Companies		
AH	Andium Homes	Andium Homes Limited
JDC	Jersey Development Company	States of Jersey Development Company Limited
JE	Jersey Electricity	Jersey Electricity plc
JP	Jersey Post	Jersey Post International Limited
JT	JT	JT Group Limited
JW	Jersey Water	Jersey New Waterworks Company Limited
PoJ	Ports of Jersey	Ports of Jersey Limited
Statutory bodies		
DPA	Data Protection Authority	
JCRA	Jersey Competition Regulatory Authority	
JFSC	Jersey Financial Services Commission	
Funded bodies		
DJ	Digital Jersey	Digital Jersey Limited
JET	Jersey Employment Trust	
JF	Jersey Finance	Jersey Finance Limited
JH	Jersey Heritage	Jersey Heritage Trust
VJ	Visit Jersey	Visit Jersey Limited

Appendix 2: Summary of Recommendations

How good are the arrangements to oversee remuneration of Board members of companies, statutory bodies and funded bodies?

- R1** Assign responsibility for the development and oversight of a policy for Board remuneration covering companies, statutory bodies and funded bodies.
- R2** Develop an overarching policy for remuneration of Boards of companies, statutory bodies and funded bodies detailing principles to take into account in determining:
- the level of remuneration; and
 - the composition of remuneration, including the nature of reward schemes.
- R3** Review and revise as necessary memoranda of understanding with companies in light of the Board remuneration policy, when agreed.
- R4** Establish mechanisms for reflecting the Board remuneration policy, when agreed, in funding agreements with statutory bodies and funded bodies.
- R5** Provide support to officers overseeing the relationship with statutory bodies and funded bodies on the application of the Board remuneration policy, when agreed.

How good are the arrangements for transparency of remuneration of Board members of companies, statutory bodies and funded bodies?

- R6** Require funded bodies to publish an Annual Report and Accounts, including through making them available on their websites.
- R7** Require companies, statutory bodies and funded bodies to include, as a minimum, within their Annual Report and Accounts:
- total remuneration broken down between basic pay, bonus payments, benefits in kind and employer pension contributions for non-executive and executive directors with comparative figures for the previous year; and
 - a short statement of policies in place in respect of remuneration, including the key features of any bonus scheme.

Conclusion

- R8** Strengthen arrangements for oversight of the States relationship with companies, statutory bodies and funded bodies, including through:
- determining and monitoring compliance with minimum corporate governance standards; and
 - establishing a high profile Board, drawing together senior officers with an interest in finance, policy, delivery and governance, to provide a focus for the oversight of companies, statutory bodies and funded bodies.

R9 Implement the recommendations contained in this report carefully considering and in the context of the recommendations made in my reports:

- *The States as Shareholder - Jersey Telecom* (July 2014);
- *The States as Shareholder - Follow-up* (March 2019);
- *Oversight of Arm's Length Organisations* (June 2017);
- *Arm's Length Organisations - Visit Jersey* (December 2018); and
- *Role and Operation of the States Employment Board* (March 2019).



JERSEY AUDIT OFFICE

KAREN McCONNELL
COMPTROLLER and AUDITOR GENERAL

JERSEY AUDIT OFFICE, DE CARTERET HOUSE, 7 CASTLE STREET, ST HELIER, JERSEY JE2 3BT
T: 00 44 1534 716800 E: enquiries@jerseyauditoffice.je W: www.jerseyauditoffice.je