



**OFFICE OF THE COMPTROLLER AND AUDITOR
GENERAL**

**STATES OF JERSEY DEVELOPMENT
COMPANY**

JUNE 2020

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Summary

Introduction

1. In 2011, following a decision of the States Assembly, the role of the Waterfront Enterprise Board Limited (WEB) in relation to major property development was reconstituted as the States of Jersey Development Company (SoJDC), a company wholly owned by the States of Jersey (the States) with a shareholding of £20 million. In making this decision, the States approved the proposals and structures for the new property and infrastructure regeneration process. The States agreed:
 - a more clearly defined focus for SoJDC on property development within defined risk parameters;
 - a clearer relationship with the executive branch of Government through the Minister for Treasury and Resources;
 - an agreed protocol for transfer of assets from the States to SoJDC; and
 - arrangements for accountability, via the Minister for Treasury and Resources, to the States Assembly.
2. The proposition adopted by the States included a Memorandum of Understanding (MoU) between the States and SoJDC.

Key Findings

3. The key findings from my review are:

- The Government does not yet have an integrated strategic framework for asset management and regeneration, but it is making progress on this.
- Since the establishment of SoJDC, the Government has not undertaken a formal review of the role of SoJDC to satisfy itself:
 - a) that the outcomes to date are meeting the objectives set out in the original proposition; and
 - b) whether any changes could enhance delivery of Government property objectives.
- As the key political group to steer regeneration, the Regeneration Steering Group (RSG) has not functioned as intended. It failed to meet for a year (which included a Government election period) and attendance was limited at other times. In the absence of these overarching strategic arrangements, surplus Government properties have been considered on a case by case basis with SoJDC as developer of choice. A reinvigoration exercise at the end of 2019 was designed to address the functioning of the RSG.
- Despite the proposition stating that SoJDC will procure development schemes in conjunction with the private sector unless there are specific reasons for direct development, all but one of the developments to date have been undertaken directly by SoJDC.

- The MoU between the Government and SoJDC lacks clarity in places. A new MoU is due to be issued in 2020 although the coronavirus response may impact on the timing of this.
- The shareholder function has developed and improved since SoJDC was established but requires further development.
- There is some scope to improve the SoJDC governance arrangements, in particular remuneration policies and transparency in reporting results and achievements.
- There is scope to improve internal controls within SoJDC to ensure procurement tender exercises comply with the requirements of the original Proposition P.73/2010 and the supporting MoU.

Conclusions

4. SoJDC has delivered a range of major projects for the Island with profits available for further developments, public realm projects or dividends for the Government. The Government has not however systematically assessed or reported the benefits to the taxpayer arising from its relationship with and investment in SoJDC. It should do so on an ongoing basis.
5. The Government should also seek to finalise and implement a coherent estates management strategy as a matter of priority. In doing so, and as the RSG starts to operate more effectively, the strategic review of SoJDC proposed by the Government at the outset should be undertaken. The review

should seek to confirm whether SoJDC is meeting Government objectives and whether the current delivery model is the most appropriate.

6. There should be greater clarity in remuneration policies, including bonus arrangements at SoJDC. There should also be greater transparency in reporting the results of SoJDC to reflect overall performance including the impact of land provided by Government at no cost.

Objectives and scope

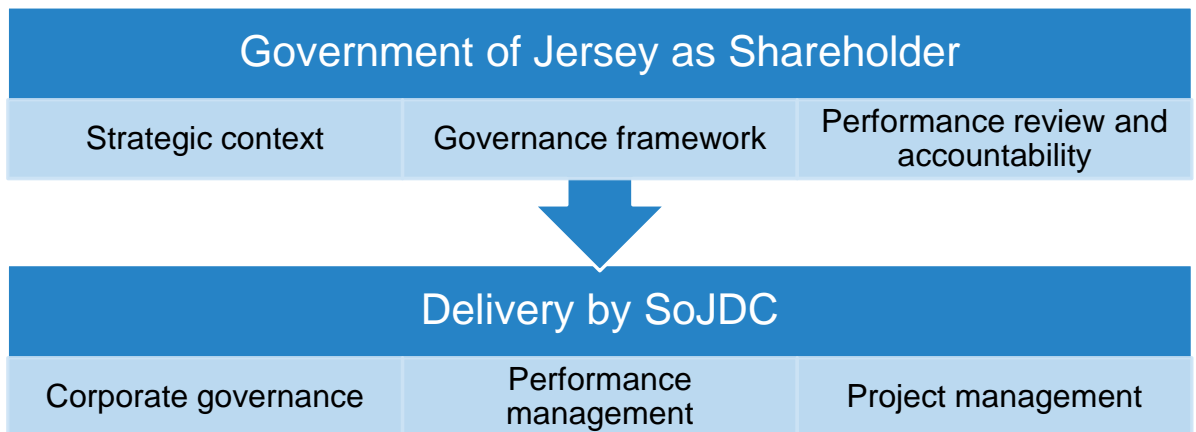
7. My review has:
 - evaluated the extent to which the following comply with the principles set out in the proposition establishing SoJDC adopted by the States:
 - internal operations of SoJDC;
 - operation of the shareholder function by the Government;
 - arrangements for transfer of land from the Government to SoJDC; and
 - arrangements for wider accountability of SoJDC; and
 - identified the scope for improvements in arrangements.

8. My review does not question the underlying policy adopted by the States in respect of property and infrastructure regeneration.

Detailed Findings

9. My report is structured sequentially in two sections (see Exhibit 1).

Exhibit 1: Structure of the report



Government of Jersey as Shareholder

10. In situations where public sector bodies have 100% shareholding of a company, high performing organisations can demonstrate that:
- the company is an effective delivery vehicle for its policy objectives;
 - there is an effective governance framework; and
 - arrangements are in place for performance review and accountability to decision makers.
11. In the case of SoJDC, these characteristics can be translated as follows:

Exhibit 2: Wholly owned companies – good practice model

Strategic context	Governance framework	Performance review and accountability
<ul style="list-style-type: none"> • clear regeneration strategy; • clearly understood policies for housing and infrastructure; • clear expectations agreed for SoJDC; and • evaluation process to confirm that SoJDC is an effective delivery vehicle. 	<ul style="list-style-type: none"> • political steer evident; • financial and reputational risk to Government understood and managed; and • adequate assurance over SoJDC governance arrangements. 	<ul style="list-style-type: none"> • regular reporting and dialogue; • ministerial accountability to States Assembly; • outcomes including financial benefits; and • periodic review.

Strategic context

12. The Government does not yet have a clear strategic framework which integrates asset management with regeneration opportunities across the Island. However, I note that steps have recently been taken, or are in hand, to develop this including:
 - the new Island Plan 2021-2030;
 - the proposed Estates Management Strategy and 5-year Asset Management Plan;
 - the South West St Helier Planning Framework;
 - the new Corporate Asset Management Board; and
 - a refreshed RSG.
13. SoJDC was set up in 2010 to plan, develop and implement major property and associated infrastructure regeneration projects in Jersey, with reference to St Helier. Its focus is on regenerating Government owned property no

longer required for the delivery of public services. The detailed arrangements for SoJDC were set out in Proposition P.73/2010 (P.73) and a supporting MoU.

14. The high-level strategic context and policy framework for planning and regeneration projects is set out in the Island Plan revised in 2014, the St Helier Waterfront Masterplan (updated March 2011) and, more recently, the South West St Helier Planning Framework (2019). Outside of the waterfront developments, P.73 states that SoJDC may purchase and develop assets required to achieve regeneration strategies of the RSG.
15. My predecessor's Report on *Operational Land and Buildings* published in June 2018 highlighted the failure of the Government to deliver a corporate land and property strategy despite this being identified as a priority in 2005. In the absence of such a strategy, opportunities to maximise the benefits of integration between the Government in its role as landowner and SoJDC as developer, can be lost. My initial fieldwork for this review concluded that there was no structured programme of property reviews to identify surplus sites appropriate for disposal or regeneration as part of an Island-wide regeneration strategy. Recent evidence, however, suggests that this is now being done in a more structured way and a range of recently released Government sites are actively being considered as potential regeneration options to refer to SoJDC.
16. P.73 establishing SoJDC described the objectives of a regeneration strategy for the Government as:
 - *To ensure the primacy of the States of Jersey in the governance of regeneration policy in Jersey and any associated property development agency;*
 - *To ensure the effective participation of the appropriate Scrutiny Panel in effective oversight of such governance;*

- *To enable a consistent and co-ordinated Island-wide approach to regeneration which aligns with the current and future requirements of the Island;*
 - *To deliver a structure which is able to work with the private sector whilst protecting the States of Jersey's interests;*
 - *To ensure a clear division of responsibilities between strategic planning, policy, project management and delivery; and*
 - *To ensure that the parish within which regeneration occurs is fully involved in the planning of the project.*
17. Whilst there is evidence that these objectives are reflected in P.73 and subsequent individual developments, a corporate regeneration strategy as envisaged in P.73 has not yet been developed. The new Island Plan and the new Estates Management Strategy, when finalised, may perform the function of a corporate regeneration strategy.
18. It is important that the plans being developed as part of the Common Strategic Policy reflect on the interdependencies across the Government. The new Estates Management Strategy should draw on the property intentions within the Airport Plan; Harbour Plan; Integrated Transport Plan; and Housing Needs Survey in order to provide a consistent focus for the objectives of all States owned entities including SoJDC, Andium Homes and Ports of Jersey.
19. When the Corporate Services Scrutiny Panel reviewed SoJDC in 2011, it recommended that an independent review of resources and procedures within SoJDC be undertaken, including a valuation of SoJDC assets. This has not been undertaken. Such a review should also assess whether the current model is the most effective way for the States to deliver their regeneration objectives or whether there are alternative operating models which could draw on SoJDC's experience. In addition, such a review could be widened to

consider the role and inter-relationships between all States owned property related entities.

Recommendations for the Government

- R1** Prepare a clear timetable for finalisation of the Estates Management Strategy and 5-year Asset Management Plan as soon as possible.
- R2** Ensure that future plans are fully integrated across all areas of the Government including States owned entities.
- R3** Undertake a strategic review of SoJDC to confirm that it remains the most appropriate vehicle and operating model to deliver Government regeneration objectives in the longer term.

Governance framework

- 20. Ministerial accountability for SoJDC is with the Minister for Treasury and Resources based on the rationale that this would help the Government manage risk through responsibility for both financial control and expert advice from Jersey Property Holdings (JPH) within the Treasury and Exchequer department. This cohesion has since been lost however, as JPH is now part of the Department for Growth, Housing and Environment. Nevertheless, the line of accountability to the Minister is consistent with other Government companies. The Director of Treasury and Investments is increasingly taking the opportunity for external expert advice on complex property matters including Ministerial Decisions on SoJDC issues. This works well and is a positive development.

21. I am aware that a new Director of Partnerships has recently been appointed to report to the Chief Executive. It is important that future roles and responsibilities for accountability and monitoring of SoJDC are agreed and build on current effective processes.
22. The Minister for the Environment is responsible for planning matters which ensures that the potential for conflict between planning and development is properly managed.
23. The Shareholder role is currently kept separate from the SoJDC Board in accordance with good practice. One non-executive director is appointed to the Board to represent the interests of the Minister. P.73 (paragraph 12) provides that this can be a States Member although this is not currently the case.

Recommendation for the Government

- R4** Clarify the respective roles and responsibilities of Director of Partnerships in the context of current monitoring and accountability arrangements.

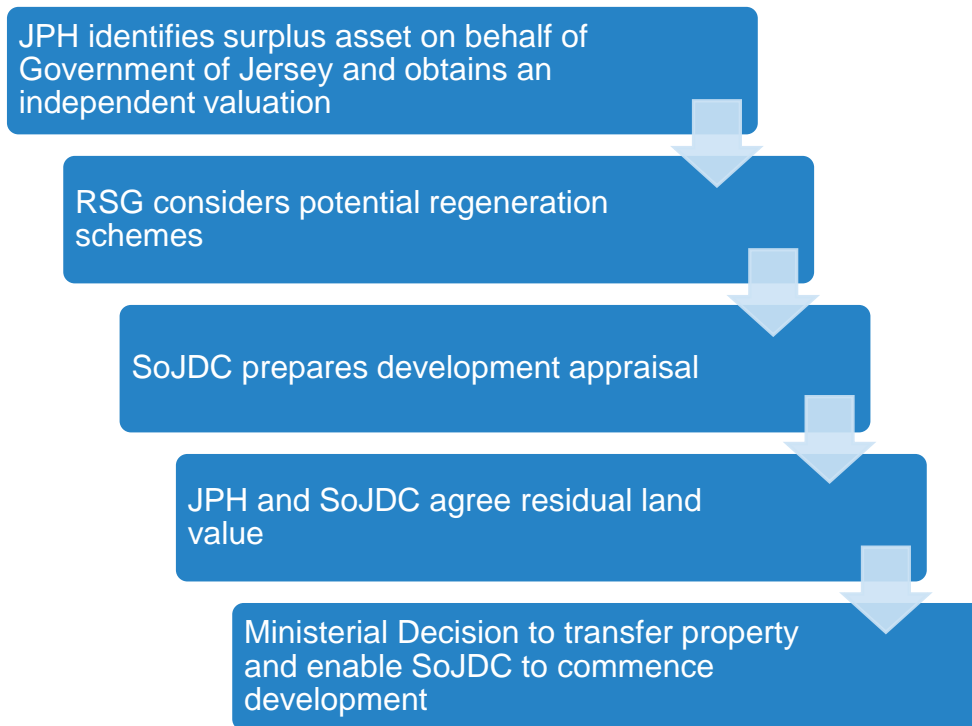
Regeneration steering group

24. In accordance with P.73, the RSG comprises the Chief Minister, the Minister for Treasury and Resources, the Minister for Infrastructure, the Minister for Economic Development, Tourism, Sport and Culture and the Connétable of St Helier and is supported by other Ministers and senior officers. Its role is to provide a political steer by ensuring that major public property and infrastructure projects:

- contribute to the future economic wealth of the Island;
- enhance the quality of the Island's built environment;
- improve transportation links to, from and within the Island;
- provide the necessary infrastructure to support public and private activities;
- encourage sustainable, green development;
- meet the objectives of the Government Strategic Plan; and
- enhance the individual characteristics of the Parishes and the individual settlements within them.

25. In practice this is achieved by translating Masterplans and Development Briefs from the Minister for the Environment into workable and commercially viable Development Plans. A clear process has been developed as follows:

Exhibit 3: Summary process map for transfer of surplus assets



26. Once agreed, the RSG has an ongoing role guiding SoJDC by monitoring the delivery of developments and agreeing changes to projects. The RSG has no role in monitoring the operational activities of SoJDC, which is a separate shareholder function.
27. The role of the RSG in receiving quarterly updates and guiding the activities of SoJDC in relation to developments has not been undertaken consistently in accordance with P.73. There were no meetings from October 2017 to September 2018 (which included an election period) and Ministerial attendance prior to this was poor at times. I am satisfied though that the shareholder has been kept informed of progress through the routine shareholder meetings.

28. My review of the minutes of the RSG from March 2016 to September 2018 showed that there was limited decision making, with the exception of the Waterfront Leisure Centre purchase. Most meetings concentrated on updates from SoJDC in respect of current developments which are also presented by SoJDC at the quarterly meetings attended by the Assistant Minister for Treasury and Resources. RSG also has periodic discussions on the potential for JPH releasing surplus properties. SoJDC previously attended all RSG meetings which provided an opportunity for influence in respect of surplus sites.
29. The RSG has an important role in regeneration planning and decision making and monitoring progress on regeneration projects. However, I am not persuaded that these routine RSG meetings attended by an average of 14 States members and senior officers have consistently focussed on the States' objectives outlined above. The absence of an integrated Estates Management Strategy is an important issue in this respect.
30. From 2019, there have been significant improvements in the governance of RSG meetings, the rigour of the debate and decision making processes. Meetings have been attended by all key participants. Since October 2019, the RSG meeting has been restructured to consider SoJDC projects and feedback and to debate wider Government regeneration opportunities without SoJDC being present.

Memorandum of Understanding

31. An MoU is in place to provide a basis for the relationship between the Government and SoJDC. In places, this lacks clarity and is open to interpretation. Exhibit 4 sets out some examples from my review:

Exhibit 4: Review of Memorandum of Understanding

Ref	Area of MoU	Comment
8.1	Business plan to be prepared in consultation with relevant parties.	There is no definition of 'relevant parties'.
10.2	Board to provide 'such reporting required on an annual basis and ad hoc basis for the purpose of preparing the financial statements...'	This lacks clarity on actual requirements and expectations.
11.1	Half yearly operational and financial reporting.	The format of and detail required from such reporting not specified.
12.1	SoJDC to adhere to Principles of Good Governance.	Generic reference. Does not specify which Principles of Good Governance are the reference point e.g. UK Corporate Governance Code.
13.1	SoJDC to advise Minister on material changes to business plan etc.	There is no definition or examples of what should be 'material'.

Ref	Area of MoU	Comment
16.2	Benchmarking of directors' remuneration.	No detail is provided on the basis of benchmarking to be used.
17.1 and 17.2	Set out a list of risk management activities which must be followed but note that the list is not exhaustive.	SoJDC is required to follow these activities even if they are not appropriate and would result in an increase in risk (see below for detailed comments).
17.1	Infrastructure: SoJDC to commission and procure infrastructure works in accordance with Government of Jersey (GoJ) capital project procurement and delivery procedures.	No detail is provided on requirements of GoJ procurement processes to be complied with or how these will be communicated and tested.

Ref	Area of MoU	Comment
17.1	Sales: SoJDC to secure a sufficient level of legally binding prelets to fund the costs of construction.	<p>'Sufficient' is not defined. No value placed on unlet space.</p> <p>There is no opportunity in the MoU for GoJ to place parameters on the sales strategy. e.g. by limitations on buy to let volumes or off-Island sales.</p>
17.1	Development: SoJDC will procure development schemes in conjunction with private sector unless there are specific reasons for direct development.	<p>This is open to interpretation as examples of specific reasons are not provided.</p> <p>MoU does not reference or codify the requirement in P.73 for SoJDC development models to use advanced financial and risk modelling techniques.</p>

Ref	Area of MoU	Comment
18.1	<p>Insurance: SoJDC shall take out insurance policies:</p> <ul style="list-style-type: none"> • which it is usual for a business of this nature to have; and • which the directors consider prudent. 	<p>Minimum insurance requirements for SoJDC are not specified in detail by shareholder to recognise shareholder risk appetite.</p> <p>For example:</p> <ul style="list-style-type: none"> • which policies are required; • policy limits; and • risk retention.

32. SoJDC has been concerned about the lack of clarity and the potential for interpretation of the MoU. This is particularly related to the value of prelets required to start construction and the question of value in unlet space. As a result, in January 2018, SoJDC drafted some proposed changes to the MoU but these were not considered by the Government.

33. It is important that the shareholder drives the process of amendment and a corporate review of MoUs was commissioned and completed in 2019. The new MoU framework arising from the review is designed to improve consistency of governance and is due to be rolled out across all Government entities during 2020 (see Exhibit 5).

Exhibit 5: New Memorandum of Understanding structure from 2020

Context	Detailed Framework
Background	Objectives
Duration	Governance
Purpose	Key Performance Indicators (KPIs)
Company business and objectives	Communications and meetings
	Approval arrangements
	Business Plan
	Risk
	Appointments and Remuneration

34. The new framework will allow for bespoke content in a consistent template with an emphasis on ongoing dialogue and more rigorous information requirements. The bespoke content should seek to address the anomalies and points requiring clarity in the current MoU identified by both parties.

Recommendations for the Government

- R5** Finalise the revised draft MoU for discussion and agreement with SoJDC as soon as possible.

- R6** Ensure that the revised draft MoU addresses all gaps and points of clarification identified by both parties.
- R7** Agree a process for a regular, structured review of the appropriateness of the MoU.

Assurance over governance arrangements

- 35. There is no evidence of a formal, structured and documented review of compliance with the requirements of the MoU by the Government. Without this there is a danger of over-reliance on feedback from the Company without the benefit of robust analysis and interpretation.
- 36. From discussions with officers, I am satisfied that there is a good understanding of many of the activities undertaken by SoJDC but this is not evidenced as part of a structured review process. In Exhibit 6 below, I outline some suggestions to add rigour to the process.

Exhibit 6: Areas suggested to formalise shareholder review

Area	Evidence to be documented
Business plan	Evidence of review to confirm that Government objectives are being met and that planning process is robust.
Information	Confirmation that information requirements have been met.
Meeting schedule	Confirmation that meeting schedule has been adhered to.

Area	Evidence to be documented
Consideration of performance	Summary assessment of half yearly reports provided by SoJDC.
Review of financial performance	Analysis of financial performance half yearly and yearly and a summary of key points from a shareholder perspective.
Internal control	Evidence of how a 'sound system' of internal control is defined, evaluated and assessed.
Board remuneration	<p>Assessment to confirm that Board and company remuneration arrangements are commensurate with expectations for Government entities.</p> <p>(Include in this assessment reference to benchmarking exercises by SoJDC).</p>
Risk	Review of risk register to confirm fitness for purpose.

Recommendation for the Government

- R8** Prepare a formal, periodic shareholder assessment to demonstrate compliance with the terms agreed in the new MoU.

Risk management

37. The financial and reputational risks associated with the relationship between the Government and SoJDC are not adequately reflected in the corporate or Treasury and Exchequer departmental risk registers. The risk appetite is stated as 'averse', but the only reference relates to the monitoring role for all States owned entities mitigated by regular updates. For example, the level of SoJDC debt or the risk of company failure resulting in the Government stepping in are not addressed.

Recommendation for the Government

- R9** Ensure adequate reference to the relationship between the Government and SoJDC in corporate and Treasury and Exchequer departmental risk registers to address financial and reputational risks to the Government.

Financial relationship

38. The Government does not assess or report systematically the benefits to the taxpayer arising from its relationship with and investment in SoJDC.
39. The relationship with the Government has provided significant financial advantage to SoJDC over time but the potential benefits that the Government can receive in return are not set out in P.73 or the MoU. For example, there is no reference in the MoU to the ability of SoJDC to pay dividends or what the States might ultimately expect as a return from developments. The DTZ report in 2009 on the proposal to establish SoJDC, appended to P.73, recommended dividend distribution as a financial objective for the Government, supported by a dividend policy. Similarly, there is no reference

to SoJDC's role in enhancing public realm peripheral to its role in major developments.

40. The financial relationship between the Government and SoJDC was inherited from the predecessor body, WEB. This body was provided with £20 million share capital in 1996 and a capital contribution in the form of landholdings at a market value of £20.2 million in 2004. In addition to this, more recent support from the Government to SoJDC includes agreeing to deferred consideration of £1.5 million for the College Gardens site which was paid to the Government prior to completion.
41. P.73 states that SoJDC is exempt from tax on the basis that profits will be expended wholly or exclusively to improve and extend public infrastructure and works for the good of the Island. Profits from sale of developments and other income retained by SoJDC are therefore invested in new regeneration projects or recycled as working capital. However, as shareholder, in return for the financial support, the Government can also expect benefits beyond the actual regeneration project in the following ways:
 - dividends arising from profit on developments (cash or physical asset);
 - SoJDC investing directly in public realm; and
 - inclusion of social housing in residential developments.
42. The funding flow and dividend receipts since 2012 are set out in Exhibits 7 and 8.

Exhibit 7: Financial Relationship between GoJ and SoJDC

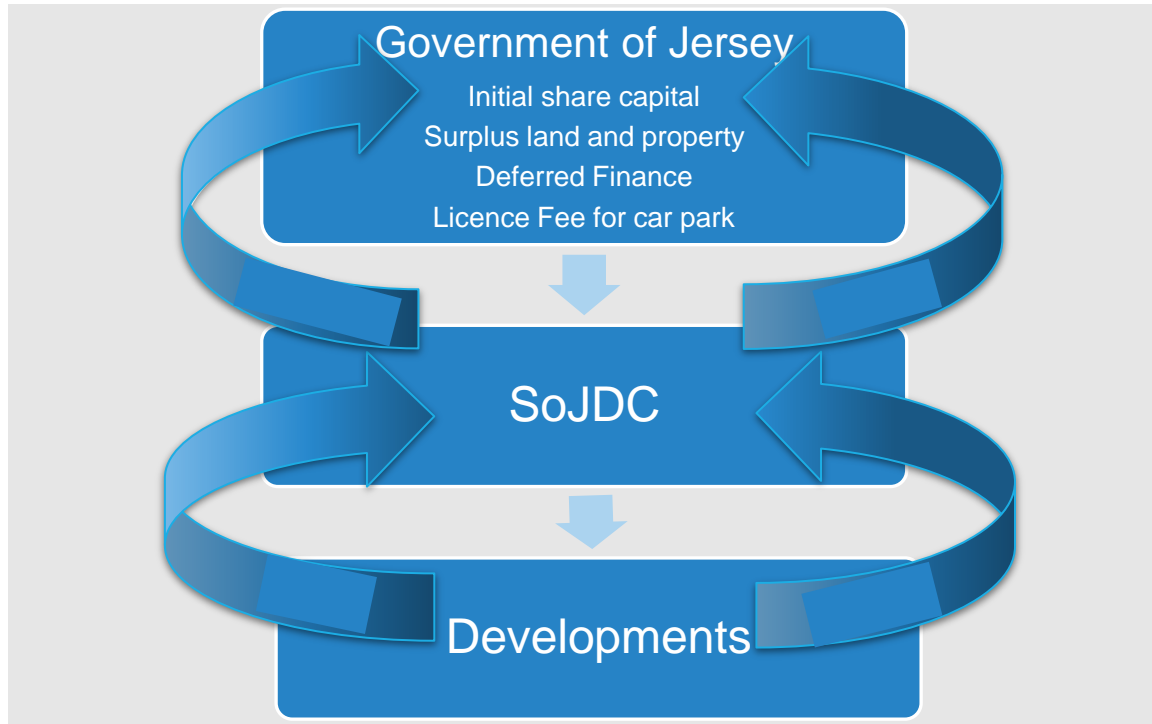


Exhibit 8: Dividends received from SoJDC since 2012

Year	£ cash	£ In asset transfer	£ Infrastructure
2012	840,317		
2013	816,400		
2014	816,400		100,000
2015	1,000,000		

Year	£ cash	£ In asset transfer	£ Infrastructure
2016	Nil		1,000,000
2017	Nil		
2018	Nil	496,667	2,176,631
2019	2,000,000	2,993,555	
Total	5,473,117	3,490,222	3,276,631

43. In addition to the £2 million dividend received in 2019, a sum of £5 million was retained by SoJDC to provide funding for future public realm regeneration schemes which will be determined by the RSG. The 2019 figures include the Liberation Bus Station developed by SoJDC before 2011 which was transferred to the Government as dividend in specie with a value of £2.7 million.
44. As well as the cash dividends paid by SoJDC over time, the cost of total investment in public realm developments by SoJDC from 2012 up to the end of 2019 was £6.8 million plus ongoing maintenance costs of St Helier waterfront areas. The importance of the role of SoJDC in supporting public realm and wider initiatives is evidenced by developments in the recent past many of which have been initiated by the company. Examples include:

- to avoid compromising parking provision due to the College Gardens Development, SoJDC provided 55 permanent parking spaces at the neighbouring Janvrin School at a cost of £750,000; and
 - a payment of £380,000 was made to the Department of Growth, Housing and Environment to support sustainable transport initiatives.
45. From 1996 to 2012, the predecessor body, WEB, delivered a total of £13.9 million in public infrastructure improvements. Therefore, the initial investment of £20 million share capital in 1996 and £20.2 million donated in 2004, has yielded a total benefit of £31 million (see Exhibit 9).

Exhibit 9: Total Dividends and benefits since 1996

Benefit to Government	£
Public Infrastructure 1996 – 2012	13,922,921
Dividends since 2012	5,473,117
Dividend in specie (asset transfer)	3,490,222
Public infrastructure since 2012	3,276,631
Balances held by SoJDC for future infrastructure	5,000,000
Total	£31,162,891

Source: States of Jersey Development Company

46. In the context of the initial Government investment of £40.2 million, the SoJDC balance sheet at the end of September 2019 shows net assets of £84 million (end 2018 = £74 million).
47. There are also current examples where instead of paying a dividend to the Government, SoJDC has offered to invest in urban regeneration projects outside its current operating area. The new arrangements within RSG are now providing the opportunity for more structured debate on delivery options for regeneration and community projects across the Island.

Recommendations for the Government

- R10** Add a section in revised MoU to include processes and options for realising financial benefits as shareholder.
- R11** Ensure benefits realisation is reviewed at periodic shareholder meetings so that a balance is demonstrated between retention and distribution of profits in the context of the development programme and available reserves at the time.
- R12** Review operation of the refreshed RSG after 12 months to ensure that it is delivering a more structured approach to miscellaneous regeneration and community projects across the Island.
- R13** Carry out an annual calculation of added value of all miscellaneous projects undertaken by SoJDC and transferred as 'dividend in specie' so that cumulative benefit to the Government can be understood and reported fully.

Performance review and accountability

48. The Government does not have a systematic approach to assessing or measuring the success of SoJDC in the context of its original investment and capital contribution. I would expect such an approach to include all the financial and non-financial benefits discussed above so that return can be measured against the risk associated with the overall investment. Information is available from SoJDC within the Annual Report, shareholder reports and answers to ad-hoc queries and there is evidence in the completed developments. However, this is all driven by and based on information provided by SoJDC.
49. The quarterly meeting schedule and information received by the shareholder meets the requirements of the MoU. My review shows that information has improved significantly since 2016/early 2017 when several verbal reports were provided to the shareholder rather than a detailed written report. Shareholder meetings enable the Company to outline future project intentions where Ministerial Decisions will be required as well as to provide progress updates on:
- proposed developments;
 - ongoing construction;
 - emerging issues; and
 - forecast profit and yield including variances.
50. The Assistant Minister for Treasury and Resources has the lead relationship with SoJDC for the Government, including through input into periodic shareholder meetings.
51. As the projects are long-term and covered by a single Ministerial Decision at the outset, the shareholder meetings are largely focussed on efficient receipt

of information rather than decision making. From discussions with officers in Treasury and Exchequer, it is evident that there is ongoing dialogue outside the formal meeting structure and a very good awareness by officers of the status of individual projects.

- 52. The MoU requires risk to be managed by considering a joint venture (JV) or direct development option for each project, with the emphasis on JV unless there is a specific reason to do otherwise. With the exception of the Horizon residential development, all developments have been direct and there is no evidence of systematic challenge by the shareholder in respect of the older developments. For the Horizon development, a detailed appraisal was commissioned to provide assurance on the proposed option.
- 53. I looked at two case studies to consider compliance with the requirements of P.73 and the speed of decision making. Exhibit 10 summarises my findings.

Exhibit 10: Case studies for disposal of land

Criteria	Royal Yacht Hotel ‘al fresco’ dining area	Sale of ground lease for Waterfront Hotel
Background	<p>Land on Weighbridge site leased to WEB for 150 years in 2008;</p> <p>Sub-lease of part to Royal Yacht Hotel in 2009;</p> <p>In 2016, Royal Yacht Hotel expressed interest in purchasing the long-lease;</p>	<p>Ground lease attracting rental from the Waterfront Hotel transferred from WEB to SoJDC on its formation.</p>

Criteria	Royal Yacht Hotel 'al fresco' dining area	Sale of ground lease for Waterfront Hotel
	<p>In 2017, SoJDC decision to split lease and sell part of long-lease; and</p> <p>Sale completed on 25 October 2019.</p>	
<p>Compliance with P.73</p>	<p>Yes.</p> <p>P.73 provides for:</p> <ul style="list-style-type: none"> • exit strategy for all assets; • completed assets only to be held by SoJDC where it is necessary; and • assets to be sold on open market or transferred to the States where there is a strategic reason for ownership. 	<p>Yes.</p> <p>In addition to the general exit strategy, appendix 1 to P.73 notes that:</p> <ul style="list-style-type: none"> • this asset could be sold subsequently into market subject to advice on timing of sale to maximise value; and • protecting GoJ's position on subsequent reversion to higher value use if hotel fails.

Criteria	Royal Yacht Hotel 'al fresco' dining area	Sale of ground lease for Waterfront Hotel
SoJDC rationale	<p>Sale agreed by Board on basis that:</p> <ul style="list-style-type: none"> • site exclusively used by RYH currently; • can be separated from rest of Weighbridge Square; and • existing income streams sufficient to cover Weighbridge Square maintenance. 	<p>Sale agreed by Board on the basis that:</p> <ul style="list-style-type: none"> • the lease had been widely marketed; • a covenant would remain in place to ensure that the site remains for hotel use; and • the new owners would not oppose plans for development by SoJDC on adjacent sites.
SoJ rationale	<p>JPH confirmed site not required by Government for strategic purposes.</p>	<p>JPH confirmed site not required by Government for strategic purposes.</p>
Valuation and marketing	<p>Independent valuation commissioned and site marketed externally.</p>	<p>Independent valuation commissioned and site marketed externally.</p>

Criteria	Royal Yacht Hotel 'al fresco' dining area	Sale of ground lease for Waterfront Hotel
Value for Money	<p>Highest bid accepted in 2017 subject to Ministerial Decision.</p> <p>Delay in closing sale had impact on cash flow and potentially value for money as price fixed in 2017.</p>	<p>Highest bid accepted by SoJDC in principle in December 2016 subject to formal agreement at Board in January 2017.</p> <p>Department of Infrastructure Ministerial Decision on 23 January 2017 for assignment of lease.</p>
Benefits to SoJDC	<p>Cash receipt anticipated to support cash-flow in respect of ongoing developments.</p> <p>Potential to divert funds to support Government regeneration improvements in St Helier.</p>	<p>Cash received to support cash-flow in respect of ongoing developments.</p>

Criteria	Royal Yacht Hotel 'al fresco' dining area	Sale of ground lease for Waterfront Hotel
Risks	<p>Delay could have compromised sale;</p> <p>Potential for delay in Ministerial Decision to have adverse impact on future developers/purchasers; and</p> <p>Loss/delay in cash-flow and associated expenditure on developments including public realm support.</p>	Not applicable.

54. On the basis of my summary analysis, I concluded that the requirements of P.73 and the MoU were met in both cases. The speed of decision making is an issue where a range of departments and Ministers are involved and there is not a shared view of priorities. For example, the disposal of the Royal Yacht Hotel 'al fresco' dining area was agreed by the SoJDC Board in 2017 subject to shareholder approval. However, the Ministerial Decision was not signed by the Minister for Infrastructure until 2019. A proposition was drafted in 2018 to challenge the proposed sale of Government assets by SoJDC but this was withdrawn.

Arrangements within SoJDC

55. In evaluating the arrangements within SoJDC, I have focussed on three areas:

- corporate governance, the system by which SoJDC is directed and controlled;
- performance management, the system to ensure that SoJDC's goals are being met; and
- project management in respect of a sample of developments (see Exhibit 11).

Exhibit 11: Evaluation of arrangements within SoJDC

Corporate governance	Performance management	Project management
<ul style="list-style-type: none"> • Leadership and purpose • Division of responsibilities • Composition and evaluation • Financial management • Internal controls • Risk management • Remuneration 	<ul style="list-style-type: none"> • Objectives and targets • Reporting, review and challenge 	<ul style="list-style-type: none"> • Business cases • Project planning • Execution • Monitoring and control • Outcomes

Corporate governance

56. In evaluating corporate governance arrangements in SoJDC, I have considered the principles underpinning the requirements of the UK Corporate Governance Code. I recognise that some of the requirements of the Code may not be appropriate to an organisation of the size and nature of SoJDC. I am therefore not recommending compliance with all the requirements of the Code.

Leadership and purpose

57. The Corporate Governance Code advocates strong leadership at Board level, communicating a clear purpose and establishing the means to deliver and demonstrating delivery of objectives.
58. The SoJDC Board has set out its mission and objectives in the business plan and 10-year strategic plan. The Board has an annual strategy day to take the opportunity to consider aims and objectives particularly around projects for the next 10 years. The output from this is now incorporated into the 10-year strategic plan presented as part of an improved business plan which includes a 5-year cash flow plan.
59. It is difficult for SoJDC to develop a detailed long-term strategy beyond the programme of agreed projects. The ability to develop a coherent long-term strategy is dependent on actions by the Government as shareholder, in particular the development of an integrated planning and regeneration framework which brings together a range of plans referred to earlier in my report.

60. The business plan sets out the annual objectives related to specific projects as well as strategic objectives related to:
- new strategy;
 - balance sheet/equity;
 - stakeholder engagement;
 - organisation; and
 - sustainability/smart technology.
61. The project specific objectives in the business plan are in a simple format setting out headline project stages to be delivered in each quarter of the year. This provides the basis for feedback to the Board and the shareholder.
62. The SoJDC business plan has evolved and improved in the last two years and the 2020 plan provides greater clarity on expectations and measurement. In my view, the annual business plan could benefit further from:
- clear delivery dates for all objectives;
 - responsibilities assigned to objectives;
 - ensuring that every objective has SMART (Specific, Measurable, Achievable, Relevant and Timely) targets linked to KPIs;
 - risk assessment related to each area; and
 - publication on the website.
63. For example, some of the non-property objectives are set out in Exhibit 12 below with suggestions for improvement:

Exhibit 12: Review of sample of objectives in 2020 business plan

Non-property objectives 2020 and context	Comments on business plan
<p>New Strategy</p> <p>Refers to continued dialogue with shareholder to revise P.73 and Memorandum of Understanding.</p>	<p>Objectives are outside of SoJDC control</p>
<p>Stakeholder engagement</p> <p>Consultation on Waterfront sites.</p>	<p>No indication of how and when this will take place or how success will be measured.</p>
<p>Balance Sheet/Equity</p> <p>SoJDC will need to grow balance sheet and refers to additional loan requirement in 2023.</p>	<p>Not relevant to 2020 business plan and objectives.</p>
<p>Organisation</p> <p>Requirement to motivate and train staff.</p>	<p>No indication of how this will happen and what the success measures are.</p>
<p>Sustainability</p> <p>Contribution to the Government's carbon neutral strategy.</p>	<p>No indication of tangibles and how delivery of objective is quantified.</p>

Recommendation for SoJDC

R14 Further improve the business plan including effective links to risk assessment and publish the plan on the website.

Division of responsibilities

64. The Corporate Governance Code advocates a Board with the right composition and sufficient time to discharge its responsibilities. The SoJDC Board demonstrates the following elements of good practice:
- the Board comprises 5 non-executive directors including the Chair as well as the Managing Director and Finance Director. It meets 6 times a year. The expected workload for a non-executive director is 15 days per annum; and
 - the Board has established and operates an Audit and Risk Committee and a Remuneration and Nomination Committee. Both have clear terms of reference set out in separate charters appended to the Governance Handbook.

Composition and evaluation

65. The Corporate Governance Code advocates a Board with the right range of skills and experience and an annual review of Board effectiveness.
66. SoJDC non-executive director appointments are approved by the States Assembly with the Jersey Appointments Commission supporting the

recruitment process. The current group of 5 non-executive directors has a range of relevant skills and backgrounds.

67. Each year, the Board carries out an effectiveness review in accordance with good practice. In the past this involved each member completing a questionnaire covering:
- Board structure and composition;
 - Board meetings; and
 - Board business.
68. Whilst results of these reviews were discussed by the Board, there were no action plans produced to focus the Board on improving the areas identified, which may dilute the impact of the exercise.
69. In 2019, an external Board review was commissioned, and the recommendations are now being addressed. As part of this review, Board Members articulated their priorities as:
- developing shareholder relationships;
 - agreeing a clear strategic plan;
 - succession planning;
 - more face to face Board meetings;
 - resourcing; and
 - team building.
70. Recommendations arising from this review included:
- undertaking a skills audit to inform future recruitment;
 - developing a more coherent strategy rather than project focussed plans;
 - reviewing Board mandate to confirm compliance with MoU and P.73;
 - introducing Board Member appraisals; and
 - improving meeting and agenda disciplines.

71. In my view, external input such as this represents good practice and can enhance the effectiveness of a Board review process.
72. At present, there is no individual evaluation of Board member contributions. Regular structured evaluation of the contribution of individual Board members is a valuable way of driving Board effectiveness.
73. The Managing Director and Finance Director are pivotal to the Board as they have the organisational knowledge as well as being very well informed on financial and project management issues in respect of all developments. In organisations of a similar size to SoJDC, organisational resilience often represents a risk where this level of strategic thinking and expertise is not available below the senior leadership level. The risk register reflects on this with some mitigation by:
- benchmarking to demonstrate appropriate remuneration;
 - arrangements for cover on individual projects; and
 - succession planning mechanisms where possible.

Recommendation for SoJDC

- R15** Review the recommendations from the external Board review after 12 months to confirm actions are completed and to evaluate improvement.

Financial management

74. SoJDC has developed effective budget setting and monitoring arrangements to support delivery of the annual business plan. The Board challenges the budget before it is finalised and receives regular management accounts to demonstrate performance. Financial reports against the budget are also

provided to the shareholder half-yearly in accordance with the requirements of the MoU.

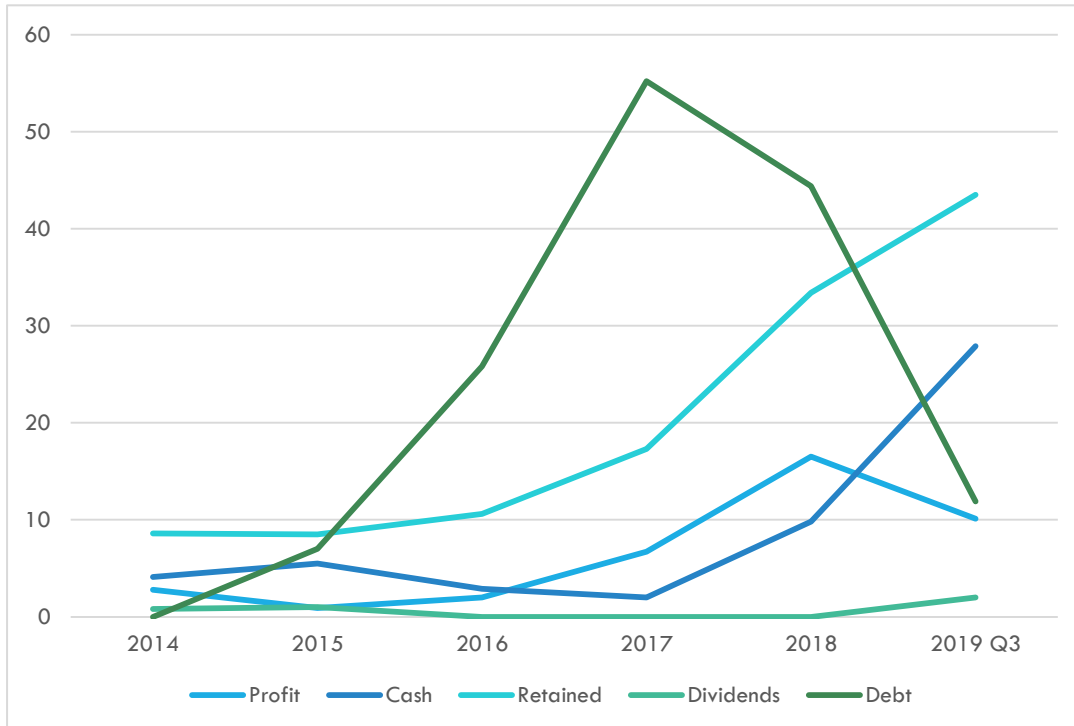
75. The Company has grown significantly since its inception in 2012 and since 2016 (see Exhibit 13).

Exhibit 13: Headlines from 2016 - 2019 accounts and management accounts

Headline	Q3 2019	2018	2017	2016
	£'000	£'000	£'000	£'000
Profit	10,151	16,545	6,747	2,033
Retained earnings	43,519	33,368	17,320	10,573
Cash	27,901	9,845	1,951	2,900
Borrowing	11,918	44,400	55,199	25,828

76. Exhibit 14 below shows movements in key balances since 2014.

Exhibit 14: Movement in key balances since 2014



77. Exhibit 14 shows a significant increase in profits and retained earnings since 2017. The growth in development activity has been supported by a level of loan debt which reduced from £55 million to £12 million at the end of 2019 following sale of International Finance Centre (IFC) 1, IFC 5 and College Gardens. Due to the nature of SoJDC operations, cash balances are volatile and forecast to vary substantially over the next 5 years. Further debt is forecast in 2023.

Audit, risk and internal controls

78. The Corporate Governance Code advocates the establishment of formal, transparent arrangements for the Board to satisfy itself on the integrity of published financial and non-financial information and the adoption of an active approach to risk management.
79. SoJDC has an Audit and Risk Committee with appropriate terms of reference. In common with many organisations of its size, it does not have an in-house internal audit function but commissions this on a three-year arrangement. Recent areas of review include:
- risk;
 - business planning;
 - financial planning;
 - budgeting; and
 - internal processes.
80. There were no material findings from these exercises and the internal auditor concluded that 'the management team and Board oversight would appear to be working at a high standard'.
81. SoJDC can demonstrate that it has documented processes including:
- payroll and governance;
 - payments to contractors;
 - invoice payments;
 - completeness of income;
 - sales receipts;
 - financial data;
 - declarations of interests; and
 - gifts and hospitality.

82. A new Conflicts of Interest Policy was prepared in 2019 and is included on the website.
83. SoJDC can demonstrate that it is managing risk through reference to the MoU, individual projects, the Audit and Risk Committee Charter and Health and Safety Policy. Whilst a risk policy was not evident at the time of my initial fieldwork, this was produced in 2019 and is a specific requirement of P.73.
84. Risk management arrangements are well developed. A detailed risk register is available which identifies risk scores and owners, risk trends and mitigating actions. This is reported to the Audit and Risk Committee and Board.

Remuneration

85. My predecessor completed a review in 2019, *Remuneration of Board Members*. This looked at the arrangements for determining remuneration for Board members of Government-owned entities and Arm's Length Organisations (ALOs).
86. SoJDC commissions an independent benchmarking exercise every two years in accordance with the MoU. The last review compared non-executive Board member remuneration with:
 - a sample of other offshore organisations dated April 2015;
 - a sample of other Channel Islands public sector bodies and utilities; and
 - UK property companies (including Barratt, Berkeley Homes, Right Move).

The conclusion was that the Chair was remunerated at the Upper Quartile level in all samples and other directors at below lower quartile to median in the samples. Following the review, non-executive director remuneration was

increased from £15,000 to £22,000 with a £3,000 supplement for the Audit and Risk Committee Chair. No change was made to the Chair's remuneration.

87. The Chair of SoJDC is paid £40,000 for an estimated input of 24 days and other Non-Executive directors are paid £22,000 for 15 days' input.
88. My predecessor's report concluded that:
- the total remuneration of non-executive directors in States owned companies is similar, but to the extent that there is variation, this is related to turnover; and
 - there is relatively less variation in the remuneration of Board Chairs of States owned companies with a general correlation between the size of company and remuneration.
89. Remuneration levels for SoJDC senior management and team reflect varying criteria depending on role. The Remuneration and Nominations Committee has considered options for each group in recent years. The Remuneration and Nomination Committee agreed a pay policy in March 2020.
90. All staff levels are subject to external benchmarking exercises every two years. The most recent independent exercise for senior management compared SoJDC with:
- UK property development companies;
 - existing survey data; and
 - Jersey utilities.
91. The conclusion from this benchmarking exercise was that the salary levels were appropriate but incentive packages were behind market rates. Current incentives for senior management are 15% or 20%. Proposals were developed in 2018 for a long-term incentive package which would provide for bonus awards for 40% to 50%, including an element of longer-term bonus to

be banked on future developments such as Horizon. These proposals were deferred by the shareholder at the time until after the 2018 election and have not progressed.

92. As part of the above, SoJDC also proposed a 'special' transition bonus for 2018 to recognise the performance of the senior management team for delivery of IFC 1. This was based on a 5% share of additional profit achieved on IFC 1 over and above the original estimate. This was not approved by the shareholder but a lower level of bonus was agreed for key individuals to recognise the outcome and record yield from the development.
93. From 2019, the annual appraisal process for senior managers is based on a detailed framework which assesses and rewards performance for each business objective at one of three levels.
94. The process for the remainder of staff was updated in 2019. Staff members are entitled to a bonus of up to 10% subject to performance. At the 2018 year end, the Remuneration and Nominations Committee recommended that most staff received the maximum bonus following consideration of a brief headline performance summary from the Managing Director. A brief analysis is also provided annually to support a pay award which is designed to enable staff to be paid at the median level when benchmarked with an independent survey.
95. Two staff on residential sales are remunerated with a combination of salary and commission-based incentive. The Remuneration and Nominations Committee has considered alternative ways of paying this to ensure that remuneration is smoothed during the year as far as possible.

Recommendations for SoJDC

- R16** Carry out a benchmarking survey of Board remuneration in 2020 and ensure that comparator groups are relevant and appropriate to size and scale of SoJDC business.
- R17** Ensure all bonus payments and pay awards for all staff are supported consistently by a detailed review of each individual's performance against objectives and targets.
- R18** Review commission-based incentives to demonstrate that they are value for money when compared with others.

Performance management

96. Effective management in an organisation includes mechanisms for monitoring, reviewing and challenging current performance and reporting at an appropriate level.

Objectives and targets

97. High performing organisations provide performance information to stakeholders which is accessible, unambiguous and meets SMART criteria in relation to targets. As noted above, some objectives in the business plan are limited and vague in places. There is an opportunity to review key performance information and the format of this as provided to both Board and shareholder.

Recommendation for SoJDC

R19 Ensure that the objectives, priorities and KPIs in the business plan meet SMART criteria and reflect the Government's strategic objectives.

Reporting, review and challenge

98. Effective reporting involves identifying the relevant stakeholders and providing appropriate and timely information. This in turn allows effective challenge of performance.
99. SoJDC stakeholders include the Board, the Government, construction partners, funders, tenants and the community. Since its inception, sections of the community have been critical of the role of SoJDC and developments it has undertaken. There has been criticism of SoJDC's advantages such as the initial support provided by the Government including donated land. SoJDC has been pro-active in its communication strategy in response to this by meeting with politicians and through social media activity.
100. The cumulative achievements and success stories of SoJDC are not reported in the Annual Report. Doing so would enable SoJDC to summarise the added value from developments and investment in public realm which are not universally understood by all of the Government or community. It will also provide the opportunity to be explicit about the return earned for the Government as shareholder that considers the impact of:
 - the donated land from the Government; and
 - the opportunity cost of holding onto the land rather than selling it on the open market.

101. In its media release announcing the sale of IFC 1 on 26 November 2018. SoJDC reported the following: “The sale has generated a net return (land and profit) of £10.9m exceeding SoJDC’s original projection of £7.5m”. Whilst this is factually correct, the reporting by SoJDC (see detailed comments on IFC 1 below) of the £10.9 million profit:
- does not include the cost of the land which was originally donated by the Government;
 - includes costs, such as improvements to the public realm, that would not normally be incurred by wholly commercial developers; and
 - does not provide any indication as to the rate of return earned.
102. Once these items are taken into account in the calculation, an alternative representation of the profit is estimated at around £7m. This profit figure was disclosed in the 2018 SoJDC Annual Report and Financial Statements. The calculation of the estimated profit is shown in Exhibit 15.

Exhibit 15: International Finance Centre 1 – Profit calculation

SoJDC Reported Profit	
	£M
Sale price	43.70
Costs	(32.80)
Profit	10.90
Return	33%

SoJDC Profit alternative calculation including land cost		
	£M	£M
Sale price		43.70
Costs	(32.80)	
Less car park	0.27	
Less public realm	1.28	(31.25)
Land Cost		
Market value 2018	(7.5)	
Less planning	0.95	
Less contamination	1.08	(5.47)
Profit		6.98
Return		19%

103. Information provided to the Board is extensive and voluminous. All Board meetings are based on a standard agenda including:

- updates on the projects in progress;

- potential asset sales;
 - business plan;
 - financial reports;
 - feedback from committees; and
 - periodic consideration of the risk register.
104. Agendas are typically around 150 pages, but time provided for the meeting ranges from under 2 hours to 2.5 hours and papers are sometimes provided late. As part of the annual Board review, non-executive directors have referenced the volume and a need to streamline the agenda. Efforts to do this continue.
105. Despite ambitious agendas, the minutes evidence good engagement and challenge by the Board.

Recommendations for SoJDC

- R20** Consider reporting cumulative achievements in the Annual Report including more meaningful representations of the value added by SoJDC in developing sites, taking into account issues such as:
- the value of land donated by the Government;
 - return from developments;
 - costs that would not normally be incurred by wholly commercial developers, such as improvements to the public realm; and
 - the length of time the project has taken.
- R21** Provide Board papers in a timely fashion and continue to look for efficiencies in Board agendas and meetings.

Project management

106. Project management processes which are designed to manage risk are clearly set out in P.73 and the MoU. These provide a framework for each development so that the risk to SoJDC and the shareholder is managed at each stage. The MoU includes the option for direct development or a consortium approach with an emphasis on risk being managed through joint venture unless there are specific reasons for direct development.
107. In practice all developments to date, with the exception of the Horizon development, which is a 50:50 Joint Venture (JV) agreement with Group Legendre to develop a 280 residential unit apartment scheme with associated basement car parking and ground floor commercial units, have been direct developments by SoJDC. As a consequence of this, SoJDC has assumed all the risk for projects except for Horizon.
108. P.73 states that:
- ‘SoJDC will use advanced financial and risk modelling techniques to enable the risk profile of projects to be identified. The development model that delivers the most appropriate risk profile will be followed.’*
109. Whilst I am satisfied there has been analysis and debate at the Board and shareholder meetings to discuss project options, with the exception of the Horizon project, I have not seen a systematic option appraisal for previous developments that met the above description by evaluating the cost and benefits of assuming or transferring risk. The detailed appraisal undertaken in respect of the Horizon project did provide a robust basis for scrutiny from the shareholder.

Recommendation for SoJDC

R22 Develop a consistent methodology and evidence model as required by P.73 to demonstrate that each development delivers the most appropriate risk profile and return.

Specific Projects

110. As part of my review, I have considered the project cycle in respect of the developments at College Gardens and IFC 1.

College Gardens

111. My review shows that the College Gardens scheme was managed in accordance with the requirements of P.73 and MoU. The College Gardens residential development was completed in 2018 following initial planning application in late 2014. The original development was proposed as 183 units including 40 affordable for rent units. Changes were subsequently approved by RSG which resulted in a scheme of 187 units including 40 rented and 40 shared equity. The College Gardens site was disposed of at an agreed cost of £1.5 million with the sale proceeds, including inflation, deferred to completion.

112. The expected profit on the scheme was signed off by Treasury and Exchequer as £4.6 million and the outcome showed that the final position was very close to this at £5 million with the only significant variation being additional sales revenue.

International Finance Centre 1

113. My review shows that, whilst the development IFC 1 has been well managed and has achieved a successful outcome, SoJDC did not comply with the requirement of P.73 and the MoU to follow an open tender process. The shareholder was fully apprised of the context and the procurement strategy followed was approved by Ministerial Decision. Based on professional advice, SoJDC invited bids for the construction of IFC 1 from the two on-Island contractors that it considered capable of delivering such a complex project. An open tender process would have required inviting bids from any party, including those based outside Jersey. In the event, one of the contractors invited to tender withdrew from the process. As a result, SoJDC only received one bid for the work on this major contract which had the potential to seriously compromise the value for money of the project. I note, however, that SoJDC sought to manage this risk by engaging cost consultants to review the bid in detail to satisfy itself that tender prices of the remaining bidder were within market norms.
114. As noted above, IFC 1 was sold on 23 November 2018 for £43.7 million and a profit to SoJDC of £10.9 million. The derivation of this profit was outlined earlier in my report.
115. Exhibit 16 summarises my findings in respect of both schemes.

Exhibit 16: College Gardens and IFC 1 – compliance with P.73 and MoU

Ref	Project stage – Headlines from MoU	College Gardens	IFC 1
1.	Planning Prior to any land transfer, Master Plan must have been approved to remove planning risk.	✓ Land transfer agreed subject to development agreement in December 2014. Planning application December 2014. Ministerial Direction for transfer signed March 2015.	Not applicable Land transferred in 2004 to the Waterfront Enterprise Board Limited before adoption of P.73 on 13 October 2010 Esplanade Quarter Master Plan endorsed by States Assembly 4 June 2008.
2.	Infrastructure works No infrastructure works to be procured until: 1) detailed planning permission received on vacated sites; and 2) detailed financial appraisals support development.	✓ Infrastructure works started following detailed design brief, financial appraisal and planning application. Initial scheme changed following intervention by Minister and subsequent changes agreed by RSG.	✓ Planning consent secured for IFC 1 on 1 August 2013. Planning approval received on 16 January 2014 for public car park. Scheme subject to detailed financial appraisals.

Ref	Project stage – Headlines from MoU	College Gardens	IFC 1
	Procurement to be in accordance with SoJ capital project procurement and delivery procedures.	Contractor engaged following Pre-Qualification Questionnaire, open tender process and evaluation.	Car park tendered as part of main contract. Work started on 22 June 2015.
3.	Sales To remove part of sales risk, before committing to construction costs, SoJDC will have to secure a sufficient level of: <ul style="list-style-type: none"> • Legally binding presales; • Prelets to fund the cost of the first stage of construction.	✓ Contractor appointed October 2015 for preliminaries only. Main development contract signed September 2016 once presales exceeded main construction cost forecast. 100% sales achieved November 2017 in advance of its block completion.	✓ Valuation commissioned by HSBC (based on a single prelet) valued IFC 1 at £29 million. Contract for £17.125 million signed 29 May to be funded by debt.

Ref	Project stage – Headlines from MoU	College Gardens	IFC 1
4.	<p>Pre-development costs</p> <p>SoJDC to fund all design costs and fees directly from equity.</p>	<p>✓</p> <p>SoJDC financed pre-development costs. Construction funded by debt.</p> <p>Note that consideration payment to SoJ for site was deferred to completion.</p>	<p>✓</p> <p>SoJDC financed pre-development costs. Construction funded by debt.</p>
5.	<p>Development</p> <p>Procure development schemes in conjunction with private sector unless specific reasons for direct development.</p> <p>Proposals will be subject to a transparent open tender process.</p>	<p>✓</p> <p>Professional support engaged for project management.</p> <p>External project manager appointed and managed open tender process.</p> <p>External contractor appointed October 2015.</p>	<p>✓</p> <p>Project managed in-house with support from professional architects and cost consultant.</p> <p>Architects and cost consultants appointed through open tender process.</p>

Ref	Project stage – Headlines from MoU	College Gardens	IFC 1
6.	Phasing SoJDC to phase large development schemes where practical.	✓ Project phased over construction period by division into 9 sections (7 accommodation, 2 car park).	✓ IFC 1 part of a phased development of the wider International Finance Centre.
7.	Design and specification SoJDC will ensure that every development proposal is fully designed and specified.	✓ Initial scheme designed following RSG guidance. Changes followed to mix of shared equity and affordable housing.	✓ Designed to Royal Institute of British Architects (RIBA) Stage 4. Constructor provided detailed specification as part of tender which was reviewed in detail by cost consultant.

Ref	Project stage – Headlines from MoU	College Gardens	IFC 1
8.	<p>Construction</p> <p>SoJDC will:</p> <ul style="list-style-type: none"> follow SoJ guidelines and best practice in procurement of construction work; only enter into contracts with fixed price, fixed delivery with main party contractors with good market and financial credibility; employ a project manager; and ensure monthly design meetings with project manager, contractor, architect and quantity surveyor to monitor and control costs. 	<p>✓</p> <p>Procurement followed agreed processes.</p> <p>Contractor selection met criteria and approved by Board.</p> <p>External project manager appointed.</p> <p>Regular project meetings evident and outcome reported to Board and shareholder.</p>	<p>X</p> <p>Open tender process not followed. Two constructors only asked to bid (the only on-Island contractors thought capable of delivering the project) with one withdrawing during the process.</p> <p>Risk mitigated by engaging cost consultants to confirm that tender prices of remaining bidder was within market norms.</p> <p>Evidence of monthly project reviews throughout the build.</p>

Recommendation for SoJDC

R23 Ensure that all future tender exercises comply with the requirements of P.73 and the MoU by a procurement strategy and open tender exercise to demonstrate value for money.

Appendix One

Audit Approach

The review included the following key elements:

- review of relevant documentation provided by the Government;
- interviews with key officers within the Government;
- review of relevant documentation provided by the States of Jersey Development Company Ltd (SoJDC); and
- interviews with key officers within SoJDC.

The documentation reviewed included:

- the SoJDC website;
- SoJDC Annual Reports and Business Plans;
- the Island Plan;
- agendas and minutes from SoJDC meetings and relevant Government meetings;
- documents recording internal procedures in SoJDC;
- documents evidencing how the Government holds SoJDC to account; and
- documents related to specific projects reviewed.

The following officers were interviewed:

- Director General, Treasury and Exchequer;



- Director, Treasury and Investments;
- Director, Jersey Property Holdings.
- SoJDC officers

I would like to thank all officers who have contributed to this report.

The fieldwork was carried out by affiliates working for the Comptroller and Auditor General.

Appendix Two

Summary of recommendations

Recommendations for the Government

- R1** Prepare a clear timetable for finalisation of the Estates Management Strategy and 5-year Asset Management Plan as soon as possible.
- R2** Ensure that future plans are fully integrated across all areas of the Government including States owned entities.
- R3** Undertake a strategic review of SoJDC to confirm that it remains the most appropriate vehicle and operating model to deliver Government regeneration objectives in the longer term.
- R4** Clarify the respective roles and responsibilities of Director of Partnerships in the context of current monitoring and accountability arrangements.
- R5** Finalise the revised draft MoU for discussion and agreement with SoJDC as soon as possible.
- R6** Ensure that the revised draft MoU addresses all gaps and points of clarification identified by both parties.
- R7** Agree a process for a regular, structured review of the appropriateness of the MoU.
- R8** Prepare a formal, periodic shareholder assessment to demonstrate compliance with the terms agreed in the new MoU.

- R9** Ensure adequate reference to the relationship between the Government and SoJDC in corporate and Treasury and Exchequer departmental risk registers to address financial and reputational risks to the Government.
- R10** Add a section in revised MoU to include processes and options for realising financial benefits as shareholder.
- R11** Ensure benefits realisation is reviewed at periodic shareholder meetings so that a balance is demonstrated between retention and distribution of profits in the context of the development programme and available reserves at the time.
- R12** Review operation of the refreshed RSG after 12 months to ensure that it is delivering a more structured approach to miscellaneous regeneration and community projects across the Island.
- R13** Carry out an annual calculation of added value of all miscellaneous projects undertaken by SoJDC and transferred as 'dividend in specie' so that cumulative benefit to the Government can be understood and reported fully.

Recommendations for SoJDC

- R14** Further improve the business plan including effective links to risk assessment and publish the plan on the website.
- R15** Review the recommendations from the external Board review after 12 months to confirm actions are completed and to evaluate improvement.
- R16** Carry out a benchmarking survey of Board remuneration in 2020 and ensure that comparator groups are relevant and appropriate to size and scale of the the SoJDC business.

- R17** Ensure all bonus payments and pay awards for all staff are supported consistently by a detailed review of each individual's performance against objectives and targets.
- R18** Review commission-based incentives to demonstrate that they are value for money when compared with others.
- R19** Ensure that the objectives, priorities and KPIs in the business plan meet SMART criteria and reflect the Government's strategic objectives.
- R20** Consider reporting cumulative achievements in the Annual Report including more meaningful representations of the value added by SoJDC in developing sites, taking into account issues such as:
- the value of land donated by the Government;
 - return from developments;
 - costs that would not normally be incurred by wholly commercial developers, such as improvements to the public realm; and
 - the length of time the project has taken.
- R21** Provide Board papers in a timely fashion and continue to look for efficiencies in Board agendas and meetings.
- R22** Develop a consistent methodology and evidence model as required by P.73 to demonstrate that each development delivers the most appropriate risk profile and return.
- R23** Ensure that all future tender exercises comply with the requirements of P.73 and the MoU by a procurement strategy and open tender exercise to demonstrate value for money.



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