

STATES OF JERSEY



STATES OF JERSEY DEVELOPMENT COMPANY (R.56/2020): EXECUTIVE RESPONSE

Presented to the States on 29th July 2020
by the Public Accounts Committee

STATES GREFFE

FOREWORD

In accordance with paragraphs 64-66 of the [Code of Practice](#) for engagement between ‘Scrutiny Panels and the Public Accounts Committee’ and ‘the Executive’, the Public Accounts Committee (PAC) presents the Executive Response to the Comptroller and Auditor General’s (C&AG) Report on the [States of Jersey Development Company \(SOJDC\)](#)

The Public Accounts Committee will publish its opinion on the Executive Response in due course.

Senator S.C. Ferguson
Chairman, Public Accounts Committee

The Chief Executive and Director General, Treasury and Exchequer's response to Comptroller and Auditor General's review: States of Jersey Development Company

July 2020

Glossary of Terms

C&AG – Comptroller and Auditor General

CAMB – Corporate Asset Management Board

DG – Director General

KPI – Key Performance Indicator

MoU – Memorandum of Understanding

RSG – Regeneration Steering Group

SMART – Specific, Measurable, Achievable and Timebound

SOJDC – States of Jersey Development Company

T&E – Treasury & Exchequer

Chief Executive/Treasurer/Director General's Response:

Review title: C&AG Review: [States of Jersey Development Company](#) - Executive Response to PAC by Friday 24th July 2020 (extra time allowed for Covid-19 prioritisation).

Summary of response

1. INTRODUCTION

The C&AG's report "States of Jersey Development Company" was published on 5th June 2020. The report evaluates the extent to which the following comply with the principles set out in the original proposition establishing The States of Jersey Development Company Limited ("SoJDC") that was adopted by the States:

- the internal operations of SoJDC;
- the operation of the shareholder function by Government;
- the arrangements for transfer of land from the Government to SoJDC;
- the arrangements for wider accountability of SoJDC.

The report also identifies the scope for improvements in these arrangements. This document provides the Chief Executive and Director General ("DG") of the Treasury and Exchequer's (T&E) response to the review's recommendations.

The C&AG notes that T&E has initiated a review of the Memorandum of Understanding ("MOU") of all States Owned Entities - including SoJDC. Both the Chief Executive and Director General of Treasury and Exchequer are pleased to note that many of the C&AG's recommendations will be addressed as part of this review of the MOU.

In preparation of this response the DG has consulted with other government departments responsible for the coordination and delivery of initiatives referred to in the C&AG report. The DG has engaged with the States of Jersey Development Company in relation to the findings which relate directly to the company itself. The responses of the SoJDC are included in this response.

2. SUMMARY OF THE MAIN FINDINGS

The C&AG concludes:-

- That the Government does not yet have an integrated strategic framework for asset management and regeneration but acknowledges that progress is being made on this;
- That since the establishment of SoJDC, the Government has not undertaken a formal review of the role of SoJDC to satisfy itself that the outcomes to date are meeting the objectives set out in the original proposition and whether any changes could enhance delivery of Government property objectives;
- That as the key political group to steer regeneration, the Regeneration Steering Group (RSG) has not functioned as intended but progress has been made in 2019;
- That 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;
- That the MOU between the Government and SoJDC lacks clarity in places but acknowledges that a new MOU is due to be issued this year;
- That the shareholder function has developed and improved since SoJDC was established but concludes it requires further development;
- That there is some scope to improve the SoJDC governance arrangements, in particular remuneration policies and transparency in reporting results and achievements;
- That 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.

The C&AG makes 23 Recommendations, 13 of which are for the Government with the balance for SoJDC.

3. FACTORS THAT CONTRIBUTED TO THE FINDINGS

The report from the C&AG highlights that following the States Assembly's decision to establish SoJDC in 2011 there has been no formal review of the role of the company and that the outcomes to date are meeting the objectives set in the original proposition.

The finalisation and implementation of a coherent Estates Management strategy within Government will address some of the factors which contributed to the report's findings. This, coupled with RSG starting to operate more effectively, will facilitate a strategic review to determine whether SoJDC is meeting Government objectives and whether the current delivery model is the most appropriate. This will be delivered with a OneGov approach, and will be enabled by effective partnership working between the shareholder function in the Treasury and Exchequer and other departments responsible for policy development.

The Shareholder function has been strengthened as part of the implementation of the Treasury and Exchequer Target Operating Model. The additional resources in the team will provide more time to focus on strategic matters such as policy development and the implementation of the review recommendations.

4. OUTLINE OF ACTIONS ALREADY TAKEN

Whilst concluding that the Government does not yet have a clear strategic framework for asset management with regeneration opportunities across the Island, the C&AG does note that steps have been taken or are in hand to develop this including:

- the new Island Plan 2021-2030
- the proposed Estates Management Strategy
- 5-year Asset Management Plan
- a refreshed RSG.

The C&AG further observes that from 2019 there has been significant improvement in the governance of RSG meetings, the rigour of the debate and decision making processes. Since October 2019, the RSG meeting:

- provides feedback and challenge concerning SoJDC projects that are both under way and planned, and;
- considers wider Government regeneration opportunities without SoJDC being present

The C&AG acknowledges the fact that a corporate review of the MOUs for the States' Owned Entities ("SOEs") was commissioned and completed in 2019. A new MOU framework arising from the review has been designed to improve consistency of governance and will address the anomalies and points requiring clarity in the current MOU identified by the C&AG, the Government and SoJDC.

Under the Performance review and accountability section, the C&AG report notes that information received by the Government as shareholder through the quarterly meeting schedule has improved significantly since 2016/early 2017 as detailed written reports from SoJDC are received.

5. DEPARTMENTAL PLANS FOR REMEDIAL ACTION

As mentioned in the introduction to this response, the Treasury and Exchequer has initiated a review of the most historic Memoranda of Understanding in November 2018 which is now complete and the final report has been provided. This review concludes with 26 recommendations for consideration that are designed to help to address the implementation of the C&AG's previous findings and those from follow up reports.

In summary, the review recommends that the Government consider the Memorandum of Understanding ("MOU") as a 'framework document' that clarifies the overall governance for States-owned entities ("SOE") and provides clarification on their roles and responsibilities. The new MOU will also include a focus on how SOEs contribute to Island outcomes by delivering the Government's policy objectives. Policy documents for each SOE are expected to be part of delivery and will be identified and referenced within the MOU to clarify what is in scope for each entity. In some cases these policy documents are still to be developed.

A process for setting Key Performance Indicators will be formalised as part of the MOU and monitoring will be included as part of a strengthened Strategic Business Plan agreement. The Key Performance Indicators will be used to monitor compliance with the terms of the MOU, and will include measures to reflect:

- How policy objectives are being met (both delivery and support) - the relevant policy owner and the Partnership team will be involved in monitoring and management
- Being a role model corporate entity
- Asset efficiency
- Compliance with and timeliness of reporting and regulatory requirements

Through these monitoring arrangements, the shareholder function will have an overview of each SOE's performance. This reflects the Government of Jersey Target Operating Model and the need for a more joined up 'One Government' approach to relationships with each SOE.

In the response to the C&AG's review on Remuneration of Board Members, it was proposed to establish a new Arms' Length Body Oversight Board. This Board is in the process of being set up and is expected to be the main forum for the co-ordination of joint policy delivery.

6. TIMELINE FOR DELIVERY

Five of the recommendations for the Government involve the review, drafting and implementation of the new MOU with SoJDC, which the T&E department are working towards a deadline of the end of 2020. Full detail of the activity to be undertaken against each recommendation is included in the Action Plan below. The development of the Partnership model with the SOE is a priority for 2020.

Successful delivery of the action plan is dependent upon effective working between the Treasury and Exchequer, GHE and the Office of the Chief Executive.

Action Plan

Recommendations for the Government	Action	Target date	Responsible Officer
<p>R1 Prepare a clear timetable for finalisation of the Estates Management Strategy and 5-year Asset Management Plan as soon as possible.</p>	<p>ACCEPT</p> <p>The development of the Estate Management Strategy is a top priority for the Government. A final version has been drafted for ministerial review and approval.</p> <p>However, the impact of Covid-19 has delayed progress. So, given the current changing circumstances, the Strategy will be updated to ensure it captures the impact the pandemic has had on:</p> <ul style="list-style-type: none"> • the way government will manage and maintain its estate assets • the wider economic recovery plans and how the Government estate/property interests will contribute to those plans 	<p>End of 2020</p>	<p>Principal Planner, Strategic Policy, Planning and Performance</p>
<p>R2 Ensure that future plans are fully integrated across all areas of the Government including States owned entities.</p>	<p>ACCEPT</p> <p>The establishment Corporate Asset Management Board (CAMB) in the last quarter of 2019 provides a forum for senior officers to consider the strategic management of all departmental real estate requirements to prioritise and sequence activity.</p>	<p>Complete</p>	<p>Director, Estate and Asset Management, Growth, Housing and Environment</p>

	<p>The CAMB then informs the work of the Regeneration Steering Group, which provides feedback and challenge to SoJDC with respect to future plans and requires RSG approval for expenditure.</p> <p>CAMB, RSG and so SoJDC activity is shaped by the Public Estate Strategy, in keeping with the Island Plan, the Government plan and the evolving needs of the Government of Jersey.</p>		
<p>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.</p>	<p>ACCEPT</p> <p>The new States Owned Entities and Larger Arms' Length Bodies Oversight Board chaired by the Chief Executive will consider strategic reviews of SoJDC and other SOE as appropriate</p> <p>In addition, before any wider review is considered the Director General of GHE will be undertaking a review of property management and construction activity across Government. The work will support GoJ to consolidate estates management and maintenance across departments. It will also incorporate how Jersey Property Holdings and SOJDC can work more closely together and whether changes are required to their current operational remits.</p>	<p>End of Q2 2021</p> <p>End of Q1 2021</p>	<p>Director of Treasury and Investment Management</p> <p>Director General, Growth, Housing and Environment</p>
<p>R4 Clarify the respective roles and responsibilities of Director of Partnerships in the context of current</p>	<p>ACCEPT</p> <p>Director of Treasury and Investment Management and Director of Partnerships are developing a policy which</p>	<p>End of Q4 2020</p>	<p>Director of Treasury and Investment</p>

monitoring and accountability arrangements.	will clarify how the Shareholder Relations and Partnership teams will work successfully together and with each SOE.		Management and Director of Partnerships
R5 Finalise the revised draft MOU for discussion and agreement with SoJDC as soon as possible.	ACCEPT Draft MOU to be presented to SoJDC by August 2020 with the aim of implementation by the end of December subject to the relevant approvals	End of Q4 2020	Director of Treasury and Investment Management
R6 Ensure that the revised draft MOU addresses all gaps and points of clarification identified by both parties.	ACCEPT New MOU drafted that address all the gaps and points of clarification identified.	End of Q4 2020	Director of Treasury and Investment Management
R7 Agree a process for a regular, structured review of the appropriateness of the MOU.	ACCEPT Under the terms of the new MOU, the MOU will be reviewed annually by the shareholder and with input from the Board of SoJDC	End of Q4 2020	Director of Treasury and Investment Management
R8 Prepare a formal, periodic shareholder assessment to demonstrate compliance with the terms agreed in the new MOU.	ACCEPT Compliance with the MOU is monitored on an ongoing basis. It is noted that compliance monitoring can be improved - an annual shareholder assessment process will be developed that will evidence areas of compliance with terms of the new MOU and identify where adjustments could be made.	End of Q4 2020	Director of Treasury and Investment Management
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.	ACCEPT The new MOU includes an enhanced section on risk management and the relationship between SoJDC and Government.	End of Q4 2020	Director of Treasury and Investment Management

	<p>This will support open and transparent dialogue between the Government and SoJDC that will facilitate better risk identification. This will ensure that any risks to Government are captured and can be assessed, monitored and mitigated against, where possible. These risks will be included on the departmental or corporate risk registers as appropriate.</p>		
<p>R10 Add a section in revised MOU to include processes and options for realising financial benefits as shareholder.</p>	<p>ACCEPT</p> <p>The realisation of benefits is already catered for to some extent in P.73/2010, but the new MOU will address this further.</p> <p>Work on the implementation of a formal dividend policy will also be commenced.</p>	<p>End of Q4 2020 for MOU</p> <p>End Q2 2021 for dividend policy</p>	<p>Director of Treasury and Investment Management</p>
<p>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.</p>	<p>ACCEPT</p> <p>Benefits realisation and cash flow position are currently reviewed at each quarterly shareholder update meeting with a view to agree the balance between retention and distribution of profits.</p>	<p>End of Q4 2020</p>	<p>Director of Treasury and Investment Management</p>
<p>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.</p>	<p>ACCEPT</p> <p>Terms of reference of RSG have been reviewed and refreshed.</p> <p>A more structured agenda management process has been introduced and a more standardised submission framework for projects is being developed.</p>	<p>31 October 2020</p>	<p>Director General - Growth, Housing and Environment</p>
<p>R13 Carry out an annual calculation of added value of all miscellaneous</p>	<p>ACCEPT</p>		

projects undertaken by SoJDC and transferred as 'dividend in specie' so that cumulative benefit to the Government can be understood and reported fully.	A process to calculate added value of projects delivered by SoJDC will be agreed and formalised between SoJDC and Treasury team and as part of annual shareholder review of MOU compliance.	End of Q4 2020	Director of Treasury and Investment Management
Recommendations for SoJDC	Action	Target date	Responsible Officer
R14 Further improve the business plan including effective links to risk assessment and publish the plan on the website.	ACCEPT SoJDC's 2020 business plan will be updated to include a risk assessment and a summary version of the 2020 business plan will be published on SoJDC's website.	End of Q3 2020	SoJDC
R15 Review the recommendations from the external Board review after 12 months to confirm actions are completed and to evaluate improvement.	ACCEPT Recommendations and summary of actions to be presented to the next SoJDC board meeting.	End of Q3 2020	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 the the SoJDC business.	ACCEPT SoJDC commits to undertaking an independent review of Non-Executive Director's remuneration in 2020. SoJDC is awaiting guidance from its Shareholder on Executive Director's remuneration.	End of Q3 2020	SoJDC
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.	ACCEPT SoJDC has in place an appraisal system for setting objectives and monitoring performance. The current appraisal system will be further developed; ensuring that objectives and KPIs meet SMART criteria and incorporate a grading system.	End of Q4 2020	SoJDC

<p>R18 Review commission-based incentives to demonstrate that they are value for money when compared with others.</p>	<p>ACCEPT SoJDC commits to undertaking a board led review.</p>	<p>End of Q3 2020</p>	<p>SoJDC</p>
<p>R19 Ensure that the objectives, priorities and KPIs in the business plan meet SMART criteria and reflect the Government's strategic objectives.</p>	<p>ACCEPT SoJDC will ensure that future business plan objectives and KPIs meet SMART criteria and are aligned with Government plans.</p>	<p>End of Q4 2020</p>	<p>SoJDC</p>
<p>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:</p> <ul style="list-style-type: none"> <input type="checkbox"/> the value of land donated by the Government; <input type="checkbox"/> return from developments; <input type="checkbox"/> costs that would not normally be incurred by wholly commercial developers, such as improvements to the public realm; and <input type="checkbox"/> the length of time the project has taken. 	<p>ACCEPT SoJDC has included a separate statement within its 2019 Annual Report that details out the value added by the Company.</p>	<p>Completed</p>	<p>SoJDC</p>
<p>R21 Provide Board papers in a timely fashion and continue to look for efficiencies in Board agendas and meetings.</p>	<p>ACCEPT Board packs are distributed at least one week in advance of a formal board meeting.</p>	<p>Completed and Ongoing</p>	<p>SoJDC</p>

<p>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.</p>	<p>ACCEPT</p> <p>SoJDC will introduce a new step in its decision-making process that formally evidences its considerations and assessment of delivery options for a new development – land sale, JV or direct development.</p>	<p>End of Q3 2020</p>	<p>SoJDC</p>
<p>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.</p>	<p>ACCEPT</p> <p>SoJDC is committed and focused on ensuring value for money is achieved in all of its activities. Where the market permits, SoJDC will ensure all tender exercises comply with the requirements of P.73 and the MOU. Where the local market does not permit an open tender process, exemption from the Shareholder will be requested as was the case with IFC 1.</p>	<p>Completed and Ongoing</p>	<p>SoJDC</p>

Recommendations not accepted

	Recommendation	Reason for rejection
	None	Not Applicable

7. CONCLUSION

The Government of Jersey welcomes the C&AG's report on the States of Jersey Development Company. In many areas it makes recommendations for review which are already in the process of being addressed by Government, albeit that the recent Covid-19 pandemic has delayed the implementation of the proposed changes.

In some cases the report makes recommendations which have also featured in other associated reviews, such as those of the Shareholder function and Remuneration of Boards and implementation of recommendations contained within those reports will address several of the points raised in this review.

It is pleasing to note that the C&AG report recognises that the shareholder function has developed and improved since SoJDC was established and the additional resource within that function will continue this development and will enable specific focus to be given to the delivery of the recommendations and to ultimately address the recommendations proposed by the C&AG. Similarly, the C&AG recognises the steps being taken to develop an integrated estates management strategy and the improvements made recently to the format of the Regeneration Steering Group.

The Government recognises the important role it plays as shareholder on behalf of the public of the Island and the need to ensure that the SOEs similarly recognise the role they play as part of the wider Government family. By implementing an updated MOU to reflect the changing external governance environment and Government's own expectations, and ensuring regular reviews of these MOU take place, the Government can ensure that it clearly understands why it owns SoJDC and the contribution it is expected to make to the delivery of government policy.

It is further pleasing to note that the C&AG report has recognised that SoJDC has delivered a range of major projects for the Island with profits available for further development, public realm projects alongside the payment of dividends to the Shareholder.