



**Public Accounts Committee
Jersey Heritage Trust - Financial Review**

TUESDAY, 18th MAY 2010

Panel:

Senator B.E. Shenton (Chairman)
Connétable J.M. Refault of St. Peter (Vice-Chairman)
Senator J.L. Perchard
Senator A. Breckon
Mr. M.P. Magee
Mr. C. Swinson (Comptroller and Auditor General)

Witnesses:

Mr. M. Lundy (Director of Education, Sport and Culture)
Mr. R. McLoughlin (Cultural Development Officer, Education Sport and Culture)

In attendance:

Ms. M. Pardoe (Scrutiny Officer)

Senator B.E. Shenton (Chairman):

Could I ask you to read the piece of paper in the middle of the desk. Mario must know it off by heart by now. It basically says that we are not going to sue him. For the purposes of the tape if we could go round the table clockwise, starting with Mario, if you could just introduce yourself for the tape so that we can pick up on the recording.

Director of Education, Sport and Culture:

Mario Lundy, Director of Education, Sport and Culture.

Cultural Development Officer, Education Sport and Culture:
I am Rod McLoughlin, Cultural Development Officer at E.S.C. (Education, Sport and Culture).

Mr. C. Swinson:
Chris Swinson, Comptroller and Auditor General.

Senator A. Breckon:
Alan Breckon, member of the Public Accounts Committee.

Senator B.E. Shenton:
Senator Ben Shenton, Public Accounts Committee.

Connétable J.M. Refault (Vice-Chairman):
John Refault, Vice-Chairman, Public Accounts Committee.

Senator J.L. Perchard:
Senator Jimmy Perchard, Public Accounts Committee.

Mr. M.P. Magee:
I am Martin Magee, independent member, Public Accounts Committee.

Ms. M. Pardoe:
Mel Pardoe, Scrutiny Officer.

Senator B.E. Shenton:
Good morning. We have called you here to look at Jersey Heritage Trust. The C. and A.G. (Comptroller and Auditor General) report came out in October 2009 and what we decided as a committee was to give you some time to take on board the recommendations and perhaps put into action whatever needed to be put into action. The point of the hearing is for you to update us on where you are and also give us a sense of how we got to where we are at the moment. So, the first question is a very basic one. What exactly were the department's arrangements for monitoring the operations of the Jersey Heritage Trust?

Director of Education, Sport and Culture:
The arrangements that were set out were they complied with financial direction 5.4, obtaining value for money from grants,

obviously part of the Public Finance Law. The way that we went about it was each body, not just the Heritage Trust, each grant-obtaining body was required to set out its purpose in its constitution, which is agreed. Partnership agreements exist with each of the bodies. In fact the shadow Public Accounts Committee received an audit which highlighted the nature of those partnership agreements at the time. Each of them identifies the functional areas; in respect of the J.H.T. (Jersey Heritage Trust), for example the J.H.T. constitution, general operational aims and specific outcome-based performance measures. On top of that obviously we would expect each of the bodies to present an annual business plan, an annual report, annual accounts and quarterly reports on activity and performance.

Senator B.E. Shenton:

What do you mean by outcome-based performance measures? What sort of performance measures would those be?

Director of Education, Sport and Culture:

Obviously it depends very much on the organisation that you are awarding the grant to. They would be around the objectives and at the most basic they could be around income generated, it could be about visits to sites. It is a broad range of objectives. In fact, one of the criticisms has been that the range of performance objectives is too complex and needs to be narrowed down to more focused, and we would accept that.

Senator J.L. Perchard:

With these robust systems in place, what happened in 2005 at Education, Sport and Culture when the audited accounts of the Jersey Heritage Trust showed its first deficit of £65,000? What systems were flagged up and what actions did you take, particularly when 2006 showed a deficit of £180,000?

Director of Education, Sport and Culture:

Obviously I cannot speak with complete confidence in this because I was not in post until 2008 but my understanding of the situation is that it was generally recognised that there was a funding crisis in Jersey Heritage Trust. In fact, you recognised that as States Members because it was discussed when you debated the cultural strategy. So there was a general awareness that funding and activity were mismatched. I think that all I can say is that my understanding is that at the time there was an expectation that the

Minister for Education would come back to the States to seek additional funding for the cultural strategy. That has not happened and I cannot comment on why it has not happened.

Senator B.E. Shenton:

You say there was an expectation that the Minister would come back. Where does the Chief Officer come in here in making sure that the Minister comes back, bearing in mind that the trust is running annual deficits?

Director of Education, Sport and Culture:

I cannot comment on that because I was not the Chief Officer at the time but if you are asking me a general question in respect of a chief officer's obligations then it would be to remind the Minister that he had to come back. There may have been other circumstances that prevented that from happening. I do not know whether you can comment on that, Rod?

Cultural Development Officer, Education, Sport and Culture:

I think the Director is right that the Chief Officer will obviously advise the Minister. I think that indications are in the cultural strategy that there is recognition that the States will either have to accept fundamental cuts to what Jersey Heritage provides or that there will have to be an increase in funding. I think to me one of the difficulties in a sense is that this financial crisis for the trust comes at the same time as the States is adopting a document which is all about expanding culture provision and doing more things. I think there is a mismatch between the aspirations to do more things and the reality of the funding. Clearly the situation at the moment in terms of funding is even more difficult than it was at the time when the cultural strategy was adopted. So I think part of the problem lies in trying to square these conflicting sets of aspirations. I think that is fairly clearly set out in the cultural strategy in a fairly direct way in terms of the bodies which are in receipt of States funding. I think it is quite difficult to acknowledge on the one hand that there is not enough money for those bodies and on the other hand to be saying we must expand in these various areas.

Director of Education, Sport and Culture:

Regardless of that, the fact of the matter is that as accounting officer it is for me to ensure that the States gets best value for the money that it does invest in these organisations and that the money is appropriately used.

Senator B.E. Shenton:

I suppose that goes back to the partnership agreement which you seemed to infer was a little bit over complicated and ...

Director of Education, Sport and Culture:

I think we are moving from a time when there was a fairly light touch to this type of governance. The Comptroller and Auditor General in his report commented on the dysfunctional relationship and the fundamental basis of that dysfunctional relationship was that I suppose the department looked on the trust as an independent body and the trust felt that it had the safety of being connected to the States and therein lies a contradiction. I think it is for us to look at that, to learn the lessons from that and to firm up arrangements to make sure that roles are absolutely clear and a situation like that does not arise again. For me there are a number of things that need to be done in order to ensure that that is the case and the first thing is that we probably need to make the partnership agreement a service level agreement that is more specific, that sets out very clearly what the States are seeking to purchase, in a sense, when it passes the money across to Heritage Trust and other bodies that get awarded grants. There is also a requirement for us to ensure that governance arrangements in each of these organisations are robust, rigorous and resilient, and quite clearly that is work that we are doing at the moment with the Jersey Heritage Trust. I think there is also a need for a more frequent review, a quarterly review for example, of more detailed financial information. So, in a sense, the recommendation of the Comptroller and Auditor General is that if we want to avoid this in the future the department perhaps need to take a more directive or a more interventionist role and that is what we have done.

Mr. M.P. Magee:

Could I just touch on something? I went on to the website of Jersey Heritage this morning. It is nice to talk about getting quarterly real time reports but the last set of accounts that is in the

public domain is 2007. We are in 2010 so I think even if we could catch up year by year, never mind quarter by quarter. So, I guess, what exists at the moment in terms of that relationship? Do they have an agreement to report to you within a certain timeframe?

Director of Education, Sport and Culture:

They do. I cannot comment on the last set of accounts that have been on the website and we are not responsible for the day-to-day management of the trust so we are not managing their website and suggesting or even monitoring their website, but accounts are presented to the department in fact. We are awaiting last year's accounts but quite clearly there is a bit of a delay because of the work that we are doing with them and some of the challenges that they are having to face at the moment in cutting back on their services. But, yes, you are absolutely right, it is about learning the lessons, making sure that processes and procedures are sharp and the public is well informed and that is our responsibility, to ensure that bodies that receive grants from us do just that.

Senator B.E. Shenton:

The P.A.C. (Public Accounts Committee) recommended in our most recent report in relation to E.S.C. that States departments adopt a zero tolerance stance towards grant-aided bodies if they do not provide the information that is required.

Director of Education, Sport and Culture:

I am not saying that the organisation has not provided the information that has been required from it.

Senator B.E. Shenton:

What actual steps have you taken in the last 6 months to make sure that financial governance will be adequate in the future?

Director of Education, Sport and Culture:

Well, obviously, the first thing that we did was to invite the C. and A.G. to undertake the review and his report was constructive and paved the way for the actions that followed. Through the Economic Development Department we engaged Locum Consulting and the purpose of that was to try and help the trust tap into any untapped commercial opportunities. In fact, Locum took the view that they were doing pretty well in that respect. They had a high degree of income and that there probably was not the opportunity for them to either increase the number of visitors to

their attractions or to increase the money that they get from visitors. Subsequently we engaged BDO to work internally with the trust to help them improve governance, financial reporting and to explore ways to secure a better reporting relationship between the trust and E.S.C., and we have just received the second part of that report. We also engaged BDO to work with the trust to help them explore ways in which they could reduce their costs and quite clearly they have got to reduce their costs but within a political commitment really to try and keep sites open. Nobody wants to lose sites that are currently available to the public and that was one of the things that had to be tackled. So they have tried to reduce costs while keeping sites at least available, if not open all year round. So some steps have been taken by J.H.T. to bring their spending into line. I cannot comment too much on the actual steps. I am sure you will ask J.H.T. about that and some of them will be sensitive at this time. The outstanding debt has been cleared and that was cleared by additional funding from E.S.C. over a period of 3 months. It was on a monthly basis and obviously it was related to performance each month. That has now happened.

Mr. M.P. Magee:

Is that the overdraft has been cleared?

Director of Education, Sport and Culture:

They do not have an overdraft. They did not have an overdraft facility at midyear last year. That facility was withdrawn but they had a potential debt if they did not get the funding from elsewhere and that was what was pointed out in the C. and A.G.'s report and so the department has provided additional funding to deal with that problem.

Senator J.L. Perchard:

To what level is that? What is it?

Director of Education, Sport and Culture:

In total that was £888,000.

Senator J.L. Perchard:

That has now been paid for how exactly?

Director of Education, Sport and Culture:

That was paid out of a higher education under-spend for that particular year. The issue with higher education, as you will be aware from previous meetings, is that it is not smooth, it is up and down. So that was where the money ...

Senator J.L. Perchard:

That would have been monies normally returned to the Treasury at year end?

Director of Education, Sport and Culture:

Well, it would have been monies that would have been subject to the annual discussion about departmental under-spends, yes. There still remains, as you are probably aware if you have looked at the Locum report and the BDO report, an additional requirement for revenue funding of about £200,000 a year and that is if further cutbacks are to be avoided. Quite clearly that is a matter of choice. There also remains an additional requirement for a capital sinking fund of about £465,000 a year to refresh attractions. The issue here is that quite clearly the museum has been going for quite some time. If you are going to generate income locally then you are going to have to change things and improve things. If you do not invest then you cannot maintain your income or in fact explore new avenues for income. So that is the other requirement.

Mr. M.P. Magee:

Can I just touch on that because we have not had any sight of the BDO report because it is not public domain. The only report we have seen is the Locum one and the Locum one, to me reading it, sort of touches on some of the findings of BDO and it basically says that there is about £2 million going in at the moment but there is probably another £1 million of a potential deficit that would come out on an ongoing basis, £500,000 or so because of the sinking fund, £500,000 because of the normal running which is probably getting eaten into by redundancies, et cetera. So that is what Locum says it is really £2 million going but it is probably £1 million shortfall. Really my question is is that £1 million shortfall going to be attacked through these cuts that are going to be made, because it is a big sum of money?

Director of Education, Sport and Culture:

The redundancy issues and restructuring costs are being borne by additional support over and above the £888,000 from the department.

Senator B.E. Shenton:

Do you have a figure on that?

Director of Education, Sport and Culture:

There is £250,000 potentially in restructuring costs. There is approximately ... well, up to £160,000, depending on how quickly one can implement the changes, and then there is a £200,000 revenue shortfall for this year. We have identified the funds to support that but those funds can only be drawn down after the trust have quite clearly identified the requirement for the funds and how they are being used.

Senator B.E. Shenton:

So the total sort of figure to fix Jersey Heritage Trust is £1.5 million?

Director of Education, Sport and Culture:

Well, the total figure to fix Heritage Trust is not £1.5 million in terms of ongoing revenue but it is close to that for this year.

Senator B.E. Shenton:

For this year, just to get it back on to an even keel.

Senator J.L. Perchard:

The Director mentioned £250,000 for restructuring costs and £200,00 for the revenue shortfall for the period end of 2009 and this year. What was the £160,000 for?

Director of Education, Sport and Culture:

Well, it is really because you do not get the full effect of any changes that you are making in restructuring for this particular year. So that is just a sum that has been set aside.

Senator J.L. Perchard:

So it is £410,000 for restructuring?

Director of Education, Sport and Culture:

Yes.

Senator J.L. Perchard:

How is that made up? It is a third of a million pounds, nearly. How is that made up?

Director of Education, Sport and Culture:

I am not quite sure of your question.

Senator J.L. Perchard:

£410,000 for restructuring of Jersey Heritage.

Director of Education, Sport and Culture:

You mean what would the restructuring entail?

Senator J.L. Perchard:

Yes. There are some redundancy payments in there I would assume. How else is that figure made up?

Director of Education, Sport and Culture:

I think the trust have provided us with a complete breakdown of what they intend to do to reduce their costs and I think probably that would be more appropriately addressed to the trust because some of the things may yet be a little sensitive. So it is probably better that they tell you exactly what they intend to do.

Senator J.L. Perchard:

So you are fully aware of how that figure is made up but you just do not want to divulge that information?

Director of Education, Sport and Culture:

We are fully aware of it and we are not releasing any funding at all until such time as we are very confident about the purpose that the funding is going to be used for and the arrangements that are in place.

Senator J.L. Perchard:

I am not surprised.

The Connétable of St. Peter:

Can I take you back to the £880,000 that you paid over a 3-month period? You did go on to say that that was subject to certain performance criteria being met. Can you tell us what those were?

Director of Education, Sport and Culture:

It was subject to a monthly discussion with the trust about their position and it was subject to some confidence being given to us by BDO who were working fairly intensely with the trust at that time.

The Connétable of St. Peter:

Were there any specific measures you sought and achieved over that 3-month period?

Director of Education, Sport and Culture:

I cannot comment on specific measures because I was not engaged in the detail of the conversation. Certainly you would see if you look at the BDO report.

The Connétable of St. Peter:

But you authorised the spend though?

Director of Education, Sport and Culture:

If you would look at the BDO report you will see that it has gone into the trust's activities in some detail and my understanding is the Minister is going to publish that soon so you will be able to have a look at the types of things that we were discussing with the trust and the detail.

The Connétable of St. Peter:

I am just slightly confused because you say you are the accounting officer so you authorised the spend and you said there were some criteria which were set to pay the spend against and then you are saying you were not engaged in the detail of that.

Director of Education, Sport and Culture:

The difficulty for us was that the States owned the properties and there was no way last year that the States could afford to let the trust go down so this was not about performance criteria, this was about making sure that the figures each month were accurate and that the requests for additional funding were accurate.

Senator B.E. Shenton:

It could realistically be perceived that there was a weakness by the department in the governance of Jersey Heritage Trust over the years. How confident are you that you have the right systems in place to monitor other grant-aided bodies like the Jersey Arts Trust and Jersey Opera House where you give funding? Is this a one-off weakness or are you confident that your department can monitor grant-aided bodies in a satisfactory manner?

Director of Education, Sport and Culture:

As you would expect one of the first things that we did was to have a look at the other organisations because quite clearly we would not want to have the same problem again. We had an audit in January of the other cultural organisations and the result of that audit was positive in the sense that they had significant confidence in the boards of those organisations that they were confident that they understood the economics of those organisations and had a handle on the issues. So that report in January gave us some confidence that things were okay in the other organisations but quite clearly if there are lessons to be learned out of this then those lessons will be transferred to the other bodies where we award grants.

Senator B.E. Shenton:

£65,000 loss 2005, £180,000 loss 2006, £259,000 2007, £500,000 loss 2008, £182,000 loss 2009; what exactly was the department doing during this time?

Director of Education, Sport and Culture:

It is difficult for me to comment on that. I can tell you what the department has been doing over the last year and the department over the last year, in fact over the last 2 years, has been in discussion with the trust and the Minister has been in discussion with the trust. In fact, the Minister and the previous Minister had been in discussions with the trust. One of the difficulties is that no additional money was forthcoming and there was no real will to see services reduce. We have had to work towards a compromise over time: services are now going to reduce, the trust is now going to bring its spending into line with its income. I have got a greater degree of confidence now as accounting officer that there will be appropriate mechanisms in place to ensure financial propriety. The difficulty, I think, is that there is always going to be a

vulnerability around the trust's income. You have seen how it has been affected by a reduction in the number of tourists: the footfall has gone down and the income has gone down. So, quite clearly a lot of their financial projections for the future are based on income that they intend to generate. That is vulnerable and if the trust is going to continue to provide the range of services that the States would expect it to provide then it would need to be able to replace any funding it would lose in that way. The Minister intends to bring a service level agreement as part of his proposition to the States so that there is some States agreement on exactly what Jersey Heritage Trust will be providing for the future and so that States Members can take a view as to whether or not the funding levels to sustain that level of activity are appropriate.

Senator J.L. Perchard:

Can I ask a question that arises out of the answer you have just given? You said during the period that the Chairman has just quoted, 2004 to 2009, there were repeated annual losses going up to £500,000 in 2008. You said there were no additional monies forthcoming and no appetite to see services reduced. Obviously this is not a sustainable position and you said it was really not on your watch, I think, it was your predecessor. Would you condemn the department's actions over this period as inadequate and how can you assure the committee that this will not happen again under your watch?

Director of Education, Sport and Culture:

I think it is unfair to ask me to comment on things that have happened in the department before I became director.

Senator J.L. Perchard:

Will you learn from it?

Director of Education, Sport and Culture:

Yes, absolutely.

Senator J.L. Perchard:

What will you learn from it?

Director of Education, Sport and Culture:

What I have already said we have learnt from it. We have learnt that we need to have a very clear service level agreement, but it is not just specifying the objectives that one would expect the organisation to achieve but also setting other constraints, for example restricting access to overdraft facilities without an approval by the Minister, also restricting the purchase of significant items of capital expenditure without the authority of the Minister. There has to be some constraint around the flexibility that the trust and other grant-aided bodies have. They are, after all, looking after States assets and, as the C. and A.G.'s report quite clearly states, that puts a reliance on the States that could take it into some difficulty and has done in fact. So that is one way, to make sure the service level agreement is absolutely secure, it explains exactly what the States is buying for the trust and that the income that the trust gets from the States is commensurate with the activity that the States expects the trust to provide. The second way is around firming up internal governance, ensuring that there is appropriate financial reporting within these organisations so that the boards of trustees are fully aware of the financial situation at appropriate times throughout the year, monthly at least, because there is a danger otherwise that they only become aware of difficulty when it is too late to do anything about it. The other way, of course, is to develop more rigorous governance arrangements as far as the department is concerned for the trust. So I think we would be seeking to identify very clear performance criteria and to receive very clear and detailed financial information on a quarterly basis so that we were well informed. In fact, in the interim period we intend to do that on a monthly basis.

Senator B.E. Shenton:

When did you take over as Chief Officer?

Director of Education, Sport and Culture:

1st January 2008.

Senator B.E. Shenton:

One thing that did concern me from the C. and A.G. report was in 2008 the trustees did prepare a plan to end the series of deficits and that was put to the department.

Director of Education, Sport and Culture:

It was put to the Minister.

Senator B.E. Shenton:

Put to the Minister. The Minister was up for re-election at that time and in effect he asked for the plan to be held over until after the election. That is the facts. Where does your responsibility lie? Does what the Minister says, that is it? Surely you have a responsibility to the people of the Island. If a grant-aided body is running a series of deficits and there is a plan put before you and the Minister says to hold it over until after the election, how does that leave you, how does that leave the taxpayer?

Director of Education, Sport and Culture:

Firstly the Minister is accountable for the funds and I am accountable to ensure that they are used appropriately, not misused and there is no overspending. I think when you have a situation such as that arising it is somewhat difficult. If there is a danger that the department would become in any way overspent then that would cause considerable difficulties for me.

Mr. C. Swinson:

Did you say the Minister is responsible for funds?

Director of Education, Sport and Culture:

I am quoting, I think, from the financial directions 5.4, which I do have somewhere here.

Senator B.E. Shenton:

When the Minister asked for the plan to tackle the deficit to be held over until 2009, what was the official reason given to the department for that decision?

Director of Education, Sport and Culture:

It was not as clear cut as that. The fact of the matter is that the Minister was in discussion with the Heritage Trust about how they could possibly change aspects of the business. That discussion went on probably longer than it should have gone on, and in fact it is recorded in the Comptroller and Auditor General's report as procrastination because it did not enable action to be taken that brought spending into line as soon as it possibly could. I cannot obviously comment on the political aspects of this. All I know is that we get to a point where a political decision has to be made and the political decision is either you put more money into the trust or you agree with the trust that they take action that is going to reduce their costs. That is where we are now.

Mr. M.P. Magee:

Can I ask what might be a stupid question here, Mario? I struggle to figure out what value the trust brings to this whole thing, because it looks to me as if you know what you want to do. You want to create this service level agreement with this organisation to spend your money on your buildings.

Director of Education, Sport and Culture:

It is more than just buildings, is it not? The constitution of the trust gives it a much wider range of responsibilities and the people who are engaged in running the trust, the managers and people who are working for the trust, are experts in the field and they have a degree of expertise and skills that we do not have within the department. So we depend on them for their expertise in the field of culture and heritage. We could not run those facilities without appointing the staff ourselves so we just take on the responsibility of doing that. The thing is that in terms of art, culture and heritage it has always been felt quite healthy to keep it separate from government.

Senator J.L. Perchard:

Just carrying on from that question, really to be involved in the Jersey Heritage Trust, or perhaps the Société Jersiaise or the National Trust, you do so because you have a passion for that area, heritage in this case. That is why I hold your department, not on your watch as you keep reminding us, to account really for the financial turmoil that has run through the veins of the Jersey Heritage Trust for the last 5 years. They have been allowed to borrow being unchecked and spend without being held to account by your department, not on your watch. I ask you really now is your department a credible manager of States investments in cultural activities or should the cultural activities be managed by perhaps Economic Development?

Director of Education, Sport and Culture:

I think the first thing I would say is around the borrowing and of course one of the issues that led to the borrowing was the purchase of the Ducks. We were not aware of that purchase until after it had effectively been authorised. I think with any arm's length body --

Senator J.L. Perchard:

Can you just remind us how much that was for?

Director of Education, Sport and Culture:

I think we are talking about a £500,000 investment. Quite clearly that caused a considerable difficulty for the trust because what effectively they had done was to make a capital purchase out of revenue and not necessarily trim back on the business afterwards to make up the deficit that thereafter occurred in revenue funding. I guess with any arm's length body there is always the danger, no matter how tight your controls are, that a course of action might be taken that causes you some difficulty. The purpose of the governance arrangements we have put in are to make sure that you minimise those risks. I think that the Education, Sport and Culture Department is well placed to continue its relationship with Jersey Heritage Trust because art and culture is as much about learning as it is about visitor attractions.

Mr. C. Swinson:

A little earlier you said, Mario, I think, that by the end of 2009 you were in a position where you had no choice but to make good the borrowing because the States could not afford to allow the trust to go down.

Director of Education, Sport and Culture:

That is effectively what I was saying.

Mr. C. Swinson:

So the effect of that is, just returning to Martin's question, that in the end you had no choice but to make good the consequences of the overspending.

Director of Education, Sport and Culture:

That is effectively the position.

Mr. C. Swinson:

So, from the point of view of the trust, the practical reality - whether it was the reality in legal documents in fact is irrelevant to it - was that in the end the States had to make good.

Director of Education, Sport and Culture:

The States was the banker of last resort.

Mr. C. Swinson:

In that light, going back to Martin's question about what is the value added by the trust, the answer was that it is to do with the specialisms of the people and I am not trying to destroy that.

Director of Education, Sport and Culture:

It is also to do with the trust's ability to generate funds for itself.

Mr. C. Swinson:

But if the consequence of getting that benefit is that you act as banker of last resort, what is the value added by having a supposedly arm's length body?

Director of Education, Sport and Culture:

One of the reasons that one would have an arm's length body is to ensure that that body could have access to funding that is outside of the States domain - so public funding, sponsorship, et cetera - and that it would be able to operate free of government influence in the field of arts, culture and heritage.

Mr. M.P. Magee:

I think if you took that example and you basically look at the P. and L. (profit and loss) account for 2009 there is £3.8 million of expected revenues at that point, £2 million was coming from government, £1.1 million from admissions, and sponsorship you have got £124,000. So it is a very, very small element because basically you guys are paying for this.

Director of Education, Sport and Culture:

I think if you were go into it more deeply, if you were starting off from scratch what you would be hoping is that by engaging with the trust to undertake these activities not only would you benefit from the expertise, not only would you benefit from the additional income the trust would bring in but you would also benefit because the trust should be able to provide those services more cheaply.

Mr. M.P. Magee:

Should be?

Director of Education, Sport and Culture:

Should be.

Cultural Development Officer, Education, Sport and Culture:

One of the important points which needs to emerge from this is the issue which I think is identified in a number of reports, including the Comptroller's report, and that is what the extent of States expectations is for culture in the Island. The truth of the matter, I think, and the reason that the department has had to provide additional funding in the way the Comptroller described is because there is not enough money to sustain what is going on at the moment. Clearly in political terms that becomes very difficult because nobody, as you rightly implied, wants to see cutbacks but the issue really is what degree of cultural investment does the Island want to make and feel is appropriate, what sorts of sites does it need to keep open in the interests of heritage in Jersey. In relation to the other point about what the extra value is for the heritage organisations, one of the things is to build partnerships between the organisations and to try to develop things which would not otherwise be developed. For example, Hamptonne would be an example where the partnership between the National Trust and the Société has resulted in the acquisition of something for the Island, in the interests of the Island, and the problem there is is there sufficient funding from Government to match that aspiration on behalf of the voluntary sector where quite an investment has been made but at the moment we cannot afford to deliver it between us. There are various ways it is being looked at in order to try to achieve that. It seems to me that it all boils down to really what degree of activity the States feels is appropriate. I think that decision has got to be taken and clearly that will be taken when the Minister takes the proposition to the House.

Senator J.L. Perchard:

You make a very good point. Do you think the laissez-faire approach to proper budgeting and accounting over the last 5 years at Jersey Heritage Trust is an attempt to press this issue or force this issue, or is it something else?

Cultural Development Officer, Education, Sport and Culture:

Not at all. I think one of the difficulties is that both the Heritage Trust and the department have been dealing with a cultural strategy which is entirely upfront about these things, not a question of special pleading on behalf of the Heritage Trust nor on behalf of the department. I think the cultural strategy is very clear, approved as it was in September 2005 and written slightly before that date, that there just is not enough money in the system to run what the

organisations are trying to operate. I think that clearly there is a mismatch between that document and the available finance.

Senator J.L. Perchard:

Has the Jersey Heritage Trust suffered from political neglect over this period?

Cultural Development Officer, Education, Sport and Culture:

With respect, I do not think that is the sort of question I can respond to. What I can say is that this is a States document which was endorsed by the States and which I think is extremely clear about the situation. It is not a question of hedging around the situation. It is very, very direct in terms of what it says. It may be difficult to deal with the conclusions and that may have produced the situation in which it is very difficult for everybody to operate but I think it produces a situation in which the solution to that is greater clarity about what the States wants.

Director of Education, Sport and Culture:

I think we are in danger of getting into another debate which is around how much the States are prepared to invest in art and culture. The fact of the matter is it does not matter at this time. It is about ensuring that the money that is there is appropriately spent, appropriately accounted for and that the activities of any grant-aided body are in line with government expectations and that is where we are coming from. That is exactly what we are trying to achieve and there is no doubt that in the past more generally there has been a light touch approach to the management of arm's length bodies, relationships with those bodies, and what we are trying to do is to firm them up now. I think where you have an arm's length body that has a liability or potential liability that the States could pick up then, as indicated in the C. and A.G.'s report, it is probably necessary to have a high degree of intervention and direction and that is exactly where we are going with this. There needs to be a much clearer set of objectives, much clearer direction from the States as to what it wishes bodies such as Jersey Heritage Trust to provide and much clearer and much more rigorous governance, both within the organisations and between the organisations and the States departments that manage them, regardless of whether it is Education, Sport and Culture or any other department.

Senator B.E. Shenton:

The Jersey Heritage Trust, one assumes, can still go out and get in this position again. The Opera House, I think, a few years ago had to go out and borrow money from Barclays Bank which seemed quite ludicrous at the time, bearing in mind that the Government would end up being the lender of last resort. All you are doing is giving income to Barclays Bank. How do you stop grant-aided bodies borrowing in the future, bearing in mind that the taxpayer is the lender of last resort?

Director of Education, Sport and Culture:

I think the first thing you do is you do not give them permission to borrow. As part of your service level agreement you tighten that up so that there would be no automatic access to borrowing without approval from the Minister.

Senator B.E. Shenton:

But you do not have a service level agreement with Jersey Heritage Trust at the moment.

Director of Education, Sport and Culture:

We have a partnership agreement with Jersey Heritage Trust.

Senator B.E. Shenton:

Which is not the same.

Director of Education, Sport and Culture:

No, and that is what I am saying. It will become a service level agreement.

Senator B.E. Shenton:

The Opera House and Arts Centre and the others, do you have service level agreements?

Director of Education, Sport and Culture:

We have partnership agreements with those organisations but they still spell out the objectives, spell out the expectations, the key outcomes, the objectives. There is probably the need for a more direct link between the actual funding and the activity that a service level agreement would provide.

Mr. M.P. Magee:

I guess there is one other point that has really surfaced for me anyway. We have many conversations about States spending in this room and it just seems to me as if there has been £1.5 million magicked from somewhere to cover some bills that were not evident 2 minutes ago. How does that happen? Where does that contingency come from or have other things suffered?

Director of Education, Sport and Culture:

As I said, it is not a contingency. It was higher education funding that was not used in the current year. Obviously in any one year the demand on the higher education fund depends on the number of students who go to the U.K. (United Kingdom), it depends on parental income and it depends on the cost of courses that the students are studying and that fluctuates. In that particular year there was funding left over in the higher education ring-fenced fund.

Mr. M.P. Magee:

So if it had been a bad year and there was no excess ...?

Director of Education, Sport and Culture:

Then we would have a problem.

Mr. M.P. Magee:

But you would not have let them go down because the £1.5 million was in effect underpinned?

Director of Education, Sport and Culture:

Well, the department would have had a problem.

Senator B.E. Shenton:

You mentioned the cultural strategy. It is not covered in this report but Mario has spoken about the States deciding as a body what they want to invest into heritage and the arts and so on and so forth. Obviously as a politician, when the propositions come to the States they are not written by the politicians, they are written by the senior civil servants and the civil service departments.

Director of Education, Sport and Culture:

That is not necessarily the case.

Senator B.E. Shenton:

But going back to the cultural strategy, is the cultural strategy affordable? Is it an aspirational document or a realistic document?

Cultural Development Officer, Education, Sport and Culture:

I think it is not very clear what the total cost of the cultural strategy is because I think it is a fairly open-ended document but the reason it is an important document as a matter of principle is that it is the first time that the States was signing up to a strategic approach to culture. I think it is important to bear in mind that the notion of public funding for artistic or cultural activities is fairly recent in Jersey. These things have built up as a result of the efforts mostly of the non-profit sector and started off by being a question of government supporting things which in principle it thought were worthwhile by means of a grant, not that government would directly have a strategic approach itself.

I think the cultural strategy marks a sort of symbolism of governments thinking these issues were important. The difficulty is not whether or not it can afford it but whether it is very clear what the costs are and what the implications of the cultural strategy are. So there are all sorts of policies and aspirations which throw up, in practice, a lot of quite difficult issues. To give one sort of obvious example, there is a view that people should have free access to their heritage sites. Museums in England, principal museums, you can get in for nothing. One of the aims of the Heritage Trust is to make sure that price is not a barrier to people enjoying cultural and heritage activities. It does not quite go as far as saying it has got to be free but it implies that there should be a movement towards making sure that the public as a whole are not prevented from visiting heritage sites and attending events there by virtue of cost. You have to square that, of course, with the reality of what it is reasonable for the Heritage Trust to earn by way of earned income and one of the conclusions of the Locum report was that in principle the Heritage Trust were doing pretty well in terms of both the number of visitors they were attracting and the amount of money which those individual visitors were generating. But there is obviously a philosophical conundrum here because once you start to introduce additional charges the assumption is that the number of people who are attending is likely to fall off. So there is a question of balancing public access to heritage with the

revenues which you can reasonably generate. An example of the kind of thorny issue which I think needs unscrambling in terms of the relationship between the States and the heritage organisations: is general access to culture in a way which is subsidised by government an important principle, should people pay? How do we deal with that? These are the kind of issues which come out of the cultural strategy in a way which is not simply can we afford it or not but really what does it mean. What in practice does it mean? What level of support should government provide and what should be the requirements on the organisations themselves to generate the level of funding? You mentioned the other cultural organisations and the same principle would apply, for example, with the Opera House and its programme and how it has had to manage in recent years since the financial difficulties which you alluded to earlier.

Senator B.E. Shenton:

It does make you question whether strategic documents in the type of the cultural strategy or even the previous strategic plan should be looked at. Using Mario's answers where he says: "The politicians did not give us guidance as to exactly what they wanted" because we produced very open-ended aspirational documents, it almost gives people a get out of jail card if they overspend on certain things because they turn round and say: "Well, the States never told us what exactly they wanted."

Cultural Development Officer, Education, Sport and Culture:

I think the issue is how you get to the public interest in all of this, is it not? I think that is ultimately the problem. Clearly, from the point of supervising States expenditure, it is very undesirable to find oneself in the position that the department found themselves in. I think that is accepted. Equally, I think if the cultural policy was simply determined by having to close everything in order to produce the outcome which financially one might see that might not be looking at the cultural strategy, be what the States maybe had in mind when they approved the strategy.

Mr. C. Swinson:

Could I just ask a question about that. Just putting your answers together with Mario's what I think I am hearing is a statement of there was a cultural strategy which encouraged expectations that went beyond the deliverable possible within the finances available but because that strategy existed people were encouraged to

spend beyond the finances available safe in the knowledge that the States would be lender of last resort anyway.

Director of Education, Sport and Culture:

I can see exactly how you might get to that conclusion but I do not see where the encouragement was. In actual fact that was not the case. People would never be encouraged to spend resources that they did not have and even if --

Mr. C. Swinson:

But clearly not discouraged?

Director of Education, Sport and Culture:

No. Well, I think you would find they have been discouraged. They have certainly been discouraged from spending funding that they do not have in the last 2 years and have been more than encouraged to reduce costs in the last 3 or 4 months. So I think firm action has been taken by the trust to bring its spending into line with its income and there is no evidence that I can see anywhere that the department has at any time encouraged any bodies to spend funding that they do not have.

Senator J.L. Perchard:

I would like to touch a little bit on the purchase of the Puddle Ducks which happened in 2008, which was probably on your watch just about, Mario. Was the department involved in any way in the negotiation of the purchase or was the department involved in any way in providing advice to the Jersey Heritage Trust when purchasing the Puddle Ducks?

Director of Education, Sport and Culture:

No. My understanding is that the department advised the Heritage Trust that it could make available advice from corporate procurement to assist them in the discussions about the renewal of the contract but that was as far as it went.

Senator J.L. Perchard:

So your department was informed by Jersey Heritage Trust, possibly via the media or - better question - how was your department informed of the purchase of the Puddle Ducks? How did you find out about it?

Cultural Development Officer, Education, Sport and Culture:

Retrospectively once the purchase had been made.

Senator J.L. Perchard:

So there was no involvement from anybody in the department? You must have been very disappointed to hear that not only had they bought the Puddle Ducks but they did not hold the previous providers accountable for not fulfilling their contract.

Director of Education, Sport and Culture:

I am not sure disappointment is the sentiment that I would express but certainly we would have been concerned to find out what had happened and why it had happened. Of course, the Jersey Heritage Trust published a report on that in the States and subsequently the chief internal auditor had a look at the data around that and concluded that it was a necessary business decision at that time.

Senator J.L. Perchard:

What was your reaction when you found out about this? Did you have a reaction?

Director of Education, Sport and Culture:

From an accounting officer's perspective it would be my view that you would not use revenue funding to make a capital purchase and if circumstances prevailed that forced you to do so then you would probably subsequently take steps to ensure that you could manage within the revenue that you now have.

Senator J.L. Perchard:

You have told me what you feel about it. What was your reaction? Did you take the Jersey Heritage Trust to task about this, did you challenge them?

Director of Education, Sport and Culture:

At the risk of using that phrase again, I think the purchase was in 2007.

Senator J.L. Perchard:

Not on your watch.

Director of Education, Sport and Culture:

So I did not have a reaction.

Mr. M.P. Magee:

So is it just a process thing? Sorry, but that is the document that went to States Members?

Director of Education, Sport and Culture:

That is right, yes.

Mr. M.P. Magee:

It is in the name of the Minister for Education, Sport and Education. Is that just because it has to be him because it is the trustee who ...

Director of Education, Sport and Culture:

It was because he brought the report to the States for the trust, that is right.

Mr. M.P. Magee:

But you are really saying that he or the department did not know much about this?

Director of Education, Sport and Culture:

The report was provided to the Minister by the trust to explain the circumstances around the purchase.

Mr. M.P. Magee:

About something he had done already.

Cultural Development Officer, Education, Sport and Culture:

A view was obtained by the internal auditor about the reasonableness of the decisions against the financial data provided.

Mr. M.P. Magee:

So it was a fait accompli, really?

Cultural Development Officer, Education, Sport and Culture:

Yes.

Senator J.L. Perchard:

Just for the record, Mr. Chairman: “Amphibious vehicles purchased for use on the West Park to Elizabeth Castle route, briefing report presented to the States on 8th July 2008 by the Minister for Education, Sport and Culture. Point 10, February 2008 the decision to sever the contract and buy the vessels was made.” So, February 2008.

Director of Education, Sport and Culture:

I cannot recall a reaction.

The Connétable of St. Peter:

Just one other point I wanted to do. Picking up on Martin’s earlier comments, what sort of contingency funding does E.S.C. run on an annual basis?

Director of Education, Sport and Culture:

E.S.C. does not necessarily run a contingency fund. It did last year. It created a contingency fund to deal with a fall in pupil numbers and that contingency fund was £500,000.

The Connétable of St. Peter:

I was slightly concerned where, as Martin identified, you found £1.5 million, and you explained the reasons for that, there was an under-spend on the higher education fund there. Could you send back to the Public Accounts Committee the last 5 years of figures on how that fund is run, what has happened to the under-spends, have they been returned to the Exchequer and if not what that money has been then spent upon?

Director of Education, Sport and Culture:

Yes, we can do that. That fund has reduced by £2 million in the last 4 years, I think.

The Connétable of St. Peter:

It would be interesting to see the figures on an annual basis for the last 5 years. Thank you.

Senator B.E. Shenton:

We are coming towards the end of the meeting. Channel Television would like, after the meeting, just to do a room shot, not with anyone chatting or anything like that but just a room ... Would you have any objections to that?

Director of Education, Sport and Culture:

No.

Senator B.E. Shenton:

Alan, do you have any questions?

A Member of the Public:

Does that include the public, does it, the CTV pictures?

Senator B.E. Shenton:

No. Thank you very much for coming along.

Director of Education, Sport and Culture:

Thank you.