

STATES OF JERSEY

Public Accounts Committee

MONDAY, 21st JULY 2008

Panel:

Deputy S.C. Ferguson of St. Brelade (Chairman)
Deputy J.G. Reed of St. Ouen
Deputy A. Breckon of St. Saviour
Senator L. Norman
Connétable D.J. Murphy of Grouville
Deputy R.G. Le Hérissier of St. Saviour
Mr. C. Swinson (Comptroller and Auditor General)
Mr. M. Magee
Mr. R. Bignell

Witnesses:

Mr. D. Flowers (Director of Property Holdings)
Mr. R. Foster (Assistant Director Finance and Strategy, Property Holdings)

Deputy S.C. Ferguson of St. Brelade (Chairman):

Welcome. I am sorry we are running a bit late. Politicians do talk.

Mr. D. Flowers (Director of Property Holdings):

No, you are spot on time.

Deputy S.C. Ferguson:

Welcome to this meeting of the Public Accounts Committee. I wonder if, for the sake of the record you could introduce yourselves please.

Mr. D. Flowers:

David Flowers, Director of Property Holdings.

Mr. R. Foster (Assistant Director Finance and Strategy, Property Holdings):

Ray Foster, Assistant Director Finance and Strategy, Property Holdings.

Mr. M. Magee:

Martin Magee. I am an independent member.

Senator L. Norman:

Leonard Norman.

Mr. C. Swinson (Comptroller and Auditor General):

Chris Swinson.

Deputy S.C. Ferguson:

Sarah Ferguson.

Deputy A. Breckon of St. Saviour:

Alan Breckon.

Deputy R.G. Le Hérissier of St. Saviour:

Roy Le Hérissier.

Deputy J.G. Reed of St. Ouen:

James Reed.

Mr. R. Bignell:

Roger Bignell, independent member.

Connétable D.J. Murphy of Grouville:

Dan Murphy.

Deputy S.C. Ferguson:

Because this is your first appearance before us, if we can just run through the housekeeping please. When were you appointed?

Mr. D. Flowers:

I started on 17th September 2007.

Deputy S.C. Ferguson:

What was your background in property management before joining the States?

Mr. D. Flowers:

I spent the previous 6 years with Royal Mail, managing their property portfolio, and prior to that for 2 years I managed the Vaux estate, which comprises Swallow Hotels pubs restaurants and Breweries; for the previous 4 years I was Property Director for the Rank Group; and prior to that for 10 years prior Property Director, Development Director for Whitbread International Property.

Deputy R.G. Le Hérissier:

Were you with the Rank Group when they owned all the cinemas?

Mr. D. Flowers:

I developed a lot of the multiplex cinemas and nightclubs, bingo halls. Lots of bingo halls. Yes.

Deputy S.C. Ferguson:

What were your biggest principle challenges that you faced when you started with Property Holdings?

Mr. D. Flowers:

My immediate impressions were that the teams were still disparate and needed to be brought together, so the resource still was not acting as a cohesive unit. That the various work streams, which had been identified and were quite accurate in terms of what needed to be done, had not been progressed and there was quite a lot of work to do. I think that we are just beginning to understand the nature of the problem that we have and the opportunity.

Deputy R.G. Le Hérissier:

What is the nature of the problem?

Mr. D. Flowers:

I think there is no doubt that maintenance of the estate is seriously under funded.

Deputy S.C. Ferguson:

We will get back to that, if we may. What do you regard as your principle achievements of the last year?

Mr. D. Flowers:

Are we talking about 2007, or are we talking about to date?

Deputy S.C. Ferguson:

Technically we are talking about the period to the accounts, but if you have done anything marvellous over the last 6 months we would be delighted to hear it.

Mr. D. Flowers:

I do not think I have managed to achieve anything marvellous, but what we have done is to complete the property valuation. We have also completed a condition survey of the estate, so we have greater understanding of the nature of any outstanding maintenance works. I have brought together the teams. We are gradually moving some of the teams into one building and I think we have also embarked on a strategic review of the office estate and we have a clear direction. I have produced a property strategy, some of which is incorporated into the business plan for 2009. We have also carried out a skills and competence audit to understand where the gaps might be in our people and I think we have a much better understanding of where we are and where we need to go.

Deputy S.C. Ferguson:

Have all departments transferred management of their properties to J.P.H. (Jersey Property Holdings)?

Mr. D. Flowers:

No.

Deputy S.C. Ferguson:

Who is outstanding?

Mr. D. Flowers:

We still have Home Affairs and Planning and Environment, although they are a relatively small proportion of the overall estate. We have transferred almost immediately that I arrived -- within about 2 months the management team from health transferred into Property Holdings' reporting lines but we still have some issues on the financial budget, which is yet to be transferred as there are, on the face of it, insufficient resources for the size of the estate.

Deputy S.C. Ferguson:

Yes, we had a hearing with education last week and it seemed that a significant part of their budget, from a rough figure, was the best part of £1 million. How much are you short with all the budgets from the various departments?

Mr. D. Flowers:

It is reasonably significant compared with the amount transferred, a proportion of funds which are still within the departments and are allocated to improvement works.

The Deputy of St. Ouen:

How much would that be roughly?

Mr. D. Flowers:

About £3 million in total.

The Deputy of St. Ouen:

Is that £3 million out of the total identified prior to all the transfers taking place?

Mr. D. Flowers:

I am not sure if an overall figure was identified because Health and Social Services fund some of their maintenance from a number of different budgets. So, I am not sure of the total figure that was identified.

Deputy S.C. Ferguson:

Why did the difficulty arise? Why was there a difficulty with budget transfers, do you think?

Mr. D. Flowers:

I think each of the departments has been put under pressure and unfortunately maintenance is a budget which is relatively easy to switch on or off and so the budgets, as far as I can see, had already been depleted before they were transferred to Property Holdings.

Deputy S.C. Ferguson:

I suppose under the public finances law the Minister for Treasury and Resources could have had the power to just say: "Right, folks, you just transfer all that across." But these powers presumably were not used to make the transfers.

Mr. D. Flowers:

Not that I am aware.

Mr. R. Foster:

The transfers were done through negotiation between departments to identify what was allocated within departmental budgets for property. There was no assessment as to whether that was sufficient to manage, operate and maintain the estates. They were done on an as is basis.

Deputy R.G. Le Hérissier:

When you talked about budgets being depleted and budgets being distributed, I mean, have you managed to locate all these distributed budgets and bring them back to your ownership, or is money sort of hidden out there, so to speak?

Mr. D. Flowers:

I do not necessarily think money is hidden. I think there are budgets which some of the departments may take control of which they believe are absolutely necessary in order to pay for improvement works. The problem that we have is that the information which is coming from our condition survey indicates that for the essential works, certainly there are insufficient funds, and by any measure that you choose to take the estate is not sustainable on the level of maintenance budget which we have.

Deputy S.C. Ferguson:

So, really even if you had had the complete budget from the various departments they still did not have sufficient budget to do the maintenance that should have been done.

Mr. D. Flowers:

That is correct. The initial conclusions from our condition survey are that there is a significant amount

of backlog maintenance and that maintenance has accrued over a number of years because, I think, maintenance has not been carried out, or insufficient funds have been allowed to carry out the proper works.

Mr. M. Magee:

Are there any specific examples? It would be interesting to know. Like, trying to spend X but your condition survey is saying there is Y for the particular property. That would be helpful to aid the understanding for us.

Mr. D. Flowers:

At the moment, although the condition survey has been completed, that is the actual inspections have been carried out on every property, we have analysis for about 50 per cent of the estate which is giving us an indicative figure for the overall expenditure. I do not have the costs available down to a property-by-property level so the information I am giving you is based on being half way through the process. What we would intend to do next when we have the complete analysis is to investigate each property to ensure that our consultants are not over-egging the pudding and that we have a sound figure that we can stand by in terms of what needs to be done.

Deputy S.C. Ferguson:

What do you roughly think the maintenance figure is, allowing for the fact that it is perhaps global?

Mr. D. Flowers:

I think it is very dangerous for me to give a figure at this stage. Not until I have been through the survey and made sure that I can support what the surveyors are saying. I think it would be very dangerous for me to quote a figure. All I can tell you is that it is quite a significant number.

Deputy R.G. Le Hérisier:

I was just going to ask, building on Martin's question, a property some of us have been involved with, but from another angle, is Overdale for example. When you took over Overdale, was it divided between what you might call the viable future oriented part of Overdale and the part put on care and maintenance, which quite obviously had to be redeveloped or had to be moved into some other category, for example.

Mr. D. Flowers:

That is slightly before my time when we took it over.

Mr. R. Foster:

Yes, Overdale is a Health property which has some opportunities. It has a multifunctional activity. In terms of looking at that as a site we have not undertaken a specific master planning exercise of Overdale and would need to do it clearly in conjunction with the Health Department and their delivery of service programme. The new directions from Health is going to provide some of the stimulus as to the appropriate use of sites which may in turn free up some areas in the Overdale site that could be used for alternative provision and could be disposed of to gain funds for reinvestment with this State stock, but there is a balance here in terms of ensuring that you need the service provider in the most appropriate way rather than simply asset stripping a site like Overdale and not leaving expansion space or development space for the future. So, the short answer is, we need to do more work on sites like Overdale and there are others within our portfolio that are of a similar nature. At the moment we are effectively trying to deal with the day-to-day issues and compile the data to be able to do that portfolio planning exercise.

Deputy S.C. Ferguson:

Are you able to tell us what the sort of rough figure for the valuation of the estate is?

Mr. D. Flowers:

Yes. The Property Holdings estate is in the order of £730 million and that excludes housing, harbours and airports.

Mr. C. Swinson:

What is the basis of that valuation? Open market use? Existing use valuation?

Mr. D. Flowers:

It comprises a number of different bases for valuation. It is all in accordance with the R.I.C.S. (Royal Institute of Chartered Surveyors) Red Book but ...

Mr. C. Swinson:

I am just wanting to know what sort of number that is.

Mr. D. Flowers:

Well, some of it is open market and some of it is direct replacement cost, mainly because the specialist buildings really do not have an open market value and the direct replacement cost calculation also includes obsolescence factor and depreciation.

Mr. C. Swinson:

I understand. I am just making sure I understand the quality of the number.

The Connétable of Grouville:

If we are talking about hospitals, police stations, you are talking about buildings of no value, or have no value in your books. Is that correct?

Mr. D. Flowers:

They have a land value and a direct replacement depreciated building value.

Mr. R. Foster:

The land and building values for all buildings will be shown separately. The building valuation, as David suggested, will be different depending on the type class of the building and its operation.

The Connétable of Grouville:

I just thought it might have put them in at zero for obvious reasons.

Mr. D. Flowers:

No.

The Deputy of St. Ouen:

We have spoken about transferred properties from certain departments to Jersey Property Holdings. I would like to know, what time was the assessment carried out on those properties and what form did it take?

Mr. D. Flowers:

The assessment? The condition survey?

The Deputy of St. Ouen:

The condition survey, yes.

Mr. D. Flowers:

We started the condition survey in January/February. A number of additional properties were put in from the original list. It was carried out by a company called Drake & Kannemeyer, after a competitive tender. They have done a very professional job, I believe.

The Deputy of St. Ouen:

Was this before or after the properties were transferred?

Mr. D. Flowers:

Well, all of the properties were effectively transferred on 1st January 2006, in law. The resources and the budgets were not transferred until ... well, I think the education estate not until April 2007 and the health management not until November 2007. So, the actual transfer of control was significantly delayed.

Deputy S.C. Ferguson:

Because they did not transfer all the budgets those departments, in effect, had a bit of a below the line boost in their own budgets.

Mr. D. Flowers:

That is really not for me to say.

Deputy S.C. Ferguson:

Okay. Sorry, James.

The Deputy of St. Ouen:

What, in general, was the state of the properties that were transferred to Jersey Property Holdings?

Mr. D. Flowers:

As I say, I still have not gone through Drake & Kannemeyer's report line-by-line, but what I can say is that there is a significant amount of work to be done on the building infrastructure.

The Deputy of St. Ouen:

Did any discussion take place between Jersey Property Holdings and other departments as you became aware of the condition of some of these properties at the moment of transfer, or prior to transfer?

Mr. D. Flowers:

No. I took the view that if we were to say to the departments: "We will not take the properties until we are satisfied that sufficient resources are available and they are in a condition in which we can continue to manage them at a sustainable level" that the properties would not have transferred. So, it was important to have the properties transferred over with what ever resources we could obtain, do a thorough analysis and identify the size of the problem, if there was a problem.

Mr. C. Swinson:

In your experience, what sort of percentage of building value would you expect to be incurred on an annual basis to provide property for the maintenance of buildings? Just a general rule of thumb, from your experience.

Mr. D. Flowers:

Well, it is about 2.5 per cent. It is about the depreciation value. You should be spending at least the same as you would depreciate your buildings on an annual basis. Although the land value undoubtedly

appreciates, particularly on Jersey, the properties continue to depreciate. So, if you say the building has a typical life of about 40 years then you take a figure of 2.5 per cent. So, I would say somewhere between about 2.5 per cent and 3 per cent.

Mr. C. Swinson:

If one were taking your figure of £700 million that would lead me to expect a maintenance cost of £18 million.

Mr. M. Magee:

Is that right, you know, it is split between the land and buildings in that though?

Mr. D. Flowers:

You would have to take out the land.

Mr. C. Swinson:

The land was, how much?

Mr. D. Flowers:

In the order of £150 million to £200 million, I think. The figure you are trying to get to I believe is around £15 million.

Deputy S.C. Ferguson:

Which ties up with the Audit Commission figure in the year 2000 or 1999; I think they said £13.5 million, so I think it is a fair figure.

Mr. D. Flowers:

Yes. I think if you want to have an estate which is maintained to a medium level, whichever measure you use, whether you go by the Building Cost Information Service provided by the R.I.C.S. or whether you do a rule of thumb on depreciation, you come out with roughly the same number.

Deputy S.C. Ferguson:

What is being spent at the moment?

Mr. D. Flowers:

£6.2 million.

Deputy S.C. Ferguson:

£6.2 million? Oh. Yes, sorry.

Mr. C. Swinson:

Assuming that position has obtained for some time, if one were to say that the backlog might be in order of 10 years of the shortfall in expenditure, that one might look to a backlog of £90 million to £100 million.

Mr. D. Flowers:

If that were the case, yes.

The Deputy of St. Ouen:

Given the fact you stated that some properties were not in a particularly good state of repair, do you have any concerns regarding the appropriate and safe use of certain buildings that are currently being transferred to you?

Mr. D. Flowers:

I do have some concerns, and certainly as soon as there is any evidence of non-compliance, I have been transferring funds to ensure that either the inspection works are carried out, or any remedial works. I established a clear purpose for Property Holdings as providing a safe and legally compliant estate, which supports the State in the delivery of improved public services. That is our mission statement, and so it is top of the agenda as far as I am concerned, and there is no doubt that this year's budget has been prioritised to exclude any "nice to have" improvement works, and focused on essential maintenance only.

The Deputy of St. Ouen:

Are you suggesting that some of the properties did not meet the relevant health and safety requirements or standards?

Mr. D. Flowers:

I am saying that the indications that have come from our survey do indicate that there are some areas that we have needed to address, and I have carried out this work before for a number of companies, and the instructions to the surveyors are that if they identify anything which is of high risk, that must be reported immediately, and we immediately make the expenditure. Where you then have moderate or significant risk, that is then put into a programme to ensure first of all that the risk is managed, if you cannot make the expenditure immediately, and then there is a programme of works to carry out the remedial works.

The Deputy of St. Ouen:

So have many properties been categorised in the high or serious risk level?

Mr. D. Flowers:

No.

Mr. R. Foster:

There has been very few that have had immediate work needed on them. I cannot remember the details, but it is a handful, and it has not been extensive work, it has been --

Mr. C. Swinson:

You cannot remember this handful?

Mr. D. Flowers:

There was about £50,000 worth of high-risk works that needed to be carried out that came out of the survey.

Mr. R. Foster:

I have not been working closely with the surveyors, so I am a step aside from them.

Deputy S.C. Ferguson:

So where are the high risk?

Mr. D. Flowers:

I think we had the absence of some testing regimes for high-risk activities, such as asbestos and legionella, and immediately that work was placed in hand.

The Deputy of St. Ouen:

So what are the consequences of having property within this banding of high or moderate or sort of serious risk?

Mr. D. Flowers:

Well, the consequences are that the work simply has to be done, and funds have to be transferred in order to do that. It is not an option.

The Deputy of St. Ouen:

If funds were not available, the consequence would be?

Mr. D. Flowers:

I would have to recommend that the risk is managed by either excluding access to those areas, or in very serious cases, closing the building.

The Deputy of St. Ouen:

Could Property Holdings be found negligent or in breach of any laws if these issues were not dealt with in a proper manner?

Mr. D. Flowers:

Yes, absolutely. Property Holdings as an organisation, and anyone who knowingly did not apply the appropriate resources and carry out either management action or remove the hazards at source could also be personally prosecuted.

The Deputy of St. Ouen:

Are there any present claims on the department or the States generally regarding the health and safety?

Mr. D. Flowers:

Not that I am aware of. Oh, not on Property Holdings. I am aware that another area of the States is being investigated.

Deputy S.C. Ferguson:

Where is responsibility located for arranging proper insurance cover for States' properties and States' liabilities in respect of those properties?

Mr. D. Flowers:

It is not within Property Holdings.

Mr. R. Foster:

My understanding is that the Treasury arranges insurance for properties centrally, as we are recharged en bloc for property insurance.

Deputy S.C. Ferguson:

So you are not included in the discussions on the level of insurance?

Mr. D. Flowers:

Currently, no.

Mr. R. Foster:

Not at a detailed level. My understanding is the Treasury are reviewing their whole insurance portfolio.

Mr. C. Swinson:

But you are involved at a general level?

Mr. R. Foster:

We are at a general level, but not on a specific level.

Mr. C. Swinson:

So what in general with the policy with regard to insurance cover?

Mr. R. Foster:

This is a matter for the Treasury, to determine insurance cover.

Mr. C. Swinson:

Sorry, you are involved in the discussions at a general level on insurance cover?

Mr. R. Foster:

I am involved in a group that is set up by the Treasury to look at insurance issues. We have not --

Mr. C. Swinson:

You said you were not involved at a detailed level, and then I asked you whether you were involved at a general level and you said yes; so there is a question, if you are involved at a general level, presumably you are aware of what the basis of the cover arranged is.

Mr. R. Foster:

My knowledge of the cover arrangements is not extensive. This is something that is produced by the Treasury and we require further investigation to get down to a level whereby our knowledge of coverage on a property-by-property basis has been fully established. This is a Treasury activity.

Mr. C. Swinson:

Sorry, J.P.H. is responsible for managing these properties?

Mr. D. Flowers:

Yes, we are. Yes.

Mr. C. Swinson:

It is responsible therefore for managing the risks of occupying the properties.

Mr. D. Flowers:

It is.

Mr. C. Swinson:

How can you be responsible if you are not also responsible for the insurance cover that is arranged, or at least put in a position of knowing that adequate cover is there? Sorry, it is just an innocent question.

Mr. R. Foster:

It is a very good point. We do not have sufficient information that underpins the recharges that we receive from the Treasury.

Deputy S.C. Ferguson:

So do you know what proportion of the insurance is placed commercially? Are we effectively self-insuring? Do you have any idea of these --

Mr. D Flowers:

I do not have the access to these numbers, but I believe that there is a significant self-insurance element, but that is not unusual for a large and valuable property portfolio. It certainly was the situation in Royal Mail, where the first £1 million of any claim is self-insured.

Deputy S.C. Ferguson:

Well, with Royal Mail, did you go through local brokers, or did you go straight to Lloyds?

Mr. D Flowers:

We used specialist brokers to broker the insurance, and I have to say that again in Royal Mail, the actual procurement of the insurance cover was dealt with by a separate department, although we had a significant input into the actual cover.

The Deputy of St. Ouen:

What I am struggling with though is if the property is your responsibility or Jersey Property Holding's responsibility, how can it be, or are you comfortable in the fact that you do not have much idea regarding the insurance cover of the property that you are supposed to be responsible for?

Mr. D. Flowers:

Yes, it is a concern. I think that it particularly becomes a concern if you find you have uninsured risks or uninsured events.

The Deputy of St. Ouen:

Absolutely.

The Connétable of Grouville:

We did have a big problem at one stage with this, because we had a property or a youth club, and it was passed over on a no rent basis to E.S.C. (Education, Sport and Culture), and there was the most almighty mess-up with insurance, because we found that 6 months after we passed it over, they had not insured it. So we had to go back and they were blaming everybody in sight except themselves. The parish themselves went and covered in the end, because there was no way we could cut through the red tape. But we had the impression that E.S.C were arranging their own insurance. I do not think it devolved back to Property Holdings at that stage.

Mr. D. Flowers:

It is dealt with centrally by the Treasury.

Mr. C. Swinson:

Can I just raise a point: you were talking about the deductible that operated in a Royal Mail context, which is self-insurance up to a level. I just want to distinguish that from the public policy on the mainland, where there would be a very large degree of self-insurance in public sector, on the basis of Crown indemnity covering, but where the general view would be that if you are taking an overall view of the public sector, the sector itself is so large that to self-insure risks is an appropriate response to the portfolio of risks that is generally taken.

Mr. D. Flowers:

That is right.

Mr. C. Swinson:

We are not talking about that sort of position, are we?

Mr. D. Flowers:

No. No, we are not.

The Connétable of Grouville:

So what would your intention be as regards insurance now, the perfect situation from your point of view?

Mr. D. Flowers:

Well, I think the perfect situation is that insurance really ought to be endorsed by Jersey Property Holdings, and I think that we will probably move to that situation. I do not think necessarily we should procure it, but I think that we should be engaged in a collaborative process of ensuring that appropriate level of cover is provided. I think you cannot have a situation where you have - because of our budget arrangements - no contingency to cover uninsured events, and yet your exposure to that by the method of procuring insurance.

Deputy S.C. Ferguson:

Do you have a programme for returning properties to a proper condition?

Mr. D. Flowers:

Not as yet. Well, we have an indicative programme from the Condition Survey which is phased over 10 years, and it is based, as I say, on the initial analysis of 50 per cent of the estate. It is not an even expenditure year on year, because some works need to be carried out in year 2 or year 5, so it fluctuates. As we add more and more data from the analysis, then we get a more and more refined picture. But the figures that come out of that in terms of backlog would need to be added to any uplift in annual running costs, in order to avoid perpetuating backlog or creating more.

Deputy S.C. Ferguson:

So we are looking at the sort of depreciated figure, plus the backlog figure.

Mr. D. Flowers:

Yes. But then what needs to be overlaid is the introduction of a strategic plan to reduce the size of the estate to make it sustainable, so as we implement our office strategy and take down the number of office buildings, then we would reduce the maintenance liability. We have also the Drake & Kannemeyer Survey that categorises the properties into A, B, C and D, where with C and D properties the level of expenditure required is not justified, the property does not justify making that expense.

Deputy S.C. Ferguson:

What is your gut feel for the sort of percentage that is C and D?

Mr. D. Flowers:

I do not have that number at the moment. I do not have it in my head; I could get that number, but I do not have it in my head. I mean, in some cases, it is a beach café where it would be cheaper to build a new one rather than put all of the money into restoring it.

Deputy S.C. Ferguson:

What are the largest elements of any sort at the moment, as far as you can see; the largest elements of properties that need refurbishing or bringing to a proper condition?

Mr. D. Flowers:

Do you mean the actual building element? There is a lot of electrical works that need to be done; a lot of external roof and structural works. Is that your question or is it --

Deputy S.C. Ferguson:

Well, are some departments worse than others as well?

Mr. D. Flowers:

Oh.

Deputy S.C. Ferguson:

I mean, yes, I think probably some of the electrical work has been in there since electricity was invented, but which departments are worst?

Mr. D. Flowers:

I would not single out any one department as having significantly under-invested, if that is the question. I think it is across the board.

The Deputy of St. Ouen:

But can I just ask, you speak about this indicative programme, if I have the words right, that is planned over the next period of year.

Mr. D. Flowers:

Ten years.

The Deputy of St. Ouen:

Ten years. Do we presume that this plan is fully funded, or the next 5 years at least are fully funded within the 2009 business plan?

Mr. D. Flowers:

No. I do not believe it is fully funded at all, but you are asking the questions when I am partway through the analysis and presenting that information. I think that unfortunately, we have to commit to a budget number so far ahead, as you are going through a process of significant change, which we are at the moment, and analysis, that the 2 are not phased as they should be.

Deputy S.C. Ferguson:

So how long do you reckon it would take to get all the States' properties back to any proper state, proper condition?

Mr. D. Flowers:

Well, as I say, it is going to take some time. I do not think that there would be the desire to make significant upfront investment, and besides, we need to engage upon reducing the size of the estate to make it more efficient, and that will be mutually supportive to reducing the maintenance liability. So I cannot really give you an answer at this stage as to what the programme would be.

Mr. R. Foster:

There are practical difficulties in investing within Property Holdings to undertake works anyway, in terms of simply displaced services, the ability to source the necessary resources from the external environment. Most of our maintenance is outsourced, so if one were to put into the local market significant extra workload, that may or may not upset the local market, depending on its current status. There are practical terms in terms of undertaking a certain amount of works on sensitive properties, health and education properties in particular. You cannot simply do the works in the normal 9.00 a.m. to 5.00 p.m. with people. So the delivery of a programme, it is not just financial resources that are a constraint, there are some practical logistics that are involved as well.

Deputy S.C. Ferguson:

So this sort of a programme is going to mean a certain amount of juggling of different services provided by the States in order to get the programme done?

Mr. D. Flowers:

Yes, particularly if you are working on an operating hospital, the acute and general. They are engaged at the moment in a programme of refurbishing the wards, and that means moving people from one ward to another and doing the work in a phased way. A proportion of the work coming out of the Condition Survey is to the external areas, external fabric of the building, and I think that can progress in a more systematic and planned way.

Deputy S.C. Ferguson:

Yes. Now, the condition of States' properties does seem to suggest that for many years, departments have used maintenance budgets as a means of managing budgetary pressures; the budgets could be reduced as a means of easing budgetary pressures elsewhere. Is that your impression of what has been going on?

Mr. D. Flowers:

You could be right, but it is not really for me to say. All I can tell you what I see and I have to say that the level of budget pressure upon maintenance is a significant distraction to pursuing a sound strategy to moving forward. The resources in Property Holdings that are having to manage with a significantly depleted budget are then not being applied to moving forward in the implementation of the strategy. So it is an issue which needs to be resolved in order that we can move forward with creating a sustainable estate.

Deputy S.C. Ferguson:

Roger?

Mr. R. Bignell:

Just moving on to another subject on rentals, I think it was planned that States' departments will eventually be charged rental for the properties they occupy.

Mr. D. Flowers:

That is correct.

Mr. R. Bignell:

How is that progressing?

Mr. D. Flowers:

Well, we have incorporated in our 2009 plan an outline of the charging strategy or the charging mechanism, and the plan is to put that in place in tandem with the introduction of the integrated property system, otherwise I think we will be creating a manual process, which again will suck resources out of the department. We are out to tender with contractors to install the integrated property system, and the plan is that that would be put in in January 2009.

Mr. R. Foster:

Implemented outright.

Mr. D. Flowers:

It would be implemented, yes, yes. Certainly, it has been necessary to do that in most companies that I

have worked for, that if you are handling any degree of mass data and you are operating an internal charging mechanism, you need to have a computer-based system to be able to do it effectively.

Mr. R. Bignell:

Will it be fairly challenging? It is fairly easy to work out a rental for office accommodation, but how do you work out a rental for a school or an operating theatre?

Mr. D. Flowers:

Well, again, one of the stepping-stones is to get the valuation report, which we now have, and from that, to derive a form of rental basis. I do not propose to have anything which is too complex. There will be some that will be higher than if you were in the open market and some that will be lower, but I think the principle is to apply something which is a fair and reasonable representation of the value of the property, because at the moment, property is seen to be a free good.

Mr. C. Swinson:

If the States never returns the maintenance expenditure to its desirable level, so that the condition of the properties never return to a proper level, the rental charges would be suppressed, because the value will be suppressed, and therefore the cost to the department would also be suppressed. What is the force in the system that goes against the department's interest therefore in reducing the maintenance state of their properties?

Mr. D. Flowers:

Well, the force in the system is that we will apply a service charge along with the rental, so that the property will be assessed for its ongoing maintenance costs, and that will be charged through as well as the rental, so it is a fully --

Mr. C. Swinson:

So if the rental is down because the actual maintenance cost is reduced, the desirable service charge will be increased?

Mr. D. Flowers:

It goes up, yes.

The Deputy of St. Ouen:

Could you just elaborate on Jersey Property Holdings and Jersey Property Management division, because we are aware the general audit has raised some concerns about how those 2 divisions link up and how they manage the properties.

Mr. R. Foster:

Perhaps if I can comment on this. I think there is a slight misunderstanding in the report itself that seems to indicate that Jersey Property Holdings and Jersey Property Management are 2 separate entities or different linked entities. Jersey Property Holdings is the division of the Treasury; Property Management is one section that deals with estate management functions within Property Holdings.

Mr. R. Bignell:

But they did express concern, both in the 2006 audit report and 2007, that there is not one single list of properties and the rentals relating to those properties.

Mr. R. Foster:

That is correct.

Mr. D. Flowers:

That is correct.

Mr. R. Bignell:

Is that a concern, and how are you addressing that issue?

Mr. D. Flowers:

We recognise that, and that will be addressed fully by the integrated property system. At the moment, we are operating 3 systems that do not talk to each other. We have Atrium, Raindrop and the J.D. Edwards system, and they do require manual reconciliation, which we are doing every month. When the systems are fully integrated, that will not be a problem.

Mr. R. Bignell:

You said as well that no properties slip through the net, where you are not getting any rental income which you should be getting.

Mr. R. Foster:

The valuation exercise and the Condition Survey have been such that our land and buildings have been visited by different people over the past few months, and we are satisfied with there is not a substantive building or piece of land out there that we do not know about and do not receive any income on. But it is quite difficult to prove a legacy. One can never be 100 per cent sure that there is no land that is in States' ownership that we have no record of. I think that is true for any organisation. I think we are pretty satisfied that we have no substantive land holdings or properties that we are not aware of.

Mr. C. Swinson:

“Substantive” there means substantial, big?

Mr. R. Foster:

No, capable of receiving of rent that is more than a peppercorn, or has a development plan that has not been realised.

Deputy S.C. Ferguson:

Are you really crying out there for a computerised system like they have with the Land Registry in the U.K. (United Kingdom) then?

Mr. D. Flowers:

Yes. I think that it is one of the issues in Jersey, there is no Land Registry. I think everybody can prove through the contracts that something was acquired, but you cannot really prove that you still own it.

Deputy S.C. Ferguson:

Well, you are standing there in court with your hand up; you do not even know whether you bought it. Yes.

Mr. D. Flowers:

I think, to generalise, the primary activities of this year have been to collect together all the data that we need and I think the questions you are asking are the same questions that we have been asking during the course of the year: “Do we have the full data, the full knowledge of our estate?” and checking that it is accurate.

Deputy A. Breckon:

Could I ask if you have a list of properties that are rented by departments, but not owned by them?

Mr. D. Flowers:

Yes, I believe we do. We do.

Mr. R. Foster:

We do. The Raindrop system holds that information, yes.

Deputy A. Breckon:

Could you comment further on that? I mean, should we be --

Mr. R. Foster:

In terms of our general ownership between freehold and leasehold within the States?

Deputy A. Breckon:

Yes.

Mr. D. Flowers:

We have a very low proportion of leasehold property, very low.

Deputy A. Breckon:

Do you know how much rent we are paying to private sector?

Mr. D. Flowers:

I do have that figure, and I am trying to remember exactly what it is. I think it was in the order of about £2.4 million, but I would need to come back to you. I do not have the figure to hand, but it is not a huge number.

Mr. M. Magee:

I guess linked to that question, a couple of planks of efficiency savings in the business plan going forward were rationalisation or better use of properties, combined with sales of properties. I guess I would just be interested to get an update on where both of those initiatives lie.

Mr. D. Flowers:

Well, firstly we have put in place the office strategy, which I think is probably going to be the easiest area of the estate to address. So we have analysed our office buildings into core, flexible and those which we should dispose of. We have 35 standalone office buildings in the States, excluding those which are associated with operations, such as in the hospital or in the schools or at the airport. A number of those, it would not make sense to dispose of them - Morier House, a number of buildings of that nature we would want to keep - and we call those core. Then there are probably about 200,000 square feet which we would attempt to consolidate into a campus or into a single building, which would allow us to provide more fit for purpose accommodation. Some of the office buildings that we have around the estate do not lend themselves to open plan offices, or providing the level of efficient use of space that you can provide if you build a new building. So as we move into the operational areas, I think it becomes much harder to drive efficient use of space, because if you were to consolidate your school by 10 per cent, then what would you do with the tenth that you have released? I think it is only where you can release a whole building. We have been, I think, over-achieving our targets on capital disposals, but it will become harder and harder as the plan goes forward. Just going back to the charging mechanism, certainly that does need to be in place to encourage departments to release space, otherwise we will be charged with the accountability for delivering efficiency, whereas the department has the ability to release the space. So you have a division of accountability and responsibility which will not work.

The Deputy of St. Ouen:

It is not the case that part of the rationalisation programme was dependent on the States considering a strategic property plan?

Mr. D. Flowers:

Yes, and the strategic property plan I think has a number of different levels. The first is putting in place the enablers, such as the charging mechanism, and the way in which departments are set targets around reducing their occupancy costs. So the high level principles. Without that, you then cannot move into what I would say is the portfolio plan, which is an implementation plan of what you are going to do with each property. Just going back to what we have been doing, it is putting the stepping stones in place of understanding the estate and doing the analysis; we then move on to understanding what the departmental needs are going forward, and that then goes back into a portfolio plan, which accompanies the overall high level strategy.

The Deputy of St. Ouen:

So when do you see the States considering this sort of --

Mr. D. Flowers:

I think the first stage that you will see is later this year, you will see the high level strategy principles being put forward for endorsement, with details of the charging mechanism et cetera, and the targetry on the departments to reduce their operating costs, property operating costs, and the first stage of the office strategy. The strategic plan will become a living document, which is informed as we go forward.

The Deputy of St. Ouen:

So the consolidation of the department, better use of office accommodation and identification of surplus properties could all become part of that?

Mr. D. Flowers:

Yes. I think once you have set the high level principles, that is fine, they do not change, and then beneath that, you start to take sections of the estate, and against the high level principles that have been agreed, then put forward portfolio plans. That will take place over probably about 3 or 4 years, as we go into the operational areas, which are much, much harder to address. It is just simply I do not think we will be able to reduce the size of the estate to solve the overall maintenance problem. That is not going to be the answer.

Mr. M. Magee:

Can I just check on that, because I guess I had in my head that in the business plan going forward, there is disposal of ad hoc properties that bring in, in effect, efficiency savings - however you would categorise that - so there was a classing of the number of disposals that are going forward from year X to year Y. I thought that in addition to that, there were probably going to be disposals to fund the maintenance programme, a bit like the housing situation, where housing have this portfolio they are selling in order to fund maintenance that is not in future plans. That is not how you are going to fund this shortfall, between £6 million and £15 million?

Mr. D. Flowers:

Well, we agreed that we would not do that. I think that was agreed at a previous P.A.C. (Public Accounts Committee) meeting by my predecessor, that the funds from disposals would not be used for revenue costs or maintenance, but it may well be necessary in the short term to do that. It is not something that I feel entirely comfortable with. I do not think it is sound accounting practice.

Deputy S.C. Ferguson:

No, it was something that we were not terribly enthusiastic about, certainly, I think.

Mr. C. Swinson:

I do not think it is sound business practice or in terms of accountancy practice. Could I just make sure that Mr. Flowers intended what he said, which is going back on the previous undertaking to the committee that this would not be done?

Mr. D. Flowers:

Well, I think the issue will be if the States is unable to fund what is essential, then it must look to what it can do. I would not recommend it, but if the States is unable to find funds for maintaining its property by any other means, then it may be something which it has to do.

The Deputy of St. Ouen:

Can I ask, when would you anticipate the States collectively being able to consider whether they are able to fund?

Mr. D. Flowers:

I do not really think that is --

The Deputy of St. Ouen:

I mean, what I am getting at is how close are you to identifying the overall costs so that the States can properly determine?

Mr. D. Flowers:

I think it would have to be at the next budget session.

The Deputy of St. Ouen:

Oh, in a year's time?

Mr. D. Flowers:

Yes. I think we have to live within our means and if we are unable to do so, then I will be bringing that to the attention of the Treasurer, but at the moment, there are some opportunities which do not involve the disposal of capital assets for obtaining revenue. I will be looking to each of those to see if we can find any way of mitigating the problem we will have.

The Deputy of St. Ouen:

Those are?

Mr. D. Flowers:

Well, if we have a situation of selling a way leave for a right of way or for services running to a site, that is not a capital asset.

Mr. R. Foster:

We have had one or 2 improvements in our income position from official income, which is either short term from renting of car parking spaces on vacant sites until they are either released or developed, and income from mobile phone masts and other uses which are new income streams into the States. So there are some income developments which will be directed into maintenance, but they are limited.

Mr. C. Swinson:

Can I just ask a boring question? Is that implying that where there are mobile masts on States'

properties at the moment, you are not receiving any income in respect of them?

Mr. D. Flowers:

No, it is new installations.

Mr. R. Foster:

New installations.

Mr. C. Swinson:

Only new installations.

Mr. R. Foster:

Sorry, perhaps you did not understand entirely what I said, so I will perhaps try and make myself clear. We do receive income. There are opportunities with new players in the market to receive additional income from new installations.

Mr. C. Swinson:

Secondly, on the car parks point, are you suggesting that where there are empty sites now, you do not charge for car parking business?

Mr. D. Flowers:

No, it is where we have the opportunity, a new opportunity to charge if we have a tenant that is leaving. So what we are trying to do, in pure business, is sweat the assets.

Mr. C. Swinson:

I am merely making sure that a possible implication is not left unchallenged.

Mr. D. Flowers:

No, that is fine.

Mr. C. Swinson:

Just to clarify precisely, all the things that you have mentioned are fairly immaterial, are they not? Way leaves, rights of way.

Mr. D. Flowers:

They are one-off.

Mr. C. Swinson:

You are not going to rely on those.

Mr. D. Flowers:

No. We have a number of risks around the estate; we have a number of opportunities. It is my job to try and maximise the opportunities, if I can, and to reduce the outgoings to the States, so I am trying to sweat the assets.

Deputy S.C. Ferguson:

Good. Super, that is what we like to hear. So do you believe that the strategy that was set out in the original proposition, P.93 of 2005, was flawed?

Mr. D. Flowers:

I think that the strategy was fine. I think that the imposition of a £1.5 million savings target and that

imposition from day one, phased over a 3-year period, was flawed in that the first cut of £400,000 was made in a year when no properties were in the control of Property Holdings; and the second cut, £500,000, was made again when properties only came in partway through the year. So I think that the desire to achieve the savings was not properly planned, and also that it was based on an analysis of the state of the accounts, which was not entirely accurate.

Deputy S.C. Ferguson:

So how would you characterise progress towards implementation of the vision set out in P.93?

Mr. D. Flowers:

I think that we have done the analysis. We fully endorse the overall direction. We need to resolve the issues around resource, both financial resource and the level of the competencies and skills to deliver the plan in order to move forward. But I think that we are beginning to make some significant advance now, but then I would say that, would I not?

Deputy S.C. Ferguson:

But in a year's time we shall be paying somebody for the use of this room, yes.

Mr. D. Flowers:

Yes, you will.

Deputy S.C. Ferguson:

Super. Any more questions?

The Deputy of St. Ouen:

Yes, I have one. Given that obviously you have been working within Jersey Property Holdings for a year --

Mr. D. Flowers:

Nine months.

The Deputy of St. Ouen:

-- or thereabouts, I wondered what your view was or the opportunities that you see perhaps with regards to estate management that currently we do not enter into, and I specifically mention the housing properties, and perhaps the opportunities that may or may not exist there, and also - and perhaps more topically - Waterfront Enterprise Board and properties that we are speaking about around St. Helier?

Mr. D. Flowers:

I think that there are 3 significant property issues facing the States at the moment. One is to ensure that the waterfront is developed successfully, and any effect upon regeneration of St. Helier; the second is to increase the rate of provision of housing, both social and private housing; and the third is to put the States-owned properties on a sustainable footing. Now, the work that we are doing on the States' properties - will feed into providing - sites for housing, and also the development of the waterfront and regeneration of St. Helier may also deliver sites for housing. I think that there does need to be a concerted focus on each of those 3 areas. I talked at the Scrutiny hearing about the difference between investment development and operational development, Operational development is where you have a knowledge of your estate and you are an owner occupier, and I think we have that in Property Holdings, and we are able to develop up our estate and reconfigure it. I would say that a large proportion of the development for the Esplanade is probably investment development, where you are expecting to generate a significant income from going out into the market; not necessarily entirely speculative, but some combination of that. I think that it would probably be early days to try and assemble that into one

package. I think we need to make sure that we have teams specialising or focusing on each of those areas.

The Deputy of St. Ouen:

But you talk about focus, but presumably you are talking about co-ordination, an overseeing to ensure that decisions are made with the bigger picture in mind, rather than a piecemeal approach, which presumably we have seen; you know, one could say that we have seen in the past.

Mr. D. Flowers:

I think that the Island plan probably needs to be overlaid with a strategic plan, so we look at Jersey as a whole. Undoubtedly, the prime activity will be around St. Helier and around some of the parishes, but each has an effect on the other, so it does need to be co-ordinated.

The Deputy of St. Ouen:

But would you like to see - and do you believe - that Jersey Property Holdings, if properly resourced, could provide that focus?

Mr. D. Flowers:

I do not think it can at the moment.

The Deputy of St. Ouen:

No, I am saying if properly resourced.

Mr. D. Flowers:

I think it is one option, but I do believe that we currently need to ensure that there is a proper focus on each of those areas.

The Deputy of St. Ouen:

Thank you.

Deputy S.C. Ferguson:

Super. Any more? Thank you very much indeed. There is nothing you want to ask us, is there? Sorry.

Mr. D. Flowers:

No, that is fine, thank you.

Deputy S.C. Ferguson:

Thank you very much indeed for your time. We will send you a transcript before it goes into the public domain, just so you can correct typos, nothing else.