



COMPTROLLER &  
AUDITOR GENERAL

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**THE PROPOSED ACQUISITION OF LIME GROVE HOUSE**

**REPORT OF THE COMPTROLLER & AUDITOR GENERAL**

**MAY 2012**

*The proposed acquisition of Lime Grove House*

*Report of the Comptroller & Auditor General*

*May 2012*

*UNDER STRICTEST EMBARGO UNTIL 0001 ON TUESDAY, 22 MAY 2012*

## TABLE OF CONTENTS

<b>SECTION ONE – INTRODUCTION.....</b>	<b>9</b>
<b>SECTION TWO – CONFLICTS OF EVIDENCE .....</b>	<b>13</b>
Introduction.....	13
31 March 2010.....	13
14 July 2010 .....	16
Services provided by WEB .....	17
Former Chief Minister’s approval.....	18
<b>SECTION THREE – CHRONOLOGY JANUARY 2009 TO MARCH 2010.....</b>	<b>21</b>
Introduction.....	21
January 2009.....	21
Tuesday, 3 February 2009 .....	23
Wednesday, 18 February 2009.....	24
Tuesday, 24 February 2009 .....	25
Wednesday, 18 March 2009.....	25
Thursday, 26 March 2009.....	26
Monday, 6 April 2009 .....	26
Tuesday, 26 May 2009.....	26
Tuesday, 7 July 2009.....	27
Wednesday, 12 August 2009.....	27
Friday, 14 August 2009.....	28
Thursday, 27 August 2009 .....	28
Wednesday/Friday, 2/4 September 2009 .....	28
Tuesday, 8 September 2009 .....	28
Wednesday, 30 September 2009 .....	29
Wednesday, 30 September 2009 .....	29
Wednesday, 28 October 2009.....	31
Monday, 2 November 2009.....	31
Monday, 7 December 2009 .....	32
Monday, 14 December 2009.....	32
Monday, 4 January 2010 .....	32
Tuesday, 2 February 2010 .....	33
Wednesday, 3 February 2010.....	35
Thursday, 4 February 2010.....	36

Thursday, 11 February 2010.....	36
Tuesday, 2 March 2010 .....	36
Monday, 15 March 2010 .....	37
Tuesday, 16 March 2010 .....	37
Mid March 2010 .....	38
Thursday, 25 March 2010.....	39
Wednesday, 31 March 2010.....	39

**SECTION FOUR – CHRONOLOGY APRIL 2010 TO 19 NOVEMBER 2010..... 42**

Introduction.....	42
Friday, 2 April 2010: Good Friday .....	42
Monday, 5 April 2010: Easter Monday.....	42
Tuesday, 6 April 2010 .....	42
Thursday, 29 April 2010.....	42
Wednesday, 5 May 2010 .....	43
Friday, 7 May 2010 .....	45
Monday, 10 May 2010.....	45
Tuesday, 11 May 2010.....	46
Wednesday, 12 May 2010 .....	46
Friday, 14 May 2010 .....	47
Tuesday, 18 May 2010.....	47
Monday, 31 May 2010.....	47
Tuesday, 1 June 2010 .....	48
Wednesday, 2 June 2010.....	48
Thursday, 3 June 2010 .....	48
Friday, 4 June 2010.....	48
Wednesday, 9 June 2010.....	49
Thursday, 10 June 2010.....	49
Friday, 11 June 2010.....	49
Friday, 25 June 2010.....	50
Thursday, 1 July 2010 .....	50
Thursday, 1 July 2010 .....	50
Wednesday, 7 July 2010 .....	51
Week ending Friday 9 July 2010 .....	51
Wednesday, 14 July 2010 .....	52
Wednesday, 28 July 2010 .....	55
Sunday, 1 August 2010 .....	55
Wednesday, 11 August 2010.....	56
Wednesday, 18 August 2010.....	56
Friday, 20 August 2010 .....	56
Tuesday, 31 August 2010.....	56
Tuesday, 12 October 2010.....	57
Wednesday, 13 October 2010 .....	57

Friday, 15 October 2010 .....	58
Saturday, 16 October 2010.....	58
Wednesday, 20 October 2010.....	58
Thursday, 21 October 2010 .....	58
Friday, 22 October 2010 .....	59
Wednesday, 27 October 2010.....	61
Thursday, 28 October 2010 .....	62
Thursday, 4 November 2010 .....	63
Monday, 8 November 2010.....	63
Tuesday, 9 November 2010.....	64
Wednesday, 10 November 2010 .....	64
Tuesday, 16 November 2010.....	65
Friday, 19 November 2010 .....	65

**SECTION FIVE – CHRONOLOGY 20 NOVEMBER 2010 TO THE FAILURE OF THE TRANSACTION ..... 69**

Introduction.....	69
Sunday, 21 November 2010 .....	69
Monday, 22 November 2010.....	69
Tuesday, 23 November 2010.....	70
Friday, 26 November 2010 .....	71
Monday, 29 November 2010.....	72
Tuesday, 30 November 2010.....	73
Thursday, 9 December 2010.....	74
Tuesday, 14 December 2010 .....	75
Tuesday, 21 December 2010 .....	75
Wednesday, 22 December 2010 .....	76
Friday, 24 December 2010 .....	77
Thursday, 30 December 2010.....	77
Friday, 14 January 2011.....	79
Wednesday, 2 February 2011 .....	79
Valuation.....	81
Discussions with Treasury .....	82
Completion of business case .....	84
Agreement of way forward .....	84
Subsequent events .....	87

**SECTION SIX – JERSEY PROPERTY HOLDINGS ..... 91**

Introduction.....	91
Proposition .....	91
KPMG review .....	92
Structure of JPH.....	95

Standing Order 168.....	96
Re-organisation of the Chief Minister's Department.....	97
Consequential changes.....	97
JPH communications .....	101
Commentary.....	104
<b>SECTION SEVEN – THE VALUE OF LIME GROVE HOUSE.....</b>	<b>106</b>
Introduction.....	106
Normal approach.....	106
External professional valuations of LGH.....	109
Internal professional valuation of LGH.....	110
Informal opinions .....	110
Former Planning Minister .....	112
Advocate.....	113
Commercial valuer.....	113
Comparisons of valuations, appraisals and opinions .....	114
Conclusions.....	126
Treasury Minister's view .....	128
<b>SECTION EIGHT – THE DEPUTY CHIEF EXECUTIVE'S BRIEFING PAPER.....</b>	<b>132</b>
Introduction.....	132
The offer .....	133
Estimate of fit out costs.....	135
The proposed operational Police Station .....	135
Assumption of proceeds of property sales.....	136
More detailed design work under a project manager .....	136
<b>SECTION NINE – THE INTERIM DIRECTOR OF FINANCE'S REVIEW .....</b>	<b>137</b>
Introduction.....	137
Appointment of a programme director.....	138
Location .....	138
Treasury input.....	138
Assumption about the state of Police accommodation.....	139
Risk assessment.....	140
Relationships with the vendor's agents and valuers.....	140
Relationships – vendor's agents.....	141
Relationships – Ministers .....	142
Relationships – commercial valuers .....	142
Omissions.....	144
<b>APPENDIX ONE – TERMS OF REFERENCE .....</b>	<b>151</b>

<b>APPENDIX TWO – PRELIMINARY DOCUMENTS .....</b>	<b>154</b>
<b>INVESTIGATORY APPROACH .....</b>	<b>154</b>
Introduction.....	154
Principal phases .....	154
Phase one .....	154
Phase two .....	156
Phase three.....	156
Phase four.....	157
<b>LIST OF POTENTIAL ISSUES.....</b>	<b>158</b>
<b>APPENDIX THREE – PEOPLE WHO ASSISTED IN THE REVIEW .....</b>	<b>160</b>
<b>APPENDIX FOUR – THE POLICE HEADQUARTERS PROJECT BEFORE 2009 .....</b>	<b>163</b>
January 1999.....	163
August 2000.....	163
26 September 2000 .....	163
January 2001.....	163
2001 .....	164
2002 .....	164
September 2003 .....	164
November 2003 .....	165
2004 .....	166
April 2005 .....	167
June 2005.....	167
July 2005 .....	168
August 2005 and subsequently .....	169

*The proposed acquisition of Lime Grove House  
Report of the Comptroller & Auditor General  
May 2012*

*UNDER STRICTEST EMBARGO UNTIL 0001 ON TUESDAY, 22 MAY 2012*



## **SECTION ONE - INTRODUCTION**

1. This is the report of an enquiry carried out into the circumstances surrounding the failure of the proposed acquisition of a property known as Lime Grove House (LGH).
2. The review was carried out after the Corporate Services Scrutiny Sub-Panel reviewed the transaction and recommended that I should undertake a further review. It was undertaken after discussions had taken place with:
  - (1) the Minister for Treasury and Resources,
  - (2) the Treasurer of the States,
  - (3) the Acting Chief Executive of the States,
  - (4) the Chairman of the Corporate Services Scrutiny Panel,
  - (5) the Chairman of the Public Accounts Committee, and
  - (6) the Greffier of the States.
3. The terms of reference for the enquiry are set out in Appendix One together with the recommendations made by the Corporate Services Scrutiny Sub-Panel.

### *Background*

4. In 1999, it was decided that the Headquarters of the States of Jersey Police (SOJP) should be replaced.
5. By January 2009, almost ten years later, although considerable amounts of money had been spent, no new headquarters had been built and no further developments were in prospect. At this point, with the advent of new senior management within the SOJP, Jersey Property Holdings (JPH) who were charged with oversight of the project decided to make a fresh attempt to see whether progress could be achieved.
6. With the assistance of the SOJP a possible solution was identified in the proposed acquisition of LGH, an office building developed by the private sector. This solution was consistent with suggestions made to JPH by the Treasury Minister. Accordingly a conditional offer was made for LGH in March 2010. This offer was accepted by the vendor.

7. In the event this proposal also came to naught in August 2011 when a lease of LGH to another party was registered in the Royal Court.
8. The suggestion that my office should undertake an enquiry into the failure of this proposed acquisition appeared of interest because it offered an opportunity to examine the reasons for the States:
  - (1) being unable to bring to an early fruition a project which all parties agree was necessary and of increasing urgency;
  - (2) spending substantial sums on projects that in the event proved fruitless; and
  - (3) proving unable to manage property strategically.

*Approach to the enquiry*

9. Having agreed to undertake the enquiry, steps were taken to identify the names of all those people who might have evidence which should be taken into account. All of these people were invited to submit relevant documents and provided with a description of the approach which was to be adopted by the enquiry and the issues which it was considered that the enquiry might be called upon to consider. Copies of these preliminary documents are set out in Appendix Two.
10. Subsequently, interviews were undertaken with all of those people who initially appeared to have information that would be of assistance to the enquiry together with those other people who were identified in the course of the enquiry. Subsequently it became clear that a number of other people might be able to assist. Those people also were contacted. A list of all of those people who assisted in the course of this enquiry is set out in Appendix Three.
11. In all of this work, I have endeavoured to adhere to the process as described in the preliminary documents. In a number of instances as a result of an equipment failure, it was not possible to record the interviews which I conducted. In these cases, notes of the interviews were provided to interviewees rather than the transcripts which were originally envisaged by the preliminary description of the investigatory process. The interviewees concerned are identified in the list set out in Appendix Three. No second interviews were recorded.

12. Once the process of gathering information had been completed and in accordance with the established process a draft of a report was prepared which was then supplied to witnesses with a request that they should confirm the factual content of the report in so far as it was within their knowledge. In general, most of the responses pointed to infelicities in the original draft that could be corrected straightforwardly. Where witnesses' responses raised more serious matters (i.e. cases of conflicts of evidence or major disagreement) further meetings with witnesses were arranged to explore these issues, ensure that they were fully understood and the drafting implications could be assessed fully. In a number of cases, the witnesses' responses and the further meetings brought forward new evidence which then had to be investigated. In one instance, new evidence was brought forward at a very late stage which delayed completion of the report.

*Reporting*

13. On the basis of the documents that were submitted and that I have traced, and of the interviews that I have conducted, this report describes the events which took place between January 2009 and August 2011 when the proposed acquisition of LGH failed. The paper is set out in the following principal sections:

Section Three: Events from January 2009 to the end of March 2010 (the date on which JPH submitted the conditional offer to acquire LGH).

Section Four: Events from April 2010 to 19 November 2010 (the date on which JPH officers were excluded from further direct involvement in the transaction).

Section Five: Events from 20 November 2010 to August 2011 (the month in which the proposed acquisition failed).

14. In the course of preparing the chronology, it was necessary to deal with one or two subjects in addition to the principal events. In Section Six of this report I will deal with developments of the organisational structure of JPH and the control framework within which it existed. In Section Seven of this report I will deal with issues connected to the various valuations, appraisals and expressions of opinion about LGH which were made available at various stages in the project. In Section Eight of this report, I will deal in detail with the Deputy Chief Executive's briefing paper dated 30 December 2010. In Section Nine

of this report, I will deal with a report prepared by the Interim Director of Finance in January 2011.

15. Finally, in the course of this enquiry, it became evident that there were a number of conflicts between evidence given by various people who were interviewed. In Section Two of this report, I will deal with the way in which I have resolved (or failed to resolve) these conflicts.

*Issues for consideration*

16. The events as described in this report give rise to a number of issues. In company with this report I am publishing a paper which sets out my conclusions on the issues that appear to me to arise from this enquiry (including those issues referred to me by the Corporate Services Scrutiny Sub-Panel).
17. In keeping with the independence of my office, the conclusions expressed in the accompanying paper are mine alone.

*Acknowledgements*

18. In the course of this enquiry I have been assisted by a large number of people upon whose time considerable calls have been made. These have included not only the people who have provided documents and evidence but also the people who have processed the documents, typed the transcripts of evidence and proof-read the documents that have been produced. Others have assisted me by reading drafts of this report and giving me their views on its cogency and matters that may require further investigation.
19. I am grateful for the assistance that all of them have provided so readily.

## **SECTION TWO – CONFLICTS OF EVIDENCE**

### **Introduction**

20. In this Section of the report, I will describe a number of conflicts inherent in the evidence that has been given to me together with the way in which I resolved these conflicts (to the extent that this was possible). The conflicts concern:

- (1) allegations concerning a meeting on 31 March 2010;
- (2) allegations concerning a meeting on 14 July 2010;
- (3) the services provided by WEB following 19 November 2010; and
- (4) approval by the former Chief Minister of assistance provided by WEB in connection with the LGH project.

### **31 March 2010**

#### *Description of conflict*

21. The Assistant Director, JPH, alleges that after the JPH offer for LGH was accepted by the vendor on Wednesday, 31 March 2010<sup>1</sup>, the Deputy Chief Executive was informed of this fact at a meeting between them which took place at the JPH offices in Hill Street at the end of the same morning.

22. The Deputy Chief Executive told me that he thought someone had been lying<sup>2</sup> and that no such meeting had taken place.

#### *Significance*

23. In the course of hearings held by the Corporate Services Scrutiny Sub-Panel, the Treasury Minister and the Deputy Chief Executive both asserted that in March 2010 they had not been made aware of the offer made for the acquisition of LGH. As a result they did not at that time have an opportunity to approve or object to the terms of that offer.

#### *Evidence: introduction*

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<sup>1</sup> This was just before the Easter holiday. Good Friday fell on 2 April 2010, and Easter Monday on 5 April 2010.

<sup>2</sup> Telephone conversation with the Comptroller & Auditor General; Wednesday 19 September 2011.

24. There is no written record of the alleged meeting on Wednesday 31 March 2010. The only record takes the form of a note dated 15 December 2010: when it was prepared by the Assistant Director, JPH and the Senior Valuer, JPH. This was done at the suggestion of the Director, JPH once it had become apparent that there was some controversy over whether the meeting had taken place. I do not regard this note as conclusive evidence that the meeting took place.

*Evidence: the assertions of the Assistant Director, JPH*

25. In my search for evidence the Assistant Director, JPH asserted that he had been asked by the Deputy Chief Executive to be available for a meeting at Hill Street following a meeting of the Corporate Services Sub-Panel which the Deputy Chief Executive was to attend with the Human Resources Director of the States. Since the end of the Sub-Panel meeting was uncertain, so the timing of the start of the meeting in Hill Street was uncertain. As a result, a planned meeting of the JPH valuation team was cancelled so that the Assistant Director could be available to the Deputy Chief Executive.

26. I have confirmed with each member of the valuation team that:

- (1) they were aware of the offer to acquire LGH; and
- (2) they were aware of the vendor's acceptance of the offer.

27. In addition, on or about 31 March 2010, the Assistant Director, JPH informed others of the vendor's acceptance of the offer:

- (1) in the afternoon of 31 March 2010, the Assistant Director, JPH telephoned the former Assistant Minister, Treasury and Resources to inform him.<sup>3</sup>
- (2) following the Easter break<sup>4</sup>, the Assistant Director told the Director, JPH who had returned to the office from an absence caused by illness.

28. I have been told in interviews that in these conversations the Assistant Director was asked whether the Deputy Chief Executive had been told of the vendor's acceptance: which he had confirmed (referring to the meeting on 31 March 2010).

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<sup>3</sup> Confirmed by an e-mail exchange making arrangements for the telephone call to take place.

<sup>4</sup> In other words, on Tuesday 6 April 2010 or immediately thereafter.

*Evidence: the assertions of the Deputy Chief Executive*

29. In my search for evidence I discovered that when asked about this at a Scrutiny Sub-Panel hearing the Deputy Chief Executive first accepted that the meeting had taken place:

*“On 31 March 2010, I did receive a briefing on progress and I was advised at that time that negotiations were ongoing with the acquisition for Lime Grove, but at no time . . . at no time until I saw that file, which is that is the file that was presented to me in October 2010, was I ever made aware that a letter had been sent to formally make an offer on behalf of the public for that building.”<sup>5</sup>*

30. At a subsequent hearing, the Deputy Chief Executive retracted this answer explaining that he had been present at another Scrutiny Panel hearing:

*“I did not receive an update at 10.30 a.m. on 31<sup>st</sup> March.”<sup>6</sup>*

31. Assuming that the briefing did occur as recalled in this answer, it seems improbable that the Assistant Director (Estates) would not have mentioned that the offer had been accepted. After all, the acceptance was only communicated at the beginning of that day and the Assistant Director (Estates) would understandably have been pleased that an agreement had been reached.

*Discussion*

32. I have also considered the context in which these assertions have been made. In November/December 2010, the Treasury Minister and the Deputy Chief Executive complained that the offer for JPH had been made without their knowledge or approval. Since the Treasury Minister also complained that the offer had been over-priced, they also suggested that, had they known of the intention to make the offer, they would not have permitted it to be made.

33. On the basis of these suggestions, one would have expected that, had the Deputy Chief Executive been told of the offer’s acceptance on 31 March 2010, he would have complained immediately and that the Treasury Minister would have known of this instantly.

34. There is no evidence that such complaints were made in March 2010 which might suggest that the alleged meeting did not take place.

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<sup>5</sup> Transcript of Scrutiny Panel hearing; 1 September 2010; page 17.

<sup>6</sup> Corporate Services Scrutiny Sub-Panel hearing; 8 September 2011; transcript page 13.

35. I have decided that this is not a conclusive argument.
36. In evidence he gave to the Corporate Services Scrutiny Sub-Panel, the Treasury Minister accepted that he had been made aware of the offer either at the end of April 2010 or at the beginning of May 2010. In any event, there is documentary evidence that the Treasury Minister was informed early in June 2010 of the fact that the offer had been made.<sup>7</sup> This was at least five months before the Treasury Minister and Deputy Chief Executive complained as I have described above. I have not been able to find any evidence of such complaints in June 2010.
37. In other words, the fact that there were no such complaints in March 2010 cannot be treated as evidence that the Deputy Chief Executive was not told of the vendor's acceptance of JPH's conditional offer on 31 March 2010.

*Conclusion*

38. In a situation where there is such a direct conflict of evidence with particular significance for the reputations of the people making the conflicting assertions, I am loath to reach a conclusion without clearly conclusive evidence. I do not have such evidence.

**14 July 2010**

*Description of conflict*

39. On this day, a meeting took place to consider the form of a paper to be presented to the States and describing the proposed office strategy. This paper presented the LGH project as the first phase of an office strategy. The meeting involved the Treasury Minister, the Assistant Minister, Treasury and Resources, the Deputy chief Executive and the Director, JPH.
40. Certain of the people have described the atmosphere of the meeting as bullying and harassing.<sup>8</sup> Another attender did not demur from this description.<sup>9</sup> Another attender described the atmosphere as assertive but not bullying or harassing.<sup>10</sup>

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<sup>7</sup> The evidence takes the form of a memorandum from JPH confirming briefing to the Minister which explicitly refers to the offer.

<sup>8</sup> The Assistant Minister, Treasury and Resources and the Director, JPH: in the context of interviews supported in the case of the Assistant Minister by a file note presented to me a contemporary file note.



*Significance*

41. The meeting was important as it gave support to the next stage of the LGH project which was at this stage to be financed by an arguably property sale and a series of consequential departmental moves. The atmosphere of the meeting was important to the extent that it contributed to somewhat dysfunctional outcome.

*Evidence*

42. There is no objective evidence that could be adduced to settle the conflict between the recollections of the individuals present at the meeting.

*Conclusion*

43. I have not sought to reconcile the different recollections of this meeting.

**Services provided by WEB**

*Description of conflict*

44. The Deputy Chief Executive told me that, following the exclusion of JPH officers from direct involvement in the LGH transaction on 19 November 2010, general property advice was provided by WEB.

45. The former Chief Executive and Finance Director of WEB told me that this was not the case and that WEB had merely provided assistance with one or two detailed matters (such as the further analysis of the SOJP requirements for space).

*Significance*

46. Following the decision to exclude JPH from the transaction, there was a risk that a vacuum of advice had been created and that responsibility would have been focused on the Treasury Minister and the Deputy Chief Executive acting together without reliable advice. This in turns raises a question over whether this would have been in the best interest of good administration and of the Island.

*Evidence*

47. There is no formal record of the request made to WEB for assistance or of any instructions that may have been given to WEB and the board minutes of WEB are not specific on the point.

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<sup>9</sup> The Deputy Chief Executive in interview subsequently confirmed that in a tribunal context the behaviour in the meeting could be described as bullying and harassing behaviour.

<sup>10</sup> The Treasury Minister in interview.

48. The record of subsequent events is of WEB providing occasional advice (which is what the former Chief Executive of WEB asserted to me was all that WEB was requested to do). WEB representatives were not present at all meetings at which the LGH transaction was discussed (as would have been expected had WEB been the key adviser on this property transaction).

49. Interestingly, the Deputy Chief Executive and the Treasury Minister met on 22 November 2010 and discussed the approach that should be adopted towards the re-negotiation of the offer made to acquire LGH.<sup>11</sup> No WEB representative was present at this discussion.

#### *Conclusion*

50. On the balance of probabilities, it appears that WEB was not invited to act as the key adviser on the LGH transaction and, in any event did not do so. Even if there were such a request, the uncertainty over the former Chief Minister's necessary approval of that request (see the paragraphs below) in practice undermined the position of WEB as an adviser and is consistent with no proper arrangement having been made for advice to be provided.

#### **Former Chief Minister's approval**

##### *Description of conflict*

51. Records maintained by WEB of an initial meeting with the Deputy Chief Executive on 27 October 2010 show that the former Chief Executive and the Finance Director of WEB were told that the former Chief Minister had approved the request for WEB to provide services to the Treasury Minister and the Deputy Chief Executive. They also show that WEB asked for written confirmation of this.

52. The former Chief Minister has told me that he had not approved this request and that, indeed, he did not know in advance or approve of the exclusion of JPH from the LGH transaction.<sup>12</sup>

##### *Significance*

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<sup>11</sup> Note of the discussion recorded in the Deputy Chief Executive's daybook; Deputy Chief Executive's documents.

<sup>12</sup> Which was effected by an instruction from the Deputy Chief Executive dated 19 November 2010: almost three weeks after the meeting with WEB.

53. Provision of such assistance fell outside the normal remit of WEB. Any proposal for WEB to undertake work outside this remit required a formal instruction to WEB from the Chief Minister as principal shareholder in WEB.<sup>13</sup> Thus, in the absence of such approval, WEB was not entitled to provide assistance.

54. This is important because, once JPH had been excluded from the transaction, WEB was the only possible source of internal property advice to the Treasury Minister and the Deputy Chief Executive. In the absence of such advice, they were left deciding the direction of the project on their own.

*Evidence*

55. Evidence that WEB's representatives were given to understand that the Chief Minister had given his approval is provided by:

- (1) statements to this effect by both the former Chief Executive and the Finance Director of WEB in separate interviews;
- (2) references to this in the day books maintained by the former Chief Executive and the Finance Director of WEB;
- (3) a report that such approval had been given in the minutes of the board of WEB.

56. This evidence is supported by the fact that written confirmation of the approval was not given subsequently as requested.

57. Evidence that the former Chief Minister had not given such approval is provided by:

- (1) the former Chief Minister's statement to that effect in an interview; and
- (2) confirmation of this by the former Chief Executive; and
- (3) the fact that the initial meeting with WEB took place about three weeks before the decision to exclude JPH from the transaction was communicated by the Deputy Chief Executive.

*Conclusion*

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<sup>13</sup> I note that this description of the limitation of WEB's range of activity is consistent with a briefing note prepared for the Deputy Chief Executive in anticipation of a Scrutiny Hearing in the autumn of 2010; Deputy Chief Executive's documents.

58. On the balance of probabilities, it appears that WEB's representatives were led to believe mistakenly that the former Chief Minister had given his approval.

### **SECTION THREE – CHRONOLOGY JANUARY 2009 TO MARCH 2010**

#### **Introduction**

59. In this and the immediately following Sections of this report, I will set out a chronology of the events which led to the failed attempt to acquire Lime Grove House to provide a solution to the need of the SOJP for a new headquarters.

60. By the beginning of 2009, the project to replace the Police Headquarters had been under way for many years. The principal events during that earlier period are described in Appendix Four.

61. In this Section, I will review events from the beginning of 2009 to the close of business on 31 March 2010, when the vendor of LGH accepted the States' offer for the property.

62. In the next Section, I will review events from 1 April 2010 to the close of business on 19 November 2010, the day on which JPH was told that it would no longer be directly involved in negotiations to acquire LGH.

63. In the following Section, I will review events from 20 November 2010 to the summer of 2011, when the vendor sold the property to another purchaser marking the failure of the States' attempt to acquire the property.

#### **January 2009**

64. In anticipation of discussing the project with the newly appointed senior officers of SOJP, the Director, JPH prepared a brief paper describing the then state of the project to build new headquarters for SOJP and sketching a fresh approach that might be adopted:

*“Summary of current position*

- (1) A budget of £20.56m was compiled for the original Esplanade site but not allocated.*
- (2) The gross project budget available for the Summerland site is £20.065m. This budget was set without recourse to a feasibility process on the Summerland site and omitted items to a value of some £4.07m.*

- (3) *The budget allocation is a fixed sum on which inflation funding is not claimable.*
- (4) *To date the sum of £1.05m has been expended on fees and surveys: £148,000 abortive costs on the Esplanade site; and £902,000 re the Summerland site.*
- (5) *A number of proposed schemes have been developed for the Summerland site that reflect savings determined through a value engineering process.*
- (6) *Scheme 13 which was broadly achievable within the available budget subject to planning approval was approved by the Minister for Home Affairs in October 2006. The Police consider that this scheme would not be fit for purpose within two years of completion.*
- (7) *The design team undertook a further option analysis between March 2007 and July 2007 resulting in the development of a number of alternative proposals.*
- (8) *None of these proposed schemes are considered to meet the current likely future requirements of the Police within the available budget.*
- (9) *The budget shortfall to meet Police requirements, subject to the need to acquire additional land, is estimated to be some £4m to £5m.*
- (10) *The (then) Director of Property Holdings informed the Chief of Police that, as the Accounting Officer of Property Holdings, he cannot sanction continued expenditure of fees on a project for which the specification costs is well above budget.*
- (11) *A meeting was proposed but no mutually convenient date was achieved prior to the departure of the former Director of Property Holdings.*
- (12) *The project has reached an impasse. The solution to moving the project forward requires Property Holdings and the Police working in a strategic partnership.*

*Proposed way forward*

- (1) *Summerland confirmed as preferred site.*
- (2) *Property Holdings and the Police jointly develop the brief and determine a method for resolving any fundamental disagreements.*
- (3) *The brief will be benchmarked against appropriate UK equivalent buildings and any significant differences must be justified.*
- (4) *Brief to be signed off by both Police and Property Holdings subject to costing.*
- (5) *Approved brief to be costed.*

- (6) *Assuming brief exceeds available budget options are to reduce scope and/or seek additional funding.*
- (7) *Any reduction in scope must be approved by both Property Holdings and the Police and incorporated into the signed off brief.*
- (8) *If there is no possibility to reduce scope without impacting adversely on Police operations, additional funds will need to be sought.*
- (9) *Additional funding implications to be reported to Corporate Management Board and Council of Ministers for consideration as an additional bid into the 2009 – 2013 capital programme.”<sup>14</sup>*

65. I have been given to understand that the initial tentative exchanges with SOJP were encouraging and resulted in planning for further development of the project.

#### **Tuesday, 3 February 2009**

66. In anticipation of presenting a proposed States office strategy to the Corporate Management Board, the Director, JPH met the Treasury and Resources Minister who raised a number of concerns about the project in general and about JPH's recommendations in particular. The principal recommendation was that JPH should be authorised to plan for the redevelopment of the former Jersey College for Girls (JCG) site as the most viable option of providing an integrated office campus for the States.

67. Subsequently, the Director, JPH, sent to the Chief Executive (with copies to the Treasury Minister and the Assistant Minister Treasury and Resources), an e-mail setting out the concerns that had been raised by the Minister and implicitly seeking advice on the approach that he should adopt in presenting the strategy.<sup>15</sup>

68. The concerns raised by the Treasury Minister were principally that any change in the States' office usage must be set in the context of the changing economic climate of Jersey and, in particular, that four issues should be considered:

- (1) Should the States not be looking to take existing office space from the private sector as this becomes available rather than constructing new offices at JCG?

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<sup>14</sup> Documents submitted by the former Director, JPH.

<sup>15</sup> E-mail dated 4 February 2009; JPH documents.

- (2) The JCG proposal was too far out of the town centre, breached planning policy by being office use outside the ring road, would cause traffic congestion and take States employees away from town centre lunch time shopping.
- (3) The States would be releasing office space to the market at a time when attempts were to be made to attract users to fill new space at the Esplanade, thereby reducing residual values for 'old' space and acting as a disincentive to move.
- (4) The States should consider the Esplanade as the preferred option for its offices.

69. The Treasury Minister recalls that at this meeting he made clear that he expected progress to be made in developing the office strategy during the months ahead and that he wished to be briefed on a regular basis on the progress made. He also indicated that he would give the necessary political time and support 'to achieve bold plans' and that he wanted more progress to be made in rationalising States' property holdings than in previous years.<sup>16</sup>

70. The Director of JPH concluded his e-mail to the Chief Executive in the following way:

*"In conclusion I am happy to support the redevelopment of JCG for either housing or offices or a mix. However, I believe that it is pointless to attempt to create a central office campus unless it is housed in a fit for purpose efficient new building which will support new ways of working. The report shows that this route delivers ongoing average annual benefits of at least £4.7 million excluding 'soft' benefits.*

*However, I am equally sure that the economic future of the Island comes first and want to make sure that I'm not pulling in the wrong direction.*

*I agreed with [the Minister] that the world has made a significant shift and it is time to take stock and reevaluate assumptions that were made before the financial crisis."*

### **Wednesday, 18 February 2009**

71. The expected discussion of the office strategy proposals took place at a meeting of the Corporate Management Board (CMB) and the outcome was that:

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<sup>16</sup> Letter from the Treasury Minister; 11 April 2012.



*“At CMB today we agreed that there is a real opportunity to improve the way the States works by consolidation of our offices as far as possible the advantages would be:*

- *Much improved working and efficiency*
- *Reduced costs as we reduce the amount of space we occupy*
- *Improved working conditions and hopefully other improvements such as energy efficiency etc,*

*This would be a professional managed long-term change programme entirely in accord with the Strategic Plan. However, we accept that the JCG site is probably not the right option. Therefore we do need the proper feasibility study and must focus on the options available within the ring road such as the Esplanade or perhaps we could create an opportunity somewhere in the Master Plan for the North of the Town that [the Planning Minister] is now to undertake. So a green light for reducing office space and amalgamating as many offices as possible, but a red light on JCG and the need to find the right place.”<sup>17</sup>*

#### **Tuesday, 24 February 2009**

72. Meanwhile work had continued to prepare plans for a new Police Headquarters following discussion with the SOJP in January 2009.<sup>18</sup> This work had included the preparation of a list of possible sites for the new headquarters.<sup>19</sup>

73. It was agreed between JPH and SOJP that a consultant would be appointed to produce a ‘concept’ brief that would define a set of high level statements of principle to be presented to JPH by the States of Jersey Police as the basis for the analysis of options and the development of proposals. In particular the concept brief was to identify the critical success factors for the project so that the agreed desired outcomes might be achieved, all operational requirements should be fully defined and clearly articulated.<sup>20</sup>

#### **Wednesday, 18 March 2009**

74. The Chief and Deputy Chief of Police together with the consultant met the Director, JPH to consider how the Police Headquarters project might be progressed. The Deputy Chief’s note records that the following matters were discussed:

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<sup>17</sup> E-mail from the former Chief Executive dated 18 February 2009; JPH documents.

<sup>18</sup> E-mail exchange 12 January 2009; JPH documents.

<sup>19</sup> E-mail exchange 13 January 2009; JPH documents.

<sup>20</sup> Draft terms of engagement for the consultant; 24 February 2009; JPH documents.

- “- How to raise profile of risk? (open risk register) – buildings and infrastructure risk register.*
- Invest to save principle.*
- Requirement – office density – open plan – new ways of working – cluster activities – homework*
- Tools for the job e.g. work out of ? (States 100 desks spaces per 81 employees)!!!!*
- How to share space efficiently – principle of sharing*
- Phasing concept – what can be done*
- Location – options – acceptable locations – what is available in reasonable time frame*
- What bits go together.”<sup>21</sup>*

**Thursday, 26 March 2009**

75. The appointed consultant shared with JPH a status report (as at 19 March 2009) on the preparation of the brief asking for assistance in filling gaps in the document including, in particular, a description of the risks to the Police of being obliged to remain for an extended period in the current accommodation.<sup>22</sup>

**Monday, 6 April 2009**

76. JPH prepared a request for inclusion in the capital budget of the final tranche of funding for the Police Headquarters project (£2 million) with a view to completion of the project in 2011.<sup>23</sup>

**Tuesday, 26 May 2009**

77. The Deputy Chief of Police reported to a Police Management Team meeting that he was due to meet the Director, JPH in one to two weeks and was considering Green Street

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<sup>21</sup> Daybook maintained by the Deputy Chief of Police.

<sup>22</sup> E-mail exchange; 23/26 March 2009; JPH documents.

<sup>23</sup> E-mail exchange 6 April 2009; JPH documents. The final tranche of funding was included in the overall budget allocation of £20.065 million.

car park and LGH. It was intended to assess the available sites and prepare proposals for Ministers.<sup>24</sup>

78. On the same day, LGH vendor's agents provided to JPH information that had been requested about the specification for LGH.<sup>25</sup>

**Tuesday, 7 July 2009**

79. Within JPH, work was also underway to prepare the 2010 Property Disposal Plan and an exchange of e-mails on this date considered the possibility of including within that Disposal Plan 46 Rouge Bouillon on the basis that it would not be required for the Police or Fire Station site. One of the project managers within JPH commented:

*"The redevelopment of the whole site is likely to be the only affordable option for the new PHQ.. If true, it is likely that the current custody area and the building would be demolished and a new frontage developed along Rouge Bouillon. Number 46 might be useful to us for the Fire Service turnout at that end of the site but a visibility splay is needed. I have no knowledge of any decisions taken this far for disposal."*<sup>26</sup>

80. In the event, the 2010 Disposal Plan also included the sale of a site at South Hill.<sup>27</sup>

**Wednesday, 12 August 2009**

81. In a further meeting, SOJP and JPH discussed the work that needed to be undertaken to assess the viability of LGH and to conduct a space audit. The LGH option involved accommodating as many non-operational elements as possible within LGH and then building a new smaller operational unit for the remainder of the Police's activities. It would be possible either to buy or to lease LGH. The consultant would complete the space assessment, examining police disposition sheets and identify the floor specifications for

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<sup>24</sup> Daybook maintained by the Deputy Chief of Police.

<sup>25</sup> It appears that during March 2009, JPH had again become interested in the possibility of leasing space at LGH as temporary accommodation for departments that could then be moved from South Hill. This would have improved the accommodation available to poorly housed departments (such as Planning and Environment) and would have released South Hill for disposal. At some point, it seems that JPH realised that LGH might provide a solution for the accommodation requirements of the Police. E-mail exchanges; vendor's agents documents.

<sup>26</sup> E-mail dated 7 July 2009; JPH documents.

<sup>27</sup> In other words, the current office accommodation for the Transport and Technical Services and Planning and Environment Departments.

LGH. It was agreed that the Home Affairs Minister should be briefed and that steps should be taken to establish the process for obtaining ministerial approval quickly.<sup>28</sup>

82. From the notes of this meeting it is clear that the Police were nervous that LGH might be sold to another party and thus denied to the Police:

*“ . . . they are anxious about someone else snapping it up.”*

**Friday, 14 August 2009**

83. The Deputy Chief of Police met the consultant who discussed the Police Headquarters project. The consultant reported that the LGH option appeared viable in terms of space.

**Thursday, 27 August 2009**

84. The LGH vendor’s agents sent a letter to JPH enclosing draft Heads of Terms for a lease by the States of the property.<sup>29</sup>

**Wednesday/Friday, 2/4 September 2009**

85. It is plain that by the end of August 2009 some consideration was being given within JPH to the possibility of taking possession of LGH whether by acquisition or by lease. In discussions at the beginning of September, JPH explained to the vendor’s agents that consideration was being given to putting to Treasury a proposal for leasing LGH in anticipation that a preference would then be expressed for converting a lease into an acquisition.<sup>30</sup>

**Tuesday, 8 September 2009**

86. At a meeting of the Resources Department Management Team, the office strategy was discussed:

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<sup>28</sup> Daybook maintained by the Deputy Chief of Police.  
<sup>29</sup> JPH documents. LGH vendor’s agents’ documents.  
<sup>30</sup> LGH vendor’s agents’ documents.

*“[The Deputy Chief Executive] had distributed a feasibility report<sup>31</sup> and welcomed comments. [He] is concerned about committing to anything at the moment and indicated he would appreciate some input on costs (discussion held on the costs to the project). It was discussed that it may be better to look at small scale developments i.e. South Hill and to deal with these now and wait for the market/economy to improve before the main office strategy was put forward for debate. However, there should still be background work going on around the main project event if it is on hold. [The Deputy Chief Executive] agreed that he would finish his report and give it to [the Treasury Minister] for his view. Everyone agreed that it would make sense to set a mark in the diary for when the strategy would begin and work backwards to start the review/consultation. Likely that the deferred date would be 2017.”<sup>32</sup>*

### **Wednesday, 30 September 2009**

87. The Deputy Chief of Police met JPH to discuss the Police Headquarters project. There was a further discussion of the options and recognition of the need to review and restrict the requirements for car parking and to conduct an analysis of all sites. It was agreed that further work should be done to determine what the actual need for accommodation was as it was necessary to close the funding gap which was estimated to be £5 million. It was proposed to hold a value engineering workshop after 18 October 2009 to decide on final requirements for accommodation. It was acknowledged that the meeting would need to be open-minded because some reduction in accommodation would be required to close the funding gap.<sup>33</sup>

### **Wednesday, 30 September 2009**

88. A briefing paper set out the options which were being considered for the re-configuration of the SOJP accommodation for both office space and operational functions.

They were:

- (1) Relocation of both office space and operational functions on land at the airport;

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<sup>31</sup> On 3 September 2009, the Deputy Chief Executive had requested from the Director, JPH a copy of the presentation that he had made to the Corporate Management Board in February 2009 as he was "preparing a report for a planning vote for the overall project and the first few pages of your report are perfect background material". E-mail dated 3 September 2009; JPH documents.

<sup>32</sup> Deputy Chief Executive's documents. The minutes record that the Director, JPH was not present at this meeting and that it was agreed that the Deputy Chief Executive would talk to him on this subject after the meeting.

<sup>33</sup> Daybook maintained by the Deputy Chief of Police.

- (2) Redevelopment of the Summerland site for the operational function and relocation of the office based staff to LGH; and
- (3) Relocation of the operational function to the airport and office space staff to LGH.<sup>34</sup>

89. The basic requirements were set out in the briefing paper in the following way:

*“The SoJ Police Force is currently accommodated in the following properties at Rouge Bouillon:*

- *Thorpe House.*
- *Summerland.*
- *Police HQ.*

*The present site is in disrepair and it does not meet the present requirements for both office accommodation and the operational function of the Police. Backlog maintenance repairs and statutory compliance issues require £1.3 million over the next five years.*

*The Police have confirmed that their operations do not necessarily need to be in close proximity to each other although location is key for some of their functions. They have advised that they would consider an out-of-town location for their operational use but would prefer to be accommodated close to town for the Police Station and office based users (with the exception for the office based use linked to the operational functions). It is an operational requirement for a Police Station in town but not however for office based staff.*

*As stated earlier, there are a number of options and various configurations that would accommodate both operational and office requirements. The analysis of each option is set out below together with opportunity costs as value could be potentially lost dependent upon release of certain sites.*

*The Police have provided their space requirements in detail which require a footprint of 6,000 square metres plus additional areas for parking and operational use. Each of the options has considered site fit against new space requirements and suitability. It must be noted that this report has not been based on formal consultation with the Planning Department or any other relevant consultees at this stage. It has been*

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<sup>34</sup> Attachment to e-mail dated 30 September 2009; JPH documents. The briefing paper does not refer to the possibility of using the Green Street car park site. I have not been able to establish precisely when this option was discarded. However, I understand that JPH were told that there was believed to be a shortage of car parking spaces and that, as the Green Street car park site had been earmarked for that use, it could not be available for the Police Headquarters project. The position was confirmed formally in P202/2009 Com: Ann Court Site: Petition: Comments presented to the States on 19 January 2010 by the Minister for Planning and Environment.

*assumed that the proposed uses will be permitted as well as the assumptions for an alternative use.”*

90. The conclusion of the briefing paper was that on the basis of the SOJP’s assessment of their requirements a larger site would be required than would be available at Summerland. The airport site would be more than adequate to accommodate all the requirements but was not such a convenient location. It was however recommended that there should be a review of the police’s then current assessment of space requirements as a change in these requirements would increase the number of options available.

**Wednesday, 28 October 2009**

91. A workshop was held between SOJP and JPH to review the space requirements and funding schemes for the project. It was agreed that JPH would prepare a report which it was intended should be submitted to Treasury and Home Affairs Ministers within one month. It was planned to conduct a further workshop with police departmental heads to validate the assumptions concerning space utilisation.

92. The workshop was successful in achieving a significant reduction in the Police’s space requirements. Whereas the space requirements had been estimated at 7,409 square metres in December 2008, the requirement was agreed at the end of the workshop at 4,776 square metres.<sup>35</sup>

93. Following this workshop, the option of re-locating the ambulance station to the Rouge Bouillon site after demolition of the former Police Headquarters was developed in order to provide the additional funds required to meet a shortfall in the capital budget for replacement of the Police Headquarters. This option was set out in two further papers on the final options for the headquarters project.

**Monday, 2 November 2009**

94. At a meeting of the Resources Department Management Team, the Police Headquarters project was discussed. The minutes read as follows:

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<sup>35</sup> Spread sheet attached to an e-mail from the Director, JPH dated 30 October 2009; JPH documents.

*"[The Director, JPH] discussed the new plans for Police HQ. He advised that after a number of consultations with the police he has managed to get [the Chief of Police] and [the Deputy Chief of Police] behind the plans – potentially reduce the cost of the building by £7 million."*<sup>36</sup>

#### **Monday, 7 December 2009**

95. JPH circulated a draft report on the current state of the office strategy project recommending that the funds and authority should be made available to progress the office strategy. The report identified a need to appoint a change manager:

*"Whilst consideration of various sites has been carried out, choices can only be based on a set of assumptions that, whilst seemingly reasonable, need far greater consideration in order to uncover the true office requirements that the States need.*

*It is the desire for change, working efficiencies and adoption of best practice that will formulate the physical space requirement.*

*In order to deliver the property solution, many of the alternative working strategies will need to be in place. Some are already in operation but the remaining will need to be considered and trialled well in advance of the new office being delivered.*

*To this end it will be necessary to appoint a suitably qualified change management organisation with the relevant experience in delivering organisational change on this scale."*<sup>37</sup>

#### **Monday, 14 December 2009**

96. At a meeting of the Resources Department Management Team, the governance arrangements for the office strategy project were discussed. The minutes read as follows:

*"[The Director, JPH] raised the issue of governance for office strategy and expressed concern that there wouldn't appear to be a consistent standard around the States. [The Deputy Chief Executive] agreed that an office strategy is needed and that it should be based on [the Director, ISD]'s model which [the Strategic Procurement Director] uses and a system developed to make a standard for 80 to 90 per cent of projects. Discussions followed around for how projects should be managed and the principles which should be followed. It was agreed that we should work towards using similar processes across departments."*<sup>38</sup>

#### **Monday, 4 January 2010**

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<sup>36</sup> Deputy Chief Executive's documents.

<sup>37</sup> Attachment to e-mail dated 7 December 2009; JPH documents.

<sup>38</sup> Deputy Chief Executive's documents.



97. The Deputy Chief Executive responded to a proposal that a particular consultancy should be appointed to take on the role envisaged by JPH's report on the office strategy project in the following way:

*"For the . . . proposal to come to fruition and succeed, one of its main planks is that of organisational change which we are all struggling to get started and above all funded. I cannot see how the . . . proposal can work unless we are committed to significant investment in HR and IT systems as they outline in their report under 'change management workstream, information technology workstream, human resources workstream'. We do not have the capacity, capability and funding in place to deliver these key workstreams at present and given the problems we are facing with funding the CSR programme, I cannot see the level of investment required for this type of work being available for some time."*

98. He therefore suggested that the project should not go ahead and that he would convene a small group of Chief Officers to consider the current position, what the key deliverables should be and the budget that would be necessary.<sup>39</sup>

99. I understand that this group was not convened because it was agreed that it was not possible to advance the underlying programme of organisational change at the same time as the CSR programme. In effect, this meant that it would not be possible to develop a thorough-going office strategy at the same time as the CSR programme.

### **Tuesday, 2 February 2010**

100. The Deputy Chief Executive sent an e-mail to the Director, JPH following a discussion of the office strategy at the Resources Management Team meeting held on 1 February 2010:

*"I have decided to appoint a Project Manager who will be [the Assistant Chief Executive] and his role will be to form a Project Board under a formal PM structure. I will chair the Board and membership needs to be decided but clearly property will be key.*

*The first piece of work he will do will be to review what information we have so far, what we need to complete the initial statement of requirements and look at options for a project of this scale that is affordable in the current economic climate and that*

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<sup>39</sup> E-mail dated 4 January 2010; JPH documents.

*meets our requirements. I do not want to progress the . . . offer at this time as I do not think it represents good value for money as £250k is very high.*<sup>40</sup>

*My starting point is to split the estate into three or four components, health, education, specialist (prison, TTS infrastructure, harbours, airport etc., and general office accommodation). The key thrust of this exercise is to look at the office accommodation and in particular focus on the offices we occupy in the centre of town (including South Hill and Maritime House), and see what level of consolidation we can get with two options.*

*(1) Consolidate everyone in one office (leaving Morier House and the States Building as already occupied but maybe squeeze more into Morier). In my view lots of practical difficulties and size could well remain a problem.*

*(2) With two buildings, one in the centre of town for key workers who need to be located in the town centre and one in the periphery for staff who do not need to be located in the heart of the town centre.*<sup>41</sup>

101. In the event, it proved impossible to make this appointment at this time. The Assistant Chief Executive was fully occupied in work related to the proposal to create the States of Jersey Development Company and other matters and could not be released until those projects had been completed.

102. On this day, JPH asked the agents for the vendor of LGH whether there was any news on the offer price that they would be likely to accept.<sup>42</sup>

103. The agents responded in the form of the following e-mail:

*"We are awaiting your best sporting bid – taking into account that [the vendor] will pay for the installation of a transformer (although it would be great if this could be located on States land rather than possibly losing Lime Grove parking spaces).*

*I recall that the last time figures were mooted during informal discussions parties were in the ballpark of £8.75 m – f/h vacant possession with the property in its current state.*

*To be absolutely up front, the waters from my perspective are being muddied by the ongoing negotiations between my co-agent . . . and [ xxxx ] who are acting for a prospective tenant who have as of yesterday also requested a sale figure from [the vendor] because owner occupation could serve them well from an accounting view (they are a US outfit).*

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<sup>40</sup> This is a reference to commission consultants to support the preparation of the office strategy; JPH documents.

<sup>41</sup> Deputy Chief Executive's documents.

<sup>42</sup> E-mail dated 2 February 2010; JPH documents.

*I think . . . has already alluded to someone else being in the wings.*

*I wasn't invited to the agent/[vendor] meeting that took place yesterday but I have been copied in with the latest correspondence between . . . which invites an offer in excess of £10m as well as specifying terms for a leaving deal.*

*It remains to be seen where these negotiations go, if anywhere. Suffice to say that there is still time for the States to grasp the nettle and do the deal.”<sup>43</sup>*

### **Wednesday, 3 February 2010**

104. The Director, JPH responded to the Deputy Chief Executive's e-mail (dated 2 February 2010) about project governance in the following terms:

*“As you may be aware, we have been working with separate departments to understand their current and future operational requirements and from that base to formulate revised accommodation solutions from which we hope to generate both capital and revenue benefits . . . In the case of the Police HQ the operational space requirements, personnel to be accommodated etc., had in the past been provided by the Police . . . Despite several attempts to value engineer the project, it remained unaffordable until [the Chief of Police] provided the operational challenge required to support significantly reduced space provision.*

*The point I am trying to make is that we do not lack data or indeed options analysis from a property perspective. What we do lack is informed challenge of operational requirements. Challenge which has sufficient operational credibility to be accepted.*

*When it comes to office accommodation it is usual for HR to be the operational client, providing details of current and future personnel requirements, which departments should ideally be co-located, the nature of jobs (totally office based, totally mobile etc.), plus any specialist accommodation needs. This information forms the basis of a brief from which JPH and ISD can formulate systems and property solutions in the context of an overarching strategy.*

*Clearly we need a dedicated Project Manager to provide a focus for the three key strands, HR, Property and ISD but my concern is that HR are insufficiently resourced to deliver the OD specification we need credible internal and external input. This could be [ xxxx ](on a reduced brief) or another consultant but I remain strongly of the view that the potential for greater gains will be lost without this resource.”<sup>44</sup>*

105. The Deputy Chief Executive responded by agreeing that these points should be discussed.<sup>45</sup>

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<sup>43</sup> Vendor's agents' papers.

<sup>44</sup> JPH documents.

<sup>45</sup> E-mail dated 3 February 2010; JPH documents.

106. In effect, the development of the office strategy had paused. In the view of the Director, JPH, further development would have involved analysis of the space requirements of individual States departments which would have required further resource to be available. The Deputy Chief Executive and his colleagues, including I understand the former Chief Executive, had reached the view that the resource could not be made available (because of other commitments) and, in any case, further work on space requirements and modernisation, if undertaken at the same time as the CSR programme, would stretch the States' capacity to encompass organisational change.

**Thursday, 4 February 2010**

107. JPH responded to the vendor's agent's enquiry about offers for LGH in the following terms:

*"Please can you try to get a sensible view from your client as £10m plus Cat A fit plus defects etc., is not going to happen from us.*

*Also we may well be doing major works to the car park behind in due course which may affect the bank's view."*<sup>46</sup>

108. The vendor's agent responded to JPH by indicating that the principal shareholder of the vendor aspired:

**Thursday, 11 February 2010**

109. The Deputy Chief of Police met the Police Facilities Manager who had been given some information by JPH:

*". . . that a commercial company had made a bid to developer/agent to lease whole of Lime Grove building. . . . [CO, States of Jersey Police] informed – then tele [phoned] – to [JPH] – confirmed – "discussion by JPH to developer/agent offering price to purchase property. Paper gone for ministerial approval. Still two valid and affordable options. Confident of approval."*<sup>47</sup>

**Tuesday, 2 March 2010**

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<sup>46</sup> E-mail dated 4 February 2010; JPH documents.

<sup>47</sup> Deputy Chief Officer's daybook note. The reference to a paper having 'gone for ministerial approval' appears to have been a reference to JPH having sought the approval of the Assistant Minister, Treasury and Resources: which he has confirmed.

110. JPH telephoned the agents for the vendor of LGH to ask what point had been reached in negotiations with the other party interested in acquiring the property.

111. The agents advised JPH that whilst nothing was concluded they were expecting that the other party would revert to the agents with the final counter proposal during that week. The agents indicated that there was still a window of opportunity for the States to make a bid for the freehold at a level of 'approximately £9m ([the vendor] to sort out JEC transformer) for the building as is, excepting any snagging issues to be dealt with'.<sup>48</sup>

**Monday, 15 March 2010**

112. The Assistant Director, JPH prepared an appraisal of the value of LGH as a prelude to making an offer for the property. This appraisal indicated a range of possible values from £7.960 million to £9.975 million and settled on a value of £8.750 million.<sup>49</sup>

**Tuesday, 16 March 2010**

113. At 1630 hours, the Assistant Minister, Treasury and Resources met the Treasury Minister, the other Assistant Minister, Treasury and Resources and the Deputy Chief Executive to discuss the position of JPH as set out in papers submitted by the Deputy Chief Executive. These papers appear to have made a series of criticisms of JPH:

- (1) the Director of JPH was not dealing with fundamentals but involving himself 'too much' in 'grand deals'.
- (2) there was cause for concern over contracts for maintenance.
- (3) there were bad relationships with other States departments.
- (4) time spent on the office strategy report presented in February 2009 had been wasted.

114. The meeting closed with a discussion of the Deputy Chief Executive's proposals for an office strategy. The Assistant Minister indicated that he wanted to know the views of the Director, JPH but the Treasury Minister was not interested in this and did not want to hear the views of the Director, JPH on this matter. The Assistant Minister, Treasury and

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<sup>48</sup> Vendor's agents' papers: facsimile message dated 3 March 2010.

<sup>49</sup> JPH documents.

Resources concluded that the Director, JPH was completely discredited in the eyes of the Minister.<sup>50</sup>

115. The Treasury Minister does not agree with this description of the views he expressed at this meeting. As far as he can recall, he was concerned that the progress for which he had called during the meeting on 3 February 2009 had not been made. He wanted to be presented with plans that could be implemented and that were supported by proper business cases. Such plans had not been forthcoming and the goal of completing an office strategy appeared a distant prospect.<sup>51</sup>

116. It appears that the Treasury Minister had not been informed of the decision by Chief Officers including the former Chief Executive and the Deputy Chief Executive that work on an office strategy could not proceed in parallel with the CSR programme.

#### **Mid March 2010<sup>52</sup>**

117. JPH made a presentation to the Assistant Minister, Treasury and Resources on the proposed acquisition of LGH and the steps which JPH wished to take to preserve the States' interest in the property (i.e. the issue of a conditional offer which, if accepted, would lead to a period of exclusivity<sup>53</sup> during which detailed preparations for an acquisition could be made and all formal approvals obtained). The outcome of this presentation was that the Assistant Minister approved the steps which JPH proposed to take:

*“ . . . there was . . . a discussion with [the Assistant Director, JPH] in relation to Lime Grove . . . saying we want to . . . go ahead on the Lime Grove option. We need to secure a period of exclusivity. It won't be binding in any shape or form . . . we're going to put in something to keep the building aside . . . for a period of time whilst we put everything in place and I was happy with that and as far as I was concerned it was no risk to the States. It wasn't a binding offer . . . ”<sup>54</sup>*

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<sup>50</sup> File note of the Assistant Minister, Treasury and Resources.

<sup>51</sup> Letter from the Treasury Minister; 11 April 2012.

<sup>52</sup> I have not been able to establish the precise date of the presentation of the appraisal of the value of LGH. Both the Assistant Director, JPH and the Assistant Minister have clear recollections of the discussion having occurred.

<sup>53</sup> In other words, the vendor would be invited to agree that for a specified period there would be no negotiations concerning a possible sale of the property to any other party thus allowing the States to proceed with detailed preparations for a purchase of LGH free of concern that another party might take advantage of any delay.

<sup>54</sup> Interview with the Assistant Minister, Treasury and Resources; 28 November 2011; page 15.

118. The Director, JPH described this process in the following way:

*“ . . . in order to secure an exclusivity deal the best way is to put in a conditional offer and providing that offer is caveated, subjected to ministerial decision etc, that does not formally bind the States, what it does is, particularly if we’d paid no money for it, it gives us more security than the vendors.”<sup>55</sup>*

**Thursday, 25 March 2010**

119. JPH wrote to the agents for the vendor of LGH and made an offer to purchase the property which was subject to contract, ministerial and States approval. The letter read as follows:

*“I refer to our recent meetings and conversations regarding the above property and confirm that on behalf of the public we wish to make an offer for the acquisition of the freehold interest in this property.*

*We are prepared to purchase the building subject to a number of conditions, for the sum of £8.75m and confirm that we have funds available to proceed with this swiftly.*

*The significant conditions above and beyond those normally applicable to an acquisition are that the property is sold in the current condition save as to any snagging and remedial works required and secondly that a proper electrical supply is in place for the building.*

*We would not require your client to carry out any Category A<sup>56</sup> fit out works as we would undertake these ourselves as part of the proposed project.*

*Should this offer be acceptable to your client we would require a suitable period of exclusivity to conclude this matter.”<sup>57</sup>*

**Wednesday, 31 March 2010**

*Meeting between JPH and vendor*

120. At 1000 hours the vendor’s agents together with two of the vendor’s directors met JPH at the offices of JPH. The vendor’s agent’s note of this meeting reads as follows:

*“£9m - inflexibility? [ xxxx ] snagging list. £8.75m offered. Building required for police facility operational/office function split.*

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<sup>55</sup> Interview with the Director, JPH; November 2011; page 18.

<sup>56</sup> Category A is an industry standard specification of the condition of buildings intended for sale. It is distinguished from Category B which includes changes to a building required by a specific occupant of a building.

<sup>57</sup> JPH documents and vendor’s agents’ documents.

*Could do it on existing site but not preferred option . . . Funding voting for and sitting in the bank. Politically – needs ministerial decision but bound to be called in by someone.*

*[The vendor] has presented up to date costings<sup>58</sup>*

*Domino effect started by Lime Grove. Assistant Minister brief – Jersey Property Holdings has offered best price and is comfortable with valuation which has been signed off by the Assistant Minister.<sup>59</sup> Sits within business plan. If economies are to be made on fit out that can be incorporated within a new business case. Snagging list to be quantified and taken off price. Police desperate to get moving.*

*Exclusivity period of say six weeks £8.75m straight. Jersey Property Holdings to undertake a snagging survey. Jersey Property Holdings to work out a business case and get MD signed. Law Officers Department likely to deal with conveyancing.”<sup>60</sup>*

121. Later that day the vendor of LGH responded formally in the form of a letter from the agents which was also subject to contract and to ministerial and States approval:

*“I write further to your letter dated 25<sup>th</sup> March 2010 and to our very productive meeting this morning with . . . in attendance as directors of . . . the vendor company.*

*As discussed, my clients wish to accept the monetary offer made on behalf of the public in the sum of £8.75m in respect of a freehold acquisition of the property with vacant possession and in its current state of construction.*

*My clients recognise that the transaction is subject to contract, ministerial and States approval and all usual due diligence work.*

*In order to allow the foregoing to be achieved I confirm that an exclusivity period of six weeks from today’s date has been granted to the States of Jersey.*

*We also discussed this morning that two additional caveats set out in your offer letter i.e. relating to snagging/remedial works required and secondly the installation of a proper electrical supply for the building.*

*My understanding is that these items will now be contained within the revised fit out sums which have been identified by [the vendor] as being substantially less than the £1.5m costs originally envisaged. These figures will be substantiated by [ xxxx ] who are part of the vendor’s professional team. I trust that this will assist you in the*

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<sup>58</sup> Subsequently the vendor provided copies of the latest costings to JPH. Confirmed in an e-mail from the vendor’s agent to the firm advising JPH on costings on 11 May 2010; vendor’s agents’ documents.

<sup>59</sup> In fact, the Assistant Minister, Treasury and Resources did not sign a formal decision. He has however confirmed that he approved the proposal to make an offer on the basis of the valuation evidence provided to him.

<sup>60</sup> Vendor’s agents’ documents.



*preparation of your new business case in the lead up to achieving a signed ministerial decision.”*

122. It is evident that the vendor’s acceptance letter differed from the States’ offer letter in the way in which it was proposed that the costs of snagging and remedial works would be handled (i.e. the acceptance letter envisaged that the building would be sold ‘in its current state of construction’ whereas the States’ offer letter had envisaged that it would be sold in that condition save for certain works being undertaken at the vendor’s cost). JPH did not attempt to resolve this difference immediately apparently on the basis that the matter would be dealt with when further information about the likely costs of necessary work became available during the period of exclusivity and that, in the event that a solution could not be found, the States would be able to withdraw from the offer. It may well have been possible to resolve matters had the issue been addressed with despatch during the initial period of exclusivity. As will be shown, this did not happen.

*Meeting between JPH and the Deputy Chief Executive*

123. According to JPH, later that morning, a meeting took place between the Assistant Director, JPH and the Deputy Chief Executive at JPH’s offices at which the Deputy Chief Executive was notified of the vendor’s acceptance of the offer made by JPH.

*Telephone conversation between the Assistant Director, JPH and the Assistant Minister, Treasury and Resources*

124. Later that day, the Assistant Director, JPH telephoned the Assistant Minister, Treasury and Resources and told him that the vendor had accepted the offer for LGH.<sup>61</sup>

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<sup>61</sup> JPH documents: e-mail exchange on 31 March 2010 arranging the call.

## **SECTION FOUR – CHRONOLOGY APRIL 2010 TO 19 NOVEMBER 2010**

### **Introduction**

125. In this Section of the report, I will describe events between 1 April 2010, immediately following the vendor's acceptance of the States' offer for LGH and 19 November 2010, the date on which JPH officers were excluded from negotiations concerning the acquisition.

### **Friday, 2 April 2010: Good Friday**

### **Monday, 5 April 2010: Easter Monday**

### **Tuesday, 6 April 2010**

126. After being away from JPH since about 24/25 March 2010 due to an infection resulting from dental surgery, the Director, JPH returned to the office and met the Assistant Director, JPH and the Assistant Minister, Treasury and Resources who briefed him on the state of negotiations with the vendor of LGH. The Director asked whether the Deputy Chief Executive had been informed (to decide whether he should do so himself) and was told that this had been done.<sup>62</sup>

### **Thursday, 29 April 2010**

127. In the event, there was difficulty in arranging a meeting with the Treasury and Resources Minister so that a meeting did not take place until 29 April 2010.<sup>63</sup>

128. The meeting was attended by the Treasury and Resources Minister, the Deputy Treasurer, the Assistant Minister, Treasury and Resources and the Director, JPH.<sup>64</sup> The

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<sup>62</sup> Interview with the Director, JPH; November 2011; page 23. Interview with the Assistant Minister, Treasury and Resources; 28 November 2011. I understand that between this date and the meeting with the Treasury Minister on 29 April 2010, meetings took place with the Home Affairs Minister and the Health Minister to brief them on the LGH project. It is believed that these meetings took place on 19 April 2010: Memorandum to the C&AG from the Assistant Minister, Treasury and Resources; 9 March 2012.

<sup>63</sup> See meeting confirmation; Assistant Minister, Treasury and Resources documents. I understand that the difficulty resulted from the Minister's diary commitments but were exacerbated by the dates of the Easter break.

<sup>64</sup> I believe that the Deputy Chief Executive was not present as he was on holiday at the time.

purpose of the meeting was to discuss the Police Headquarters project in the light of the exclusivity agreement with the vendor of LGH.

**Wednesday, 5 May 2010**

129. JPH provided a further update for the Treasury Minister at a meeting which was also attended by the Deputy Treasurer to assist with the funding issues.<sup>65</sup>

130. The Director, JPH recalls the discussion at the meeting in the following way:

*“We had prepared a whole series of presentation boards<sup>66</sup> which showed two options that we had: Lime Grove House and Summerland, and we also produced rough breakdown costs . . . and we went through the project and . . . I think we had a shortfall of about £2 million and this was because we had demolition costs for Summerland, we had to acquire [a] right of way and car parking area.”<sup>67</sup>*

131. The Executive Summary prepared to accompany the presentation reads as follows:

***“Option 1 – Single Site, all new build at Summerland***

*Assumptions:*

*Purchase of 875 square metres from the Sacre Coeur Car Park for £1.5m.*

*No surplus land given from the Summerland Site.*

*A Residual Value of £11.7m as a result of selling the Ambulance site only.*

*No decant or temporary accommodation needed for those based at Summerland.*

*A new build gross floor area of 5,047 square metres with a footprint area of 1,355 square metres at Summerland.*

*Potential Budget £29,200,000 (Capital Vote plus Nett receipts).*

*Cost at today’s prices £25,457,137.*

*Nett surplus £3,742,863 (budget over cost).*

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<sup>65</sup> Confirmed in a subsequent memorandum sent to the Minister recording the information which was given at the meeting. Memorandum dated 12 May 2010.

<sup>66</sup> The preparation of the presentation boards in anticipation of the meeting on 29 April 2010 is confirmed by an e-mail dated 28 April 2010 from the Director, JPH; JPH documents.

<sup>67</sup> Interview with the Director, JPH; November 2011; page 23.

**Option 2 – Purchase Lime Grove and build Operational Station at Summerland**

*Purchase of 875 square metres from the Sacre Coeur Car Park for £1.5m.*

*1,000 square metres surplus land sold from the Summerland Site.*

*A Residual Value of £15.6m as a result of selling the Ambulance site only.*

*The purchase and fit out of the lower 3 floors (2,695 square metres) of Lime Grove for £11.0m.*

*A new build gross floor area of 2280 square metre with a footprint area of 834 square metres at Summerland.*

*Potential Budget £33,100,000 (Capital Vote plus Nett receipts).*

*Cost at today's prices £29,147,249.*

*Nett surplus £3,952,751 (Budget over cost).<sup>68</sup>*

132. The Director, JPH recalls that the discussions continued in the following vein:

*“ . . . and the one thing I recall very strongly was the Minister said that he was not going to go back to the States for any more money whatsoever and he was not going to do this even if it was for bridging purposes . . .*

*. . . I recall that the [Deputy Treasurer] was saying that there was a fundamental problem in that we couldn't spend any money that we projected from the Ambulance Station site or whatever before we'd actually got it, that the rules were that you had to have all of the funds . . .*

*. . . so what he said is you can't go ahead and acquire Lime Grove . . . until you got all of the money for the whole project. Well that's quite understandable because otherwise you get project fragmentation, you get the project started and then you say . . . I can't finish it until I've got more money and actually that's . . .gun to the head.<sup>69</sup>*

133. I understand that the Deputy Treasurer advised that, before a project could commence, it would be necessary for all of the required funds to be available: i.e. if it were proposed to make use of funds from the sale of properties, then sales should already have

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<sup>68</sup> JPH Documents.

<sup>69</sup> Interview with the Director, JPH; November 2011; page 23. It should be remembered that the capital budget for the new Police Headquarters had been set a number of years before 2010 and had been eroded by expenditure on unsuccessful attempts to agree plans for the new headquarters. As shown by the internal audit report that has been mentioned above, even the original budget may not have been adequate as it was set before detailed plans had been prepared and excluded certain categories of cost.

been agreed so that there was no remaining contingent balance. I also understand that there was no objection to the principle of making use of the proceeds of property sales.

134. The Assistant Minister, Treasury and Resources recalls that at this meeting, in passing, the Treasury Minister commented that he thought he could acquire LGH for less than the offered amount.<sup>70</sup>

**Friday, 7 May 2010**

135. The commercial valuers commissioned to value LGH sent an e-mail to JPH confirming that LGH had been inspected and that a report was being prepared. The valuers asked whether JPH had prepared or obtained estimates of Category A fit out costs. For illustrative purposes, the valuers were provisionally using an estimate of £1.75 million.<sup>71</sup>

136. JPH responded to the commercial valuers indicating that the figure indicated by the valuers for the Category A fit out appeared high.

**Monday, 10 May 2010**

137. The vendor's agent sent an e-mail to JPH reminding JPH that the six week exclusivity period granted by the vendor would expire shortly.<sup>72</sup>

138. In response, JPH sent a letter to the vendor's agent seeking an extension to the period of exclusivity for a further month:

*"We have made significant progress with the Ministers involved with this project having briefed the Ministers and the Assistant Ministers for Home Affairs, Health and Treasury as to the details rationale and need to complete the purchase of Lime Grove.*

*They have all confirmed their understanding and support.*

*To that end we have instructed [ xxxx ] to undertake a formal valuation on our behalf which as you are aware is a key requirement of the States processes.*

*Additionally we have asked [ xxxx ] to organise the necessary survey of the building in respect of construction issues.*

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<sup>70</sup> Interview with the Assistant Minister, Treasury and Resources; page 24. The Assistant Minister also recalls that this was the only occasion before the autumn of 2010 on which the Treasury Minister made this suggestion.

<sup>71</sup> E-mail dated 7 May 2010; JPH documents.

<sup>72</sup> E-mail dated 10 May 2010; JPH documents.

*We remain wholly committed to this acquisition and will be shortly submitting our business case and MD.*<sup>73</sup>

139. Separately, the JPH project manager dealing with the LGH transaction circulated a note reporting that he had discussed Category A fit out costs with the Quantity Surveyor advising JPH who estimated that the fit out costs might exceed £1.5 million.<sup>74</sup>

#### **Tuesday, 11 May 2010**

140. The Chartered Building Surveyors who had been commissioned to survey the current condition of LGH, wrote to JPH seeking confirmation and instruction to undertake survey work in connection with LGH.<sup>75</sup>

141. The Assistant Director, JPH circulated a draft business case in a bid to seek funding from the 'Comprehensive Spending Review Invest to Save' monies for the office strategy feasibility study. The draft was intended only for internal comment within JPH at this stage. The Director, JPH commented:

*"On a very quick read this looks good – the only thing which could be added in is the size of the prize. All of the analysis I have done confirms that with the Police admin[istration] consolidation there is the potential to cut at least 20,000 (possibly 25,000) sq ft which even on our current meagre maintenance spend would deliver up to £500,000 pa. If you add that to F[acilities] M[anagement] costs of £6 sq ft there is another £1.5 million before you consider backlog maintenance and the opportunity to reduce operating costs which must be in the order of £2m.*

*All up we could be looking at £4 to £5m.*<sup>76</sup>

#### **Wednesday, 12 May 2010**

142. The Assistant Director (Finance and Investment), JPH sent a memorandum to the Treasury Minister (copied to the Assistant Minister, Treasury and Resources and the Director JPH), confirming matters which had arisen at a meeting with the Treasury and Resources Minister on 5 May 2010. This memorandum confirmed that instructions had been issued for a valuation of the property and various budgetary issues.<sup>77</sup>

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<sup>73</sup> Letter dated 10 May 2010; JPH documents. Ministerial Decision.

<sup>74</sup> E-mail dated 10 May 2010; JPH documents.

<sup>75</sup> Letter dated 11 May 2010; JPH documents.

<sup>76</sup> E-mail dated 12 May 2010; JPH documents.

<sup>77</sup> Memorandum dated 12 May 2010; JPH documents.

**Friday, 14 May 2010**

143. The commercial valuers provided a draft valuation report for LGH which was subject to receipt of JPH's fit out cost estimates and any other comments that JPH might care to make. The draft report included confirmation of the precise terms of the valuation engagement.<sup>78</sup>

**Tuesday, 18 May 2010**

144. The vendor's agents wrote formally confirming an extension of the period of exclusivity for a further month from 6 May subject to the proviso that:

*“. . . they be kept abreast with regular feedback as to Jersey Property Holdings progress in formulating the business case and ministerial decision.”<sup>79</sup>*

**Monday, 31 May 2010**

145. In response to a request from the Deputy Chief Executive, the Director, JPH provided a briefing note on the progress made by JPH in delivering a comprehensive strategy for the future configuration of office accommodation for States departments. The note set out the extent of the progress that had been achieved since the presentation to the Corporate Management Board in February 2009. In particular, it referred to the need to assess critically the space requirements of each department within the States and the difficulty which had been caused by the decision that consultants should not be appointed to take this project forward.<sup>80</sup>

146. The memorandum, which had been sent not only to the Deputy Chief Executive in response to his request but also to the Chief Minister and the Assistant Minister, Treasury and Resources whom the Deputy Chief Executive was to brief, received a response from the Deputy Chief Executive.<sup>81</sup>

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<sup>78</sup> Attachment to an e-mail dated 14 May 2010; JPH documents.

<sup>79</sup> Letter dated 18 May 2010; JPH documents.

<sup>80</sup> Attachment to e-mail dated 31 May 2010; JPH documents.

<sup>81</sup> E-mail dated 1 June 2010; JPH documents.

**Tuesday, 1 June 2010**

147. JPH received an update from the appointed consultants on the survey work carried out at LGH and various issues that have been identified as a result.

**Wednesday, 2 June 2010**

148. JPH received the final draft of the commercial valuers' valuation report.<sup>82</sup>

**Thursday, 3 June 2010**

149. The principal valuer at JPH wrote to the commercial valuers asking for preparation of an executive summary of the valuation report as there were certain commercial details included in the full report which could not be made public.<sup>83</sup>

**Friday, 4 June 2010**

150. In anticipation of a further briefing meeting with the Treasury Minister, the Assistant Director (Finance and Investment), JPH circulated the following brief summary of the position regarding LGH.

*"1 - Valuation completed by [the commercial valuer] on RICS Red Book<sup>84</sup> basis (conservative). Valued at £8.8m for shell and core - JPH will undertake full fit out – cost plan prepared on a 'cost per square metre' basis based on police identified requirements.*

*2 - Snagging report expected next week, or rather – this will influence JPH current offer of £8.75m (subject to contract and approvals).*

*3 - Land transaction with [ xxxx ] agreed in principle (subject to contract and approvals) at £1.5m. [The commercial valuer] instructed to provide independent valuation. JPH architects have produced initial designs for new access way. This will need to be worked up into a full planning application.*

*4 - Cost plan prepared for Summerland site on a cost per square metre basis plus allowances for other costs (fees, demolitions etc.).*

*5 - Outline proposals being developed for relocation of ambulance station to vacated site adjacent to fire station to demonstrate viability. Linkage to CSR proposals to co-locate functions (e.g. control room etc.).*

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<sup>82</sup> E-mail dated 2 June 2010; JPH documents.

<sup>83</sup> E-mail dated 3 June 2010; JPH documents.

<sup>84</sup> See Section Seven.



6 - Independent verification of development of potential sought for potential of ambulance site.

7 - Business case being prepared in draft from awaiting finalised figures from above. Aiming to circulate full draft by end of next week.

8 - Consultation undertaken with H&SS, Home Affairs, Health Minister and Assistant Ministers plus relevant officers.<sup>85</sup>

151. This summary was worked up into a briefing note for the Treasury and Resources Minister which was dated 4 June 2010. The rest of the memorandum largely repeated the points made in the first draft of the note in the terms quoted above.

#### **Wednesday, 9 June 2010**

152. The commercial valuers provided a draft of the 'executive summary' version of the LGH valuation.<sup>86</sup>

#### **Thursday, 10 June 2010**

153. The first version of the report of the site inspection was circulated.<sup>87</sup>

#### **Friday, 11 June 2010**

154. In response to a request from the vendor's agents, JPH provided to the agents a letter confirming the progress that had been achieved with the LGH project:

*"The valuation has been completed and issued by [ xxxx ] and it confirms our purchase price is in order and will form a significant supporting document to our business case.*

*The conditional survey has also been reviewed and a draft has been received.*

*I will review this and revert to you early next week with any comments.*

*As you are aware, the Ministers and Assistant Ministers for Home Affairs, Health and Treasury have all been briefed and are supportive of the purchase.*

*I have drafted a business case for the acquisition and will be completing this with my colleagues early next week to submit a ministerial decision to be signed off by the end of the month. This will of course then be subject to SO168 and the States fifteen day*

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<sup>85</sup> E-mail dated 4 June 2010; JPH documents.

<sup>86</sup> Attachment to e-mail dated 9 June 2010; JPH documents.

<sup>87</sup> Attachment to e-mail dated 10 June 2010; JPH documents.

rule. In the meantime it will be helpful if you could confirm who will be acting for you in respect of the legals.”<sup>88</sup>

#### Friday, 25 June 2010

155. The principal shareholder of the vendor telephoned the Director, JPH to ask about current progress with the project. The Director, JPH recorded the call in the following way:

*“I took a call this afternoon from [ xxxx ] re LGH. He was expecting a call from you by the end of this week. I am concerned that we may be turning off a strong supporter by not maintaining communication lines. We need an action plan to deliver the business plan for the Police HQ – will you please consider what needs to be done over the weekend in order that we can put the appropriate resources onto the task with a view to delivering by the end of next week.”<sup>89</sup>*

156. As far as I have been able to discover, no such plan was prepared.

#### Thursday, 1 July 2010

157. The Head of Capital Projects, JPH sent an e-mail to the Assistant Director (Finance and Investment), JPH expressing concern over the Police Headquarters project. In particular these concerns included:

*“(1) I am concerned that [ xxxx ] is even contemplating buying LGH without Cat A fit out and bye-law permit. Is this allowed in the Finance Laws/States Legislation? I cannot see the benefit of this and it introduces huge risks. The cost of the Cat A fit out is not included in the cost estimate for good reason . . .*

*(2) The wheeler-dealer attitude is unsettling. As you know I like a measured and structured approach . . .*

*(4) There is no communication plan and I am at a disadvantage being consulted for information in an ad hoc manner. This is OK but I am very much on the peripheral...”<sup>90</sup>*

#### Thursday, 1 July 2010

158. The vendor’s agents sent an e-mail to JPH asking about progress and noting that the closing sitting of the States before the summer recess was due to be held on 19 July and asking whether the deadlines were achievable.

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<sup>88</sup> Letter dated 11 June 2010; JPH documents.

<sup>89</sup> E-mail dated 1 July 2010; JPH documents.

<sup>90</sup> JPH documents.

**Wednesday, 7 July 2010**

159. The Assistant Director, JPH circulated a draft Ministerial Decision concerning the acquisition of land owned by a developer at Rouge Bouillon and which was required to facilitate development of the States' site.

**Week ending Friday 9 July 2010**

160. A number of meetings appear to have taken place between the Director and Assistant Director (Finance and Investment), JPH and the Deputy Chief Executive to explain to him the office strategy and to agree the form of any presentations which were to be made to interested parties. The JPH representatives were left with the impression that the Deputy Chief Executive had understood the strategy and supported it. They also believed that they had agreed an approach to improving the presentation of the strategy.

161. By the end of these meetings, the following approach had emerged:

- (1) any presentation should not emphasise JPH's original approach to an office strategy;
- (2) the LGH project should be put forward as the first stage of implementing an office strategy<sup>91</sup>; and
- (3) as the cost of the LGH project exceeded the available budget, it would be necessary to link the project with the disposal of the South Hill site which had been included in the 2010 Business Plan (with a number of consequential departmental moves) so that the proceeds of disposal could be used to meet the budget shortfall.

162. Whilst this approach had the advantage of enabling presentations on the office strategy to be made almost immediately, it had the disadvantage that the LGH project became more complicated and required more preparatory work than had been anticipated. In particular, financing the project became dependent upon achieving a satisfactory sale of the South Hill site and beginning the project also became dependent

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<sup>91</sup> This was thought necessary to provide the concrete element in the paper that it was believed the Treasury Minister wanted. The LGH project was the only suitable project for this purpose.

upon achieving the agreement of the departments concerned to the proposed moves together with the detailed planning for those moves.

163. Alternative approaches to the LGH project (such as a renewed consideration of alternative sites including those which had previously been rejected and a re-consideration of the project to check that a design could not be found that could be delivered within the available budget) had the disadvantage that they would take time to consider. In practice, there was little time left before the paper on office strategy was to be presented to the Assembly.<sup>92</sup>

164. Following these meetings, an updated paper was prepared to brief the Minister before a meeting to be held with him on 14 July 2010. The paper was then sent to his office.<sup>93</sup>

### **Wednesday, 14 July 2010**

#### *Meeting with Treasury Minister*

165. At 0930 hours, the Assistant Minister, Treasury and Resources and the Director, JPH met the Treasury Minister and the Deputy Chief Executive to discuss their approach to a forthcoming Scrutiny Panel meeting concerning SOJDC<sup>94</sup>:

*“After initial greetings, [the Treasury Minister launched into a very aggressive commentary on the Draft Exec[utive] Summ[ary] given to him by the [Director, JPH] earlier in the week.*

*It might have been good enough 12 months ago, it wasn’t what he wanted now, he wanted actions, it needed to be delivered to States members by Thursday of next week, it wasn’t what States members were expecting, he had a real political problem with JPH, he was the minister, and what he wanted was paramount . . . [The Treasury Minister] asked [the Deputy Chief Executive] to respond . . .*

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<sup>92</sup> In answer to an oral question of the Treasury Minister on 20 April 2010 about when the office strategy would be published, the Assistant Minister, Treasury and Resources gave the following answer: ‘Yes, the department will be producing a high-level plan for the development of core office accommodation, hopefully before the summer recess.’

<sup>93</sup> This is confirmed by an e-mail from the Minister’s PA to the Director, JPH on 13 July 2010 thanking the Director, JPH for the paper and asking for a further copy to be provided by e-mail. This was done by way of an e-mail at 0947 hours on 13 July 2010.

<sup>94</sup> The Assistant Minister, Treasury and Resources recalls that the Minister did not appear to have read the briefing paper that had been provided to him (Assistant Minister’s documents). For his part, the Treasury Minister could not recall having received or read the paper: meeting with C&AG 19 April 2012. The Treasury Minister recalled that at this time he was under considerable pressure in respect of a number of his responsibilities.

*[The Director, JPH] attempted to explain a couple of points but was basically not allowed to speak in any shape or form without interruption. The point was also made by [the Director, JPH] that JPH had been asking for the resource to get the HR consultants in since October of last year.*

*[The Treasury Minister] continued in the vein . . . I am the Minister, this is what I want, I'm not interested . . . He at some point stated that he would, if necessary send an e-mail outlining what he expected, and that if things were not ready by Monday there would be huge trouble and essentially inferred that one or both of us<sup>95</sup> would be looking for a new job.<sup>96</sup>*

166. As I have explained in Section Two of this report, there is some disagreement over the way in which the atmosphere at this meeting may best be described.

167. In the event, what matters is whether the atmosphere at the meeting was conducive to proper decision-making. In retrospect, the outcome of the meeting was sub-optimal as at least one participant (the Treasury Minister) had severe doubts about its practicality<sup>97</sup>. Whilst theoretically the proposed sale of South Hill, coupled with a series of consequential moves of departments, appeared to provide sufficient funds for the project to go ahead<sup>98</sup>, it was fraught with practical difficulty. The departments concerned would have to be persuaded of the need to move and then of the practicality of their proposed moves which would then have to be prepared in detail. The plan also depended upon the States being able to realise a satisfactory price in selling South Hill. Whilst all of these difficulties could be surmounted, they would all require time and resources to resolve. As more than three months had passed since the offer for LGH had been accepted, time was running short.

168. The effect was that if the Treasury Minister's concerns about the practicality of the project proved to be justified, time and expense would have been wasted by pursuing a project that proved undeliverable. That waste of time risked the possibility of acquiring LGH as the offer had been made and accepted more than three months earlier and the vendor had been led to expect that the necessary States processes would have been completed by the summer recess.

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<sup>95</sup> i.e. the Assistant Minister, JPH and the Director, JPH.

<sup>96</sup> Assistant Minister, Treasury and Resources' file note.

<sup>97</sup> Meeting with the C&AG; 19 April 2012.

<sup>98</sup> The financial effect of these proposals was set out in an e-mail from the Assistant Director (Finance and Investment) to the Director, JPH on 16 July 2010.

169. Later in the day, the Treasury Minister exceptionally sent a memorandum to the Assistant Minister:

*“Following our meeting this morning, I just want to confirm what my expectations are in relation to the property plan. A commitment has been given to issue an office strategy to the States by the beginning of the summer recess. This should be prepared for circulation by, at the very latest, the close of next Thursday. The property plan I have seen is not sufficient and dependable and I am not prepared to sign it off. The plan needs to be strengthened, in terms of its implementation proposals, with an appropriate timescale for execution. I wish to formally record that the development of an office strategy has taken far too long and my political reputation is on the line and I need you to deliver something that I can sign off and defend. It is important that it is delivered so that I can regain confidence in Property Holdings.”<sup>99</sup>*

170. It seems clear that the Treasury Minister was still not aware that there had been no significant work on the office strategy since the decision of the former Chief Executive and Deputy Chief Executive earlier in the year.

171. A paper was subsequently prepared, as agreed, and was approved by the Treasury and Assistant Ministers for submission to the Assembly. I understand that whilst the Treasury Minister agreed that the LGH project should be presented as Phase One of the office strategy, thus representing that it would be going ahead, he did not ‘approve’ the remainder of the strategy.<sup>100</sup> There seems no doubt however that, at the very least, he did not object to the office strategy paper being presented to the States.

172. The effect of this was that a report was presented to members of the Assembly which implied that the LGH project would be going ahead at the same time as the Treasury Minister harboured doubts about whether it could be implemented.

*Telephone conversation with the vendor’s agent*

173. At the end of the afternoon, a telephone call was received from the vendor’s agent who had met the Treasury Minister by chance in St Helier.<sup>101</sup> The Minister had told the agent that the performance of JPH had been most unsatisfactory and had remarked that

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<sup>99</sup> JPH documents. In a letter dated May 2012, the Minister has suggested to me that he was concerned about JPH’s ability to complete the LGH project rather than the office strategy. I note that this latest assertion is inconsistent with the e-mail which he sent on 14 July 2010 which I have quoted above.

<sup>100</sup> Meeting with the C&AG; 19 April 2012. Assistant Minister’s documents.

<sup>101</sup> Memorandum to the C&AG from the Assistant Minister, Treasury and Resources; 9 March 2012.

he was aware of the offer and that he was not convinced that he could approve the purchase of LGH.<sup>102</sup>

**Wednesday, 28 July 2010**

174. The Deputy Chief Executive sent an e-mail to the Assistant Director (Estates), JPH as follows:

*“Following our meeting earlier this week re the office strategy you were going to look for someone who could undertake the independent financial appraisal for the Phase 1, Police HQ project. I appreciate that time is critical and I am only here until next Tuesday then off until the following Friday.*

*I am struggling to see how we can complete this appraisal in this time-scale and apply the level of ‘due diligence’ checks on this project before getting the MD’s signed and going public etc., for example, do we have sign-off from the main players, e.g.[ xxxx ]? Are there respective Ministers on board? Given the scale of this and the fact that it is Phase 1 of a much bigger strategy this will need full CMB and COM approval or has this been factored into the time-line? Are they content with the space being provided to them? What is the time-scale for their move? Has the full cost of the move for all of these people been developed and is it included in the overall project budget?*

*I have to say I am still uneasy about this. I accept and support the concept of this project but I have the feeling that we are jumping from concept to delivery without the necessary development phase being fully evaluated. I hope I am wrong and all of the above is complete but I will need to see it before progressing to the CMB/COM which has to be our next logical step.”*

**Sunday, 1 August 2010**

175. The Assistant Director (Estates), JPH responded to the Deputy Chief Executive in the following terms:

*“Do you have 15 minutes on Tuesday to go through where we are up to?”<sup>103</sup>*

*[ xxxx ] have provided the build costs and [ xxxx ] have or are completing the valuations and the check development appraisal.*

*These all form part of the business case for the Lime Grove element. I am keen that whilst you are away I can pull together anything else we need to an active confidence of sign off. I appreciate your diary is probably tight but a moment would assist.”*

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<sup>102</sup> Meeting notes of the Assistant Minister, Treasury and Resources. I infer that the Treasury Minister’s cautionary words sprang from a concern that the LGH project might prove undeliverable.

<sup>103</sup> I have not been able to trace any record of such a meeting.

**Wednesday, 11 August 2010**

176. The Assistant Minister, Treasury and Resources circulated an e-mail to the Home Affairs Minister, the Health Minister, the Director, JPH and the Assistant Director (Estates), JPH confirming that he had signed a Ministerial Decision to acquire a strip of land at Rouge Boullion related to the project. Then as far as concerns LGH:

*“As regards Lime Grove [the Deputy Chief Executive] has stated that he is happy with all of the principles but has marked some additional info which [Assistant Director, the Estates] is working on and he will be in touch separately with both of you in due course.”*

**Wednesday, 18 August 2010**

177. JPH wrote to the principal shareholder of the vendor of LGH confirming the current state of the project. As far as LGH was concerned the letter confirmed that:

*“We have prepared the business case for Lime Grove and have briefed and obtained political support from the Home Affairs, Health, Treasury and EDD Ministers and Chief Officers.*

*We are currently completing the supporting case for the subsequent phases of the project requested by [the Deputy Chief Executive] and these will be ready in the next week or so.<sup>104</sup>*

*Additionally communication plans and statements have been prepared as there are significant employment impacts of all of the changes.*

*Whilst purchasing Lime Grove is not a complicated matter per se it impacts on a wider range of issues and as such provides an important step in creating significant change and the ability to convince departments that those changes will drive much needed savings to the States with the obvious benefits that would bring.*

*I am anticipating we will be able to get the MD signed very shortly.”*

**Friday, 20 August 2010**

178. A draft business case for the provision of new police office and support accommodation was circulated within JPH.

**Tuesday, 31 August 2010**

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<sup>104</sup> In the event, the business case was not submitted to the Deputy Chief Executive within this timetable.



179. The Deputy Chief Executive asked JPH for an update on the progress of the Police Headquarters project and again raised the possibility of setting up a formal project board structure and the employment of an overall project director to co-ordinate and manage from now on.

180. The response from the Director, JPH read as follows:

*"We are currently in the process of getting final 'sign-offs' from each of the departments involved.*

*I met [Home Affairs] and [Customs] last week and both favour a customs move to Elizabeth Terminal. This is viable within our current numbers . . . I have completed an analysis of P&E needs with respect to their move to Maritime House but I am struggling to get definitive high level head count numbers from TTS as to who is currently located at South Hill, who is one hundred per cent desk based and which staff members are 'mobile' . . . I am hoping to meet [the Planning Minister] to get his endorsement this week.*

*That leaves the ambulance service to confirm they're happy . . . Once we have all the Ministers signed up we can submit the business case and MD".*

181. The Deputy Chief Executive responded in an e-mail on the same day:

*"Thanks and good to see we are making progress but I am very nervous about the Customs move . . . In terms of moving the project to approval stage who is doing the full due diligence on the scheme, financial appraisals, risk workshops? I am somewhat distant from the detail but it appears there is a long way to go before the scheme is anywhere ready for MD approval. Who is going to project manage this? The project manager has to be in place before we go much further. Can we discuss the overall project plan please."*

#### **Tuesday, 12 October 2010**

182. The Assistant Director (Finance and Investment), JPH circulated a revised version of the Police Headquarters draft business case within JPH for comment. The draft business plan was then revised several times to take account of various comments including those made by the Assistant Minister, Treasury and Resources.

#### **Wednesday, 13 October 2010**

183. The Director, JPH, delivered a copy of the business case to the Deputy Chief Executive's office. The business case was presented as a draft inviting the Deputy Chief Executive's comments so that any necessary changes could be incorporated in the document before circulation to project sponsors during the week beginning 18 October 2010. The Director, JPH commented that JPH were aware that the vendor had another potential freehold buyer interested.<sup>105</sup>

**Friday, 15 October 2010**

184. The Deputy Chief Executive responded saying that as he was under some time pressure the Director, JPH might send the draft business case to project sponsors. The Assistant Minister, Treasury and Resources sent an e-mail to the Deputy Chief Executive emphasising the importance of reaching a decision quickly to which the Deputy Chief Executive responded by saying that he needed to check that all the due diligence had been completed and all the financial appraisals had been completed.

**Saturday, 16 October 2010**

185. The Home Affairs Minister sent an e-mail to the Assistant Minister, Treasury and Resources confirming that he and the police leadership were happy with the project and wanted it to be progressed as soon as possible.<sup>106</sup>

**Wednesday, 20 October 2010**

186. As suggested by the Deputy Chief Executive, the Director, JPH wrote to the Chief of Police, the Harbourmaster and the Chief Officers of Economic Development, Home Affairs, Planning and Environment, Transport and Technical Services and Health and Social Services Department sending them each a copy of the draft business plan and seeking their confirmation that they were in agreement with the projects proposed so that JPH might proceed with the first stage of implementation of the project and the acquisition of LGH.<sup>107</sup>

**Thursday, 21 October 2010**

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<sup>105</sup> Interview with Director, JPH.  
<sup>106</sup> JPH documents.  
<sup>107</sup> JPH documents.

187. The Director, JPH sent an e-mail to the Deputy Chief Executive again emphasising the importance of an early decision and indicating that written confirmation of the business case had been received from the Police, the Economic Development Department, Home Affairs, Health and Social Services Departments and that all consent had been received from the Planning and Environment, and Transport and Technical Services Departments.<sup>108</sup>
188. The Deputy Chief Executive responded indicating that he hoped to complete reading the document that evening.<sup>109</sup>
189. On the same day, the Home Affairs Minister sent an e-mail to the Assistant Minister, Treasury and Resources expressing concern that there had been no reaction from the Deputy Chief Executive and that the property might in consequence be lost.<sup>110</sup>

#### **Friday, 22 October 2010**

190. The Assistant Minister, Treasury and Resources sent an e-mail to the Deputy Chief Executive again emphasising the need for an early decision.<sup>111</sup>
191. The Deputy Chief Executive sent an e-mail to the Assistant Minister, Treasury and Resources which read as follows:

*"I have now read the report and in principle the Police Station scheme looks OK. However, I think there are some very significant risks that from the information I have received I cannot see where they have been adequately addressed.*

*The main one appears to be that of cash flow – I am not convinced that the project stacks up any longer as the sale of South Hill and the Ambulance Station land appear to be set at market value that might not be achievable in this current market. If that is the case and I have it from two sources, one from a well respected private sector property person, then the overall project could go into £5m negative cash flow half way through and the end result will be a significantly reduced capital receipt, assuming the cash flow can be smoothed out in some way.*

*I think we need to look at how to de-risk the project and ensure that suitable funding can be achieved. Do we have full NPV calculations for this project? This is an essential tool and I would want to see them.*

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<sup>108</sup> JPH documents.

<sup>109</sup> JPH documents.

<sup>110</sup> JPH documents.

<sup>111</sup> JPH documents. This e-mail followed an e-mail which the Assistant Minister had sent to the Deputy Chief Executive on the previous day to which he believes no response was received: memorandum to the C&AG from the Assistant Minister; 9 March 2012.

*I suggest that we should meet with the Treasurer to see how to achieve this and the full team then needs to look at the risks associated with the project. The delivery programme looks very tight but this can be addressed as part of the overall risk programme.*

*If these matters can be addressed it is down to delivery, this appears to be a project that should now be handed over to SOJDC as they have the potential to borrow if that is what is required to see us over the cash flow issue.*

*I think we are nearly there, but everyone needs to be aware of the risks associated with the project that has many elements to it when the funding/final outcome is reliant on the property market which is very unstable at the moment.”<sup>112</sup>*

192. In response to a question put to him by the Director, JPH, the Assistant Director (Finance and Investment) provided a complete set of the cash flow spreadsheets that had been prepared to support the business case showing the best, worst and midpoint scenarios.<sup>113</sup>

193. The Assistant Minister, Treasury and Resources responded to the Deputy Chief Executive in an e-mail which began:

*“Police scheme looks OK – hopefully that means from your point of perspective we can proceed the purchase of Lime Grove which is obviously the critical matter at present . . .”<sup>114</sup>*

194. During that afternoon, the Assistant Minister, Treasury and Resources, the Director, JPH and the Deputy Chief Executive met briefly at South Hill to discuss the concerns that had been raised.<sup>115</sup>

195. Following this brief meeting, the Director, JPH sent a later e-mail to the Deputy Chief Executive reporting that:

- (1) A current valuation of the South Hill property had been obtained from commercial valuers indicating a site value of £11.2m.
- (2) JPH would organise a risk workshop to complete a risk register for inclusion as an appendix to the business case including options to cease the project at

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<sup>112</sup> JPH documents.

<sup>113</sup> JPH documents.

<sup>114</sup> JPH documents.

<sup>115</sup> Memorandum from the Assistant Minister to the C&AG; 9 March 2012. This meeting was held in response to a request from the Assistant Minister.

certain points should the values on disposal of various properties not meet current projections.

- (3) The provenance of all cost and value appraisals will be clearly identified in the business case.
- (4) JPH would liaise with the Deputy Chief Executive on Monday 25 October 2010 to deal with any further less significant amendments to the business case to ensure the Deputy Chief Executive was content with the final document.
- (5) Briefing of States members could begin.<sup>116</sup>

### **Wednesday, 27 October 2010**

#### *Meeting with WEB*

196. The Deputy Chief Executive met the former Chief Executive and the Finance Director of WEB.<sup>117</sup> During the meeting, a number of issues appear to have been discussed including the LGH project, the offer price and the commercial valuation of the property. It appears that the Deputy Chief Executive requested WEB's advice on the value of the property.

#### *Meeting with the Treasury Minister*

197. The Deputy Chief Executive met the Assistant Minister, Treasury and Resources who subsequently confirmed his view in the following e-mail:

*“ . . . following our quick discussion at 14.00 today regrettably as accounting officer for Jersey Property Holdings I am unable to sign off the office rationalisation Phase 1 business case at this time. From the business case file that has been provided to me there are too many uncertainties surrounding the valuation and the level of risk that I as accounting officer and the respective ministers would be exposing themselves to is extremely high.*

*There are some significant gaps in the methodology that appears to have been applied and I need to ask some questions of JPH to see whether they have additional information that I have not received which further supports their business case. I will speak to JPH in the morning but my current position is that I'm minded to call this*

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<sup>116</sup> JPH documents. I understand that informal briefing meetings with members of the Public Accounts Committee and the Corporate Services Scrutiny Panel did take place subsequently: memorandum to the C&AG from the Assistant Minister; 9 March 2012.

<sup>117</sup> I understand that this meeting was arranged as a result of a suggestion by the Treasury Minister who took the view that as one of the principal participants in the office market in Jersey, WEB would be well placed to assess existing offices within the Island; letter from the Treasury Minister; 11 April 2012. The fact that this suggestion was made is consistent with the Treasury Minister having been concerned that the offer made to acquire LGH was too high.

*entire project in for a major review of the investment decisions that have been formulated in this business case to see whether the situation can be recovered.*

*It is possible that we could still proceed with the purchase of Lime Grove and its fit out but whether what is left in the budget without the capital receipt from South Hill is enough to build an operational Police HQ is questionable.*

*I recognise that time is critical for the Police move because we have to have financial certainty for this project which is complex and involves many pieces of the jigsaw that have to come together all of which have critical investment decisions required. I will try to complete this review in the next week but I think it is only right to advise all of you of the current situation.”<sup>118</sup>*

#### **Thursday, 28 October 2010**

198. The Director, JPH met the Deputy Chief Executive in company with other officers from JPH<sup>119</sup> and the partner of the commercial valuers who had valued LGH. The purpose of the meeting was to review the business case for the Police Headquarters project and confirm the actions that should be taken. The meeting also provided an opportunity to explain to the Deputy Chief Executive the normal approach to commercial property valuations and the basis on which LGH had been valued.

199. Subsequently, JPH produced a note of discussions at the meeting which recorded the following conclusions:

*“[the Deputy Chief Executive] confirmed that he now understood the information provided and used as the basis of assessment of the offer price and external valuation that required the business case to be transparent as to the process used, i.e., offer made on basis of internal valuation with subsequent external verification . . .*

*[the Deputy Chief Executive] confirmed that he now understood the information provided in respect of the basis of assessment of external valuation of Lime Grove House post fit out but requested that the business case provides further explanation of the methodology in the summary . . .*

*[the Deputy Chief Executive] confirmed that he now understood the information provided and used in respect of the basis of assessment of the external valuation of the South Hill office site but requested that the business case provide further explanation of the methodology in the summary . . .*

*[the Deputy Chief Executive] confirmed that he required the option to mitigate market pressures to be fully worked through and included in the business case . . .*

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<sup>118</sup> JPH documents.

<sup>119</sup> The Assistant Director (Estates) and the Assistant Director (Finance).

*It was agreed that the projected disposal proceeds for the Ambulance Station site would be reviewed and a range of possible outturn values generated upon acceptable densities and social housing mix . . .*

*It was agreed that the Elizabeth Terminal business case must be appended to the Phase 1 business case and the Harbour must identify its source of capital . . .*<sup>120</sup>

200. The note of the meeting also records that the commercial valuer confirmed that it was standard practice for organisations with their own internal valuation expertise (such as JPH) to make and agree an offer for a property before obtaining an external valuation. This might often lead to the external valuer coming under pressure to produce a convenient valuation which the valuer would have to resist.
201. Separately, the Director, JPH noted that the Deputy Chief Executive had raised a number of matters that required responses from JPH.

#### **Thursday, 4 November 2010**

202. The Deputy Chief Executive sent an e-mail to the Director, JPH acknowledging receipt of JPH's notes of the meeting on 28 October and objecting to certain aspects of the note. In particular, the Deputy Chief Executive observed that the note did not fully reflect his questions or arguments. He objected to the note being regarded as agreed minutes of the meeting but agreed that the list of agreed actions was appropriate:

- (1) A risk workshop attended by all stakeholders would be held and a risk register mitigating actions agreed before the business case could proceed.
- (2) All stakeholders would formally agree to the proposed new work space standards.
- (3) Specific budget allocations would be reviewed and confirmed – including the allocations for asbestos removal in the old school building Rouge Bouillon, IT and telecoms projects.
- (4) Political steering group to sign off business case first.<sup>121</sup>

#### **Monday, 8 November 2010**

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<sup>120</sup> JPH documents.

<sup>121</sup> JPH documents.

*Home Affairs Minister's e-mail*

203. The Home Affairs Minister sent an e-mail to the Chief Minister, the Treasury Minister, the Health and Social Services Minister and other interested parties raising concerns over continued delays in progressing the acquisition of LGH to provide suitable new buildings for SOJP. He commented:

*"The difficulties seem to revolve around the element of risk involved in the package of related transactions. I am very concerned about the greater risks which will be involved in losing the purchase of Lime Grove. All the other options to Lime Grove will take much longer and will be much more expensive.*

*The purpose of this email is to ask you [former Chief Minister] to convene an urgent meeting of the six politicians involved together with advisors for Thursday or Friday of next week in order to seek to give some political direction to a process which is in danger of drifting with disastrous consequences."<sup>122</sup>*

*Political meeting to be convened*

204. The former Chief Minister<sup>123</sup> responded by indicating that he would be happy to convene a political meeting for Friday 19 November 2010:

*". . . although hopefully it may be a matter of simply confirming an agreed way forward. I do appreciate that any inability to deliver on the Lime Grove proposals may well have a significant detrimental impact on costs, timescale etc., however, in the first instance it is important that due but timely process is followed".<sup>124</sup>*

**Tuesday, 9 November 2010**

205. In response to his request, WEB sent to the Deputy Chief Executive an e-mail indicating a view of the value of LGH.<sup>125</sup> This is described in greater detail in Section Seven of this report.

**Wednesday 10 November 2010**

206. The Deputy Chief Executive sent a memorandum to the Director, JPH adding some further actions to follow the meeting which had been held on 28 October 2010:

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<sup>122</sup> JPH documents.

<sup>123</sup> As will be explained later in this report, the former Chief Minister had a longstanding personal and professional relationship with one of the directors of the vendor and, as a result, was subject to a conflict of interest. This was made clear at the time so that there should be no grounds for suggesting that any decision was affected by it.

<sup>124</sup> JPH documents.

<sup>125</sup> WEB documents.



- “- The entire project needs to identify the level of risk the States will be exposed to at each stage of the project with appropriate mitigating actions and the name of the responsible officer should also be inserted.”
- “- The project needs to be reassessed to determine what can be delivered to an acceptable specification if capital needs are not as projected and a lower level of investment is available for this project. All stakeholders will need to sign up to this revised specification.”
- “- Any shortfall in funding through reduced capital receipt for property to be sold needs to be quantified and the impact reflected in the next stage of the project.”
- “- All of the investment appraisals need to be pulled together to show one overall project investment plan with key milestones where critical decisions would have to be made by who and when should there be a financial shortfall.”
- “- Revised cash flow projections need to be produced.”<sup>126</sup>

#### **Tuesday, 16 November 2010**

207. A risk workshop took place involving the key stakeholders in the LGH project and was moderated by external consultants.

208. Following the risk workshop, the Deputy Chief Executive sent an e-mail to the Assistant Minister, Treasury and Resources (with a copy to the Director, JPH):

*“We have just finished the workshop and subject to some modifications that [ the Director, JPH ] will need to make to the cash flow projections, he is going to complete a briefing note for lunchtime on Thursday that I will want to look at and then circulate to everyone in advance of the meeting on Friday.*

*I understand from [the Director JPH] that he now has an updated valuation from [ xxxx ] for [ LGH ‘ which will need to set out their assumptions in order to justify their position which is to maintain their current £8.8m*

*Apart from this justification, the project can probably go ahead as long as everyone accepts that it might only deliver part and not all of the elements if the risks that have been identified come to fruition.”<sup>127</sup>*

#### **Friday, 19 November 2010**

##### *Ministerial meeting*

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<sup>126</sup> JPH documents.

<sup>127</sup> JPH documents.

209. A ministerial meeting took place at Cyril le Marquand House attended by, among others, the Chief Minister, the Treasury and Resources Minister, the Home Affairs Minister, the Chief Executive, the Deputy Chief Executive, the Chief of Police.
210. The meeting was not attended by the Director, JPH. He was originally invited to the meeting but that invitation was withdrawn.<sup>128</sup> At the request of the Assistant Minister, Treasury and Resources, he was present on another floor of Cyril Le Marquand House together with the partner of the firm which had valued LGH earlier in 2010. The Assistant Minister made this arrangement so that their advice should be available to the meeting if this had proved necessary.<sup>129</sup>
211. At the end of the meeting, it was clear that there was political support for the proposed acquisition of LGH although the Assistant Minister, Treasury and Resources recalled that the Treasury Minister:

*“ . . . reserved the right to satisfy himself on the price.”<sup>130</sup>*

212. Implementation of the meeting’s conclusion was left to the Treasury Minister.

*Meeting at JPH’s offices in Hill Street*

213. After the ministerial meeting, the Assistant Minister, Treasury and Resources walked from Cyril le Marquand House to the offices of JPH in Hill Street and there met the director of JPH and the commercial valuer who had prepared a valuation of LGH.<sup>131</sup>

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<sup>128</sup> Interview with the Director, JPH; November 2011; page 33. It appears that the meeting was originally planned to take place at 1100 hours on 19 November 2010. It then appears that, early on that day, the meeting was cancelled. Subsequently, the meeting was reinstated at a slightly later time (1130 hours) but without advisers; memorandum to the C&AG from the Assistant Minister, Treasury and Resources; 9 March 2012. The Assistant Minister also recalls that although the Director, JPH had prepared a briefing note on the LGH proposal in readiness for this meeting, this note was not circulated to all of those who attended the meeting.

<sup>129</sup> Interview with the Assistant Minister; 28 November 2011; page 32. Interview with the Director, JPH; November 2011; page 33. It should be noted that the original request for this meeting from the Home Affairs Minister envisaged that it should be attended by the relevant ministers and advisers.

<sup>130</sup> Interview with the Assistant Minister; 28 November 2011; page 33. The Treasury Minister has told me (at a meeting on 16 April 2012) that throughout this period he was aware that another party had expressed interest in acquiring LGH. He was also aware that the competing party was also interested in another property. I understand that the Treasury Minister was made aware of the state of negotiations concerning that other property. From the point of view of the States, an interest in the disposal of the other property arose from the fact that if that transaction were to be completed, the competing offeror’s interest in LGH would be at an end raising the possibility that the States may be able to buy LGH at a lower price. I will examine the implications of this development later in this report.

214. They discussed the outcome of the meeting and comments that had been made concerning the valuation of LGH.

215. The commercial valuer indicated to both the Assistant Minister and the Director, JPH, that he “. . . was not very happy . . .” with such comments and that as far as he was concerned, the valuation had been robust and had not been distorted by undue influence.<sup>132</sup>

*Meeting at Cyril le Marquand House*

216. At some point it appears to have been decided that JPH should be excluded from any further negotiations. The Deputy Chief Executive recalls this point in the following way:

*“Well I can’t recall whether that meeting where the ministers were present, whether it was at that meeting that Jersey Property Holdings should be excluded from any further negotiations or whether it was separate which was when it was a case of – how are we going to move this forward, which was the Bill, the Philip type of meeting.”<sup>133</sup>*

217. It is clear that this decision was not discussed at the full ministerial meeting as certain of those present have confirmed to me that they first became aware of the decision later. It is also clear that neither the former Chief Minister nor the former Chief Executive were party to the decision.<sup>134</sup>

218. The effect is that the decision appears to have been made by the Treasury Minister and the Deputy Chief Executive together.

219. It is however clear that the decision was not made as a formal Ministerial Decision with the benefit of formal advice.

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<sup>131</sup> Interview with the Assistant Minister, 28 November 2011; page 34. I understand that this was the first occasion on which the Assistant Minister, Treasury and Resources had met the commercial valuer.

<sup>132</sup> Interview with the Assistant Minister; 28 November 2011; pages 33-34. Interview with commercial valuer.

<sup>133</sup> Interview with the Deputy Chief Executive, 14 November 2011; page 34.

<sup>134</sup> Telephone conversation with the former Chief Executive, Monday 19 December 2011. Interview with the former Chief Minister; Tuesday 20 December 2011.

220. At 1329 hours on 19 November 2010, the Director, JPH sent an e-mail to the Deputy Chief Executive (copied to the Assistant Minister, Treasury and Resources), asking what the outcome of the morning's ministerial meeting had been.<sup>135</sup>
221. At 1432 hours, the Deputy Chief Executive's office sent the Director, JPH an e-mail enclosing a memorandum from the Deputy Chief Executive which read as follows:

*"The political meeting this morning approved 'in principle' the Phase 1 Project as outlined in the business case as prepared by Jersey Property Holdings.*

*There are some key decisions that will need to be taken in relation to the acquisition of Lime Grove and the Treasury and Resources Minister has issued me with an instruction that all further proposals to finalise the acquisition will be conducted through my office and will be for his approval only.*

*As the acquisition for Lime Grove enters its final stage it is apparent that you and [the Assistant Director, Estates] are potentially conflicted in that you have already put an offer to the vendor of Lime Grove.*

*To protect your position would you please take this as a formal instruction that no one in Jersey Property Holdings is to have any further correspondence or communication with the vendor, his agents or anyone in connection with the Lime Grove property.*

*Please arrange for the formal file and all correspondence, including e-mails, that has taken place with the vendor and his agents, to be passed to me on Monday morning."<sup>136</sup>*

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<sup>135</sup> JPH documents.

<sup>136</sup> JPH documents.

## **SECTION FIVE – CHRONOLOGY 20 NOVEMBER 2010 TO THE FAILURE OF THE TRANSACTION**

### **Introduction**

222. In this Section of the report, I will describe events from 20 November 2010, immediately following the Ministerial meeting which gave political support to the acquisition of LGH to the failure of the transaction in August 2011.

### **Sunday, 21 November 2010**

223. At 0940 hours the Director, JPH circulated to the senior team of JPH (and the Assistant Minister, Treasury and Resources and the Deputy Chief Executive) an e-mail which read as follows:

*“We are approaching the final phases of the negotiation to acquire Lime Grove and I shall be obliged if you would ensure that you or your teams have no contact with the vendors or their agents regarding the public’s interest in this property.”<sup>137</sup>*

### **Monday, 22 November 2010**

#### *Transfer of files*

224. At the beginning of this week, JPH arranged to transfer to the Deputy Chief Executive’s office the papers he had requested. I understand that the additional papers received by the Deputy Chief Executive consisted of further background papers relating to the financial projections reflected in the business case.

#### *Letter from vendor’s agent*

225. At 1147 hours, the agents acting for the potential vendor of LGH sent an e-mail to JPH seeking information about the outcome of the ministerial meeting held on Friday 19 November 2010. At 1157 hours JPH responded saying that JPH had been instructed not to have further dealings with the agents or their client and all further discussions were to be conducted with the Deputy Chief Executive. The agents were advised to contact the Deputy Chief Executive.<sup>138</sup>

226. The agents’ reaction to this was that:

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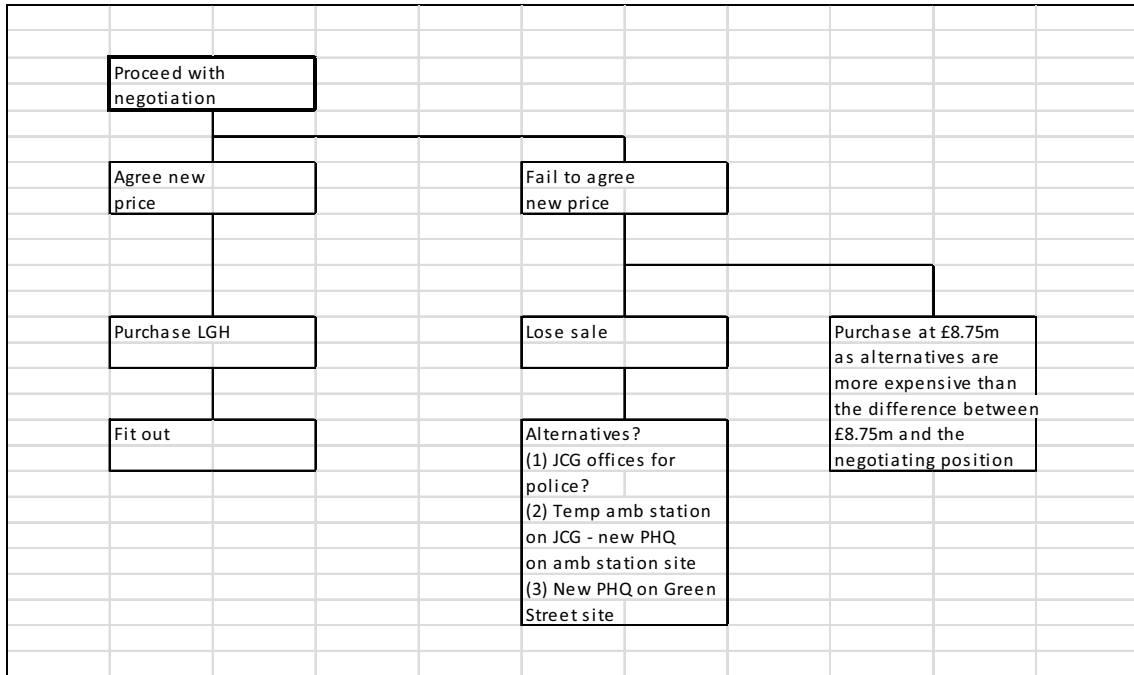
<sup>137</sup> JPH documents.

<sup>138</sup> Vendor’s agents’ documents.

“ . . . it all seems rather odd and perfunctory (it doesn't help the transaction one iota).”<sup>139</sup>

*Treasury Minister's meeting*

The Deputy Chief Executive met the Treasury Minister to discuss the negotiating position that should be adopted and the fall-back options. The following decision tree sets out the outcome of their discussion:<sup>140</sup>



*Meeting with WEB*

227. The Deputy Chief Executive met the former Chief Executive of WEB to explain the approach that would be adopted to the LGH project and to discuss the work which it was hoped that WEB would undertake. An indication was given to the former Chief Executive of WEB that the Chief Minister had approved the request to WEB.<sup>141</sup>

**Tuesday, 23 November 2010**

228. The Deputy Chief Executive telephoned the agents acting for the vendor of LGH. He said that he would like to try to move matters forward and to this end would like to meet the vendor to set a time-table for the transaction. In this conversation the Deputy Chief Executive raised a number of matters of detail:

139 Vendor's agent's documents.

140 The decision tree is taken from the Deputy Chief Executive's day book for 22 November 2010.

141 Notes from the day book of the former Chief Executive of WEB.

- (1) Dilapidations and their value.<sup>142</sup>
- (2) Transformer.<sup>143</sup>
- (3) The States wanted to complete the transaction as quickly as possible.
- (4) The States want to ensure that they achieve best value: the Deputy Chief Executive alluded to questions posed by the Treasury Minister.
- (5) The Deputy Chief Executive said he would like to view the property as soon as possible.<sup>144</sup>

**Friday, 26 November 2010**

229. The Deputy Chief of Police received a telephone call from the Director, JPH in which he was updated on the current position concerning the Lime Grove House transaction:

- “ - provided update re PHQ position*
- asked to update Home Affairs Minister*
- [the Treasury Minister and the Deputy Chief Executive]<sup>145</sup> have now taken over negotiations with [ xxxx ] from Property Holdings*
- Property Holdings/[Director, JPH] instructed to play no further part*
- [the Treasury Minister and the Deputy Chief Executive] believe offer made is over-priced*
- xxxx [private bank] in Colomberie are seeking new offices – have looked at Swansons building on Esplanade - £29/square ft – negotiating with [ xxxx ] for Lime Grove at £24 per square foot*
- major problem – bad evidence*
- WEB given evidence to [the Treasury Minister] – valuation based on old review and on the basis of a ‘fire sale’ (of owner on verge of bankruptcy – not the case)*
- [the Assistant Minister, Treasury and Resources] will seek to speak with [the Home Affairs Minister] this afternoon*

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<sup>142</sup> I infer that this is a reference to the need to agree the potential costs of bringing LGH into an acceptable condition.

<sup>143</sup> I infer that this is a reference to the need to ensure an adequate electricity supply for the SOJP's requirements.

<sup>144</sup> Manuscript note of the conversation: vendor's agent's documents.

<sup>145</sup> This is a note of what the Director, JPH told the Deputy Chief of Police. The Deputy Chief Executive contends that he had not expressed the opinion that the offer was over-priced.

UNDER STRICTEST EMBARGO UNTIL 0001 ON TUESDAY, 22 MAY 2012

- now becoming common parlance – now circulating openly that LG has been overvalued – sufficient to cause concern amongst valuers – both may now take legal action – potential damage to their professional reputation

- no contact has been made since Property Holdings meeting – one week lost – no discussion with [ xxxx ] – could lose building.

Agreed to brief Minister –“.

### Monday, 29 November 2010

230. The Deputy Chief of Police met the Deputy Chief Executive and the former Chief Executive of WEB to discuss the LGH project. The day book maintained by the Deputy Chief of Police records the discussion in the following way:

“- concerns about Property Holdings audit trail

- strength of valuations
- potential over-pricing of Lime Grove
- inadequate financial assessment of the fit out costs
- dilapidations – not water tight – approximately £400k
- power/business service requirements not known
- need to establish what is actually included in the Cat A fit out = occupiable and may not be to SOJP requirement. Cat B fit equals specific to our requirements – comms/power/furniture/computers/IT – filing
- £1.65m estimated by Property Holdings for Cat A – not enough (31,000 sq ft) £3.65m in total equals £54 per square foot, should be £80 per square foot
- Data centre/IT room equals £500k

Timeline – Feb 2010 – Property Holdings meeting with [ xxxx ]

February 2010 – email – “spoke about £8.75m” – JPH had written calculations referring to meeting and verbal offer

3 March 2010 – preliminary estimate (2007 – valuation by [ xxxx ] – uplifted)

17 March 2010 – offer of £8.75m made by Property Holdings to [the vendor] – no valuation (offer unauthorised)

31 March 2010 – offer accepted by [the vendor]



*2 June 2010 – valuation made by [xxxx] - £8.8m – typically a building in that condition would otherwise attract cost of £23/square feet*

*9 – 10 October 2010 – business case seen by [ xxxx ] – figures did not ‘stack up’ – no audit trail – no proper valuations – funding for scheme was reliant upon disposal of South Hill for £11.5m – no independent valuation – based upon a Property Holdings valuation – a cash flow problem – ambulance station cannot go ahead without this funding*

*Cost for Lime Grove should be valued upon – cost of base build - Cat A fit out – Cat B fit out – Jersey uplift (supplier) – 27% profit margin – being compared with market price – Property Holdings also not taken into account proper/anticipated loading for each floor – live and dead weight – assumptions based on [ xxxx’s ] building where all filing is located around the room/floor edge not distributed across the floor – needs to be properly calculated – [the Deputy Chief Executive] to provide copies of floor plans for comparative – space requirement/person could be too limiting.”*

**Tuesday, 30 November 2010**

231. A meeting was held at Cyril Le Marquand House between the shareholders of the vendor of LGH, the vendor’s agents, the Deputy Chief Executive and the Chief Executive of WEB.

232. Notes of that meeting record that it was explained that the Jersey Development Company would absorb WEB and that the Deputy Chief Executive’s role in the transaction was as Accounting Officer for JPH. The Deputy Chief Executive explained that with the Treasury Minister he had sought political approval for Phase 1 of the office strategy which incorporated the provision of new accommodation for the Police Headquarters. It was anticipated that the Police Station, the Police Headquarters could be co-located or not.

233. Before a final recommendation could be made to the Minister for Treasury and Resources on LGH, it would be necessary first to agree the position on snagging costs and the cost of the Category A fit out of the building.

234. Later that day the Deputy Chief Executive wrote to the agents for the vendor in the following terms:

*“The meeting was very helpful in gaining an understanding from your clients’ perspective as to the cost plan they have developed so far in relation to the Cat A fit out etc., during our meeting we discussed the specification that your client used to obtain the tender price from [ the vendor ] and the Jersey Electricity Company.*

*Could you supply me with a copy of the detailed specification of these works so that I can make a comparison with the specification and the requirements for the States of Jersey Police as I am sure you can appreciate their requirements are somewhat different for fit out.*

*It would also be extremely helpful if you would provide me with a copy of the cost plans as supports the report from [ xxxx ] which covered the snagging for the building.*

*I have arranged a meeting with the Police for next Thursday so that we can make the necessary comparison and finalise the costs for the States of Jersey for this project. If you could provide this information before next Tuesday I would be most grateful.*

*Your client also expressed concern at the delays incurred between the initial letter from Jersey Property Holdings in March 2010 to today and their willingness to provide the States of Jersey with continued exclusivity. I undertook to provide you with a time-table that would provide some certainty in terms of dates and I expect to be able to present the report to the Treasury and Resources Minister. As soon as I have met the Police next week I will be able to complete this piece of work and I will undertake to provide you with a date by the end of next week."*

#### **Thursday, 9 December 2010**

##### *Letter from the vendor's agents to the States*

235. The agents for the vendor responded to the Deputy Chief Executive's letter dated 30 November 2010 in the following terms:

*"I refer to your letter of the 30 November which, as you know, we did not receive until Monday.<sup>146</sup>*

*I understand that you discussed matters with [ xxxx ] on that day and this letter is intended simply to confirm what he told you.*

*The costings provided by [the vendor] in the document dated 7 April 2010 were in respect of a Category A fit out based upon the specifications detailed in the British Council for Offices Guide. In addition it contains costings for the provision of an electricity sub-station and for dealing with certain snagging items. By far the largest element of the work comprises the installation of the mechanical and electrical services and the figures in the [the vendor] document reflect those contained in Jersey Electricity's quotation dated 1 April 2010. [The vendor] had added in the GST.*

*I believe you have copies of both these documents but please let me know if you do not.*

*They had been provided to [the Assistant Director (Estates), JPH] following the meeting with him on 31 March last at which his offer letter of the 25 March was discussed. At that meeting my client said that they were prepared to accept the offer*

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<sup>146</sup>

6 December 2010.

*of £8.75m provided that the States accepted the property 'as is'. It was known that JPH had valued the building after deducting £1.5m for the landlords fit out. Some of the fit out had already been carried out and it was clear that all the work, including the provision of a sub-station if needed and dealing with the remaining minor 'snagging' items could be achieved well within £1.5m but, it has never since been suggested otherwise.*<sup>147</sup>

#### Meeting with the Deputy Chief of Police

236. The Deputy Chief of Police met the Deputy Chief Executive and the former Chief Executive of WEB to discuss the Police Headquarters project and its viability and review space requirements and user needs for LGH. Further work was to be undertaken to re-evaluate the Police Station project at Summerland.

#### Tuesday, 14 December 2010

237. At a meeting of the Board of WEB, the former Managing Director reported that:

*" . . . he had been asked by the Chief Minister and the T&R Minister to become involved in the possible purchase and fit out of Lime Grove House for the proposed occupation of Police Administration. The Managing Director confirmed that a letter from the Chief Minister and the T&R Minister to this effect was expected shortly. The Board noted the position."*<sup>148</sup>

238. As far as I have been able to discover, no such letter was sent or received.

#### Tuesday, 21 December 2010

239. The Deputy Chief Executive spoke to the agents for the vendors by telephone and reported that he had met the police to establish their exact requirements for LGH. The Deputy Chief Executive listed certain work that needed to be carried out and reported that the full costings for the Lime Grove House project would not be available until mid February.

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<sup>147</sup> I note in passing that this correspondence reminded the States of the difference between the States' original offer for LGH and the terms of the vendor's acceptance.

<sup>148</sup> Documents provided by the Finance Director, WEB. I note that at a subsequent meeting of the board of WEB on 7 April 2011, the Managing Director reported that: "He had been asked by the T&R Minister to assist in the negotiations to purchase Lime Grove House, particularly in respect of the building's value. A discussion ensued and the MD confirmed that the request from the T&R Minister had not been put in writing. A board member requested that the T&R Minister's request for the MD's assistance with the purchase of Lime Grove House be noted in the minutes".

**Wednesday, 22 December 2010**

240. The Deputy Chief Executive wrote to the agents for the vendor confirming the substance of the telephone conversation which took place on 21 December 2010:

*"I have now met the police on two occasions and have established their requirements for both the fit out and occupancy of Lime Grove and their overall requirements for the new operational police station at Rouge Bouillon. Whilst Lime Grove is predominantly office accommodation, it is clear from my meetings with the police that their requirements are somewhat different to a basic open plan layout as prepared for one of your previous potential purchasers. I have been able to establish that the accommodation at Lime Grove will meet their requirements but with the information available so far, I cannot establish accurate fit out costs for both categories A and B as there are security requirements, data centre provision and other elements of fit out require specific design and costings.*

*To get to a position whereby I have certainty in terms of total project costs, I am now in the process of commissioning further work to prepare layout plans and costs for the fit out of Lime Grove and the police station to meet the police requirements. I believe this work should be completed by mid February and I will be in a position to make a formal recommendation to the Treasury and Resources Minister at that time.*

*I hope you can understand that given the complexity of the overall project as I explained when we met, I have to be sure that each of the major elements have been evaluated to a level that provides me with the assurance I require that the overall budget allocation is correct. I am sorry that has become a somewhat protracted process, but I hope you and your clients can appreciate that the level of public expenditure proposed for this project requires significant due diligence before the Minister can be satisfied that the public is receiving good value for money. Should the client's circumstances change in any way regarding Lime Grove during this next two month period, I would be pleased if you could keep me informed directly."<sup>149</sup>*

*Conversation with the Chief Minister*

241. Following these exchanges, one of the shareholders of the vendor telephoned the former Chief Minister to protest at the time that negotiation of the transaction was taking and commenting adversely on the knowledge and skills of the people involved in managing the transaction. The former Chief Minister wished to preserve a distance between himself and the proposed transaction as he was concerned that his long-standing personal relationship with one of the shareholders created a conflict of interest which should not be allowed to distort decision making on the transaction. Consequently the former Chief Minister decided that he would not act directly and that he would not 'second guess' the decisions of the Minister for Treasury and Resources. Instead, the former Chief Minister

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<sup>149</sup> The Deputy Chief Executive's documents and the vendor's agent's documents.

reported the telephone conversation and its content to the Deputy Chief Executive leaving him to take such action as he considered appropriate.<sup>150</sup>

#### **Friday, 24 December 2010**

242. The Treasurer of the States (Designate), the Treasury Minister and the Interim Director of Finance met to agree the work that the Interim Director of Finance was to undertake during his remaining time with the States.<sup>151</sup> The note which was sent by the Treasurer (Designate) subsequently to confirm the substance of the meeting records that:

*"[The Deputy Chief Executive] is having some issues with the office accommodation strategy including relocating Police. What he needs is a detailed financial analysis of the office accommodation proposals, an analysis of the cash flow forecast for capital receipts and capital investment requirements, a projection of the associated revenue implications, together with sensitivity analyses culminating in a final report".<sup>152</sup>*

#### **Thursday, 30 December 2010**

##### *Interim Director of Finance*

243. The Interim Director of Finance replied to the Treasurer in the following way:

*"As I have not been involved in any previous discussions on the office accommodation strategy, I need to understand from [the Deputy Chief Executive] what the issues are here. My understanding is that [the Assistant Director Finance and Investment] has already produced all relevant financials for the office accommodation project, however, I am certainly happy to review the work that . . . has [been] carried out and work with all concerned to help achieve an agreed position and final report".<sup>153</sup>*

244. It was subsequently agreed that the Deputy Chief Executive would brief the Interim Director of Finance.<sup>154</sup>

245. In the course of that briefing, the Interim Director of Finance was handed a copy of the draft business case together with the Deputy Chief Executive's briefing memorandum dated 30 December 2010 (see below). I understand that the Interim Director of Finance

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<sup>150</sup> Interview with the former Chief Minister; 20 December 2011. The precise date of this conversation is not clear.

<sup>151</sup> His contract ran until 31 January 2011. In practice, the Treasurer (Designate) took up her new responsibilities from the beginning of January 2011.

<sup>152</sup> Human Resources Department documents.

<sup>153</sup> Human Resources Department documents.

<sup>154</sup> Human Resources Department documents. It is believed that the briefing meeting took place on 4 January 2011.

was asked to study two green lever arch files consisting of the papers that had been passed to the Deputy Chief Executive by JPH and to express his view on the draft business case in the light of the matters raised by the Deputy Chief Executive and his briefing memorandum. The Interim Director of Finance was instructed not to speak to anyone concerning the work he was carrying out or to seek other documents. In other words, the only documents and evidence on which the Interim Director of Finance could rely were the papers enclosed in the two lever arch files given to him by the Deputy Chief Executive.<sup>155</sup>

*Deputy Chief of Finance*

246. On 30 December 2010 the Deputy Chief Executive prepared a briefing note for presentation to the Chief Minister, Treasury and Resources Minister and the Home Affairs Minister. This described the business case for Phase 1 of the office strategy. Apart from describing the Phase 1 project, the paper made three principal groups of criticisms of the proposal as presented by JPH.

247. Firstly, the paper questioned the basis on which the formal offer had been made:

*“On 25 March, 2010 JPH made a formal offer to the agents managing the sale of Lime Grove in the sum of £8.75m for the bare shell and core of the building. The offer was made ‘without prejudice – subject to contract, subject to ministerial and States approvals’, but had not been validated at that time by a recent third party valuation. The basis of calculation was a previous 2007 valuation, updated by JPH staff and an internal valuation carried out by JPH surveyors. This calculation appears to have been prepared on 15 March 2010, by the Assistant Director of JPH and is headed ‘Internal Assessment’. However, it is apparent from e-mails between JPH and the agent that the figure of £8.75m was being discussed as early as 2 February 2010”.*

248. Secondly, the briefing paper questioned the basis upon which the amount included in the offer was arrived at:

*“An independent valuation from a third party was not received until June 2010. That valuation placed a figure of £8.8m on the property. However, it is not clear what assumptions were provided to the valuer to place their calculations on as no written instructions were given.*

*Given that the property was constructed in 2000 and has been vacant since, together with the current decline in the office market, it is questionable whether it is appropriate for the States to be paying the full asking price or whether there should have been far more commercial negotiations before an offer was made. Either way, the fact that neither the Treasury and Resources Minister or the Accounting Officer*

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<sup>155</sup> Telephone conversation with the Interim Director of Finance; January 2012.

*were formally notified and permission sought to make the offer is a serious failing in the management of JPH.*

*Whilst it is accepted that the offer was made ‘without prejudice – subject to contract, subject to ministerial and States approval’ it was still a formal offer made at the full valuation price and to reopen negotiations and start negotiating a significantly lower price some ten months later will be extremely difficult”.*

249. Thirdly, the briefing paper criticised the basis on which the offer had made assumptions about fit out and other costs. In particular, the briefing paper suggested that there was no detailed specification for the police service requirements and thus no detailed examination of whether Lime Grove House could meet those requirements.

**Friday, 14 January 2011**

250. The Interim Director of Finance completed the first version of his report following examination of the papers given to him. Initially it was circulated to a limited group consisting of the Deputy Chief Executive and the Treasurer. The Interim Director of Finance was then requested to discuss the paper with the Director, JPH to confirm the factual content.

251. The Director, JPH reacted very strongly against the issues raised in the paper and the terms in which they were couched. He responded in the strongest terms and made all of those people mentioned by the Interim Director of Finance aware of what had been said.

252. I will not describe here all of the exchanges that then followed as they are not immediately relevant to the main purpose of my work.

253. The contents of the paper and their implications are discussed in detail in Section Nine of this report.

**Wednesday, 2 February 2011**

254. Following his appointment as Project Director for the States’ office strategy, the Assistant Chief Executive prepared the list of the actions which he proposed to take having identified what he regarded as a series of gaps in the planning for the States Rationalisation Phase 1 Project: i.e. the LGH project. These steps were as follows:

- (1) Address Lime Grove valuation issue.

- (2) Establish funding position and possible alternatives with the Treasury.
- (3) Develop the Phase 1 business case to conclusion:
- (4) Complete Police work which would involve complete development of layouts and cost information to confirm both options (i.e. the option of a split site and the option of a full build).
- (5) Establish Harbour office solution including consideration of Maritime House, the sale of South Hill, the provision of new Ambulance Headquarters and the sale of the Ambulance site.
- (6) Update business case for consideration by the Project Board at the end of February 2011.
- (7) Establish proper governance arrangements including a ministerial steering group, a project board, project director, project manager and an office working group.

255. It was proposed that the political steering group would consist of the Assistant Minister, Treasury and Resources, the Assistant Minister, Home Affairs, the Assistant Minister, Planning and Environment, the Assistant Minister, Transport and Technical Services and the Assistant Minister, Economic Development.

256. It was proposed that the Project Board would be chaired by the Deputy Chief Executive and consist of the Project Director, the Project Manager, the Director JPH, the Assistant Directors JPH and a Manager, Capital Accounting, Treasury. In addition, from time to time other members would be introduced as other departments became involved.

257. It was proposed that the Project Director would lead the delivery of the project, including reporting to the Project Board and would be supported by one or more Project Managers identified for the delivery of a specific element of the project. Delivery and management of implementation would be undertaken by key officers in the areas of capital projects in States management who would become members of an Officer Delivery Group responsible for the management of the delivery of the project.



## Valuation

258. A further commercial valuation of the property was commissioned: which attributed a market value to LGH of £8.45 million.
259. The officers' report on valuation matters in the light of this further commercial valuation showed that the three external valuations indicated a market value of between £8.45 million and £9.05 million compared with the JPH internal valuation of £8.75 million and the conditional offer that was made on 25 March 2010 of £8.75 million. The report also considered the issue of whether the price offered should be closely related to the market valuation:

*“Valuations . . . are carried out for specific purposes. Normally they are completed after heads of terms have been agreed and should reflect the terms of the transaction in normal market circumstances.*

*It is the normal practice when buying a residential property to have the valuation undertaken after the purchase price has been agreed. This is rarely different when considering a commercial purchase.*

*The valuation is a statement of the value that would be achievable on disposal given adequate market exposure in normal market conditions. The price reflects the amount be agreed between a willing buyer and a willing seller following a reasonable period of marketing.*

*In most circumstances it is anticipated that the agreed price would be expected to be close to the valuation figure but this is not always the case. Actual circumstances at the time of disposal, affecting either or both parties may impact on the level of agreed purchase price, which creates a significant variance for a reported value.*

*There are a great many factors which could alter the balance between seller and purchaser such as scarcity of supply, financial pressures on either party, potential managed value, operation requirements or any other special purchaser/vendor needs.*

*As Lime Grove House has been vacant for ten years there may be a perception that the vendor is desperate to dispose of or let the building to secure their desired financial returns.*

*However, it is evident that the normal commercial constraints that are applicable to investor developers are not applicable to this vendor. Firstly, the vendor has already received significant financial benefit from the disposal of the residential element of the development and as such it can be assumed that there are no financial carrying costs being borne as this would add an urgency to securing an exit strategy. Secondly, the holding costs for empty property in Jersey are 'de minimis' and thus the building is not a cash burden to the vendor.*

*These two issues underline that the vendor would not treat unless the purchase price is at a suitable level, as the vendor is not in the position to require a distressed sale.*

*However, the vendor does not wish to commit additional funds to fit out the building. This enables an owner/occupier the opportunity to acquire on more attractive terms as the building can be fitted out to their specific requirements.*

*In this transaction both parties have a mutually acceptable balance of needs. The vendor can secure a sale at a price that is acceptable if not the desired level, without the need to invest additional funds. The purchaser can acquire a building at a reasonable price that meets their requirements in terms of space, location, timetable, budget etc.*

*Lime Grove is therefore a transaction where the balance between both parties is in relative equilibrium and as such it is completely appropriate that considering all the circumstances the value and the price are closely aligned.*<sup>156</sup>

260. The Officers' paper compared the price that would be payable for the acquisition of Lime Grove House with the cost that would be incurred if the States were to construct a building similar to Lime Grove House including the cost of acquiring the site. To this end, the commercial valuers were instructed to complete a residual development appraisal: an exercise that any developer would complete in order to determine the amount that could be paid for a site based on their assessment of the completed development value less the cost of constructing the building (including all fees, taxes, financing costs and allowance for developer's profit). This analysis demonstrated that it would not be possible to acquire the land (at market value) develop LGH at current construction costs and sell the completed development without making a loss on the project of about £1.7 million.

261. The conclusion of this analysis was that the original JPH recommendation that LGH should be purchased at £8.75 million was sustained and accepted.

### **Discussions with Treasury**

262. The key issues which needed to be discussed and agreed with the Treasury were that:

- (1) There was insufficient funding allocated to complete the Police Headquarters and station.

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<sup>156</sup> Assistant Chief Executive's documents.

- (2) The balance of funding required to meet the funding gap was supposed to come from the sale of South Hill.
- (3) The States had not in fact approved the additional expenditure sum or the hypothecation of future South Hill sale proceeds.
- (4) In view of the time limitation on the possibility of acquiring LGH, it might be necessary to approve the acquisition without the certainty of knowing the receipts from the sale of South Hill.

263. A number of options were considered to meet this:

- (1) Working within the existing budget which might be done either by purchasing and fitting out LGH for a Police Headquarters or developing 'one building' solution on the existing Summerland site. Neither of these options was viewed as meeting SOJP's operational requirements and would leave a poor quality legacy building needing major investment in the near future.
- (2) Pre-selling South Hill with sitting tenants.
- (3) Acquiring LGH through a lease with an option to purchase.
- (4) Borrowing the funding shortfall (commercially) and repay on disposal.
- (5) Transferring the South Hill site to SOJDC.
- (6) Selling a site other than South Hill.
- (7) Restructuring the capital programme.

264. In the event, this matter was resolved by a decision to support an option which involved the acquisition of LGH and the refurbishment or redevelopment of the remaining operational facilities. It was concluded that this could be accomplished for a total cost of approximately £21.5 million which exceeded the available capital budget by approximately £2 million.

265. The Treasurer of the States indicated that the gap could be closed by the allocation of a further budget of £2 million which she believed could be arranged without serious difficulty.

266. On this basis it was decided that it was possible to proceed with the reduced project without the need to hypothecate the proceeds from the sale of South Hill and implementing the other consequential property transfers.

#### **Completion of business case**

267. Completion of detailed work that was undertaken included demonstrating that:

*“Lime Grove House will accommodate the majority of the Police functions and can be acquired and fitted out quickly with minimum disruption to the service. Having two sites will provide the Police with operational resilience. In financial terms, this option is the lowest cost, . . .”*

#### **Agreement of way forward**

268. A note prepared by the Project Director, Office Strategy<sup>157</sup> on 21 April 2001 records the final stage of agreement of the approach in the following way:

*“On 31 March 2011 the Chief Minister, the Minister for Home Affairs and the Assistant Minister Treasury and Resources received a briefing on . . . and agreed the recommendation of the Deputy Chief Executive Officer that the fall back option of acquiring Lime Grove House and undertaking redevelopment/refurbishment of remaining operational facilities should be progressed as a solution to meet the overall accommodation requirements of the States of Jersey Police . . .*

*On the basis of this agreed way forward a report and ministerial decision was prepared setting out the agreed way forward for agreement and sign off by the Assistant Minister Treasury and Resources. In addition, the Deputy Chief Executive engaged the services of . . . to begin the process of opening negotiations with the vendors of Lime Grove House.*

*It was clear from earlier discussions between the Deputy Chief Executive and the Minister for Treasury and Resources that the Minister believed that the price that had been offered for Lime Grove House was too high and the offer of £8.75m made by Jersey Property Holdings in March 2010 had to be negotiated down. With this in mind, on 6 April a meeting was held with . . . to consider negotiation strategy and on 7 April . . . met with a representative of the vendor of Lime Grove to discuss a reduced offer. As a result of this, on the 11 April, a letter was received from the agent of the vendors expressing disappointment at the attempt to renegotiate.<sup>158</sup>*

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<sup>157</sup> In effect, the Assistant Chief Executive.

<sup>158</sup> I note that on 6 April 2011, the Director, JPH sent an e-mail to the Deputy Chief Executive, the Assistant Chief Executive and colleagues within JPH saying that he understood that it was intended to re-open negotiations for the acquisition of LGH but at a reduced price. The purpose of the e-mail was to advise that this courted the risk that the proposed acquisition would fail and that any benefit would

*As a result of this, and a desire to obtain a political view as to the parameters of any negotiation it was decided that the matter should be considered by the Council of Ministers at its meeting of 14 April 2011. A paper was prepared setting out the issues which it was planned to be tabled at the meeting.*

*On the morning of 14 April I met with the Deputy Chief Executive who informed me that he had held a long discussion with the Minister for Treasury and Resources the previous evening. He reported to me that the Minister was not convinced about the way forward, did not wish a Ministerial Decision to be signed setting out the way forward and wished another option to be explored, namely constructing an equivalent office building to Lime Grove on States land rather than acquiring Lime Grove itself. As a result of this, it was decided not to take the item to the Council later that morning.*

*As a result of the above I have worked with . . . to identify the costs associated with the new option and then worked in-house to develop the full cost picture,(including inflation etc.) I developed a confidential briefing note setting out the main options for SOJP including the new option and this was agreed with the Deputy Chief Executive and provided to the Minister over the weekend of 16 April 2011.*

*On 14 April I met with . . . and . . . of SOJP to brief them on the position.*

*On Monday 18 April 2011 myself and the Deputy Chief Executive met with the Minister for Treasury and Resources to discuss the briefing note. I also tabled a direct comparison and sensitivity analysis between acquiring Lime Grove and building a new office on the Summerland site . . .*

*Despite expressing concerns over the option analysis in an email earlier on the day at the conclusion of the meeting the Minister declared himself satisfied with Option 1 which included the acquisition of Lime Grove House. The Minister requested that a financial appraisal be undertaken by the Treasury to include land values, but was content for this to progress in parallel with progressing the agreed option. The Minister stated he would sign a ministerial decision to that effect.*

*The meeting discussed the acquisition of Lime Grove and the Minister expressed the view that the offer price was too high and negotiations should take place to reduce the price.*

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therefore be lost. The Director, JPH reported that the other party which had been interested in purchasing LGH was reported to have agreed Heads of Terms for a property on The Esplanade. This report was based on information obtained in a telephone call from a director of the company developing the Esplanade site to the Assistant Director, Estates. The effect of this development was that the competing offeror for LGH appeared to be closer to withdrawing from its interest in LGH. However, the Director, JPH's e-mail went on to point out that the terms of the Esplanade site deal (in particular the report which was understood to be of the order of £28 per square foot) appeared to exceed what would be the price of LGH by a considerable margin (i.e. the competing offeror would find LGH a cheaper option).

*As a result of the above meeting, a revised report and ministerial decision was developed setting out the way forward for approval by the Minister for Treasury and Resources.*

*Also as a consequence of the above meeting on 19 April 2011 a meeting between myself . . . the Deputy Chief Executive and the Assistant Minister Treasury and Resources took place to discuss the negotiations for the building. It was agreed to make a formal offer of £8.25m and that [ xxxx ]<sup>159</sup> should write to the vendor's agent setting this out. This letter was sent out on the 20 April 2011.*

*Shortly after the meeting with the Minister for Treasury and Resources, I was informed by the Treasury that they were undertaking a review of the Police capital project as this had been requested by the Treasurer the week before. As part of this and the development of a financial appraisal on the 19 April I met with . . . who asked a range of questions on the project. We also discussed and agreed the information required from me for Treasury to complete his financial appraisal.*

*Having obtained development approval information from . . . on 21 April I provided . . . with a report and draft ministerial decision with the Minister's signature with the hope that this would be progressed in my absence."*

269. When negotiations commenced, difficulty was experienced because the vendor asserted that it had been agreed that the building was to be conveyed in its existing condition (the point of difference which arose from the original acceptance on 31 March 2010 to which I have referred on several occasions in this report). Although this point should have been known to the States team (as the vendor had brought it to the Deputy Chief Executive's attention in December 2011) it caused consternation.

270. This point appears to have been a surprise to the Director, JPH:

*"I am disappointed that this somewhat murky situation has emerged at the 11<sup>th</sup> hour, as in my view this has the potential to further tarnish the reputation of JPH.*

*[Assistant Director, Estates] you have consistently represented the Lime Grove deal to [Assistant Director, Finance and Investment] and [Director, JPH] as £8.75m for a*

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<sup>159</sup> For this phase of negotiation with the vendor, it appears to have been proposed to make use of the services of the former Chief Executive of WEB (this is confirmed by the board minutes of WEB). It became clear, however, that the involvement of the former Chief Executive of WEB would not be acceptable to the vendor. It was therefore decided that a property agent should be appointed to act as the States' negotiating representative for this sole purpose. An approach was first made to a major firm of agents who were believed not to have any involvement in the transaction (either in advising an interested party or undertaking related work). That firm of agents declined the States' invitation to act but recommended a sole practitioner/agent. After an initial meeting with the Assistant Minister, Treasury and Resources, this agent accepted the appointment.

*completed shell and core with no outstanding defects and a power supply suitable for the building for normal use, and we have based the business case costs on that premise.*

*It would appear that the vendors' view is that our allowance of £1.5m for the Cat A fit out should absorb the costs of any snagging and increased electrical supply. However it is unclear as to whether the States are taking the risk on that cost assumption being correct or the vendors are.*

*If in simple terms the vendors complete Cat A and the snagging and electrical works for £1.5m then in essence the deal is £9.25m for a completed building to Cat A.*

*However, is the Vendors' expectation that the States complete Cat A and snagging and they will meet any costs over £1.5m. The latter cannot be correct as we have maintained throughout that we will not do the snagging as it negates any liability to the vendor for inherent defects.*

*If the vendors take the view that they have been misled by JPH our position may be untenable particularly as there is now a move by [the States' agent] (under instruction to reduce the £8.75m figure). In that situation I fear that the reason for any failure to close a deal will fairly on JPH's shoulders.*

*The Vendors' view that snagging etc and cat A could be completed for £1.5m required verification and that is possibly what is being referred to in subsequent correspondence.*

*Moving forward, it would appear that the only acceptable deal for both sides should involve rolling in the Cat A works with the snagging and power supply upgrade and the vendors providing a building to Cat A standard . . .*

*The worst case scenario is if the vendors' expectations are that they simply walk away at £8.75m leaving snagging as our risk – on the basis that they have told us (and we (in their view) have agreed that both Cat A and snagging etc can be done for £1.5m.*

*All in all very messy and totally unsatisfactory.”<sup>160</sup>*

271. This disagreement led to some difficulty in subsequent negotiations and, as I will show, a disciplinary process being initiated against the Assistant Director, Estates.

### **Subsequent events**

272. The subsequent events can be summarised in the following way:

- (1) 19 April 2011: the Assistant Chief Executive (with the new Assistant Minister, Treasury and Resources) met the agent who was to represent the States in

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<sup>160</sup> E-mail dated 12 April 2011. JPH documents.



negotiations with the vendor to discuss the approach to be adopted. It was agreed that a revised offer of £8.25 million should be made.

- (2) 21 April 2011: Draft Ministerial Decision provided to Treasury setting out the way forward for the Minister's approval.
- (3) 10 May 2011: After Treasury had completed proper due diligence, the Treasury Minister signed the Ministerial Decision which had been modified to specify that officers should negotiate the lowest price for LGH subject to a limit of £8.75 million.
- (4) 11 May 2011: A letter was received from the vendor's agent expressing dissatisfaction about the revised offer.
- (5) 16 May 2011: The Assistant Chief Executive agreed with the Deputy Chief Executive and the States' agent that Minister should be consulted on the way in which the States should react to the vendor's agent's letter.
- (6) 18 May 2011: Ministers' views were sought at a meeting attended by both the Treasury Minister and the new Assistant Minister, Treasury and Resources. The Treasury Minister made clear his dissatisfaction with the original price (£8.75 million) both at the meeting and in an e-mail in advance of the meeting. It was noted that the desire to reduce the price of the acquisition should be balanced against the perceived benefits of acquiring LGH. It was agreed to pursue the negotiations on the basis of the revised offer.
- (7) 20 May 2011: The States' agent wrote to the vendor's agent stating that the Treasury Minister would not be prepared to take the proposed purchase to the States Assembly at a price of £8.75 million.
- (8) 27 May 2011: A letter was received from the vendor's agent accepting the revised offer of £8.25 million but on condition that the States accepted the building 'as is' and dealt with the remedial snagging works and the provision of an electricity supply.
- (9) 27 May 2011: Officers decided that the vendor's condition was not acceptable as it appeared to be an open-ended cost commitment and that the vendor should be informed of this. Subsequently, the States commissioned reports on



the state of LGH and the possible cost of remedial works and entered into discussion with the vendor on this matter.

- (10) 23 June 2011: The States' agent and the Deputy Chief Executive met the directors of the vendor (and their agent) to discuss the position. The States made clear that unless heads of terms were agreed quickly it would not be possible for the purchase to clear the States Assembly before the summer recess. It was agreed that the key principles of an agreement should be set out in draft heads of terms.
- (11) 24-27 June 2011: After a number of exchanges, heads of terms of agreement were agreed which specified that 'material defects' (i.e. defects that would have been the responsibility of the original builder) would be rectified at the vendor's cost.
- (12) 28 June 2011: The Assistant Chief Executive provided draft papers to the Treasury for signature of a Ministerial Decision authorising the lodgement of a Standing Order 168 report on the purchase of LGH.
- (13) 29 June 2011: The Standing Order 168 report was lodged.
- (14) 30 June 2011: The Treasury Minister made a statement to the Assembly on the purchase of LGH.
- (15) 13 July 2011: Seeking to reach an agreement on the material defects that the vendor was to correct, a representative of the States contacted the vendor's architect and was concerned to find that not only had the architect not been instructed to deal with the matter, he had in fact been instructed to take no further part in the proceedings. The States instructed their agent to contact the vendor's agent to discover what was happening.
- (16) 18 July 2011: The Assistant Chief Executive contacted the States' agent expressing concern at the lack of progress and asking for advice on the way forward. The agent made enquiries and was told that the vendor was waiting for the expiry of the Assembly's period for considering the Standing Order 168 report.

- (17) 26 July 2011: in view of the continuing lack of progress the Assistant and Deputy Chief Executives agree to push to close the deal as quickly as possible.
- (18) 8 August 2011: After failing on a number of occasions to obtain any response from the vendor's architects, the States received a letter from them rejecting the States' list of material defects.
- (19) 15 August 2011: In view of the continuing lack of progress the Assistant Chief Executive decided that the States should contact the directors of the vendor directly.
- (20) 17 August 2011: A response was received from one of the vendor's directors saying that in his view there were no material defects.
- (21) 19 August 2011: The Assistant Chief Executive discovered that the vendor had signed a lease with a competing offeror. This was subsequently confirmed by an e-mail from the vendor's agent to the States' agent.
- (22) 22 August 2011: The Treasury Minister made a statement to the States Assembly on the failure of the proposal to acquire LGH.

## SECTION SIX – JERSEY PROPERTY HOLDINGS

### Introduction

273. In this section of the report, I will review the structure originally created for JPH, the reasons for the design of that structure, the way in which that structure was subsequently changed and the schemes of delegated authority within which JPH has operated.

### Proposition

274. On 3 May 2005, a proposition concerning the creation of Jersey Property Holdings was lodged au Greffe by the Policy and Resources Committee.<sup>161</sup> This proposition listed the reviews that had been done in previous years of the organisation of property management within the States:

*“Successive reviews by Environment, Resources Management in 1999, the States Audit Commission in 2000 and a report on The Future of Property Services in 2001 have highlighted shortcomings in the way the States of Jersey manage their property assets. Key findings from these reports are :*

- *Disbursement and consistent ownership and control of States property;*
- *Absence of a clear single point of accountability for property;*
- *No system for accounting for the value of true cost of property assets and services – a valuable and scarce resource;*
- *Slow decision making and approval process through Committee structure;*
- *Shortage of people with relevant property skills;*
- *Inadequate separation between the ‘strategic client’ (policy making) function and the executive ‘provider’ function;*
- *Lack of authority and control to ensure that policies are carried out;*
- *Property seen by users as a ‘free good’ with no incentive to use efficiently or maintain properly, and*
- *Maintenance budgets used for other purposes.*

*Recognising these issues, the Policy and Resources Committee proposed in P70/2002 that ‘the Treasury and Resources Department will have responsibility for . . .*

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<sup>161</sup> P93/2005.

*corporate property (the client) including policy responsibility for property procurement, design and maintenance.*

*The rationale for an integrated approach to property management was confirmed in the five year vision for the public sector and extended in the States Strategic Plan as a specific deliverable under Strategic Aim 9: 'To Balance the States Income and Expenditure and Improve the Delivery of Public Services.'*

275. The proposition brought forward a reformed property structure.

*"In summary it is proposed that all property (with the exception of Trading Committees and Social Housing) will be transferred into a single department together with the existing staff and budgets to manage it. The States will set the longer-term property strategy as part of the Strategic Plan and annually the Property Business Plan will be brought to the States for decisions as part of the overall States Business Plan.*

*The department will be charged with delivering property for services according to the agreed and funded service requirements. It will be accountable via service level agreements. The department will also be accountable for achieving asset management targets in terms of costs, delivery of savings, returns for reinvestment and project targets and timetables. It will answer to the Treasury and Resources Minister for asset performance and to the Council of Ministers for property standards meeting service needs.*

*Performance will be measured against public and private centre benchmarks and may be subject to review by the Public Accounts Committee."*

#### **KPMG review**

276. The proposition was closely based upon a review that had been carried out for the States by KPMG. The principal features of the new entity that KPMG proposed should be created were as follows:

- "- Centralisation of all States property planning management and maintenance into a single body (Jersey Estates) operating as the department's landlord*
- Introducing an internal charge mechanism to create full awareness amongst departments of the opportunity costs of occupying space*
- Creation of a fit for purpose operational estate and identification of surplus space through challenging departments need for space*
- Adding a degree of separation between the commercial property decision making processes and political imperatives, and*

- *Ring-fencing surplus/residual estates for disposal of redevelopment to create a more self funding centralised property body.*

*The potential use of a true private sector outsourcing solution with a third party private sector property service provider was dismissed early in the review on the grounds that capital release through sale and lease back of properties which the States continue to occupy was not a primary objective of Jersey and that there are a limited number of competitive capable service providers on the Island."*

277. In forming this proposal, the KPMG review had considered two principal delivery models:

- (1) The departmental model – in many ways this would have been an extension of the initiatives undertaken by the States over the previous twelve years to centralise property management activity. Under this model all activities including planning, management, maintenance and capital projects but also commercial developments (at that time only undertaken by WEB Limited), and recharging as well as staff would be centralised into a single body under the control of the States Treasury. The key difference between this model and the then current arrangements would have been that total responsibility for the States property assets would rest with one department, although this central body would be no more empowered to manage the property portfolio than had been the previous committees.
- (2) Limited company model – the limited company model had been used successfully by the States in previous years for example in the creation of Jersey Telecom. It had also been identified as the preferred model for the future operation of the Post, Airport and Harbour Committees. Although a Limited Company would be wholly owned by the States of Jersey it would still have significantly more independence than departments. The nature and extent of its independence would be controlled by its Articles of Association and the constitution of its board of directors. Whilst it would benefit from having limited liability, it would need to conform to the requirements of company law. The limited company model would allow 'Jersey Estates' (the name proposed by KPMG for the new entity) the freedom to act commercially to finance investment through private capital and to vest the administration and management of all property assets within a single

independent company. This model was being used in respect of WEB's commercial development activities".

278. The clear view of the KPMG review team was that the limited company model would create a greater opportunity for the States to meet its objectives. This conclusion was based primarily on the clarity it would bring to the purchaser: provider relationship, the incentives that could be created to achieve the outputs and the control the company could exert over property decisions. A limited company was thought more likely to be sustainable in the long-term as it would be responsible to its shareholders for consistent performance. It would also be likely to be less susceptible than perhaps a department would be to political influences.

279. However, it was recognised and discussed with a number of stakeholders that there were political difficulties in creating 'Jersey Estates' as a limited company. It would also have been considerably more complex and expensive to set up as it would have been necessary to transfer the ownership of all the States' properties to the new company. Simply transferring the properties would have required a daunting amount of conveyancing work, but the complexity of this work would have been considerable if steps had been taken to avoid the creation of pointless stamp duty liabilities (pointless because circular).

280. The final outcome of the KPMG review was a recommendation for a third, hybrid model:

*“. . . a departmental structure reporting to Treasury through a specific Treasury Minister. Although this type of model has not previously been implemented in Jersey, it has been used by the public sector in the UK to adopt a more commercial approach to managing property issues (e.g. English partnership). Fundamentally Jersey Estates is provided with a delegated budget and charged with delivering specific aims and objectives. Responsibility is directly to the sponsoring central government department. Activities are agreed in a formal business plan and are delegated necessary powers to fulfill its remit. In the UK these powers include disposal of assets (subject to agreed thresholds), setting up and owning companies, entering into joint ventures and using land assets as equity for development projects.*

*Whilst it is acknowledged that each of these models will bring improvements over current arrangements, experience of other projects suggests there is strong correlation between achieving the desired outputs and the degree of autonomy given to the delivery vehicles."*

281. The essence of the KPMG review's recommendations was that:
- (1) management of the States' properties should be transferred to a separate department;
  - (2) this department should operate in as business-like a manner as possible and, in particular, should relate to the remainder of the States' organisation as if that organisation were its customer and/or tenant;
  - (3) this department should be as free as possible from political influence, reporting to the Treasury through a separate minister.

#### **Structure of JPH**

282. As created, JPH's structure closely followed the recommendation in the KPMG review and proposed in P93/2005:
- (1) JPH was established as a department reporting directly to the Treasury.
  - (2) management of all properties held and/or occupied by the States was transferred to JPH;
  - (3) all departments were required to transfer to JPH their budgets for property maintenance and JPH became responsible for all capital budgets involving property;
  - (4) the director, JPH, was to be appointed Accounting Officer (i.e. not the Treasurer of the States).
  - (5) responsibility for property matters and, in particular, for JPH was delegated by the Treasury and Resources Minister to an Assistant Minister.<sup>162</sup>

283. In due course, the States recruited a person to serve as Director, JPH who had considerable property management experience in mainland organisations which had undergone extensive programmes to re-structure their property holdings. He was thus recruited in knowledge of the structure that had been created for JPH.

284. The new structure was in operation with effect from 1 January 2007.

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<sup>162</sup> This was, for example, confirmed by the Treasury Minister in answer given in the States Assembly; Hansard; 20 April 2010: 'I have delegated matters for property services to . . .'

### **Standing Order 168**

285. At the same time as the States were considering the organisation of property management, consideration was also being given to the way in which the States Assembly considered proposed property transactions. In a Proposition lodged au Greffe on 9 August 2005, the Privileges and Procedures Committee proposed a new Standing Order whose purpose it explained in the following way:

*“The Committee gave careful consideration to the need for the States to debate and agree land transactions. The Committee is conscious that many members consider that such debates are an unproductive use of valuable States time when the States have already agreed the overall resource allocation and capital programme without which the majority of the transactions could not proceed.*

*With the move to a more efficient corporate structure for property administration and management as agreed by the States on 7 June 2005 the Committee believes that individual property transactions and approval of plans should no longer be systematically referred to the States. Nothing would, of course, prevent any member lodging a proposition to debate a certain transaction, and the minister for treasury and Resources might, in certain circumstances, consider that a debate should take place, but most transaction would simply be recommended by the States corporate property department and then notified to the States once approved by the Minister for Treasury and Resources (as happens at present with Standing Order transactions).”<sup>163</sup>*

286. The proposed Standing Order read as follows:

*“(1) The Standing Order applies to the following actions –*

*(a) the disposal, acquisition or rental of land on behalf of the public of Jersey; . . .*

*(2) The prior agreement of the States shall not be needed for any of the actions if –*

*(a) the action is recommended by a body established by the States to manage land and buildings owned by the public of Jersey; and*

*(b) the recommendation is accepted by the Minister for Treasury and Resources.*

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<sup>163</sup> Proposition 93/2005: report.



(3) *The Minister for Treasury and Resources shall, after accepting a recommendation to take such action, present to the States information regarding the action.*<sup>164</sup>

287. As approved, paragraph (3) quoted above read as follows:

*“(3) The Minister for Treasury and Resources must, at least 15 working days before any binding arrangement is made for the disposal, acquisition, letting or rental of land on behalf of the public of Jersey which does not, by virtue of paragraph (2), require the prior agreement of the States, present to the States a document setting out the recommendation which he or she has accepted.”*

### **Re-organisation of the Chief Minister’s Department**

288. At some point towards the end of 2008, consideration came to be given to re-organisation of the Chief Minister’s Department. A report prepared by an independent consultant eventually led to the appointment early in 2009 of a Deputy Chief Executive who, among other matters, took responsibility (from the Chief Executive) for certain functions including the Human Resources Department and the Information Services Department.

289. As a part of this re-organisation, it was agreed that the Director of Strategic Procurement and Jersey Property Holdings would also report to the Deputy Chief Executive.

290. The leaders of this group of functions began to meet under the chairmanship of the Deputy Chief Executive as the management team of ‘the Resources Department’.

291. As a further change, it was subsequently agreed that ministerial responsibility for the ‘Resources Department’ would be transferred from the Chief Minister to the Minister for Treasury and Resources.

### **Consequential changes**

#### *Accounting Officer appointment*

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<sup>164</sup> Proposed Standing Order 161. Following amendments, the Standing Order was approved but as Standing Order 168. It is clear that the body to which reference was made in the proposed Standing Order was the body eventually named Jersey property Holdings.

292. In consequence of these various changes, the Deputy Chief Executive became Accounting Officer for all of the functions within the 'Resources Department'. In the case of Jersey Property Holdings this took effect from 1 November 2009.

*Budget allocations*

293. Change of Accounting Officer responsibility did not itself involve a change in accountability for the budget agreed by the States as, when the 2009 and the 2010 Business Plans were agreed, the agreed budgets were allocated to the Chief Minister's Department and the Treasury before the creation of the Resources Department. Thus, to recognise the creation of the new department, it was necessary to change the allocation of the budgets for the functions within the new department.

294. It was initially proposed to do this by way of a Ministerial Decision, the draft of which was dated 28 January 2010.<sup>165</sup>

295. In the normal course, draft Ministerial Decisions are reviewed by the States Greffe (among others) to ensure that draft decisions are consistent with the decisions and practices of the States. When this particular draft decision was reviewed by the States Greffe an objection was raised on the grounds that the departmental allocation of principal functions of the States had been agreed by the States Assembly.<sup>166</sup> Since functions had been allocated to departments by a decision of the Assembly, it was argued, it was for the Assembly to change those allocations.<sup>167</sup> In other words, an individual Minister did not have the power to re-allocate functions between departments. It was suggested that the correct way of proceeding would be for the Minister to bring a proposition to the Assembly to vary the decision made in 2002. Alternatively it was suggested that the Minister should make a statement to the States which would be

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<sup>165</sup> Draft decision: MD-TR-2010-0024; which responded to a draft decision of the Chief Minister (MD-C-2010-0013) to transfer from 2010 on a recurring basis an annual budget of £15.5 million to Treasury and Resources.

<sup>166</sup> By acceptance of Proposition P70/2002 which allocated certain functions to the Chief Minister's Department.

<sup>167</sup> It is clear that the recommendations made in the report involved changes to the allocations of functions which had been approved by the States Assembly. That report did not consider the implications of this. Nor did the subsequent decision to implement those recommendations. In other words, these problems arose before the appointment of the Deputy Chief Executive to head the newly created Resources Department.

followed by an opportunity for members to ask questions.<sup>168</sup> In either case, the result would have been that the States were given proper notice of the proposed changes.<sup>169</sup>

296. In retrospect, this approach might well have been wise, for apart from the changes to departmental allocations agreed in 2002, the creation of the Resources Department and the integration of JPH within that department were in direct conflict with the States' decision in 2005 that JPH should be created as a 'separate department'. Had a formal proposition been put to the States, it would have been necessary to demonstrate that all of the issues considered in the 2005 Proposition had been re-considered in proposing the creation of the Resources Department and that all of the administrative consequences of this had also been considered. As was to become clear later, this had not been done.<sup>170</sup>

297. In the event, the Chief Minister's Department and the Treasury did not challenge this advice; but decided that the matter should be covered not by a new proposition to the States (or by a Ministerial Statement) but by inclusion in the 2011 Business Plan of a reference to the creation of the Resources Department:

*"In 2010 the corporate support facilities of Human Resources, Information Services and Customer Services have been brought together with Corporate Purchasing, Property Services and Corporate Systems in a new Resources Directorate under the leadership of the new Deputy Chief Executive, and this directorate is now a part of the Treasury and Resources Department."<sup>171</sup>*

298. On this basis, the original draft Ministerial Decision was cancelled and was followed by the following series of decisions which surrounded the 2011 Business Plan:

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<sup>168</sup> In accordance with Standing Order 68(3) which allows a period of ten minutes for questions.

<sup>169</sup> I am instructed that these exchanges took place using a system known as 'Livelink' which deletes all records of such exchanges if a draft decision is cancelled. Thus, for this description of the exchanges which surrounded draft decision MD-TR-2010-0024, I am relying on representations made to me by senior members of the States Greffe and the Treasury and Resources Department.

<sup>170</sup> There were other, similar, difficulties concerning Human Resources. In that case, the reporting lines for the States Employment Board and the Appointments Commission were specified in legislation which in both cases named the Chief Minister's Department which provided the secretarial support for both boards. This conflicted with the transfer of Human Resources to the Treasury and Resources Department: a conflict that was only resolved when the Human Resources function was returned to the Chief Minister's Department when the Deputy Chief Executive became Acting Chief Executive.

<sup>171</sup> 2011 Business Plan; Minister's introduction to the Treasury and Resources Department plan; page 95.

<i>Ministerial Decision reference</i>	<i>Date</i>	<i>Effect</i>
MD-C-2010--0022	4 March 2010	Transfer of budgets from Treasury to the Chief Minister's Department to reflect the transfer of responsibility for financial systems and the procurement function with effect from 1 January 2010.
MD-TR-2010-0037	23 February 2010	As above
MD-C-2010-0067	6 July 2010	Transfer of budgets and manpower for Human Resources, Information Services and Corporate Resources to Treasury and Resources from the Chief Minister's Department with effect from 1 January 2011.
MD-TR-2010-0094	10 June 2010	As above.

299. I understand that it was the considered view of the former Chief Minister, the Treasury Minister, the former Chief Executive and the Deputy Chief Executive that the political atmosphere was not appropriate for a debate on this matter.

300. These changes were known to those responsible for leading the individual functions within the new Resources Department as is clear from the minutes of management team meetings:

*"[the Deputy Chief Executive] advised that for this year, we will still be part of the Chief Ministers Department. The proposal to form a Resources Department within Treasury will be put into the 2011 business plan process. Property and Procurement will still therefore be part of Treasury and IS and HR part of Chief Ministers. There is now a query over the finance and HR position as work was carried out at the end of last year to move us to be resources department within Treasury."*<sup>172</sup>

301. For the purpose of this report, the significance of these matters lies principally in the arrangements that were made for the management of the daily, continuing business whilst these organisational uncertainties were being resolved because there was obviously a risk that advantage would be taken of any uncertainties.

#### *Internal controls*

<sup>172</sup> Resources Department Management Team; notes of meeting held on 1 February 2010. In the event, memorandum accounts were maintained for the Resources Department but the Department's accounts were divided into two accounts (i.e. under the Chief Minister and the Treasury Minister) for the purpose of formal reporting.

302. In practice, the Deputy Chief Executive assumed management responsibility for the various resource functions some time before the formal framework for those functions was confirmed. When he assumed responsibility, he instructed the head of each function that as head of the department, who expected that he would in due course become the Accounting Officer, he would expect that all communication between the functions in the new department and responsible ministers (and assistant ministers) would be channelled through him.<sup>173</sup>

303. I understand that he also made it clear that all communication with members of the States Assembly (including Scrutiny Panels and Committees) should be directed through him.<sup>174</sup>

304. I understand that these instructions were largely accepted by the heads of functions but that they were resisted by the Director, JPH:

*“ . . .of the four reports – [the Director, JPH] was the one who did not accept setting up Resources and reporting to me, . . . it was very clear that [he] saw setting up Resources as a backward step and he would not accept the reporting line.”<sup>175</sup>*

305. In short, the new arrangements introduced by the Deputy Chief Executive to deal with the problems caused by creation of the Resources Department proved contentious as far as JPH was concerned. Since this contributed to the proper management of the LGH proposal, it has been necessary to examine this matter in some detail.

#### **JPH communications**

306. As I have explained, it should not have been a surprise that the new communications arrangements introduced by the Deputy Chief Executive would be difficult for the Director, JPH to accept:

- (1) the proposition creating JPH had assumed that there would be some distance between JPH and the management of the States.

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<sup>173</sup> I have not found a documentary record of this instruction which appears therefore to have been communicated orally.

<sup>174</sup> I have been informed of this by members of the Corporate Services Scrutiny Panel.

<sup>175</sup> Interview with the Deputy Chief Executive; 14 November 2011; page 10.

- (2) the consultant's report on which the proposition had been based argued that this distance would be critical to JPH's success.
- (3) the Director, JPH had been recruited in the expectation of filling the role described in those documents.
- (4) the Director, JPH had operated on the basis as described for two years since his appointment.

307. What is more, the Assistant Minister, Treasury and Resources with whom the Director, JPH had worked closely for those two years was also unhappy with the new arrangements:

*“ . . . I didn't just want a decision coming to me in its nice formalised format saying 'oh this is what we need to sign' . . . because you're then under a sort of moral pressure to sign so . . . I would want information up front . . . I was very happy with keeping the direct communications with [the Director, JPH] and the rest of the Department because I didn't think [the Deputy Chief Executive] really understands quite how the property stuff was actually working.”<sup>176</sup>*

308. As far as I can discover, this conflict between the Deputy Chief Executive's expectations and those of the former Assistant Minister, Treasury and Resources was never properly resolved. Perhaps unsurprisingly, the relationship between the former Assistant Minister and the Deputy Chief Executive was unsatisfactory.

309. This problem was exacerbated by two factors:

- (1) The relationship between the former Assistant Minister, Treasury and Resources and the Treasury Minister; and
- (2) a failure to consider fully all of the implications of the new arrangements.

#### *Relationships*

310. Firstly, the relationship between the former Assistant Minister and the Treasury Minister was also unsatisfactory. As a demonstration of this, the former Assistant Minister recalled that although in retrospect it seemed clear that the Treasury Minister had concerns about the price that had been offered for LGH, he had not communicated those concerns to him:

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<sup>176</sup> Interview with the former Assistant Minister, Treasury and Resources; 28 November 2011; pages 9/10.

*“ . . . I was hopping mad because no-one had communicated those issues previously. Certainly [the Treasury Minister] hadn’t.”<sup>177</sup>*

311. The effect was that in practice it was difficult for problems in formal relationships to be dealt with by informal communication and could not be relied upon.

*Approval of property transactions*

312. The change in arrangements instigated by the Deputy Chief Executive was not fully considered and, in particular, its implications for the approval of property transactions may not have been appreciated and were certainly not resolved during 2010.

313. For many years, it had been the practice of JPH to set about property purchases by making conditional offers (i.e. offers that were subject to Ministerial and States approval). These had the effect of enabling a vendor to agree that the States would then be able to negotiate the detailed terms of a purchase exclusively and then to seek Ministerial and States approval. If the necessary approval could not be obtained, the conditionality of the offer enabled the States to withdraw without penalty.

314. Such offers were routinely made on the basis of approval by the Assistant Minister and this was permitted by the formal scheme of delegation of powers from the Treasury Minister to the Assistant Minister.<sup>178</sup> The effect was that formally an offer could be made without the Treasury Minister’s knowledge. The scheme of delegation provided limits to the Assistant Minister’s authority to approve the final purchase so that for any major purchase; an offer could not proceed without the Minister’s express approval.

315. Of course, it would normally have been the case that if a significant purchase was in prospect, it would have been discussed informally between the Assistant Minister and the Treasury Minister; but, as I have shown, the scheme of delegations did not explicitly require this.

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<sup>177</sup> Interview with the former Assistant Minister, Treasury and Resources; 28 November 2011; page 30. The meeting which led to this reaction appears to have taken place in September 2011.

<sup>178</sup> It is the normal practice that on appointment of an Assistant Minister the appointing Minister will approve a formal scheme of delegation which delineates the Assistant Minister’s authority delegated from the Minister. For example, the scheme of delegation for the former Assistant Minister, Treasury and Resources was approved by Ministerial Decision MD-TR-2008-0147 with effect from 22 December 2008. This was reported to the States on 24 December 2008 (see R133/2008).

316. It is instructive that the scheme of delegation for the former Assistant Minister, Treasury and Resources provided that all powers and responsibilities arising under Standing Order 168 were delegated from the Treasury Minister to the former Assistant Minister and that it also delegated to the Director, JPH various powers to approve various property transactions. The delegated powers of the former Assistant Minister and the Director, JPH were dovetailed (e.g. the upper limit of the Director, JPH's power to approve contracts was the lower limit of the Assistant Minister's power) so that in practice it would make sense for the holders of these two offices to work closely together and the delegations implicitly assumed that would be the case.
317. No changes were made to these delegations on the creation of the Resources Department and the appointment of the Deputy Chief Executive as Accounting Officer for JPH.
318. The effect was that the formal scheme of delegations assumed that the Assistant Minister and the Director, JPH would work closely together whilst the Deputy Chief Executive's new arrangements assumed that the Director, JPH would report to the Assistant Minister through him.
319. I note that it was resolved in January 2011 when a new Assistant Minister was appointed. The scheme of delegation for the new Assistant Minister did not delegate powers to the Director, JPH but to:

*"The Accounting Officer Jersey Property Holdings or, in his absence, both the Director of Jersey Property Holdings and the Assistant Director – Strategy and Investment, Property Holdings for contracts with a value up to £1,000,000."*<sup>179</sup>

### Commentary

320. It is difficult to avoid the conclusion that, for whatever reason, the creation of the Resources Department and its administrative framework were not pursued in as thoroughgoing a manner as one would have expected. To a large extent the difficulties resulted from insufficient research at the time it was decided to create the new department.

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<sup>179</sup> Ministerial Decision MD-TR-2011-0011; 3 February 2011. I also note that further changes have been made to the scheme of delegations in subsequent iterations. For example, a further scheme of delegations was created following the appointment of a new Assistant Minister in December 2011.



321. The specification of reporting lines and the organisation of schemes of delegation may appear relatively trivial matters, but they are essential foundations of good administration. Allowing reporting lines to be unclear creates the possibility of future failures to communicate successfully. Allowing schemes of delegation to be uncertain and inconsistent creates the possibility of misunderstanding. This is especially true where personal relationships are unsatisfactory (as between the Treasury Minister and the Assistant Minister, Treasury and Resources) so that it cannot always be assumed that informal communication will make good any weaknesses in formal communication and formal reporting lines.

322. The minutes of the Resources Department record that there was discussion of these matters. For example, at a meeting of the management team on 7 December 2009, it was reported that:

*"[the Deputy Chief Executive] advised that he is currently looking at Delegation of Functions."<sup>180</sup>*

323. At the following meeting on 11 January 2010, it was reported that:

*"Delegated Powers – [the Deputy Chief Executive] has not finished the list yet."<sup>181</sup>*

324. As far as I have been able to establish, there was no further reference to this matter in subsequent meetings. There was certainly no revision to the formal reporting lines or scheme of delegations affecting JPH to take account of the creation of the Resources Department.

325. This created the possibility for subsequent misunderstandings.

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<sup>180</sup> Departmental minutes: Deputy Chief Executive's documents. I note that by the time this meeting took place, the Deputy Chief Executive had been Accounting Officer for JPH for more than a month so that clarification of this matter was already overdue.

<sup>181</sup> Departmental minutes: Deputy Chief Executive's documents.

## **SECTION SEVEN – THE VALUE OF LIME GROVE HOUSE**

### **Introduction**

326. In this Section of the report I will examine the various assessments, appraisals and opinions concerning the value of LGH which I have established were provided or expressed during the period with which this report is concerned. In some cases, as will be seen, these opinions were concerned more with the price at which the States should offer to buy the property than with the market value of the property.

327. In the course of this examination, I will review not only those valuations that were carried out externally by professional firms working on behalf of the States, but also valuations that were carried out internally by chartered surveyors employed by the States and informally by people who expressed opinions at the informal request of the Treasury Minister and of the Deputy Chief Executive. In each case, I will make clear the purpose for which the valuation, appraisal or opinion was intended and the information on which each was based. I will then assess the relevance of each to the purpose for which it was solicited.

328. Before considering any of these matters I will review the normal approach which would be adopted towards the formation of a professional view of the valuation of the market value of a property.

### **Normal approach**

329. Unless instructed otherwise, professional firms of surveyors would conduct valuations of properties in accordance with guidance issued by the Royal Institution of Chartered Surveyors (RICS) in the form of a publication normally referred to as ‘the Red Book’. The guidance sets out the approach which should be used in normal circumstances for the valuation of general purpose commercial properties on the basis of transactions between willing sellers and willing buyers. In other circumstances, other considerations would apply and the normal approach would be adjusted accordingly in ways that are also set out in the guidance provided in the Red Book.

330. The RICS valuation standards define “market value” as:

*“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.*

331. The phrase “between a willing buyer” refers to a person or party who is motivated but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than on an imaginary or hypothetical market which cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present property owner is included amongst those who constitute “the market”. A valuer must not make unrealistic assumptions about market conditions or assume a level of market value above that which is reasonably obtainable.

332. The phrase “a willing seller” refers to a party who is neither an over-eager nor a forced seller prepared to sell at any price not one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the property at market terms but the best price obtainable in the market after proper marketing, whatever that price might be. The factual circumstances of the actual property owner are not part of this consideration because the “willing seller” is a hypothetical owner.

333. The phrase “in an arms-length transaction” refers to a transaction between parties who do not have a particular or special relationship (for example parent or subsidiary companies or landlord and tenant), which may make the price level uncharacteristic or inflated because of an element of special value. The market value transaction is presumed to be between unrelated parties each acting independently.

334. The phrase “after properly marketing” means that the property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the market value definition. The length of exposure time may vary with market conditions but must be sufficient to allow the property to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs before the valuation date.

335. The phrase “wherein the parties had each acted knowledgeably, prudently . . .” presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the property, its actual potential uses, and the state of the market as at the date of valuation. Each is further presumed to act for self interest with that knowledge and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices at a price which is lower than previous market levels. In such cases, as is true for other purchases and sale transaction the situation in markets for changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.

336. The normal approach to assessment of market value in any case is to:

- (1) assess the probable market rental per unit of space for a property of similar size, condition and location on the basis of evidence of current and recent market transactions;
- (2) assess the yield that a potential investor would expect to achieve taking account of information from current and recent market transactions;
- (3) assess the nature and extent of any inducements that a vendor might expect to offer to a potential tenant (e.g. rent free periods, periods of reduced rent) taking account of current and recent market transactions;
- (4) convert the probable market rental for the property less the effect of any inducements that a vendor would be expected to offer into a current value by application of the yield percentage to the expected cash flow; and
- (5) deduct any costs which the vendor must incur to bring the property to the marketable condition assumed by the assessed market rental (e.g. conversion of a shell and core condition to marketable condition by a Category A fit out).

337. In certain circumstances, this normal approach would be varied. For example, if there were no comparable market transactions either because there were no local market or the property were of a specialist nature, a different approach would be adopted.

**External professional valuations of LGH**

338. During the period with which this report is concerned, the States of Jersey commissioned three professional valuations of LGH:

- (1) In 2007 by CB Richard Ellis (CBRE) at a time when the States were considering potentially leasing or buying LGH.
- (2) In 2010 by BNP Paribas (BNP) following the initial offer made to the vendor on 31 March 2010.
- (3) In the Spring of 2011 by Drivers Jonas Deloitte (Drivers Jonas).

339. As one would expect, all of these valuations were expressly stated to have been carried out in accordance with the guidance issued in the Red Book.

340. The outcome of these three valuations is summarised in the following table:

	<i>CBRE</i>	<i>BNP</i>	<i>Drivers Jonas</i>
	<u><i>Aug-07</i></u>	<u><i>Jun-10</i></u>	<u><i>Feb-11</i></u>
Assumptions			
Square feet	31,753	31,753	31,753
Rent per square foot	£24		£22
Yield		7.25%	7.49%
Purchaser's costs		4.50%	1.5% plus SD
Assumed annual rental (£million)	<u>846.500</u>	<u>852.072</u>	<u>788.566</u>
Estimated gross capital value (£million)	10.750	10.915	10.528
Less: capital costs (£million)	-1.200	-1.700	-1.700
	<u>9.550</u>	<u>9.215</u>	<u>8.828</u>
Less: purchaser's costs (£million)		-0.415	-0.383
		<u>8.800</u>	<u>8.445</u>
Less: discounts (£million)		0.000	0.000
		<u>8.800</u>	<u>8.445</u>

### Internal professional valuation of LGH

341. On 15 March 2010, the Assistant Director, JPH prepared an internal appraisal of the market value of LGH in anticipation of making an offer on 31 March 2010. A summary of the valuation is set out in the table below:

	<i>Central case</i>	<i>Worst case</i>	<i>Best case</i>
<b>Assumptions</b>			
Square feet	31,753	31,753	31,753
Rent per square foot	£22	£20	£24
Yield	7.50%	7.50%	7.25%
Purchaser's costs	3.50%	3.50%	3.50%
Assumed annual rental (£million)	<u>795</u>	<u>731.000</u>	<u>788.566</u>
Estimated gross capital value (£million)	10.600	10.084	11.836
Less: capital costs (£million)	-1.500	-1.500	-1.500
	<u>9.100</u>	<u>8.584</u>	<u>10.336</u>
Less: purchaser's costs (£million)	-0.319	-0.300	-0.383
	<u>8.781</u>	<u>8.284</u>	<u>9.953</u>
Say (£million)	<u>8.750</u>	<u>8.300</u>	<u>9.975</u>

### Informal opinions

#### *Introduction*

342. As far as I have been able to establish, four people expressed informal opinions concerning the market value of LGH in response to invitations from the Treasury Minister and the Deputy Chief Executive:

- (1) The former Chief Executive of Waterfront Enterprise Board Limited (WEB);
- (2) The former Planning and Environment Minister;
- (3) An advocate; and
- (4) A partner in a professional firm of surveyors.

343. I will review each of these in turn below.

344. At a late stage in the enquiry<sup>182</sup>, the Treasury Minister indicated that further opinions had been offered to him:

- (1) by a person who reported the views of a senior property expert; and
- (2) by a number of property agents on a casual basis.

345. No information has been provided to me in respect of these opinions either in terms of the precise dates on which they were offered, the form in which they were offered or indeed their substance. Thus I have not been able to corroborate or test these opinions in any way and have thus ignored them.

346. The Treasury Minister has also told me that throughout his consideration of LGH, he was aware that there was another party interested in acquiring LGH and was made aware of that party's interest in another property in St Helier. This information was material to the Treasury Minister's view of the value of LGH and the price which the States should offer and I will consider this subject at the end of this Section.

*The former Chief Executive of WEB*

347. The opinion expressed by the former Chief Executive of WEB was based on calculations carried out by the professional staff of WEB which are summarised in the table below<sup>183</sup>:

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<sup>182</sup> Meeting with the C&AG on 19 April 2012.

<sup>183</sup> The table sets out the figures which are shown in the schedules provided to me by the Finance Director of WEB. However, I have not been able to reconcile the calculation of Gross Capital Value (GCV) from the assumed annual rental. At a yield of 7.35%, would be £11.127 million (rather than £10.517 million). At a yield of 7.25%, the yield would have been £11.280 million. The implication is that the calculation of GCV may have taken account of a rent free period.

	<i>Max</i>	<i>Min</i>
<b>Assumptions</b>		
Square feet	31,753	31,753
Rent per square foot	£23	£23
Yield	7.35%	7.25%
Purchaser's costs	4.25%	4.25%
Assumed annual rental (£million)	<u>817.819</u>	<u>817.819</u>
Estimated gross capital value (£million)	10.517	10.517
Less: capital costs (£million)	-2.412	-2.412
	<u>8.105</u>	<u>8.105</u>
Less: purchaser's costs (£million)	-0.447	-0.447
	<u>7.658</u>	<u>7.658</u>
Less: discounts (£000)	0.000	-1.532
	<u>7.658</u>	<u>6.126</u>

348. It is important that the opinion expressed by the former Chief Executive of WEB related to the offer which it might be appropriate for the States to make rather than the market value of the property itself. In his evidence to the Corporate Services Scrutiny Sub-Panel, this was expressed in the following way:

*“ . . . we took a view on a number of issues, particularly what we looked at was a building that had remained unoccupied for 10 years that we understood had significant dilapidation issue, required money to be spent to bring it to a Category A standard and also obviously where it was, what the comparable rentals had been achieved in that time and our feeling was that if one was looking at a distress sale the range would be somewhere between £6.5 million and £7.5 million.”<sup>184</sup>*

#### Former Planning Minister

<sup>184</sup> Scrutiny Sub-Panel hearing; 6 September 2011; page 3. By ‘distress sale’ I understand that the former Chief Executive was referring to a situation in which the vendor was selling because obliged to do so for some reason and thus did not have the freedom to negotiate that a ‘willing’ vendor might have had or the freedom to insist upon receiving the full potential market value of the property.



349. The comment expressed by the former Planning and Environment Minister was strictly not an opinion about the value of the property but an opinion about the price at which it might be sensible to offer to acquire the property on the basis that it was untenanted and had never been let.

350. Importantly, the former Planning Minister's comments were expressed without the advantage of inspecting the property itself. On this basis, the former Planning Minister suggested that he might consider offering between £5.5 and £6 million.

351. Following my initial interview with the former Planning Minister, he amplified these comments in an e-mail to the following effect:

*" . . . I specifically stated that it was reasonable to pay a premium over the 'unlet and unloved' value if that would result in savings in cost and efficiency in the Police department . . . I suggested that such an assessment of premium was proper and should be carefully recorded."*<sup>185</sup>

*" . . . my view was cursory . . . I made clear that another valuation should be commissioned from a qualified valuer specifically on the basis that the building was unlet and without any assessment of the States or other quality covenant on a theoretical letting. I suggested one of the leading London firms be appointed using their London office to minimise any conflict. I made it clear that the terms of reference for a valuation were of significance and needed precise drafting."*<sup>186</sup>

#### **Advocate**

352. I understand that the advocate did not express an opinion on the market value of LGH, limiting himself to the suggestion that he would have expected the market value to be below that suggested by JPH.

#### **Commercial valuer**

353. I understand that the valuer did not express an opinion based upon a formal appraisal of the value of LGH; but merely suggested that it might be possible for the property to be acquired for less than had been offered by JPH.

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<sup>185</sup> E-mail dated 17 March 2012.

<sup>186</sup> E-mail dated 17 March 2012.

## Comparisons of valuations, appraisals and opinions

### Introduction

354. In examining the various valuations that I have described, I looked for points of similarity and points of difference; and began by considering the valuations and appraisals that were based on an analysis that, to some extent at least, appears to have been consistent with the RICS guidance (i.e. the three external professional valuations, the JPH appraisal and the WEB opinion).

### Point of similarity: overall outcome

355. It is evident that the informal opinions sought by the Treasury Minister were similar in that they were all lower than the two professional valuations commissioned by JPH before or immediately after the offer for LGH was made and JPH's internal appraisal.

### Point of similarity: rental

356. It can be seen that all of those valuations and opinions for which any detailed justification exists were based on mutually consistent assumptions about the rental that could be expected for LGH taking account of changes in the market between the dates at which the various valuations were prepared:

Category	Firm/entity	Date	Headline rental assumed
Professional valuations (external)	CB Richard Ellis	Aug 2007	£24
	BNP Paribas	June 2010	(£24)
	Drivers Jonas	Feb 2011	£22
Internal appraisal	JPH	March 2010	£22
Informal appraisal	WEB	October 2010	£23

### Point of similarity: yield

357. Similarly, the yields assumed by these valuations and appraisals were consistent:

Category	Firm/entity	Date	Yield assumed
Professional valuations (external)	CB Richard Ellis	Aug 2007	7.5%
	BNP Paribas	June 2010	7.5%
	Drivers Jonas	Feb 2011	7.25%
Internal appraisal	JPH	March 2010	7.5%
Informal appraisal	WEB	October 2010	(7.25%)

*Point of similarity: gross capital value*

358. The effect was that the gross capital value calculated by these valuations and appraisals was also consistent taking into account the time differences:

<i>Category</i>	<i>Firm/entity</i>	<i>Date</i>	<i>Gross capital value</i>
Professional valuations (external)	CB Richard Ellis	Aug 2007	£10.75 million
	BNP Paribas	June 2010	£10.91 million
	Drivers Jonas	Feb 2011	£10.53 million
Internal appraisal	JPH	March 2010	£10.60 million
Informal appraisal	WEB	October 2010	£10.52 million

*Points of dissimilarity: other factors*

359. There are four key points of difference or dissimilarity between the various valuations and appraisals I have described which have a more significant impact on the final, net ascribed values:

- (1) the rent-free periods assumed;
- (2) the Category A fit out costs assumed;
- (3) the assumed purchaser's costs; and
- (4) provisions made in some cases for other matters.

360. As far as the first point is concerned, I note that the Drivers Jonas valuation assumed that an initial rent-free period of 12 months would be agreed whereas the BNP Paribas valuation had assumed a rent-free period of 9 months. If a rent-free period of 9 months had been assumed by Drivers Jonas, the valuation would have been approximately £140,000 higher.

361. The effect of the other matters is as follows:

Category	Firm/entity	Date	Cat A fit out	Purchaser's costs	Other provisions
Professional valuations (external)	CB Richard Ellis	Aug 2007	£1.2 million		-
	BNP Paribas	June 2010	£1.7 million	£.415 million	-
	Drivers Jonas	Feb 2011	£ 1.7 million	£.383 million	-
Internal appraisal	JPH	March 2010	£ 1.5 million	£.319 million	-
Informal appraisal	WEB	October 2010	£2.4 million	£.447 million	£1.532 million

362. In view of the materiality of these differences, I investigated the evidential basis on which each valuation or appraisal included these various numbers.

*Point of dissimilarity: Category A fit out*

363. The CB Richard Ellis 2007 valuation took account of estimates of Category A fit out costs provided by the vendor: copies of the detailed estimates provided by the vendor were included in the formal valuation report.

364. The BNP Paribas and Drivers Jonas valuations also took account of those detailed estimates, adjusted to take account of subsequent inflation. This approach was also used by JPH in the internal appraisal prepared in March 2010.

365. The WEB appraisal, which was prepared without the benefit of a visit to the property and (as far as I am aware<sup>187</sup>) without the benefit of access to the detailed valuation report prepared by CB Richard Ellis in 2007, reflected a view that the estimate appeared low and thus took account of an assumed cost of fit out per square foot.

366. The difference in approach resulted in the WEB appraised value being £700,000 to £900,000 below the professional valuations. If the acquisition had proceeded successfully, this is a difference that would probably have been susceptible to negotiation.

*Point of dissimilarity: purchaser's costs*

<sup>187</sup> Interview with the Finance Director of WEB; 15 November 2011; page 6. It was made clear, for example, that WEB had not seen any detailed support for the JPH appraisal and the BNP Paribas valuation.

367. As can be seen from the summaries I have set out above, differences in the various net valuations resulted from the different assumptions which were made about the purchaser's transaction costs. Logically, these differences should be ignored when the valuations were compared although the purchaser would need to take a view on the actual costs which would be incurred so that any offer could take account of the realistically probable costs.

368. I note however that the costs assumed by WEB were higher than the costs assumed by other valuations.

*Point of dissimilarity: other provisions*

369. The only appraisal which took account of 'other provisions' was that offered by WEB: which was reduced by a provision of £1.532 million which was said to take account of the fact that LGH led stood empty for a decade with a consequent effect on its condition:

*“. . . that was for negotiation purposes. I think . . . once the Esplanade Quarter is started there will be even less potential for letting this property. There was a slight on this building, it had been vacant for ten years, in a small market place . . . nobody envisaged . . . [ xxxx ] taking the building and during these discussions there were no other parties interested in taking the building and the longer that it sits there the more people think something is wrong with it and effectively it was . . . blighted or distressed as a result of that.*

*Obviously the owners weren't distressed . . . they probably were in terms of the fact that it hadn't been let for ten years but financially they were able to hold it but in terms of the asset itself it was in the wrong place and had been deteriorating over the past ten years and that was the term that we chose to associate with it.”<sup>188</sup>*

370. In short, this provision is better regarded as an indication of what might be achieved through negotiation rather than as an indication of value.

371. I note however that the suggestion that this reduction in price might be achieved took no account of the history of JPH's negotiation with the vendor's agents (or of the vendor's negotiations with other parties) since this information was not made available to WEB.<sup>189</sup> My own enquiries have included an attempt to understand the circumstances in which previous interest in Lime Grove House had proved abortive. I have been given to understand that on two occasions it had proved impossible to reach agreement with

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<sup>188</sup> Interview with the Finance Director of WEB; 15 November 2011; pages 7-8.

<sup>189</sup> I acknowledge however that WEB's Chief Executive and Finance Director would have been aware of rumours or the market's understanding of the history of attempts to sell or lease LGH.

potential purchasers because the vendors had not been willing to agree to offerors' request for more favourable terms. In other words, unless there was knowledge of special circumstances which might lead the vendors to be more willing to compromise, they could be expected to resist significant reductions in price.<sup>190</sup>

*Point of dissimilarity: instructions*

372. There is one other point of dissimilarity between these various appraisals which should be noted.

373. The three professional valuations were prepared in accordance with the RICS guidance set out in the Red Book. The JPH appraisal took account of a similar approach but was not formally prepared in accordance with that guidance. The WEB appraisal also took account of a similar approach but manifestly took account of factors that stood outside the RICS guidance.

374. Perhaps the most significant effect of this difference is that it is not possible to identify the exact question that WEB were asked to answer. Whereas it is clear that the other appraisals and valuations were aimed at assessing the value of LGH in accordance with the normal professional guidance for an open market transaction between a willing buyer and a willing seller, the WEB appraisal appears to have taken account of a number of factors that could have been expected to further reduce an offer. This at least suggests that the question asked of WEB was somewhat different from that answered by other valuers and appraisers.

*Points of similarity and dissimilarity: conclusions*

375. The effect of this analysis is to emphasise the degree of consistency between the various appraisals and valuations in terms of the gross value of LGH and the extent of the inconsistency between them in terms of various deductions made from that gross value. This emphasises the difficulty caused by the lack of clarity over the question that WEB was asked to answer.

376. It also emphasises the importance of ensuring that there was a proper analysis of the other less formal expressions of value which were taken into account by the Treasury

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<sup>190</sup> I note that this was also the advice that was passed to the former Chief Executive of the States by the former Chief Minister after a telephone conversation with the principal shareholder of the vendor in December 2010; interview with the former Chief Minister; December 2011.

Minister in November 2010 when he resisted the advice offered by JPH on the value of LGH and the price which should be named in an offer for the property. Comparison simply of the net values (i.e. after deductions) would easily have missed (and did miss) the degree of consistency between the valuations (including WEB's) and the sources of the variations in the net values.

*Other opinions*

377. As I have explained, there were other less formal expressions of opinion on the value of LGH: by the former Planning Minister, an advocate and a commercial valuer from another firm.

*Former Planning Minister*

378. The former Planning Minister does not appear to have expected that his comments on the price that might be offered for LGH should be regarded as a basis for action although he obviously thought there was a case for commissioning a further valuation. It should be noted however that the former Planning Minister's view was ' cursory', and, unlike the professional valuations that had already been obtained, formed without detailed briefing on the history of LGH<sup>191</sup> and without the benefit of an inspection of the building itself.

379. These factors would have affected the merit of the former Planning Minister's comments and should have been weighed when considering that opinion against the valuations and appraisals that were available. In the event, the Treasury Minister has given me to understand that whilst the view of the former Planning Minister was interesting it was 'not ultimately of relevance to [the] final decision'.<sup>192</sup>

380. In view of this, it may be asked why I have included the views of the former Planning Minister.<sup>193</sup> This was done because the Treasury Minister referred to the opinions of the former Planning Minister in discussions with members of the Corporate Services Scrutiny

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<sup>191</sup> This became clear in the course of my interview with the former Planning Minister; 28 November 2011.

<sup>192</sup> Letter from the Treasury Minister dated 11 April 2012.

<sup>193</sup> Question raised by the Treasury Minister; meeting with the C&AG; 19 April 2012.

Sub-Panel to justify his refusal to sanction the purchase of LGH at the price offered by JPH.<sup>194</sup>

*Advocate*

381. The advocate expressed a most guarded view on the market value of LGH, suggesting that he would have expected the market value to be below that suggested by JPH. I note however that the advocate was not aware in detail of the terms of the professional valuations that had been obtained by JPH.

*Professional valuer*

382. One other opinion was expressed informally to the Deputy Chief Executive by a member of a firm of professional surveyors. This amounted to a view that it might be possible to acquire LGH at a price below that offered by JPH; but as far as I am aware was not based on a formal appraisal.<sup>195</sup>

383. I note that the valuer's firm represented (and was known to represent) another party with a current interest in LGH and thus might be thought to be subject to a conflict of interest. As a result, it might have been thought prudent to place little reliance upon the valuer's expression of opinion.<sup>196</sup>

*Conclusions*

384. Thus my examination of these less formal opinions re-emphasises my conclusion that it was important that the results of all the formal professional valuations and the less formal expressions of opinion should have been compared rigorously in a detailed and similar basis. Only if this had been done could the relative strengths and weaknesses of the various opinions be understood and proper conclusions be drawn.

385. It also seems reasonable to suggest that if this degree of analysis had been applied to all the opinions, certain outlying opinions (e.g. those of WEB and the former Planning Minister) would have been disregarded.

*Other matters*

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<sup>194</sup> Submissions to the C&AG from the Corporate Service Scrutiny Sub-Panel.

<sup>195</sup> Understandably, in view of the litigation risk, a professional valuer would have been guarded in the expression of an informal opinion, if prepared to express such an opinion at all.

<sup>196</sup> I stress that I have no reason to suggest that the valuer concerned was guilty of any impropriety.



386. In the course of this work, four other matters were raised by the people who provided me with information:

- (1) the States' own covenant;
- (2) the residual value of the LGH site;
- (3) the difference between value and price; and
- (4) the effect on rents of the financial crisis of 2008.

*The States' covenant*

387. It was suggested to me that acquisition of LGH at the price offered by JPH (and supported by various of the professional valuations) amounted to the States 'acquiring its own covenant'. In other words, it was suggested that in offering £8.75 million, the States proposed to pay an amount that was exaggerated by the fact that the States, rather than any other party, would be occupying the building and that this was inappropriate.

388. I understand this suggestion to depend on two points:

- (1) at the time that the offer was made, there was no other party possibly interested in acquiring LGH. Thus, the vendor's hope of achieving a market rental depended solely on the States.
- (2) the States would be a long term occupant of LGH justifying in the eyes of the vendor a different yield.

389. As far as the first point is concerned, I have taken some care to assess the evidence of other market interest in LGH, and the reasons for the vendor's failure to dispose of the property before 2011. I have already indicated in this report that:

- (1) there had been serious interest in the property in previous years;
- (2) there was serious interest in the property at the time that JPH's offer was made;
- (3) JPH was aware of the sources of that interest.<sup>197</sup>

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<sup>197</sup> E-mail from the vendor's agents; 3 March 2010: "I had a call from . . . of States Property Holdings asking where we were up to with . . . I advised him that we still hadn't concluded anything but that they are likely to revert to us with a final counter proposal this week. There is still a window of

390. In other words, there does not seem to be any great force in the suggestion that the States were the only offeror and that the price offered by JPH was exaggerated by the States' own covenant.

391. As far as the second point is concerned, there is force in the suggestion that from the vendor's point of view, the States as long term tenant of the property would have justified a different yield from another tenant. This arises from a number of factors including the fact that:

- (1) the States would not have been regarded as a significant credit risk, and thus no account would have to be taken of such a risk;
- (2) as a stable, long term tenant, no account would have to be taken of the costs of re-marketing the property at the end of each lease (e.g. the cost of rent-free periods).

392. To avoid the possibility that the yield assumed in the valuation had not been affected by factors such as these it was important to ensure that the assumed yields reflected the yields implicit in commercial transactions that had not involved the States. This should be accomplished through the professionalism of the various valuers commissioned to undertake appraisals. As far as I can tell from the formal reports themselves and from my interviews with the valuers, proper processes were followed. I also note that, as I have shown, the yields assumed by these valuers were reasonably consistent. On this basis, I have not seen evidence to suggest that the yields assumed were unreasonable.

393. My view is supported by information that became available in the course of this enquiry which could not have been available to JPH or to valuers commissioned by the States. During the summer of 2009, JPH had explored the possibility of the States leasing LGH. At that time, the vendor's agents prepared a rough internal assessment of the value of LGH on the assumption that the States became lessees of LGH. That valuation assumed

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opportunity for the States to step in and make a bid for the freehold . . ." I am of course aware that the agents may have been exaggerating this interest to encourage JPH to make an offer although I have no evidence that this was being done.

a yield of 6.5% because ‘. . . such a good covenant as the States would command . . .’ such a value.<sup>198</sup>

394. This yield compares with the yield assumed by the valuations available to the States of 7.25% - 7.5% and would have justified a significantly higher value.

395. In effect, provided that the yield assumed in a valuation represented the yield which would be assumed by a commercial offeror in the absence of interest from the States, that valuation could be taken as a guide to what a commercial offeror might be prepared to offer and thus to the competitive bid that an offer from the States would have to beat.

396. On this basis, it seems that it is unlikely that the offer made by JPH was materially affected by the States’ own covenant.<sup>199</sup>

*Residual value*

397. It has been suggested to me that one further way of assessing the various opinions on the value of LGH would be to deduct the site value from the property valuations. This would provide an indication of the value implicitly ascribed to LGH as a building.

398. I therefore requested the Acting Director, JPH to prepare an indicative assessment of the residual site value. In outline, the approach adopted was as follows:

- (1) assume that the existing office building was demolished;
- (2) estimate the value of residential development of the site, assuming that planning permission is granted at reasonable site development ratios;
- (3) deduct the reasonably expected costs of construction; and
- (4) deduct all reasonable development costs (including fees, interest etc).

399. The result of these calculations should be treated cautiously because of the number of assumptions implicit in them and because the estimate has been made some time after

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<sup>198</sup> E-mail dated 10 September 2009; vendor’s agents’ documents.

<sup>199</sup> I also note in passing that the manuscript note prepared by the Assistant Director, JPH on 15 March 2010 when preparing his appraisal referred to the ‘States’ covenant’ which suggests that he was certainly aware of the issue. Further, the commercial valuers were asked by the States to estimate the investment value of LGH assuming that the States were to be long term tenants of the property. In each case the value attributed was greater than the values I have shown: because the yield assumed was lower than that used for the open market value quoted.

the valuations considered above. However, with those reservations, the calculations suggested that a range of £1 million to £1.5 million would be a reasonable guide to the residual site value.

400. If these figures were to be deducted from the various expressions of opinion of the value of the existing property, the effect is as follows:

<i>£ million</i>	<i>Net value (as originally stated)</i>	<i>Implicit building value after deduction of residual site value</i>	
		<i>Minimum</i>	<i>Maximum</i>
PROFESSIONAL VALUATIONS			
CB Richard Ellis <sup>200</sup>	9.550	8.050	8.550
BNP Paribas	8.800	7.300	7.800
Drivers Jonas	8.445	6.945	7.945
JPH	8.750	7.250	7.750
VIEWS CONSIDERED ADDITIONALLY BY TREASURY MINISTER			
WEB (minimum)	6.126	4.626	5.126
WEB (maximum)	7.658	6.158	6.658
Former Planning Minister (minimum)	5.500	4.000	4.500
Former Planning Minister (maximum)	6.000	4.500	5.000

401. The range of the implicit building values suggested by this analysis (£4 million to £8.55 million) seems wide and improbable: particularly when compared with the contemporary estimates for a new development.

402. As the assumptions made in these calculations are broad, the result cannot be regarded as conclusive. However, the result at least suggests that the outlying opinions should be disregarded.

403. Thus, again, this analysis supports the conclusions that, in reaching a decision on the course of action to adopt, all expressions of value should have been subjected to a similar degree of examination and analysis and that, if that had been done, the outlying opinions would have been disregarded.

*The difference between value and price*

<sup>200</sup> Without making a deduction for purchaser's costs of purchase.

404. On a number of occasions, people have said to me that an assessment by commercial valuers of the market value of a property should not of itself be regarded as determining the amount of a reasonable offer.<sup>201</sup> This point may be important when the property in question is vacant and there is no reasonable prospect of its being tenanted. Of course, where there is a reasonable prospect that the property might be let, a commercial valuation on the basis of the probable terms of any lease would be an indication of the competing offer which a potential offeror would have to beat and thus would be at least a strong guide in determining the offer which should be made.

405. Interestingly, I note that a document prepared in February 2011 and signed by the Director, JPH, the Assistant Director, JPH and the LGH Project Director reached the conclusion that:

*“In this transaction both parties have a mutually acceptable balance of need. The vendor can secure a sale at a price that is acceptable if not the desired level, without the need to invest additional funds. The purchaser can acquire a building at a reasonable price that meets their requirements in terms of space, location, timetable, budget etc.*

*Lime Grove is therefore a transaction where the balance between both parties is in relative equilibrium and as such it is completely appropriate that considering all the circumstances the value and the price are closely aligned.”<sup>202</sup>*

406. In reaching this conclusion, the document took many factors into account including:

*“ . . . scarcity of supply, financial pressures on either party, potential marriage value, operational requirements or any other special purchaser/vendor needs . . . Lime Grove House has been vacant for 10 years . . . ”<sup>203</sup>*

407. I am not aware of any reason to disagree with the conclusion that was reached in this document.

*The effect of the financial crisis of 2008*

408. It was suggested to me that the 2008 financial crisis led to a marked reduction in property rents in Jersey with a consequent reduction in the value of commercial property. In consequence, anyone reviewing property valuations of LGH would have expected that

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<sup>201</sup> This is a point made by the Treasury Minister in giving evidence to the Corporate Services Scrutiny Sub-Panel.

<sup>202</sup> Interim Report Office Estate Rationalisation – Phase 1. Assistant Chief Executive’s documents.

<sup>203</sup> Assistant Chief Executive’s documents.

there would have been a significant reduction between 2007 and 2010 and would justifiably have been surprised if there did not appear to have been such a reduction.

409. To test this hypothesis, I examined all of the property transactions treated as 'comparable' in the various commercial valuations which I have reviewed in this Section.

410. This review suggested that there was indeed a fall in rentals and thus values after 2008 but not a dramatic fall. It is also clear that this modest decline was reflected in the commercial valuations.

411. It was also suggested to me that the financial crisis affected the yields that might be expected for commercial property: increasing them generally but also increasing the differential between prime and secondary commercial property. It was further implied that the valuations of LGH should be questioned if they did not reflect these effects.

412. Again, to test this suggestion, I reviewed the 'comparable' property transactions shown in the professional valuations. The 2011 commercial valuation expressly suggested that the peak of the commercial property market in Jersey occurred at some point in 2006/2007; and indicated that since that point the yields for prime property had increased by perhaps 0.4% to 0.7%. That valuation also shows that the yield assumed in valuing LGH was higher than the assumed yield for prime property. In other words, the commercial valuations of LGH reflect and are consistent with an intuitive view of the way in which yields had changed during the period between the various commercial valuations.

413. In other words, this work did not lend credence to the hypothesis that there was a dramatic fall in rentals. In the circumstances, I decided not to carry out further investigation into this matter.

## **Conclusions**

414. On the basis of this analysis:

- (1) it was entirely reasonable for the Treasury Minister to seek other opinions on the value of LGH as a means of testing the advice which he was receiving from JPH;

- (2) to the extent that they were to be taken into account in reaching an opinion on the advice which was being offered by JPH, expressions of opinion on the value of LGH should have been subjected to the same degree of rigorous analysis so that the Minister did not become exposed to allegations of bias or a lack of transparency; and
- (3) if this had been done, certain outlying opinions (i.e. those of WEB and the former Planning Minister) would have been disregarded.

415. In view of the narrowness of the commercial property market in Jersey and the limited number of people involved in that market, it is especially important that all expressions of view should be examined rigorously since it is likely that anyone may be subject to some form of conflicting connection. It is a matter of common prudence to ensure that a Minister's decisions and actions are not unwittingly distorted by any such conflicts.

416. In the light of these conclusions, I have given some thought to what would have been the consequences if a proper approach had been adopted.

417. If the outlying valuations had been disregarded:

- (1) it would have been reasonable to place reliance on the valuation report of BNP Paribas and the appraisal of JPH;
- (2) there would not have been a need to commission a further valuation from Drivers Jonas; and
- (3) the principal reason for not proceeding with the LGH purchase immediately following the political meeting on 19 November 2010 would have disappeared so that it could have gone ahead forthwith.

418. Finally, I note that the documents made available to the Corporate Services Scrutiny Panel by WEB included an assessment of the value to the vendor of LGH of the lease which was eventually agreed. On the basis of yields used in the valuations reviewed above, the

assessment indicated a gross capital value of £10.8 million.<sup>204</sup> On this basis, the gross capital value of the lease actually signed appears to have been consistent with the gross capital value estimated in the external valuations, internal JPH appraisal and the WEB estimate which had been available to the States.

419. This does not prove that these earlier valuations and appraisals were 'correct'. It does however suggest that those valuations and appraisals had been properly prepared as a reasonable foundation for decision-making.

#### **Treasury Minister's view**

420. At a late stage in this enquiry<sup>205</sup>, the Treasury Minister told me that he accepted that the values of LGH indicated by the professional valuers represented fairly the value of LGH assuming that there was commercial interest (i.e. in addition to the States' interest) in occupying the property. This is consistent with the conclusions of this section of the report.

421. He went on to say that, in the event that there was no such interest, the value of LGH would be different and the price at which it could be bought would be much lower.

422. As to the first of these two assertions, it is clear that if there is only one potential buyer for a property then the vendor will find it difficult to achieve as high a price as if there were two or more potential buyers. I have established however to my satisfaction that the eventual purchaser of LGH was interested in the property throughout the period of the States' interest in the property. The purchaser had first expressed interest in the property during 2009 when negotiations reached an advanced point only to fail on a disagreement with the vendor.<sup>206</sup> The property remained of interest to the eventual purchaser because of its proximity to the purchaser's existing offices and because it was one of the few sites large enough to accommodate their requirements. JPH was made aware by the vendor's agents of this interest throughout 2010. Whilst I acknowledge that

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<sup>204</sup> The yields assumed were 7.25% (for the period of the initial lease) and 7.5% (for periods after the term of the initial lease). The WEB assessment included two other calculations which indicated a gross capital value of £10.5 million (assuming yields of 7.5% and 7.75%) and £10.1 million (assuming yields of 8.0% and 8.5%). WEB and Scrutiny Panel documents.

<sup>205</sup> Meeting with the C&AG; 19 April 2012.

<sup>206</sup> The vendor's agents have told that this is the reason for the eventual purchaser being able to conclude their transaction so quickly during 2011 when the purchase finally went ahead; telephone conversation with the vendor's agent; 23 April 2012.



from time to time agents may exaggerate reports of competing interest, in a market as small as Jersey, no agent can afford to misrepresent interest completely as this would soon be discovered to the agent's discredit.

423. As for the second of these assertions, the scale of any possible reduction in the price for LGH would depend upon the vendor's eagerness to compromise on price. I have therefore enquired into the vendor's track record in dealing with offers for LGH and have established that a number of offers were rejected because they were too low. For example, this was the reason for the eventual purchaser not reaching agreement to sign a lease in 2009. Unless there was good reason to believe that the vendor was becoming financially embarrassed, there were no grounds for expectation that a severely reduced price would be accepted. As far as I am aware there is no evidence that the vendor was financially embarrassed.

424. The Treasury Minister was (or should have been) well aware that others were sceptical on this point because:

- (1) the former Chief Minister made this clear following a telephone call from a director of the vendor in December 2010 (as I have shown); and
- (2) the Director, JPH made this clear in e-mails to the Deputy Chief Executive.<sup>207</sup>

425. In other words, there appears to have been little reason to suppose that the vendor would change its previous approach and be prepared to compromise on its view of an acceptable price at which to sell LGH.

426. In response, the Treasury Minister told me that throughout his consideration of LGH, he was aware:

- (1) that the other party which was interested in acquiring LGH ('the competing offeror') had also expressed interest in another property in St Helier; and
- (2) of the state of that party's negotiations for the purchase of the other property and thus the possibility that the party's interest in LGH would come to nothing leaving the States as the only offeror.

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<sup>207</sup> For example; e-mail dated 6 April 2011.

427. I understand that the Treasury Minister's information came from a director of the property company which was responsible for developing the other building both through the former Managing Director of WEB (which had a contractual relationship with the property company) and directly through the Treasury Minister's relationship with the director<sup>208</sup>. Understandably, the property company had an interest in the States buying LGH as this would reduce the competing offeror's options and increase the likelihood that the offeror would acquire space in the property company's property.

428. I understand that in October 2010, the competing offeror for LGH had signed Heads of Terms for the acquisition of the other property in which the offeror was interested.

429. I also understand that by February 2011, the offeror's further enquiries into the state of the other property had identified a number of problems: one of which ultimately led to the failure of that other purchase (and the offeror's eventual purchase of LGH).

430. As far as I can establish, the Treasury Minister did not share any of this information with senior States officials (although I presume that the former managing Director of WEB was aware of it).

431. The implication of this information appears to be that:

- (1) in November 2010, the signing of Heads of Terms for the other property might have suggested that there was an increased likelihood that the competing interest in LGH would disappear and that it would be easier for the States to negotiate a lower price. This assumed that the competing offeror would be able to complete the purchase of the other property and that the vendor of LGH would agree to a lower price. I have already commented on the likelihood of this;
- (2) by early 2011, when problems with the other property had begun to emerge the prospect of the States being able to negotiate a lower price for LGH had begun to recede;

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<sup>208</sup> The Treasury Minister told me that he realised some might say that his relationship with the property company director in question was inappropriate, but he had found it helpful. For the purpose of this report, I have not considered whether the relationship was inappropriate.

(3) by early summer 2011, when the States agreed Heads of Terms for the purchase of LGH at a price lower than JPH's original offer, the likelihood of the competing offeror returning to purchase LGH was increasing as the vendor of LGH must have known.

432. In retrospect it appears that the possibility of negotiating a lower price for LGH was always small (because the vendor was unlikely to agree and there was always a risk that the competing offeror's alternative options would fall through). There was also a risk that the vendor of LGH would be antagonised by the States' delays.

433. The Treasury Minister has said to me that, at the time these matters were being considered, he was discharging a number of ministerial responsibilities (e.g. responsibilities as Minister for Treasury and Resources and Deputy Chief Minister) and at the time faced a number of difficult challenges (e.g. long term taxation policy, implementation of the Comprehensive Spending Review, and restructuring the Treasury, establishing the Resources Department) quite apart from wider political pressures. As far as the LGH project was concerned, the Minister was concerned by the perception that JPH was not delivering what had been promised, and his view was that too much had been offered for the property. When presented in October 2010, the business case, especially for the sale of South Hill, was in certain respects poorly documented and in a form that the Accounting Officer (and he as Minister) could not accept. He was obliged to challenge any project that appeared profligate with public money. He told me that this is what he attempted to do.

## **SECTION EIGHT – THE DEPUTY CHIEF EXECUTIVE’S BRIEFING PAPER**

### **Introduction**

434. Having received the papers he had requested from JPH, the Deputy Chief Executive proceeded to review them. This led to a paper entitled ‘Office Estate Rationalisation – Update on Phase 1 Business Case’ which was dated 31 December 2010 and presented to the Chief Minister, Treasury Minister and the Home Affairs Minister. Its purpose was to update them on progress for developing the office estate rationalisation programme and in particular the development of the new Police Headquarters. That paper identified a number of areas of concern:

- (1) A formal offer of £8.75m was made by JPH in March 2010 to purchase LGH without the prior ‘necessary approval’ by the accounting officer or by the minister and without verification by an independent valuer.
- (2) The fit out costs assumed for LGH had not taken proper account of the Police requirements.
- (3) The proposed operational Police Station had only been decided and costed on a ‘high level block’ format basis without detailed discussions to agree the design with the Police.
- (4) Overall Phase 1 development costs were estimated to be considerably greater than the capital funding available so sales of the South Hill site and part of the Summerland site were not included in Phase 1. Only limited discussions had taken place with other departments involved on their future accommodation requirements.
- (5) More detailed design work was required under a new project manager working closely with Police.
- (6) Cash flow assumptions should be validated.
- (7) An audit of the business case should be undertaken by the Interim Director of Finance.

435. I will review each of these alleged areas concerned in turn.

## **The offer**

### *Concern*

436. The Deputy Chief Executive was concerned that the offer made on 15 March 2010:

- (1) was a formal offer;
- (2) was made without the **necessary** approval of either the accounting officer or the Treasury Minister; and
- (3) was made without validation of the offer price by an independent valuer.

### *Formality of the offer*

437. It is certainly true that the offer which was made on 15 March 2010 was a ‘formal offer’ in that it was made in a formal manner. Notwithstanding this, it is also clear that there was no formal record of the approval for the offer which appears to have been given by the Assistant Minister, Treasury & Resources (i.e. there is no formal Ministerial Decision).<sup>209</sup>

438. The offer was not an unconditional offer however since it was made subject to the approval of the Minister and the States and was also subject to negotiation of outstanding terms. In this respect the form of the offer enabled the States to resign from the offer at any point. In addition, the form of the offer made clear that it had not been approved either by the Minister or the States so there can have been no misconception in the minds of the vendor of the standing of the offer and the standing of the Minister.

439. In this respect, the offer followed the practice which had been followed previously by JPH.

440. In other words, the offer achieved its purpose of preserving the States’ interest in LGH without inappropriately constraining the States’ freedom to negotiate. In fact, during this enquiry, I have only received a single suggestion about constraints on the States created by the offer: viz that in the event that the offer was thought to be unduly high, the States might experience some difficulty in negotiating a reduction in the offer price.

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<sup>209</sup> The fact that approval was given (even if not in a formal or written form) has been confirmed to me by the Assistant Minister himself, the Assistant Director (Estates), JPH and the Director, JPH.

441. There are two responses to this point. Firstly, if no reduction proved possible, it would still be open to the States to withdraw from negotiations without penalty. Secondly, in practice it proved possible for the States to negotiate a reduction in the price offered for LGH: i.e. the problem cannot in practice have been great.

*'Necessary approval'*

442. To test this complaint, I have enquired into the rules for such offers to establish whether the approval of the accounting officer and Minister was 'necessary' as claimed. There are two possible sources for such rules: the Financial Directions issued under the authority of the Treasury Minister and the scheme of delegation issued by Ministerial Decision of the Treasury Minister.

443. As far as Financial Directions were concerned, there was at the time no formal requirement that such offers could only be made with the approval of the accounting officer.<sup>210</sup>

444. As far as the scheme of delegation is concerned, the delegations are silent on the question of offers: all restrictions on authority are expressed in terms of approval of transactions not in terms of conditional offers.<sup>211</sup>

445. I have also established that the approach adopted by JPH in this case was consistent with previous practice.

446. On this basis, I do not accept the contention in the Deputy Chief Executive's note dated 30 December 2010 that 'necessary' approvals were not obtained before the offer was made.<sup>212</sup>

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<sup>210</sup> I have established that this was the case by my own enquiries but note that this was also established by the Assistant Director, JPH (Finance and Investment) at the request of the Director, JPH, as set out in an e-mail dated December 2010 which was forwarded to the Deputy Chief Executive on December 2010 (JPH documents).

<sup>211</sup> I note that practice has changed in this respect. The latest version of the scheme of delegation expressly limits the authority of officers within JPH to make certain offers: whether or not they are conditional.

<sup>212</sup> I accept that in many circumstances, informal communication between officers would have ensured that the accounting officer was aware of the offer. This was not assisted in this case by the poor relationships that existed between the ministers and the principal officers involved. In the circumstances it would have been wise for the Deputy Chief Executive to have ensured from the beginning that the

447. Notwithstanding this, matters would undoubtedly have been improved if either or both the Assistant Minister, JPH or the Director, JPH had informed either or both the Treasury Minister and the Deputy Chief Executive since the approval of both of them would be required if the transaction were to be completed. In my view, this should have been done; but for the reasons I have explained it was not possible to rely upon such informal communication in this case.

*Independent validation of offer price*

448. I have not found within the States' rules any formal requirement for such an independent valuation before an offer is made.

449. I have described in this paper the way in which the JPH team of professional valuers prepared an internal valuation of LGH before the offer was made. I have also described how this valuation took account of a valuation obtained by the States during 2007. Further, I have explained that an independent commercial valuation was commissioned once the offer had been accepted. In view of the fact that the States have for some years maintained a team of professionally qualified surveyors/valuers I do not find this approach unduly surprising: especially as the Island is a small market place so that current transactions are not difficult to monitor.

450. The principal risk was that the offer price would prove to be unrealistic and that the States would not subsequently be able to re-negotiate. As I have shown, my examination of the various valuations of LGH suggests that JPH was not unrealistic.

**Estimate of fit out costs**

451. It was indeed the case that there was a need to settle the outstanding issue of the scale of fit out costs and their effect on the offer price.

**The proposed operational Police Station**

452. It was indeed the case that detailed planning for the Police Station was outstanding. However, in the view of JPH, this was not an urgent matter as the building of the new Police Station could only begin when SOJP had moved to LGH.

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formal reporting arrangements in the Resources Directorate were properly specified and recorded. The Management Team's meeting minutes demonstrate that he did not do this (as I have shown).

**Assumption of proceeds of property sales**

453. It was indeed the case that assumptions had been made about the scale of the proceeds that would be received from the sale of certain properties. It was also the case that detailed plans would have been required for certain departments to move to new accommodation although work had been done to assess the general acceptability of the proposed accommodation which had in principle been accepted by the departments concerned.

454. However, there is room to question whether in the time available, more than this would have been possible. Detailed examination and agreement of the police's space requirements had proved difficult and time-consuming. It is not clear that it would have been possible to carry out similar exercises in the limited time available if the LGH project were to proceed as JPH does not appear to have had the staff resource necessary for all of this work to be done.

**More detailed design work under a project manager**

455. It was undoubtedly the case that there was further design work to be undertaken. It was also undoubtedly the case that it was necessary to appoint a project manager.



## **SECTION NINE - THE INTERIM DIRECTOR OF FINANCE'S REVIEW**

### **Introduction**

456. As I have shown, the Deputy Chief Executive's Briefing Paper was followed by a review by the Interim Director of Finance<sup>213</sup> which in turn led to a paper that was dated 14 January 2010. The principal additional areas of concern identified include the following:

- (1) It was remarked that a programme director should have been appointed at the outset to co-ordinate the development of these increasingly complex property strategy proposals in the proper way.
- (2) The review suggested that it did not seem sensible to locate long-term the Police Headquarters in a location that was part of the commercial centre of St Helier commanding a premium price due to demand by financial services organisations for accommodation in that area.
- (3) Treasury input was required to identify and assess alternative funding options.
- (4) The business case makes an assumption that the Police Station was beyond saving in any way.
- (5) There was no detailed risk assessment on file.
- (6) There was no evidence on file on the instructions given to the commercial valuers for the June 2010 valuation of LGH.
- (7) There were details on file of leasing proposals for LGH involving a twelve year lease at £20 per square foot or a nine year lease at £22.50 per square foot.
- (8) The business case information relating to the Police office space requirements was confused and unclear.

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<sup>213</sup> Following the departure from office of the previous Treasurer of the States, an interim appointment was made to allow the structure of the Treasury to be re-considered and a recruitment process for a permanent replacement to be followed. The new Treasurer of the States was sworn in on 7 January 2011 (having taken up her post as Treasurer-Designate on 1 November 2010). The contract for the interim appointee did not reach its conclusion until the end of January 2011. Before the swearing in of the new Treasurer, the interim appointee was referred to as the Acting or Interim Treasurer of the States. Following the swearing in, the interim appointee was referred to as the Interim Director of Finance. For the purpose of this report, irrespective of the date, the interim appointee is referred to as the Interim Director of Finance and the new Treasurer of the States is referred to as the Treasurer of the States.

- (9) There was evidence on file of unhealthily close relationships between JPH, the vendor's agent and the commercial valuers.

457. I will examine each of these concerns in turn below.

#### **Appointment of a programme director**

458. In retrospect it can be seen that a programme director was not appointed at the most appropriate time. It can also be seen that the Director, JPH had proposed such an appointment in the final months of 2009, that the Deputy Chief Executive had made that appointment his personal responsibility and that he did not make an appointment on a timely basis. This was not an appropriate criticism of JPH.

459. These matters were not apparent from the limited documents made available to the Interim Director of Finance. In other words, the report was undermined by the flawed process that the Interim Director of Finance was directed to adopt.

#### **Location**

460. The report raised a question over the wisdom of siting the new Police Station in a location that was attractive to commercial and financial interests. Whatever the merits of this criticism, it is clear that when the report came to be written, the proposed location had received the political support of Ministers (at the ministerial meeting on 19 November 2010).

#### **Treasury input**

461. It is clear from the description of events in this report that immediately the Treasury Minister had been briefed (at a meeting on 29 April 2010) a meeting was convened which included a representative of the Treasury, the Deputy Treasurer: a meeting that was not noted in the Interim Director of Finance's report. It is also clear that there were subsequent exchanges with the Treasury. At the initial meeting at the beginning of May 2010, JPH were told by the Deputy Treasurer that there were no alternative funding options: i.e. it would be necessary for JPH to demonstrate that the funds necessary for the

LGH project were available at the beginning of the project. I also understand that in later months, that stance was maintained.

462. I accept that if a formal project board had been established earlier in the process, a Treasury representative would in all likelihood have been appointed to that board and that this would have been preferable. However, the Deputy Chief Executive made the appointment of a project director and such a board his personal responsibility, so that the failure to take these two steps was not a failure on the part of JPH.

463. This failure was not apparent from the documents provided to the Interim Director of Finance. In other words, the report was undermined by the flawed process that the Interim Director of Finance was directed to adopt.

#### **Assumption about the state of Police accommodation**

464. The Interim Director of Finance observed that the draft business case did not establish that the state of the Police accommodation was such as to require replacement.

465. It is undoubtedly the case that the business case did not do this.

466. It appears however that this was largely a problem of documentation rather than substance. After all, the relevant departments had accepted the need for replacement of the accommodation as early as 1999.

467. I also note that on 19 November 2010, the European Committee for the Prevention of Torture and Human Degrading Treatment or Punishment (CPT) reported on a recent visit to Jersey:

*“Material conditions at Rouge Bouillon Police Station were of a poor standard. The ten cells, all for single occupancy, were equipped with a plinth, mattress, a call bell and artificial lighting. However, access to natural light was limited and ventilation poor; there was no ready access to drinking water. Several cells measured some 6 square metres and only five cells possessed in-cell sanitation. With regard to ready access to a toilet, the delegation received several complaints for the long time the staff took to answer the call bell. Further, numerous complaints were made of the poor quality of food provided. The small internal yard, covered with a mesh ceiling, was used essentially for cigarette breaks offered to detained persons at the Custody Officer’s discretion, and could not qualify as an outdoor exercise yard.*”

*“In the car-port area between the office and the custody suite there were two transparent ‘CS-Cage’ units measuring less than 1 square metre which were designed for extracting CS gas from persons who had been sprayed. However, on occasion, they were used as temporary holding cells: the CPT must stress that they are too small to be used for this latter purpose.*

*“The CPT recommends that the Jersey authorities review conditions of detention at Rouge Bouillon Police Station, in the light of the above remarks. Further, the CS-Cage units at Rouge Bouillon Station should never be used as temporary holding cells.*

*“The CPT’s delegation was informed that new Police premises were planned. The CPT would like to be informed of progress in the realisation of those plans; it trusts that any new detention facilities constructed will comply with the Committee’s standards.”*

468. This report, submitted just before the Interim Finance Director undertook his review, supported the case for replacement.

469. In short, I understand why the Interim Director of Finance made his comment; the documents presented to him did not include all of the relevant information. In other words, the report was undermined by the flawed process which the Interim Director of Finance was directed to adopt.

#### **Risk assessment**

470. It is true that the files of documents given to the Interim Director of Finance did not include a detailed risk assessment. However, as I have shown, a risk workshop was held in mid November 2010 and the report of that workshop (which was available early in December 2010) provided the risk assessment for which the Interim Director of Finance called.

471. In short, I understand why the Interim Director of Finance made his comment: the documents presented to him did not include all of the relevant information. In other words, the report was undermined by the flawed process which the Interim Director of Finance was directed to adopt.

#### **Relationships with the vendor’s agents and valuers**

472. In detail the paper reads as follows:

*“There is some evidence on file of unhealthily close relationships between JPH and [the vendors’ agents] within appropriate references to rather generous hospitality at*

*an expensive restaurant being accepted by JPH staff whilst negotiations were still being undertaken. There is also an inappropriate reference in a JPH letter to the Planning Minister about him being offered generous hospitality at another expensive hostelry by the Assistant T & R Minister in celebration of the project and as a personal thank you for your support. The relationship between JPH and [the commercial valuers] was questionable with documentation missing that should be in place (e.g. written instructions for valuations and evidence to support assumptions). Also substantially amended valuation reports and the lack of involvement of any other independent valuer. There is an impression from reading the file that the commercial valuers were told what the valuation had to be with assumptions provided by JPH and what should/shouldn't be in the supporting report and so that was what was provided. This does not look like an independent valuation".*

473. I will deal with each of these allegations in turn.

#### **Relationships – vendor's agents**

474. This allegation relies principally upon the fact that the Assistant Director (Estates), JPH accepted hospitality from the agents in the form of a lunch which was subsequently described as a 'blow-out lunch'.

475. I regard this acceptance of hospitality as an error of judgement which I do not condone.

476. As a result I understand why the Interim Director of Finance raised the issue in his report.

477. However, I infer that there was an element of irony in the description of the lunch as a 'blow-out' as it is clear from subsequent enquiry that the lunch was limited in cost and in its nature (i.e. it was more limited than the expression 'blow-out' may be thought to have implied).

478. I am also aware that the principal internal control processes had been adopted with regard to the hospitality.<sup>214</sup>

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<sup>214</sup> I also note that the Treasurer and others both alleged in the hearings of the Scrutiny Panel that the lunch was inappropriate because the rules of the States precluded the acceptance of hospitality by officers involved in negotiations with the person or organisation providing the hospitality. I can find no such prohibition in the rules of the States. Moreover, in the same hearings, the Treasurer suggested that JPH had prepared their own rules on the acceptance of hospitality which were different from those of the States. This is incorrect. JPH appears to have followed the rules in force throughout the States generally.

479. None of this was clear from the documents provided to the Interim Director of Finance. In other words, the report was undermined by the flawed process which the Interim Director of Finance was directed to adopt.

#### **Relationships – Ministers<sup>215</sup>**

480. This allegation was subsequently withdrawn as it proved to have been based on a mis-reading of draft correspondence and it was unreservedly accepted that the allegation was groundless.

#### **Relationships – commercial valuers**

481. This was a most serious allegation since it amounted to a suggestion that the valuers concerned had acted unprofessionally and thus was a challenge to the valuers' professional reputation.

482. I have not been able to find a formal record of the instructions which were originally given to the valuers orally by JPH. The instructions were eventually confirmed in writing and are not exceptionable. The instructions appear to have consisted simply of a request to undertake a valuation of JPH according to the normal professional standards.

483. After due enquiry, I have been able to find no evidence that the assumptions underlying the valuation were prescribed by JPH. The key assumptions were conveniently listed in a letter from the valuers dated 17 November 2010:

- (1) estimated headline rental of £24 per square foot.
- (2) fit-out to Category A standard.
- (3) net initial yield of 7.25%.

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<sup>215</sup> It has been suggested to me that it was possible to confuse the allegations made by the Interim Director of Finance concerning ministers' relationships with the allegations concerning staff accepting inappropriate hospitality. I have therefore checked the report of the Interim Director of Finance several times to establish whether there is reasonable justification for this. The relevant sentences read as follows: 'There is some evidence on file of unhealthy close relationship between JPH and [ xxxx ] . . . with inappropriate references to rather generous hospitality at an expensive restaurant being accepted by JPH staff, whilst negotiations were still being undertaken. There is also an inappropriate reference in a JPH letter to the [ xxxx ] Minister about him being offered generous hospitality at another expensive hostelry by the [ xxxx ] Minister . . .' These are clearly separate matters which it would be difficult to confuse.

- (4) estimated cost of Category A fit-out: £1.7 million.
- (5) 9 month fit-out period to Category A standard based on a purchase for owner occupation.
- (6) acquisition costs of 4.5%.

484. I have not found any evidence of these assumptions being specified by JPH to the valuers.

485. Moreover, my detailed analysis in this report of the various valuations of LGH (including valuations for which there is no allegation of manipulation by JPH) suggests that they are all broadly consistent with each other. Had assumptions been specified by JPH in the way alleged, one might have expected that there would have been some inconsistency.

486. It has been put to me that JPH made either the individual assumptions or the offer price known to the commercial valuers and that this was improper since it risked clouding the valuers' judgement. After some reflection, in my view this is an unrealistic complaint. The island is a small market place which can only support the services of a limited number of valuers. It is likely that any firm will have acted for parties that at one time or another will have expressed an interest in a particular property. It is therefore also likely that a firm will be aware of the price which a vendor is asking for a property and may also be aware of offers made by others for that property. In other words, it is most unlikely that a valuer will be completely ignorant of the negotiations surrounding a property.

487. To operate with integrity in such a market, valuers must take care that they are not influenced by such factors, including the wishes and preferences of those commissioning a valuation. In short, my review has found no evidence to support the allegation in the report prepared by the Interim Director of Finance. In my view, it would have been a most serious matter had there been such evidence.

488. The Interim Director of Finance also made one or two other subsidiary comments:

- (1) Assumed lease rental

He questioned how the rental assumed by the valuations prepared in 2010 could be reconciled to earlier negotiations for LGH to be leased by the States at a lower rental (£20 per square foot or less). The answer appears to be that in these negotiations it was assumed that the lessee would also take from the lessor the cost of the Category A fit out. Further, the headline rental assumed would only apply to the short initial term after which the rental would be adjusted to the market level.

(2) Additional valuation on 12 October 2010

The commercial valuers carried out an additional valuation in October on the assumption that LGH had been fully fitted out and was occupied by the States. The assumption of occupation by the States justified a lower yield (6.25%) and the full fit out justified a higher rental (£27 per square foot) as an indication of the capital value that might be the basis of a sale and lease back after an initial purchase by the States. There was no conflict between this valuation and the previous valuation (June 2010) by the same commercial valuers, as suggested by the Interim Director of Finance.

### **Omissions**

489. One of the more curious features of the actions to which the Deputy Chief Executive's review led was the action that was not taken (as opposed to the actions that were taken). After all, as accounting officer for JPH, the Deputy Chief Executive had responsibilities for the standards of financial management within JPH. Moreover, the Treasurer has responsibility to ensure that the States observe the highest standards of financial management.

490. I therefore made enquiries to establish that proper enquiries and actions were initiated in the light of the conclusions of the file reviews by the Deputy Chief Executive and the Interim Director of Finance. The actions that I would have expected to be taken were:

(1) 'Necessary approvals'



As the Deputy Chief Executive asserted in his note dated 30 December 2010 that an offer had been made without the necessary approvals having been obtained (i.e. that a crucial internal control had been breached), one would have expected there to be an investigation into whether there were other examples of such a breach of controls. One would have expected this to be commissioned by either the Deputy Chief Executive or the Treasurer.<sup>216</sup> Such an investigation might have been undertaken by the States Internal Audit Department. I have found no evidence that such an investigation was undertaken.

(2) Inappropriate entertainment

As the Interim Finance Director reported that inappropriate entertainment had been accepted by a member of JPH staff and may have been symptomatic of an inappropriate relationship with the vendor's agents, one would have expected that there would have been an investigation into whether there were other examples of such inappropriate hospitality being accepted by JPH staff. This also might have been commissioned by either the Deputy Chief Executive or the Treasurer and might have been undertaken by the States Internal Audit Department. I have found no evidence that such an investigation was undertaken.<sup>217</sup>

(3) Review relevant rules and requirements

As the Interim Finance Director reported that various rules had been broken, one would have expected that the existing rules would be reviewed to ensure

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<sup>216</sup> The Treasurer comments that in making his report, the Interim Director of Finance was reporting to the Deputy Chief Executive and not to her. The report was indeed commissioned by the Deputy Chief Executive but in a contemporary e-mail, the Interim Director of Finance recorded that he had provided a copy of that report to the Treasurer. In any event, under the Public Finances Law, the Treasurer has over-riding duties with regards to the standards of financial management within the States.

<sup>217</sup> I am reinforced in my view that such a review should have been undertaken on the matter being brought to the attention of the Treasurer by the following answer that she gave to the Corporate Services Sub-Panel: '... internal audit are doing a review of the arrangement now that particular matter has been brought to my attention.' (See transcript of Scrutiny Panel hearing; 1 September 2011, page 58). The impression that this work was commissioned as soon as the problem became known to the Treasurer is incorrect. The acceptance of inappropriate hospitality by the staff of JPH was raised in the report of the Interim Director of Finance in January 2011 but the internal audit was not commissioned until September 2011.

that they remained appropriate and that they would have been re-stated urgently to ensure that all staff understood the requirements they were expected to meet and to avoid recurrences. I have found no evidence that this was done.<sup>218</sup>

(4) Statement on internal control

Each year, with the annual accounts, the States of Jersey publish a statement of significant control issues: i.e. cases of significant breaches of internal controls. Making a significant offer to purchase a property without obtaining 'necessary approvals' would potentially be such a breach, I have found no evidence that the offer to acquire LGH was even considered for inclusion in this report by either the Deputy Chief Executive (who as accounting officer for JPH was responsible for reporting such matters within his area of responsibility) or the Treasurer.

(5) Disciplinary cases

Failure to comply with the financial management standards and rules of the States would prima facie have constituted reason to initiate disciplinary action against members of staff, not least in view of the seniority of the staff who were involved. I have found no evidence that disciplinary action was taken on the basis of the matters raised in the report of the Interim Director of Finance. I note that this conclusion is at odds with the impression that was given by the Treasurer to the Corporate Services Sub-Panel<sup>219</sup>).

(6) Selection of valuers

As the Interim Director of Finance had reported that there was evidence of an inappropriate relationship between JPH and the commercial valuers selected to value LGH, one would have expected that the matter would have been

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<sup>218</sup> The Treasurer has initiated a general review of Financial Directions issued by the States, but there was no timely review of rules promulgated within the Resources Directorate or in respect of the issues raised by the LGH transaction. I readily acknowledge that, as I have shown, on assuming accounting officer responsibility for JPH in the autumn of 2011, the Treasurer reviewed the Scheme of Delegations for JPH and the procedure for the preparation of draft ministerial decisions for the Assistant Minister, Treasury and Resources in the light of concerns over events surrounding the proposed acquisition of LGH.

<sup>219</sup> That impression was created during the private session of the Sub-Panel. The exchanges were not transcribed; but were recorded. I have listened to the full recording of the private sessions.

investigated in detail and that until the conclusion of the investigation, that firm of valuers would not have been commissioned to undertake any other valuations on behalf of the States. I have found no evidence of such an investigation. Moreover, I note that the valuers were commissioned during February 2011 to undertake further work on behalf of the States.

491. As far as concerns the disciplinary process, one member of the staff of JPH was the subject of the process but in respect of an alleged failure to respond correctly to the vendor's acceptance of the States' offer on 31 March 2010. As I have shown, the acceptance did not precisely match the form of the offer.

492. The States' disciplinary process starts formally with the preparation of 'charges' by the line manager of the employee concerned. In the case of this process, the charges were prepared by the Director, JPH in conjunction with a manager in the States' HR Department. This could be taken to suggest that the initial failure to draft charges that dealt with the criticisms of the Interim Director of Finance was the responsibility of the Director, JPH.

493. However, since those criticisms also applied to the Director, JPH himself and he had objected vehemently to those criticisms, it would have been unrealistic to expect that he would regard them as appropriate material for disciplinary charges. They should have been drafted and laid by an officer senior to the Director, JPH.

494. Before the process began, the HR manager agreed the precise form of the charges with the Deputy Chief Executive who was the Chief Officer responsible for the HR Department. Thus the Deputy Chief Executive, who was senior to the Director, JPH, was aware of the fact that the charges did not refer to the criticisms made by the Interim Director of Finance, and had the opportunity to deal with this omission.

495. That disciplinary process ended with a formal warning being given to the member of staff concerned with the direction that it should be retained in the staff member's personal file for a period of six months. I have been informed that this was the lightest penalty that might have been awarded.

496. This was the only disciplinary process that related to the LGH project. It did not in any way relate to the criticisms made by either the Deputy Chief Executive or the Interim

Director of Finance in respect, for example, of allegations of inappropriate acceptance of hospitality, and the making of an offer without 'necessary approval'. In other words, none of the criticisms made by the Interim Director of Finance led to disciplinary processes.

497. These points are of interest because these actions would all have been ordinary reactions of people discharging their normal responsibilities assuming that the report is accepted on its face. The seriousness of the alleged problems is clear so that the failure to take disciplinary action might be thought especially odd unless those responsible were unsure of the evidence to support the accusations. If there were doubts about reliability of the evidence, there must also be doubts about the wisdom of the criticisms being made in the terms that were used.

498. Thus the omissions raise questions about the purpose and nature of the review.

499. I therefore questioned the former Interim Director of Finance on his expectations of the actions that would follow circulation of his report. He told me that:

- (1) the review was not intended to lead to the reactions that I have identified above; in other words, the purpose was not related to financial control.
- (2) the Treasury Minister had decided that it was necessary to remove the Director, JPH from his position<sup>220</sup>.
- (3) it would not be possible to persuade him to leave his position because the amount that would have to be paid by way of compensation would not be politically acceptable.
- (4) as an alternative approach, the review was intended to be used as the basis for obliging the Director, JPH to leave the States without compensation by threatening his professional reputation.

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<sup>220</sup> The Treasury Minister has confirmed to me that he had reached the conclusion that it would be desirable for the employment of the Director, JPH to be terminated: meeting with the C&AG; 19 April 2012. He indicated that for some time the Interim Director of Finance had been advising him as Treasury Minister that the Director, JPH's performance in his position was unsatisfactory and that he believed he should not ignore that advice. At this time, of course, the removal of the Assistant Minister, Treasury and Resources was in contemplation.

500. It is certainly the case that the Interim Director of Finance had concluded that there were grounds for a thoroughgoing review of the position of the Director, JPH as he recommended that:

*“ . . . a thorough audit review of JPH is required by an independent specialist, who has a proper understanding of the property business and how things should be done. If I was you, I would suspend [ xxxx ] whilst a full investigation is carried out by a capable interim manager with a suitable property background. You will never find out what is really going on whilst [ xxxx ] remains in post, nor will you ever obtain the evidence needed to make a strong enough case to take appropriate action.”<sup>221</sup>*

501. There appear to have been a number of reasons for the report not leading to further action:

- (1) the drafting of the report was inappropriate and was inflammatory. The former Interim Director of Finance has told me that when he issued his report, there was a meeting between him, the Treasurer and the Deputy Chief Executive (which he described to me as ‘grizzly’) in which, as the Interim Director of Finance recalls the meeting, the Treasurer demanded that he should make a series of changes to the draft: which he refused to do. The Treasurer’s recollection of this meeting is somewhat different as I will explain below.
- (2) the report caused strong reactions from JPH, the Planning Minister and the former Assistant Minister, Treasury and Resources all of whom were affected by the conclusions of the report.
- (3) the report implied that professional valuers had acted unprofessionally, thus attacking their professional reputation; an attack that any professional would resent and attack in the strongest manner.

502. As I have explained, the Treasurer recalls the meeting with the Interim Director Finance in a different way. She recalls that she was handed a copy of the report by the Treasury Minister who asked her view of the report in the light of her experience. She recalls that having read the report she told the Minister that it made a number of serious allegations which might be overshadowed by injudicious choice of language and a failure

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<sup>221</sup> E-mail from the Interim Director of Finance to the Deputy Chief Executive and the former Chief Executive; 26 January 2011.

to refer adequately to the underpinning evidence. She recalls that she was then asked by the Treasury Minister to meet the Interim Director of Finance to share her observations with a view to the Interim Director of Finance improving the report. That meeting was joined by the Deputy Chief Executive. The Treasurer recalls that she did not 'demand' changes but suggested changes at the request of the Treasury Minister which the Interim Director of Finance refused to consider.

## **APPENDIX ONE – TERMS OF REFERENCE**

1. This review is commissioned in accordance with the powers of the Comptroller & Auditor General (C&AG) as set out in the Public Finance Jersey Law 2005 to take place in the light of:
  - (1) the public interest in the circumstances in which the proposed purchase by the States of Lime Grove House was unsuccessful;
  - (2) the inability of a Sub-Panel of the Corporate Services Scrutiny Panel to complete their enquiry into these circumstances in the manner which the Sub-Panel thought appropriate; and
  - (3) the significance of the issues which the Sub-Panel concluded are raised by the evidence which the Sub-Panel was able to gather as shown by the Sub-Panel's report to the States; and
  - (4) the importance to the States of reaching a conclusion on these matters.
  
2. The purpose of the review is to examine:
  - (1) the circumstances in which the purchase of an interest in Lime Grove House was proposed;
  - (2) the process by which that proposal was pursued;
  - (3) the circumstances in which the proposed purchase was unsuccessful;
  - (4) the steps taken to protect the interests of the States;
  - (5) the issues identified in the Sub-Panel's report; and
  - (6) any other related issues which come to attention in the course of this review.
  
3. The outcome of the review will be a report prepared and published in accordance with the provisions of the Public Finance Jersey Law 2005 and the C&AG's normal practice.

*The proposed acquisition of Lime Grove House  
Report of the Comptroller & Auditor General  
May 2012*

*UNDER STRICTEST EMBARGO UNTIL 0001 ON TUESDAY, 22 MAY 2012*



**EXTRACT FROM THE CORPORATE SERVICES SCRUTINY SUB-PANEL REPORT**

“During the course of our review, we identified various issues which we were unable to investigate further. This was because some of the issues fell outside the remit of Scrutiny and as a result, the following questions remain unanswered:

- (1) Was the way in which this transaction was carried out in the best interest of the States?
- (2) Were procedures for the purchase of the property appropriate?
- (3) Was it acceptable for individuals with limited experience of property matters to take over the purchase of Lime Grove House?
- (4) Is it acceptable to base decisions on advice from shadow advisors rather than property professionals?
- (5) Are the allegations of poor performance by Property Holdings capable of being substantiated?
- (6) Were correct procedures followed when investigating the alleged misconduct of senior staff?
- (7) Were the procedures regarding the resignation of a senior officer followed correctly?
- (8) Is the current policy regarding confidentiality valid?
- (9) Should Ministers use modern media to justify their position whilst a review is in progress?”

## **APPENDIX TWO – PRELIMINARY DOCUMENTS**

### **INVESTIGATORY APPROACH**

#### **Introduction**

1. This paper is intended to inform potential witnesses for a review of the approach which will be adopted in the course of the review to avoid subsequent misunderstandings and permit potential witnesses to identify problems that they might experience in complying with the approach. The approach set out in this paper matches the approach adopted in similar past reviews of this type.

#### **Principal phases**

2. The review is likely to consist of a series of stages:
  - (1) Phase one: preparation of detailed chronology of relevant events;
  - (2) Phase two: confirmation of the issues which arise from the detailed chronology;
  - (3) Phase three: analysis of the issues; and
  - (4) Phase four: reporting.

#### **Phase one**

##### *Evidence-gathering*

3. The preparation of the detailed chronology will be approached in the following manner.
4. Having identified the potential witnesses who were either directly involved in considering the proposed transaction, each potential witness will be asked to submit all of the relevant documents to the C&AG for consideration. For this purpose, relevant documents will be defined as all documents which have some bearing on the issues relevant to the review:
  - (1) within the custody or control of the witness appearing to the potential witness to have some bearing on the issues raised by the review.

- (2) of whatever nature (i.e. including but not limited to formal documents, personal notes, personal notebooks and personal files), in whatever location they may be held, and in whatever form they may be held (i.e. including e-mails, documents held electronically as well as documents held in hard copy).
5. All potential witnesses will be provided with a copy of the formal terms of reference for the review together with a list of the issues which appear to be raised by the review from which the potential relevance of documents may be judged.<sup>222</sup>
6. Potential witnesses will be given a period of time in which to comply with this request for documents.<sup>223</sup>
7. Before any further steps are taken, the C&AG will read into the documents that have been provided.

#### *Interviews*

8. Each potential witness will then be interviewed by the C&AG to establish the witness's recollection of relevant events on the basis of the documents submitted by the witness which the C&AG will have studied before the interview.<sup>224</sup>
9. The process for the interviews, which will take place with each witness individually, will be as follows:
  - (1) Each witness will be invited to start by confirming in writing that all relevant documents have been provided to the C&AG.<sup>225</sup>
  - (2) Each witness will then be invited to recall the events surrounding the proposed transaction, assisted by reference to the documents that have been provided and by questions from the C&AG to ensure proper understanding.

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<sup>222</sup> This list of issues will take full account of the issues that have arisen in the course of the work undertaken by the Scrutiny Sub-Panel.

<sup>223</sup> In practice, the C&AG will be provided with the documents that have already been provided to the Scrutiny Officers of the States Greffe so that potential witnesses will only be obliged to consider whether any additional documents need to be provided.

<sup>224</sup> The C&AG will of course have the benefit of the transcripts of evidence taken by the Scrutiny Sub-Panel and has considered whether in these circumstances further interviews will be required. This seems appropriate however to ensure that the evidence of which the C&AG's eventual report is based on all of the relevant documents and taken within the C&AG's normal approach to the collection of evidence.

<sup>225</sup> The C&AG reserves the right to criticise in public any witness who subsequently appears not to have submitted all relevant documents unless the C&AG is satisfied that the omission was inadvertent.

- (3) Each interview will be recorded so that a transcript can be prepared.
- (4) A copy of the draft transcripts (and of the recordings themselves if requested) will be provided to each witness with a request that the witness should confirm the substance of the transcript and provided any clarification if the witness thinks that to be necessary. A week will be allowed for witnesses to respond.
- (5) The request for confirmation of a transcript may be accompanied by a list of further questions from the C&AG to clarify any points of difficulty in the transcript. A week will be allowed for witnesses to respond.

10. It is not proposed that the transcripts should be made public save that extracts may subsequently be put to other witnesses at a later stage to clarify points of difficulty and may used in a report of the review to substantiate points to be made in the report.

*Detailed chronology*

- 11. On the basis of the documents and of the interview transcripts, the C&AG will prepare a detailed chronology of events relating to the proposed transaction. This chronology will then be circulated to witnesses in draft for their comment.
- 12. A week will be allowed for witnesses to respond.

**Phase two**

- 13. On the basis of the chronology on which witnesses will have commented, the C&AG will prepare a list of issues that appear to arise from the chronology which will be circulated to the witnesses who have been interviewed in Phase One of the review and to other people whom in the view of the C&AG may be able to assist in consideration of the issues.
- 14. A week will be allowed for witnesses to respond.

**Phase three**

- 15. The C&AG will then seek meetings with those who appear to the C&AG to have significant contributions to make to consideration of these issues. These meetings will not be recorded (because they are likely to be more discursive in nature and to be intended not to establish a factual record of events but the factors to be taken into account in reaching

a conclusion on the issues). However the C&AG will prepare a note of the outcome of each meeting which will be provided to the attenders at each meeting for their comment and confirmation.

**Phase four**

16. In the normal manner, the C&AG will draft a report of the review of which a draft will be provided to those people who have provided documents and evidence in the course of the review to seek their comments. In the light of the comments received and further exchanges to clarify observations, the C&AG will complete and publish the report in the normal manner.

### **LIST OF POTENTIAL ISSUES**

*This list is provided to indicate issues which are expected to arise in the course of the review as an aide to potential witnesses in considering the range of documents that should be submitted in response to the C&AG's request. Although every attempt has been made to ensure that this list is comprehensive, other issues may arise in the course of the review which will be considered in the final report. In preparing this list, account has been taken of the issues that have arisen in the course of the enquiry undertaken by the Scrutiny Sub-Panel.*

- (1) The identification of Lime Grove House as a potential solution to the Jersey Police's Headquarters requirements.
- (2) The assessment of the Lime Grove House solution in comparison with other possible solutions.
- (3) The process by which Lime Grove House was identified as the preferred solution.
- (4) The management of the delivery of Lime Grove House as the preferred solution including the negotiations with the potential vendor.
- (5) Identification and management of the Jersey Police's Headquarters requirements.
- (6) Consideration of an appropriate strategy for meeting the States' long term needs for office accommodation (as far as this is relevant to the proposed Lime Grove House transaction).
- (7) The working practices and processes of Jersey Property Holdings.
- (8) Management and the assessment of the performance of Jersey Property Holdings.
- (9) Compliance with the Code of Ministerial Conduct.
- (10) Compliance with the rules concerning Ministerial Decisions.
- (11) Compliance with arrangements for the delegation of authority within departments and compliance with those arrangements.
- (12) Management of the employment of senior staff within the States.

*The proposed acquisition of Lime Grove House  
Report of the Comptroller & Auditor General  
May 2012*

*UNDER STRICTEST EMBARGO UNTIL 0001 ON TUESDAY, 22 MAY 2012*

**APPENDIX THREE – PEOPLE WHO ASSISTED IN THE REVIEW**

<i>Name</i>	<i>Position</i>	<i>Title used in references in the Report</i>
Steven Austin-Vautier	Chief Officer, Home Affairs Department	Chief Officer, Home Affairs
Jean-Marc Blanchet	Business Manager, Treasury and Resources Department	
Mike Bowron	Chief Officer, States of Jersey Police	Chief of Police
Kellie Boydens	Scrutiny Officer supporting Corporate Services Scrutiny Sub-Panel	Scrutiny Officer
Matt Brehaut	Business Manager, JPH	
Simon Buckley	Buckleys, vendor's agent	Vendor's agent
Peter Cameron	Shareholder, Drumcoille Limited, the vendor of Lime Grove House	
Richard Cheal*	Project manager, JPH	Project Manager, JPH
Martin Clancy*	Director, Dandara (Jersey) Limited	
Freddie Cohen	Former Senator and former Planning and Environment Minister	Former Planning Minister
Sue Cuming	Senior HR Manager, States Human Relations Department	
Michael De La Haye	Greffier of the States	
Debbie de Sousa	Former Deputy and member, Corporate Services Scrutiny Sub-Panel	
Collin Egre	Former Deputy and member, Corporate Services Scrutiny Sub-Panel	
Sarah Ferguson	Senator and Chairman, Corporate Services Scrutiny Sub-Panel	
David Flowers	Director of Jersey Property Holdings	Director, JPH
Ray Foster	Assistant Director (Finance and Investment) (now Acting Director) of Jersey Property Holdings	Assistant Director (Finance and Investment), JPH
Guy Gothard	Principal, Guy Gothard & Co	Professional agent
Mark Grant	Assistant Director (Estates), Jersey Property Holdings	Assistant Director (Estates), JPH
Paul Griffin	Senior Valuer, Jersey Property Holdings	Senior Valuer, JPH



UNDER STRICTEST EMBARGO UNTIL 0001 ON TUESDAY, 22 MAY 2012

<i>Name</i>	<i>Position</i>	<i>Title used in references in the Report</i>
Hugh McGarel Groves	Acting Treasurer of the States and then Interim Director of Finance	Interim Director of Finance
Anne Harris	Deputy Greffier of the States	
Paul Harvey	BNP Paribas, commercial valuers	Commercial valuer
Mick Heald	Assistant Chief Executive; and the Project Manager for LGH and the office strategy	Assistant Chief Executive
Kevin Hemmings*	Head of Decision Support, Treasury and Resources Department	
Lee Henry	Chief Executive (former Finance Director) Jersey Development Company (formerly Waterfront Enterprise Board)	Finance Director; WEB
Mary Hodges	Human Resources Manager, Health and Social Services Department	
Stephen Izatt	Former Chief Executive, Jersey development Company (formerly Waterfront Enterprise Board)	Former Chief Executive, WEB
John Le Fondre	Deputy and former Assistant Minister, Treasury and Resources	Former Assistant Minister, Treasury and Resources
Deanne Le Gresley*	Treasury and Resources Department	
Ian Le Marquand*	Senator and Home Affairs Minister	Home Affairs Minister
Terry Le Sueur	Former Senator, former Treasury and Resources Minister, former Chief Minister	Former Chief Minister
Richard Lock	Buckley's, vendor's agent	Vendor's agent
Bill Ogley	Former Chief Executive	Former Chief Executive
Alex Ohlsson*	Advocate, Carey Olsen	
Philip Ozouf*	Senator and Treasury and Resources Minister	Treasury Minister
Mick Pinel	Assistant Director, Human Resources Department	
Jane Pollard	Assistant Director, Human Resources Department	
Paul Redfern	Chief Internal Auditor	
John Refault	Connetable of St Peter, former Assistant Minister, Treasury	Assistant Minister (2011), Treasury and

UNDER STRICTEST EMBARGO UNTIL 0001 ON TUESDAY, 22 MAY 2012

<i>Name</i>	<i>Position</i>	<i>Title used in references in the Report</i>
	and Resources from January 2011	Resources
John Richardson	Deputy Chief Executive and then Acting Chief Executive	Deputy Chief Executive
Laura Rowley*	Treasurer of the States	Treasurer
Bill Sarre	CB Richard Ellis	Commercial valuer
Andrew Scate	Chief Officer, Planning and Environment Department	
Barry Taylor	Deputy Chief Officer, States of Jersey Police	Deputy Chief of Police
Kay Tremellen-Frost	Scrutiny Manager, States Greffe	
Jason Turner	Deputy Treasurer of the States	
Nicola Watkins	Principal Valuer, JPH	
Mike Wilkins	Judicial Greffier	

## **APPENDIX FOUR – THE POLICE HEADQUARTERS PROJECT BEFORE 2009**

### **January 1999**

App4-1 In January 1999, UK Consultants, Weatherall, Green and Smith were appointed by the Planning and Environment Committee to carry out a strategic assessment of the development options for certain urban sites to provide new purpose built buildings for the Fire, Police and Ambulance Services, including workshop facilities for vehicles and a public safety communication centre. The report, issued in August 1999 concluded that the existing buildings were deficient in a number of respects and recommended the relocation of Police Headquarters from Rouge Bouillon to new purpose built accommodation followed by the demolition of the existing police administration building so that the new Fire Service Headquarters could be constructed on that site. Also in August 1999, James R Knowles (construction contract consultants) who had previously been appointed by the States Treasury to carry out a review of the Police Service relocation issued their report. The prime conclusion of the report was that they fully supported the need to relocate the Police Service.

### **August 2000**

App4-2 In August 2000, an application for a planning vote of £100,000 was approved by the Finance and Economics Committee in August 2000.

### **26 September 2000**

App4-3 A proposal to provide temporary accommodation for the Police Service within the old Summerland knitwear factory was approved by the States at its assembly on 26<sup>th</sup> September 2000.

### **January 2001**

App4-4 Subsequently, the Capital Projects Review Sub-Committee granted a feasibility vote of £35,000 at its meeting on 26<sup>th</sup> January 2001.

## **2001**

App4-5 In 2001, Colin Smith Partnership was appointed by the Home Affairs Department to review the previous reports which had considered the relocation of the Police and to investigate further possible sites. A total of 24 sites were reviewed and it was considered that the island site annex was the most appropriate. Professional consultants were then appointed to carry out an outline feasibility study and in December 2001, the project manager presented a report to the Home Affairs Committee. The report concluded that, although the island site annex could be developed as a new Police Headquarters, certain departments and parking areas would still have to be accommodated elsewhere.

App4-6 Following discussions with the Waterfront Enterprise Board and the Planning and Environment Committee, a suitable site was found on the Esplanade car park adjacent to the underpass slip roads. A full feasibility study incorporating a desk study, site investigation and risk assessment was concluded in June 2003 by the Property Services Department's architects at which time the total budget was estimated at £20.56m. The gross floor area of the building at the time was 7,021 square metres.

## **2002**

App4-7 During 2002, refurbishment works were completed at a cost of £1.6m and part of the Police Service was relocated to Summerland.

## **September 2003**

App4-8 At a meeting on 25 September 2003, the Policy and Resources Committee accepted that a new Police Station and Headquarters were required but were not convinced that the proposed Waterfront location was the most suitable site. Moreover, the Committee was unconvinced there had been sufficient investigation of alternative sites. The Chief Executive with members of the Project Group and others agreed to assess the main alternative sites listed in the feasibility report produced by the Property Services Department's architects and report back to the Committee.

App4-9 At a meeting on 26 September 2003, the Home Affairs Committee received a report prepared by the Director of Property Services regarding the proposed site for the new

Police Headquarters on the eastern end of the Esplanade car park. The Committee further noted that the Finance and Economics Committee, at a meeting on 18 July 2003 had not expressed its support for the proposals for a variety of reasons: namely the proposed location of the building, its prominence and size and the aesthetic impact of the building which would require vast shielding in such a visible location. The opportunity costs of foregoing commercial development on the site had also been singled out. It had therefore been decided by the Finance and Economics Committee that proposals for an alternative site should be referred to the Policy and Resources Committee for a resolution. The Committee noted that the Project Group had reiterated its preference for the Esplanade site and endorsed the report's recommendation that the Policy and Resources Committee should be appraised of the background rationale of the positioning of Police Headquarters on that site.

### **November 2003**

App4-10 On 20 November 2003, the Policy and Resources Committee considered a summary of site options and costings for the proposed relocation of the new Police Headquarters as a result of a request made at its meeting on 25 September 2003. The site options considered were as follows:

- (1) Esplanade car park site (south east corner): £28.90 million.
- (2) Esplanade car park site (northern site): £25.94 million.
- (3) Westmount quarry: £27.87 million.
- (4) Summerland (no basement parking).
- (5) Refurbishment of Jersey College for Girls site: £23.81 million.
- (6) Refurbishment of 11/12 Esplanade: £23.02 million.

App4-11 The Committee noted that the refurbishment costs arising from the Summerland options differed according to arrangements made for the temporary relocation of Police operations while the site was redeveloped. The Committee recognised that the Summerland site option was significantly less costly and would allow all emergency services to be grouped together in the same area of St Helier. It was anticipated that

the site would also allow for greater flexibility and that the redevelopment works could be swiftly progressed. The Committee considered that this option should be pursued.

App4-12 In the case of the Esplanade car park sites the construction cost content was £20.56 million (south east corner) and £21.69 million (northern site).<sup>226</sup> In each case the balance of the total cost related to the purchase of land.

## **2004**

App4-13 A further feasibility study was then carried out on the Summerland site, the report for which was issued by Property Services Department architects in 2004. The report concluded that the Summerland site offered three options for development of a new facility:

- (1) Vacate the site and redevelop.
- (2) Construct a new building in two phases to remove the need for alternative accommodation during construction.
- (3) Purchase the Sacre Coeur building and incorporate it in the redevelopment.

App4-14 At its meeting on 23 October 2004, the Capital Projects Review Sub-Committee considered the latter two options and the design team were authorised to proceed with the design work for a phased new building on the Summerland site only.

App4-15 The initial 2004 Resource Plan for 2005 to 2009 proposed that phase one of the works should be included in the 2005 capital programme for a sum of £10.221 million. It was proposed that phase two should be included in the 2007 capital programme at a further amount of £9.844 million leading to a total approved overall budget of £20.065 million.

App4-16 However, subsequent States approval of the Resource Plan for 2005 budget (as approved by the Finance and Economics Committee) contained amendments to certain capital projects. In addition, the 2005 to 2009 project programme was further revised due to a reduction in the annual capital funding allocation (from £45m to £39m). As a

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<sup>226</sup> These figures excluded the cost of items such as the Information Technology systems which the SOJP were to fund from separate budgets.

result, the phase one budget was reduced to £8.99 million (from £10.221 million) and the phase two budget was increased to £11.075 million (from £9.844 million) which changed the timing of the programme but left the total funding unchanged at £20.065 million.

#### **April 2005**

App4-17 At its meeting on 14 April 2005, the Home Affairs Committee considered details of a feasibility study into the relocation of the Police Headquarters, which was carried out to establish whether the existing Summerland site could be developed whilst maintaining police occupancy of the building. The study concluded that this could be achieved, but that the cost of the project would be of the order of £22.5 million, and thus would exceed the total budget of £20.065 million that had been allocated. The additional cost of about £2.5 million comprised:

- (1) Additional fees on the Esplanade car park site: £170,000.
- (2) Additional cost consequent upon site change: £269,015.
- (3) Additional Home Office requirements: £803,917.
- (4) Inflation due to delayed completion: £1,330,068.

App4-18 Having discussed the feasibility study the committee approved the report. The floor area of the building this time totalled 6,901 square metres.

#### **June 2005**

App4-19 At a meeting on 16 June 2005, the Home Affairs Committee considered a report prepared by the Finance and Economics Committee regarding the revised capital programme for 2006 to 2010. The Home Affairs Committee was informed that a Presidents meeting had been convened in order to determine a revised proposed capital programme for 2006 to 2010 with a view to it being included in the 2005 business plan. The Committee noted that its previous capital proposals (including that for the Police relocation) had been retained. The Committee then discussed whether the project could be contained within the budget of £20,065 million and thus whether it was possible to reduce the cost estimate of £22.5 million.

App4-20 The Chief Officer of the States of Jersey Police indicated that, whilst it might be possible to make savings to fit the project within the allocated budget, significant compromises could have to be made so that:

- (1) Structural resistance for some forms of terrorist attack would be less than the specification recommended for parts of the United Kingdom although it would be consistent with current threat levels in the Island;
- (2) Storage and office space would be reduced;
- (3) The cells area would be reduced; and
- (4) The new facility would not be capable of expansion.

App4-21 A value engineering workshop was held in June 2005 with the objective of identifying savings to allow the design to proceed. As a result of radical changes to the original scoping specification of the project, the design team achieved the necessary cost savings to contain the scheme within the available funding of £20,065m.

### **July 2005**

App4-22 At its meeting on 28 July 2005, the Home Affairs Committee received a report on progress on the target cost savings of £2.5 million. The committee noted that a reduction of £1.992 million had been achieved by reducing floor areas of various facilities and that a target saving (made by either removing a facility or reducing its specification) of £0.964 million had been made, so that overall the required savings had been exceeded. In addition, members were appraised that further reductions had been identified although not formally agreed. The Chief Officer, Home Affairs, noted that compromises had been made, but that nevertheless the project could be accommodated on the Summerland site and within budget, whilst still being fit for purpose.



### **August 2005 and subsequently**

App4-23 An outline brief was compiled by the design team in August 2005, for a new building with a total floor area of the building of 5,893 square metres. The scheme was further developed and in June 2006 the layout of the project was approved.

App4-24 However, costings at that time indicated that there was a potential £2 million shortfall against the funding available of £20.065m. The design team were faced with a challenge to maintain the building's functionality whilst further reducing its cost.

App4-25 As a result, a further value engineering workshop was held in July 2006 to identify cost savings to bring the project within budget. Potential savings of £0.9 million were identified. A number of brainstorming sessions then took place, which led to rationalisation of circulation areas, change of building shape and removal of staircases. Additional savings identified enabled the project Quantity Surveyor to report on 7 August 2006 that the build cost target of £12 million was now only £0.06 million over budget. Members of the Treasury Corporate Capital Unit present at the meeting stated that the forecast of overspend was manageable and that the project would not be stopped because of such a small potential overspend.

App4-26 The draft Annual Business Plan 2007 (as approved by the States in September 2006) made a further revision to the second tranche of funding (£11.075 million). A sum of £4.821 million was approved in the 2007 capital programme and £6.254 million (in principle) for 2009. The Deputy Chief Officer of the States Police approved the plans for the new Police Headquarters on 28 September 2006. The Minister for Home Affairs approved the drawings and planning application for the project on 25 October 2006.

App4-27 From its concept and until 31 December 2006, this project was administered by the Home Affairs Department. In conjunction with the formation of the new Property Holdings Department on 1 January 2007 responsibility for delivery of the project was transferred to that department. At this point, the project consisted of the provision of a new three storey building and the refurbishment of approximately two thirds of the existing Summerland building to accommodate approximately 350 police personnel. The project brief required that the building should have an economic life of at least 50 years. The gross floor area of the planned building was 6,195 square metres.



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