

2018.11.06

**8 Deputy J.M. Maçon of the Minister for Treasury and Resources regarding the remuneration of high-ranking officers of arms-length bodies: [OQ.166/2018]**

Is it the Minister's assessment that the processes followed to decide the remuneration and benefits of high-ranking officers of arm's-length bodies, or bodies of which the States is a major shareholder, are robust; and, if it is not, will she explain why not and what changes she would propose?

**Deputy S.J. Pinel of St. Clement:**

I would ask that my Assistant Minister, Deputy Ash, answer the question as he has delegated responsibilities for States-owned entities.

**Deputy L.B.E. Ash of St. Clement (Assistant Minister for Treasury and Resources - rapporteur):**

I would like firstly to make clear that I am responding to this question as the shareholder representative for the bodies in which the States of Jersey is the only or majority shareholder. So I am unable to comment on grant-funded arm's-length bodies such as Jersey Finance, Visit Jersey, and many others for which I do not have responsibility. The boards of the States-owned entities and of those that are majority owned are required to adhere to the principles as set out in the U.K. Corporate Governance Code, which specifically addresses remuneration and requires them to establish a remuneration committee of independent non-executive directors to determine policy and the setting of pay for executive directors and senior staff. A guiding principle, as set out in the code, is that executive remuneration should be aligned to the company's purpose and values and be clearly linked to the successful delivery of the company's long-term strategy. I believe therefore that robust processes are in place and these are in accordance with the best practice. However, as part of my new role as Assistant Minister with responsibility for the shareholder role, I have been asked by the Minister to undertake a review of our relationships with these companies as set out in the various memoranda of understanding. Some of these are now quite old, some of them are nearly 10 years old, and thus are being reviewed and that is for all across the board. This will include processes relating to executive director remuneration and, as such, I would not be proposing any changes at the current time until this review has been completed. I would also like the Assembly to note that the C. and A.G. (Comptroller and Auditor General) has recently commenced a review under the rather snappy title of Remuneration for States-Owned Companies and Arm's-Length Organisations. To the extent the review highlights any issues that require changes to be made, I would certainly consider making those changes.

**4.8.1 Deputy J.M. Maçon:**

I thank the Assistant Minister for quite a comprehensive response and certainly some of the reviews that will be ongoing. Perhaps then will the Assistant Minister be able to quash a rumour that the Minister for Treasury and Resources was presented with a *fait accompli* when it came to a level of remuneration in one of these bodies, which would have been a retrospective decision? Is the Assistant Minister able to confirm or deny that situation?

**Deputy L.B.E. Ash:**

An interesting question, a *fait accompli* is probably rather a strong word, but on one of the bodies concerned we did have a situation where pay negotiations had taken place before the Minister and I took office. Following those negotiations and the implementation of that pay increase, there were, how shall I put it, robust discussions had by myself and the board. Following that robust discussion, mutual agreement to both the satisfaction of myself and that board have been reached. I obviously

cannot disclose the exact details because it would not be fair in this forum to disclose them. Suffice it to say, I did keep the Minister for Children and Housing and the Chief Minister aware of that situation.

#### **4.8.2 Senator S.C. Ferguson:**

I thought we were dealing with transparency. However, I do notice that the States of Jersey Development Company has only made a profit through revaluations, in other words it is an unrealisable or imaginary profit. Does the Minister or the Assistant Minister not think that this is not evidence of robust processes and perhaps these need to be revised?

#### **Deputy L.B.E. Ash:**

The S.o.J.D.C. (States of Jersey Development Company) pay considerable amounts back every year; they are making a profit. I think it is very easy at times to look under the old saying of the price of everything, the value of nothing, and if I could go through some of the things these companies are doing because I think it is very important. I think it is very relevant when we are questioning the amounts of the salaries.

#### **The Bailiff:**

The question is about processes.

#### **Deputy L.B.E. Ash:**

Processes I think are very solid. As I said, we are reviewing the memoranda of understanding. We also have board reviews going on, independent ones. In my dealings with these companies I think they are rock solid as far as process.

#### **4.8.3 Senator S.C. Ferguson:**

I would like to follow up with perhaps the comments from the briefing we had from Jersey Telecom where they said that 70 per cent of their revenue came from their overseas investments but only 30 per cent of the profit, which means that 30 per cent of the revenue and 70 per cent of the profit come from local business. Are we dealing with sound processes here as well? Would the Assistant Minister like to comment?

#### **The Bailiff:**

Sorry, Assistant Minister, I do not see how that follows the question about the remuneration of officers of that body.

#### **Senator S.C. Ferguson:**

If the remuneration of officers is based on the performance of the company, which is what robust processes mean, then if they have such a lopsided trading setup then do we have the robust processes in place? Are we questioning things properly?

#### **Deputy L.B.E. Ash:**

We are talking profits, whether they are gleaned on-Island or off-Island, these companies, which were set up for exactly that purpose, was to create profits. They are not the only one of our arm's-length companies that are dealing away from Jersey. It is part of the whole aim of these companies is to act as companies, as commercial entities.

#### **4.8.4 Deputy R. Labey:**

The Assistant Minister said that negotiations were already advanced before he took office, and his Minister. Were those negotiations with the Treasury team, ministerial team, at the time? In the

continuing discussions with the Assistant Minister, was a reduction in the proposed increases that we are talking about achieved and does he feel the outcome that was finally arrived at is appropriate? I know it is 3 questions; I hope you got them.

**Deputy L.B.E. Ash:**

I will have to test my memory here. The first one, it was in place once we came. These negotiations took place right through 2015, 2016, 2017, and they were in place when the Minister and I took office. Did we think of reducing those gains? No, we did not. It is very difficult to go back retrospectively to someone and say: "You cannot have that money." Did I think the money is fair? What is fair in salaries these days? It is fair within the market spectrum of these salaries. These salaries are all high in these companies; I fully realise that, but those are the market salaries. There is no one being paid outwith what market levels are. Sorry, the third part of your question, could you just refresh my mind?

**Deputy R. Labey:**

I would just say that we are not dealing with the market, with a company, for instance, like Andium Homes, are we? It is a special circumstance.

**Deputy L.B.E. Ash:**

We are still dealing though with the market remuneration for someone heading up a housing association, and Andium Homes is a very large housing association. It has done tremendous work in Le Squez, it has done tremendous work in town, and a lot of that is down to the sort of people we have on the board of directors and running those companies. If we want to get someone in on £50,000 a year I am sure we could, we would find many people, whether they would be able to provide the job that Andium are doing I would very much doubt.

**4.8.5 Deputy K.F. Morel:**

I just wanted to clarify, and we have almost got there, but when referring to wanting to keep negotiations quiet and secret, the Assistant Minister did not mention the organisation that he was talking about and in the interests of transparency I think he should for the record say which organisation he is talking about.

**The Bailiff:**

There was not one mentioned in the question either.

**Deputy L.B.E. Ash:**

I am happy to say the organisation, if it is going to help, concerned was Andium Homes and, as I say, that issue has been resolved.

**4.8.6 Deputy R.J. Ward:**

Given the answer you gave, a key part of the process, and we are talking about processes that say remuneration is the purpose and value of the company, and so how does very high salaries in a company such as Andium, which is there to provide social housing for the people of this Island, how does that round peg fit in the square hole given that the drivers are about profit and not provision of quality and affordable housing?

[10:45]

**Deputy L.B.E. Ash:**

The drivers are not just about profit. The main driver of Andium Homes is to provide affordable housing at a social level. That is the main driver. The profit angle, if there is a profit, and much of it is not, it is repaying a bond that the States provided, they draw down from that bond and they provide the social housing requested; that is their job.

#### **4.8.7 Deputy G.P. Southern:**

The Assistant Minister mentioned the market for executives in arm's-length management organisations. How does that compare with the market for public sector workers in general?

#### **Deputy L.B.E. Ash:**

I am not responsible for the market for public sector workers but I would imagine that our public sector workers are within the market median. You cannot compare chief executive pay with across-the-board pay offers to someone else. That just is not the way it works in senior companies; it does not work in any senior company I know where you would take someone's C.E.O. (chief executive officer) pay and compare it with the market median pay across the pay levels. It just does not work like that.

#### **The Bailiff:**

Forgive me here, Deputy, it was a tongue-in-cheek question from Deputy Southern and the answer is: it is a smaller market, is it not? Can we come on now to a final supplementary, Deputy Maçon?

#### **4.8.8 Deputy J.M. Maçon:**

The Assistant Minister talks about the ongoing reviews. I wonder if you could illuminate us as to when the timeline for those reviews are, when they are expected to commence, when they are expected to conclude, and what level of information will be provided to the Assembly?

#### **Deputy L.B.E. Ash:**

I am hopeful that all reviews would be completed in the early part of next year, certainly by the end of March.