
STATES OF JERSEY



OVERSIGHT OF ARM'S LENGTH BODIES (R.127/2024): EXECUTIVE RESPONSE

Presented to the States on 18th November 2024
by the Public Accounts Committee

STATES GREFFE

FOREWORD

In accordance with paragraphs 69-71 of the [Code of Practice](#) for engagement between ‘Scrutiny Panels and the Public Accounts Committee’ and ‘the Executive’, the Public Accounts Committee (PAC) presents the Executive Response to the Comptroller and Auditor General’s (C&AG) Report entitled: Oversight of Arm’s Length Bodies (R.127/2024, presented to the States Assembly on 30th July 2024).

Deputy I. Gardiner

Chair, Public Accounts Committee

The PAC has reviewed the Executive Response to the report ‘Oversight of Arm’s Length Bodies’ and has the following comments to make in respect of it.

Timescale for implementation

The PAC note that the action plan contained within the Executive Response has timescales for implementation which are all due to be completed by the end of January 2025. This is a particularly ambitious timescale for completion and the PAC would question if all of the necessary actions can be undertaken within this timescale. The PAC will be following up the implementation of these recommendations during its first quarterly hearing with the Chief Executive Officer in February 2025. The PAC will also be seeking further assurances over how Arm’s Length Bodies (ALB’s) are value for money and how Government is monitoring this.

Central Oversight

The PAC has noted that whilst work is due to be undertaken to update the public finances manual and outline responsibilities of Accountable Officers in relation to ALB’s, there is still uncertainty over who holds ultimate responsibility in relation to ALB’s. This creates a difficulty for the PAC as well as the Government when seeking to monitor the ALB’s and ensure they are meeting their defined objectives and purpose. It is unclear from the response as to where this ultimate responsibility lies and the PAC would expect to see further evidence of this.

Recommendation 2

R2 Update the Public Finances Manual to require structured reviews of all Arm’s Length Bodies (comprising States owned entities, States	If the recommendation is not implemented, structured reviews may not take place on a periodic basis. If reviews are not undertaken or effective, bodies may operate in a sub-optimal fashion in delivery of policy objectives, risking	Med	The current PFM section describes the requirement for an annual review of arrangements by the relevant AO. Whilst the principle behind this recommendation is accepted, an	Agreed in principle, as undertaking such reviews should be within the authority and responsibilities of the relevant AO. A proportionate approach will be	Financial governance – update the PFM accordingly.
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established delivery entities and States established independent bodies and office holders) on a periodic basis (such as every five years).	value for money of investment.		approach will need to be developed which is proportionate to the resources available to Accountable Officers (AOs). Also see R1 above.	developed for inclusion in the PFM.	
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The PAC notes that this recommendation seeks to provide for periodic reviews of ALB's to ensure they are meeting their objectives. Whilst this is agreed by Government, it is agreed in principle subject to a proportionate approach being developed and included in the Public Finances Manual within the authority and responsibilities of the relevant Accountable Officer. The PAC would note that a review of the States of Jersey Development Company (SOJDC) was recommended some six years ago, however, not one review of this organisation has been undertaken since its formation in 2011. Whilst it is understood that this need to be a proportionate approach given the resources available, this further raises questions about who holds overall responsibility for ALB's within Government within any new approach to reviews. The PAC would also question how this intends to be delivered in time for the end of January 2025.

Conclusion

This is an area that the PAC is particularly interested in, and it links with other pieces of C&AG work, most notably Commissioning of Services and ongoing work in respect of Grants and Subsidies. As such, the PAC will be seeking to launch a review in early 2025 which follows up on these areas. Further follow up on the recommendations contained within this report will be done as part of this review and during the next quarterly hearing with the Chief Executive once confirmed in February 2025.

Chief Executive to Oversight of Arm's Length Bodies – Comptroller and Auditor General Report - Executive Response

Summary of response

The Chief Executive and the Treasurer of the States welcome the Comptroller and Auditor (C&AG) report on Oversight of Arm's Length Bodies. There is broad agreement that the definitions of Arm's Length Bodies, and how Government of Jersey (GoJ) categorises bodies within that definition, could continue to be clarified and communicated better across departments. The categories suggested by the C&AG for use by GoJ are welcomed and are an evolution of work over some time between the C&AG and GoJ. Officers will consider the family of bodies that may fall within these categories and ensure that how the Public Finances Manual (PFM) applies to each body is further clarified. Changes to guidance included in suggested changes to the PFM will be developed to be proportionate to risk, so that any associated additional activity (to monitor compliance, for example) can be delivered within current envelopes, without increasing expenditure.

Risk assessment and decision rationale

Recommendations	Risk of non-implementation	Risk profile <i>(per GoJ risk strategy)</i>	Other considerations in prioritisation	Is the recommendation agreed?	Improvement theme <i>(If applicable)</i>
R1 Introduce a new definition of Arm's Length Bodies to include only States owned entities, States established delivery entities and States established independent bodies and office holders.	If the recommendation is not implemented, public service colleagues may not be clear on how financial management guidance, such as the PFM, applies for entities under their oversight, which may result in non-compliance (e.g. PFM), sub-optimal governance arrangements and the potential for poorer value for money in investment in achieving strategic goals.	Med	Whilst the intention is to continue to make improvements, given the risk profile, priority may be given to other higher risk initiatives if they compete for resource.	It is agreed that this recommendation will support improved internal definitions on ALBs and therefore the application of key frameworks, such as PFM.	Financial governance – update definitions and categorisation of bodies within PFM.
R2 Update the Public Finances Manual to require structured reviews of all Arm's Length Bodies (comprising States owned entities, States established delivery entities and States established independent bodies and office holders) on a periodic basis (such as every five years).	If the recommendation is not implemented, structured reviews may not take place on a periodic basis. If reviews are not undertaken or effective, bodies may operate in a sub-optimal fashion in delivery of policy objectives, risking value for money of investment.	Med	The current PFM section describes the requirement for an annual review of arrangements by the relevant AO. Whilst the principle behind this recommendation is accepted, an approach will need to be developed which is proportionate to the resources available to Accountable Officers (AOs). Also see R1 above.	Agreed in principle, as undertaking such reviews should be within the authority and responsibilities of the relevant AO. A proportionate approach will be developed for inclusion in the PFM.	Financial governance – update the PFM accordingly.
R3 Revise the terms of reference for ALBOB so that it becomes a cross Government working group to develop	If this recommendation is not implemented, then the role and focus of ALBOB will be less clear, potentially	Low	See R1 above	Agreed. The terms of reference for the group will be revised.	Update ALBOB ToR

consistent approaches to the oversight of ALBs.	compromising on oversight and improvement of governance arrangements for ALBs.				
R4 Develop performance indicators for ALBs based on States policy objectives including risk appetite, service performance measures and wider policy and value for money objectives.	If this recommendation is not implemented, it may be more difficult to demonstrate how ALBs have achieved intended policy objectives and value for money.	Low	Whilst the principle behind this recommendation is accepted, an approach will need to be developed which is proportionate to the resources available to AOs.	Agreed in principle, as relevant AOs should have responsibility for oversight of ALB performance against States policy objectives. A proportionate approach will be developed for inclusion in the PFM.	Financial governance – update the PFM to provide guidance on oversight of performance of ALBs against States policy objectives.
R5 Set clear, and where appropriate consistent, standards of governance for independent bodies and office holders based on the areas for consideration identified in my Thinkpiece <i>Governance and Accountability of Independent Bodies and Office Holders</i> (December 2022).	If this recommendation is not implemented, then there may not be a consistent governance for independent bodies and office holders. Whilst not in alignment, there is no current suggestion that this compromises governance of these organisations. Any weaknesses identified can be reviewed and addressed on a case-by-case basis.	Low	With respect to aligning terms of office for office holders and board members, the updating of multiple pieces of legislation for this purpose is not prioritised amongst the legislative programme as it is not perceived to present a significant governance risk. The C&AG challenges whether there should be minimum standards for audit committees for these bodies. Arguably, mandating additional requirements of ALBs may increase costs and administration resource to deliver.	Agreed in part. GoJ does not intend to introduce mandatory requirements for governance standards, although the PFM will be updated to provide clearer guidance on options available to AOs.	Financial governance – update the PFM with clearer guidance for AOs on options available to them if there are governance concerns in relation to ALBs within their accountability.
R6 Adopt a consistent approach to the appointment of Accountable Officers within all ALBs (as re-defined).	If this recommendation is not implemented, then ALB senior officers may not be clear of their accountability under the PFL/PFM. However, it is considered that this risk is relatively well managed at present through existing mechanisms.	Med	Whilst this might seem an opportunity, there may be unintended consequences. For example, this could create quasi-departments. It could also create conflict with existing corporate governance responsibilities and structures, particularly in part-owned entities where there exist commitments to other shareholders. This would also be disproportionate to the size and/or risk of a number of the ALBs.	Agreed in part. The requirement for an AO within all ALBs will not be introduced. However, the ability to appoint an AO for specified organisations already exists within the PFM. This route can be used by AOs to request that an AO be appointed within ALBs and be accountable to the PAC directly for propriety, regularity and VFM. However, this would need to be proportionate to the potential risks and benefits.	No specific action at this time. However, updates to the PFM will be made that may implement this recommendation in part through clarifying the option to appoint AOs within ALBs and the circumstances under which this might be appropriate.

<p>R7 Update the Public Finances Manual to:</p> <ul style="list-style-type: none"> • apply the States owned entities provisions to all wholly and majority owned entities • apply the Arm's Length Organisation section of the Public Finances Manual only to States established delivery entities; and • apply, with suitable adaptations, to all States established independent bodies and office holders. 	See R1	Low	<p>The PFM applies to the commercially focused entities and Jersey Overseas Aid as there are sections on Specific States Owned Entities and JOA as a specific entity. Of the bodies listed by the CAG as SOEs, this leaves the three offices that operate overseas as administrative enablers under the control of the AO of the External Relations department. As this is the case, the governance risk is assessed to be very low.</p> <p>As far as States established delivery entities and States established independent bodies and office holders are concerned, proposed updates to the PFM included in this improvement plan will clarify applicability to different types of ALB.</p>	Agreed in part.	<p>Financial governance – update the PFM to clarify applicability of the PFM to revised categories of ALBs by relevant AOs.</p>
<p>R8 Develop and implement mechanisms to link investment and funding to agreed outcome measures and performance expected from ALBs.</p>	See R4	Low	<p>This will be considered to the extent possible as part of consideration of R4.</p> <p>However, there is currently some work being undertaken within Treasury & Exchequer on appraising social value for suppliers using a consistent methodology for financial measurement to be able to report on Social Return on Investment, and which will enable like for like comparisons and better understand investment vs outcome. This will be combined with qualitative reporting. We will investigate whether this approach could be applied to ALBs as well as other commercial suppliers.</p>	Agreed in part – to be considered to the extent possible as part of R4. However, the allocation of resource to this activity may not be forthcoming given the risk profile and other competing priorities.	See R4
<p>R9 Review the potential opportunities for improving value for money in the management of ALBs and the delivery of their services identified in this report and in my Thinkpiece: <i>Governance and Accountability of Independent Bodies and Office Holders</i> (December 2022). Implement actions to deliver those which can be realised.</p>	If opportunities for achieving better value for money in the use of ALBs are not taken, then departments may not be making best use of investments in ALBs to achieve strategic goals.	High	<p>There may be opportunities for significant savings for GoJ relative to expenditure on ALBs. However, any review of back-office functions, for example, either for individual ALBs or as a collective, will be the prerogative of the relevant AO and Ministers responsible.</p> <p>Central oversight would add limited value, there is no allocated resource to do so, and it is unlikely to be prioritised at this time.</p>	Partly agreed - savings in this area have been identified in the Budget 25-28 and will be taken forward by the relevant AO and Minister.	No additional action at this time, with the focus remaining on the savings identified in Budget 25-28.

<p>R10 Ensure better co-ordination between Government departments and States owned entities (including Andium Homes, SoJDC and Ports of Jersey) for the provision of social housing for purchase, property management of HCS staff accommodation, housing policy and land use policy.</p>	<p>If not implemented, housing priorities will be at risk of not being delivered in the most efficient and effective way.</p>	<p>Med</p>	<p>As has been noted by the C&AG, the Strategic Housing and Regeneration team (SHR Team) in the Cabinet Office was established in 2021 with the aim of delivering better coordination between housing policy and States' owned entities. The SHR team exists within the Housing, Environment and Placemaking directorate, which places it alongside the planning policy function, whereby the two teams already work closely together on relevant workstreams.</p> <p>This recommendation is hence in alignment with a need already recognised by Government, and the SHR Team will continue to work in partnership and realise policy alignment with other Government departments and States owned entities, within existing resources.</p>	<p>This recommendation is agreed in principle, however, no specific new action will be put in place, as it is considered that improved co-ordination between these groups is already under way. GoJ will continue to build on existing work whilst recognising, in particular, that the delivery of social housing for purchase remains subject to the regulatory planning process.</p>	<p>No specific action at this time.</p>
<p>R11 Establish and implement a remuneration framework for senior executives and chief executives (or equivalent) of States established delivery entities and of independent bodies and office holders. Ensure that the application of the relevant framework is consistently applied for all ALBs.</p>	<p>If a framework for remuneration is not developed, there is a risk that pay increases could be uncontrolled and become out of line with market competitors. This may create a domino effect on increasing costs across the market, with an impact on value for money.</p>	<p>Med</p>	<p>A remuneration framework for SOEs is already in place. The States Employment Board has recently commissioned work relating to changes to ALB's Directors and Non-Executive Directors' pay, terms and conditions.</p>	<p>Agreed</p>	<p>Remuneration</p>

Prioritised improvement plan:

Action theme	Actions	Target date	Responsible Officer
<p>Update ALBOB ToR</p>	<p>Refresh the terms of reference in light of the C&AG recommendations.</p>	<p>End Dec 2024</p>	<p>Head of Office of the Chief Executive</p>
<p>Financial governance</p>	<p>Update PFM, including application to categories of ALB, AO responsibility for individual bodies, performance monitoring, review, options available to AOs in relation to governance risks and remuneration policy.</p>	<p>End Jan 2025</p>	<p>Head of Financial Governance</p>
<p>Remuneration</p>	<p>Take forward work with SEB regarding changes to ALB's Directors and Non-Executive Directors pay, terms and conditions.</p>	<p>End Dec 2024</p>	<p>Chief People Officer</p>