

STATES OF JERSEY

COMMITTEE OF INQUIRY INTO TENDER PROCESS AND AWARD OF BUS SERVICE CONTRACT

BLAMPIED ROOM, STATES BUILDING

Committee: **Mr Huw Shephard (President)**
 Mr Christopher Blackstone (Member)
 Mr Trevor Garrett (Member)

In attendance **Mr Mac Spence (Committee Clerk)**

EVIDENCE FROM:

MR I. BLACK
(States Treasurer)

on

Tuesday, 1st February 2005

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MR SHEPHEARD: Thank you for taking the time to come to appear before the Committee. Mr Black, you may know that the Committee is receiving evidence from witnesses on oath.

MR BLACK: Yes.

MR SHEPHEARD: I will, therefore, proceed to administer that oath to you.

MR BLACK: Okay.

The witness was sworn

MR SHEPHEARD: Thank you. Mr Black, the questioning this morning is going to come from my colleagues, Mr Blackstone and Mr Garrett, with interjections from myself if I consider them necessary. I will hand you over to Mr Blackstone.

MR BLACK: Okay.

MR BLACKSTONE: Good morning, Mr Black. I believe you know Mr John Griffiths, who was appointed as consultant to advise PSC on the implementation of an SLA and the establishment of a fair return for Jersey Bus.

MR BLACK: I do.

MR BLACKSTONE: In reply to a question in the States on 17th July 2001, Deputy Crowcroft stated that Mr Griffiths' appointment was supported by the Treasury. Presumably he was referring to you as States Treasurer?

MR BLACK: Sorry, I am not understanding your question.

MR BLACKSTONE: Deputy Crowcroft said in the States that Mr Griffiths' appointment was supported by the Treasury.

MR BLACK: Right.

MR BLACKSTONE: Would that mean you as States Treasurer?

MR BLACK: Er, I think it is my organisation rather than me, but it would ... obviously, I would be aware of such an endorsement.

MR BLACKSTONE: You are head of the Treasury Department?

MR BLACK: I am, yes.

MR BLACKSTONE: So if Deputy Crowcroft says it was supported by the Treasury, presumably he meant you personally?

MR BLACK: Yes, he would mean my organisation, by which I am head of that organisation, so I take responsibility, yes.

MR BLACKSTONE: Right.

MR SPENCE: Excuse me, gentlemen. Mr Black, could you speak to the microphone rather than the Committee, Sir?

MR BLACK: Sorry?

MR SPENCE: You are very audible to the Committee, but the microphone seems to have worse ears than we do.

MR BLACK: Okay.

MR BLACKSTONE: Were you aware that Mr Griffiths' duties would include the examination of and reporting on the accounts of Jersey Bus?

MR BLACK: Can I go back?

MR BLACKSTONE: Yes.

MR BLACK: Would it help if we went back a sec?

MR BLACKSTONE: Yes.

MR BLACK: You said the then Deputy Crowcroft, I think, wasn't he, I think you referred to -

MR BLACKSTONE: Sorry?

MR BLACK: You said Deputy Crowcroft made that statement.

MR BLACKSTONE: Yes, he did.

MR BLACK: I have got to say that my honest recollection is that I can't remember whether we endorsed the appointment, but I think it is possible. I can try and find out for you.

MR BLACKSTONE: That would be useful actually, yes. If you could just send us an email or something later on. **(Pause)** That might also answer that question that I just asked you about his duty was to report on the accounts of Jersey Bus.

MR BLACK: Right. I will find out that as well.

MR BLACKSTONE: Were you aware that Mr Griffiths held no accounting qualification and his commercial accounting appears to be limited to one year as a trainee?

MR BLACK: Er, I don't know, if I'm honest. What I did know is that he worked for an organisation called FourSight, who we had used on a number of times, and they did provide interim accountancy services. I certainly knew that a number of people employed were accountants, but I honestly don't know whether I knew that Mr Griffiths was an accountant or not.

MR BLACKSTONE: FourSight is in fact a firm of management consultants. I think they specialise in hospitals and medical business.

MR BLACK: Yes, but we had actually used them and they provide what they call interim accountancy services. We had actually used people who I knew were accountants who had done work for us.

MR BLACKSTONE: Yes, I think Mr Winston is one of their people.

MR BLACK: That's right, and there is also a chap, who is now Finance Director of Jersey Post, who is an accountant who we used.

MR BLACKSTONE: Sorry, one of their people worked on the Jersey Bus -----

MR BLACK: He is now the ... one of their people did some work in Jersey for us and he is now the accountant for Jersey Post.

MR BLACKSTONE: And the name of that person?

MR BLACK: Ian ... I can't remember the surname.

MR BLACKSTONE: You say he is now the accountant ----

MR BLACK: Ian Ridgeway.

MR BLACKSTONE: Ian Ridgeway -- accountant for Jersey Bus?

MR BLACK: Post.

MR SPENCE: Post.

MR BLACKSTONE: Oh Post. I beg your pardon. **(Pause)**

MR BLACK: So, in summary, I knew they had accountants, but I don't think I knew about Mr Griffiths' personal qualifications.

MR BLACKSTONE: Right, hmm hmm. I think possibly your involvement with Mr Griffiths and his Jersey Bus assignment may have been fairly light.

MR BLACK: Not at all.

MR BLACKSTONE: Not at all, right. I will end this line of questioning then. **(Pause)** You will, of course, just check up on that Treasury recommendation of his appointment.

MR BLACK: Absolutely, yes.

MR BLACKSTONE: I would like to go back in history a bit, because you were involved yourself quite considerably in late 1999 in examining the accounts of Jersey Bus and recommending to Public Services on your findings.

MR BLACK: Yes.

MR BLACKSTONE: And that was in connection with a fare increase requested by the company.

MR BLACK: Yes.

MR BLACKSTONE: Were you aware that, in a letter dated 25th August 1999, Colin Powell, Chief Executive of Policy and Resources Department, had already expressed his opinion that *“Having regard to the cost increases faced by the company, fuel costs have increased over the years, as have wages and salary costs, the percentage increase in the fares can be considered reasonable”*?

MR BLACK: No.

MR BLACKSTONE: Had you been made aware of that opinion by a senior financial manager such as Mr Powell, would you have questioned your need to examine the accounts in detail?

MR BLACK: I am not sure about that question. I was asked to look at the accounts. The thought that runs through my mind is that Colin Powell was expressing a general opinion on costs in the bus services.

MR BLACKSTONE: Right.

MR BLACK: How that reflected on the profitability of an individual company I am not sure that he could have said, so it seems to me that my review would have been rather different to his. **(Pause)**

MR BLACKSTONE: So your review was directed to determine the profitability of the company?

MR BLACK: I was specifically asked to review the accounts of the company in order to express an opinion on whether or not it was essential for a fare increase.

MR BLACKSTONE: Presumably, if the company had been making losses, you would have recommended a fare increase?

MR BLACK: Yes.

MR BLACKSTONE: Do you have experience of the transportation industry and the profitability levels of bus companies in particular?

MR BLACK: No, but what I do have experience of is the importance of the profitability of any company and return of capital and the like. **(Pause)**

MR BLACKSTONE: Going to the 2002 tender process, just for comparative purposes, the mark-ups tendered on expenses were ranged from 8.8% mark-up on expenses to something over 23%. Were you aware that those sorts of figures were common in the transport industry?

MR BLACK: No. **(Pause)**

MR BLACKSTONE: And I can assure you that those sorts of criteria were also discussed in various other spheres by Mr Griffiths particularly and by Pricewaterhouse's Transportation Division. I think it is generally accepted in the industry that the mark-up on expenses of somewhere between 10% and, in the very extreme, 20% is acceptable.

MR BLACK: It is a very profitable business then, bus companies, if they are getting a 22% return on capital.

MR BLACKSTONE: It is a very high investment business and quite a high risk.

MR BLACK: Well, it obviously depends on the risk you are taking, doesn't it? With a monopoly provider it is a slightly different risk than if you were in a competitive market.

MR SHEPHEARD: Can I interject because are we are talking about returns on capital employed or are we talking about returns on costs?

MR BLACKSTONE: Those were returns on costs. I will come to returns on capital employed in a minute.

MR BLACK: Well, that is interesting because they are two very different things.

MR BLACKSTONE: Yes.

MR SHEPHEARD: I just wanted to clarify that.

MR BLACK: Yes. So, just to go back, because we are accountants, I think returns on capital is usually far more important than mark-up on costs.

MR BLACKSTONE: Yes, we are going to come to that, Mr Black. You are a Government accountant. Has your whole career been in sort of public service?

MR BLACK: Yes, I have, but I am also responsible for a number of businesses and I represent the shareholder, for instance, or the owner of the companies in Jersey Electricity Company, Jersey New Waterworks Company and now an incorporated Jersey Telecoms and soon to be incorporated Jersey Post.

MR BLACKSTONE: But those are all public utilities in a monopoly position.

MR BLACK: Like Jersey Bus.

MR BLACKSTONE: Fair comment. I presume you are a member of the appropriate professional body?

MR BLACK: The Chartered Institute of Public Finance and Accountancy.

MR BLACKSTONE: Yes. I am a Chartered Accountant and I am afraid I know nothing about your field.

MR BLACK: Okay.

MR BLACKSTONE: Although obviously you know a bit about mine.

MR BLACK: Yes, I think so.

MR BLACKSTONE: They are very much chalk and cheese, as I think you will agree?

MR BLACK: Yes.

MR BLACKSTONE: Are you aware that there was a feeling among Officers of the Public Services Department and certain States Members that Jersey Bus was making excessive profits at this time?

MR BLACK: Er, no.

MR BLACKSTONE: On 28th October 1999, Christopher Lewis sent you draft audited accounts of JMT ----

MR BLACK: Sorry, he didn't.

MR BLACKSTONE: He didn't?

MR BLACK: I never saw audited accounts.

MR BLACKSTONE: Sorry?

MR BLACK: I didn't see audited accounts for the JMT.

MR BLACKSTONE: What did you see?

MR BLACK: I saw a set of accounts that were not signed by the directors or audited, I believe.

MR BLACKSTONE: This is for which year?

MR BLACK: Er, the accounts I was given to review were the 1998 accounts.

MR BLACKSTONE: Right. And you say they were not audited?

MR BLACK: That is my recollection, yes, nor signed.

MR BLACKSTONE: And not signed?

MR BLACK: No.

MR BLACKSTONE: Do you know whether they were prepared by the company or by the company's auditors?

MR BLACK: Er, I don't think I was given such information. I was just sent a set of accounts. **(Pause)** Can I express my slight difficulty at this point? I think as you are aware, I was asked to review the accounts in confidence and, when I was called here, my first thing to do was to go through our files and those accounts aren't on any files, and, I think, probably not surprisingly, because I believe I was to return the accounts in the process. I can't say for certain, but what is for certain is I didn't retain them, so once I had given a view on the accounts, I kept no record.

MR BLACKSTONE: Right. These are in fact the accounts for the year ended 31st October 1998, which would include comparative figures for the previous year.

MR BLACK: I can't recall that, to be honest.

MR BLACKSTONE: And were they a complete set of accounts?

MR BLACK: Talking from recollection, I believe -- I can only say from memory -- they were a profit and loss account and balance sheet. I wouldn't have recalled, but, going through the

minutes of the Environment and Public Services Committee recently, it would appear that I went back and asked for more information regarding notes to the accounts, as it would appear ----

MR BLACKSTONE: Regarding?

MR BLACK: Notes to the accounts, because it would appear that they weren't provided initially.

MR BLACKSTONE: I think that is quite true, yes. I think I have seen a letter from Mr Lewis saying that the notes were excluded because they contained personal family information, but I don't necessarily accept that as fair comment on Mr Lewis's part: accounts are accounts. Did Mr Lewis also volunteer additional information from the company's management accounts?

MR BLACK: Er, yes. Again, I am reminded by the Acts that I reviewed. I do recall that I saw both a set of management accounts to the year ended October 1999 and a set of management projections for the period ending October 2000, I believe.

MR BLACKSTONE: These had not been asked for by Public Services on your behalf, had they? So Mr Lewis was in fact volunteering additional information to you.

MR BLACK: I didn't ask for any information personally. Basically, I had ----

MR BLACKSTONE: It came from Public Services. The letter I have here I think is from Dr Swinnerton.

MR BLACK: All I can recall is that I was asked to review the accounts and what arrived was an envelope with information in.

MR BLACKSTONE: Yes, but then there were subsequent letters from Mr Lewis, enclosing additional information on these two occasions. We can look at those if you like.

MR BLACK: I can definitely recall seeing a set of management accounts for 1999/2000.

MR BLACKSTONE: Just to refresh your memory, you may as well have the documents. There is quite a lot of additional information which Mr Lewis volunteered over and above what he was asked for.

MR BLACK: Okay. **(Same handed to witness)** **(Pause)** Okay. I haven't actually got any of this information on file, so, if it is relevant, I would be grateful to have the chance to review it myself later.

MR BLACKSTONE: I am sure the Committee Clerk can give you copies, if you wish.

MR SPENCE: Certainly.

MR BLACKSTONE: Did the Public Services Committee refuse the fare increase on the basis that insufficient information had been provided by Jersey Bus?

MR BLACK: Um, I don't know the basis on which they made their decisions, other than reading the Act of the Committee.

MR BLACKSTONE: Do you have the minutes of the Committee?

MR BLACK: I actually have recently reviewed the minutes of the Committee.

MR BLACKSTONE: That is 22nd November 1999, I think.

MR BLACK: That is right. **(Pause)**

MR BLACKSTONE: Basically they are saying that Jersey Bus did not provide enough information. Did you ask for the additional information from Jersey Bus?

MR BLACK: Um, I can't recall. The accounts they provided were draft accounts, and this was ... we are talking about November 1999.

MR BLACKSTONE: A year after. They were obviously very dilatory in their accounting.

MR BLACK: For the year concluding 1998 and, you know, if they are asked to provide the accounts, you would think they would deliberately provide the best information they could. The best information I received was a set of draft accounts that hadn't been signed by the directors, as I recall, and hadn't been audited. I had no reason to believe that it was going to get any better. If they had any better, presumably they would have provided me with that automatically. Is that not a fair assumption?

MR BLACKSTONE: Well, I have here the final accounts, and they were signed off by the auditors on 13th December 1999.

MR BLACK: So that was after the date of mine then.

MR BLACKSTONE: Yes, they were obviously rather dilatory in their production of accounts.

MR BLACK: So I couldn't have seen audited accounts.

MR BLACKSTONE: No, you couldn't have audited accounts at your review in November, no, because they had not been signed off by then.

MR BLACK: That's right. Nor indeed were they signed by the directors, the ones I received.

MR BLACKSTONE: That is correct. The directors signed them on the 12th, but, in my professional experience, I can't say I encouraged it, but it was quite often that I found accounts produced rather late.

MR BLACK: Yes, but I was asked to advise the Committee and I believe my advice to the Committee was that I didn't have any great confidence in the information provided to me.

MR BLACKSTONE: You didn't have any great confidence in the information?

MR BLACK: No.

MR BLACKSTONE: We have heard from Pricewaterhouse this week -- last week -- that the audits they have done on the Diamond Group of companies, which included JMT 1987 Limited they have never had cause to produce other than a clear audit certificate.

MR BLACK: Yes, but you have got to put yourself in my position. The best information I received was an unsigned and unaudited set of accounts and, as an accountant, the value I would place on that is nothing.

MR BLACKSTONE: Did you ask why they were unsigned or unaudited?

MR BLACK: Um, I honestly can't recall, but, as I said, I presumed the company provided me with the best information they had at the time and, as you now know, what they gave me was the best information.

MR BLACKSTONE: Did you ask them when the audit was going to be signed off and completed?

MR BLACK: I honestly can't recall.

MR BLACKSTONE: It was signed off and completed within a month of your examination.

MR BLACK: Right.

MR BLACKSTONE: If you had asked them, is it not possible they might not have been able to expedite that so that you would have had audited accounts?

MR BLACK: I don't know, but I presumed that if they were making a bid for a fare increase on the back of the accounts, they would make sure they provided signed and audited accounts.

MR BLACKSTONE: They provided you with what they had at the time. As they had never had

a qualified audit report before, I assume they would have thought that you would accept those accounts.

MR BLACK: I am sorry, but I really do not accept this line of questioning. I think it is unreasonable, to begin with. They were asked to provide those accounts and they didn't provide a set of audited accounts. If they thought this information was important, they would have made sure that they provided signed and audited accounts.

MR BLACKSTONE: So you received these accounts. Did you then go back to Jersey Bus and say "When is the audit going to be signed off?"

MR BLACK: I honestly can't recall.

MR BLACKSTONE: But it was signed off within a month.

MR BLACK: But, again, I really come back to you. If they were going to provide me with information and this operation was important to their business, I believe it was their obligation to ensure that they provided proper accounts to me, not mine.

MR BLACKSTONE: Well, the financial accounts they provided were the best they had, all they had available at the date you requested them.

MR BLACK: Okay.

MR BLACKSTONE: They also volunteered considerable additional information which you hadn't asked for by way of management accounts and other information. I feel that the answers that you gave to the Committee were possibly somewhat biased against Jersey Bus because ----

MR BLACK: No ----

MR BLACKSTONE: Hang on, because you could have easily asked them when their audited accounts would be available and, if it was going to be imminent, then possibly the Committee's decision could have been deferred from 22nd November to 13th December when the accounts were signed off.

MR BLACK: Well, I mean, first of all, I am here to give evidence and, with the greatest respect and out of true courtesy to you, it seems to me that you are taking a rather partial view on this matter.

MR BLACKSTONE: Well, this is a very serious matter because ----

MR BLACK: I know it is very serious, but that is why it is very important for both of us to

take an impartial view.

MR BLACKSTONE: Up until this time Jersey Bus had had their three year licence renewed every time for a period of something like 30 years.

MR BLACK: Hmm hmm.

MR BLACKSTONE: Up until this time, as far as the Committee of Inquiry is aware, their requests for fare increases had always been approved.

MR BLACK: Hmm hmm.

MR BLACKSTONE: We have a letter from Colin Powell saying "This request is reasonable." We then come along to your examination of accounts. You were given not only what you were asked for, with a slight reservation that the 1998 accounts had not been signed off ----

MR BLACK: That is not a slight reservation.

MR BLACKSTONE: ---- but you were also given a lot of volunteered additional information.

MR BLACK: Right, well, that additional information was management accounts.

MR BLACKSTONE: Hmm hmm.

MR BLACK: Those management accounts bore no obvious link to the financial accounts provided. They showed, from my recollection, the company being profitable in 1999 and then it moving into a loss in the year 2000. Again, I would ask as a fellow accountant how confident you would be in that information produced by management for the purpose of having an increase in their fares? It is interesting. It would be interesting to see trends related to the accounts, which I couldn't do, but I couldn't hold great store by it. I think you would be here criticising me on the basis of their rise on information like that, unaudited and produced by management. I think you might even say that I had been irresponsible with taxpayers' money.

MR BLACKSTONE: Yes. This was a major turning point in the history of Jersey Bus, and I think it did devolve very considerably on your professional advice to the Committee, because I do not believe any of them were experienced in the field of accounting.

MR BLACK: Can I quote some of the advice I gave Committee from the Act? I said that, on the basis of information I had received, the company appeared to be profitable and provided a very good return on shareholders' assets.

MR BLACKSTONE: I am going to come to these specific ----

MR BLACK: It is in the accounts, but that was my opinion. I did, however, give all sorts of caveats around this. I said the accounts were in draft and they didn't include an audit certificate and, as a professional, these things (I am sure you know) are important. So, again, I have got to say what faith can I have in the information provided? I also said that they hadn't been signed by the directors. Now, I can see no reason why directors couldn't sign the accounts if people were giving them to me, but they hadn't been signed.

I also noted that I wasn't given access to the accounts of the parent company, Diamond Jersey Limited, and the other companies within the group. This meant I couldn't properly ascertain the actual income and expenditure incurred by JMT 1987 Limited. For example, I told them that a number of recharges had been made between the companies in the group and Diamond Jersey had received income accruing from school bus contracts while another group company, Sunburst Limited, was liable for the rent payable on the Weighbridge. What I explained to them, I believe, from my recollection, was that, for instance, there was a school bus contract running, I believed it was using JMT buses, but I could see no income accruing from the use of those JMT buses to JMT Limited. So what I said was that I didn't have a great deal of faith from seeing the accounts of part of a major group when clearly there were a number of recharges going on between them.

MR BLACKSTONE: Did you make that assumption or did you ask Mr Lewis that question specifically?

MR BLACK: I can't recall, but indeed, from a very quick glance at the documentation you gave me, it would appear that I think I did ask for the accounts.

MR BLACKSTONE: The breakdown of the turnover between the public bus service and the school buses.

MR BLACK: Er, no, of the accounts of the parent company.

MR BLACKSTONE: I would like to go into your responses in some detail. I think we have the same document in front of each of us, which are the minutes of 22nd November 1999. Your statement is reported in the minutes as being: "*The company was profitable and provided a very*

good return on shareholders' assets". As the paid up capital of the company is only £9, a profit of £10 could be said to be a very good return, being over 100% of shareholders' capital.

MR BLACK: These were minutes by a Committee clerk. I didn't actually see these minutes afterwards, so we are talking about from memory. I believe my view was that they would provide a good return on capital.

MR BLACKSTONE: Return on capital I would not think was relevant when the capital of the company paid up was only £9 and a lot of the profits had been paid out on dividends, so the shareholders' assets as shown by the accounts were minimal. The profitability, surely, is much more importantly related to the size of the operation, the capital employed and the risk involved?

MR BLACK: And could you ascertain that from the accounts?

MR BLACKSTONE: I chose to do it a different way, possibly with hindsight, to be fair. I have looked at it in the way that the transportation industry profits are assessed, and we will come to that in a minute.

MR BLACK: Okay.

MR BLACKSTONE: Yes, it is possible from the accounts.

MR BLACK: But can we be clear -- and you can check it through the Acts -- I was asked to review those accounts. I wasn't asked to give a view on the transport industry.

MR BLACKSTONE: No, I accept that point. You may have been advised possibly not correctly in the circumstances, but that's not your fault.

MR BLACK: No, I undertook the task I was asked to do.

MR BLACKSTONE: Sure. You undertook the task, yes. "*Difficulties experienced because he did not have access to the accounts of the parent company.*" Why should these parent company accounts be relevant? The parent company was not running a bus service.

MR BLACK: Well, I have explained the reason to you, haven't I, which is that there are a number of recharges bouncing about between various parts of the same group.

MR BLACKSTONE: Can you define those recharges?

MR BLACK: Well, I think I have actually. I think I have already quoted to you a number of them. One of them was that I was under the impression that there was school bus contract

running and that JMT buses were being used for that contract, but I could see no obvious evidence of income accruing from that contract.

MR BLACKSTONE: Mr Lewis confirmed that specific point to you, did he?

MR BLACK: No, he didn't.

MR BLACKSTONE: Did you ask him?

MR BLACK: Well, I believed the accounts would show it. It is a matter of a statement of facts, and perhaps you can ask JMT if there was any income accruing from the school bus contract in those accounts.

MR BLACKSTONE: Possibly we have more information now because we have spent the last four months digging into this, but I think even at that time some of the school contracts were run by a Tantivy, which is another company within the group -- I might be wrong on that point -- but certainly the turnover did include school bus income and the expenses included school bus running expenditure. Tantivy was a separate company and, if it was operating school bus contracts, it also would have expenses relating thereto. They were separate operations.

MR BLACK: But the important point here is I was asked to review the accounts of JMT Limited, and the advice I gave to the Committee was that clearly this was part of a wide group of companies and that there were recharges within this company, some of which worked or might have worked in favour of JMT, some of which, or one of which, I believed could actually have worked against, which was -- I think my recollection was -- that with the bus depot on the Weighbridge, which I believe was owned by Sunburst, there didn't appear to be a rent being recharged to JMT so it could have cut both ways. The point of this, the point that I was making to the Committee, was that I didn't ... I wasn't taking a negative view, I was taking a view on the basis of what I saw that the company was profitable, but I was making all sorts of caveats around this. I had no confidence, if I was being honest, that this was a good set of accounts on which to be making an important decision.

MR BLACKSTONE: Perhaps you would have a look at this schedule which I prepared? (**Same handed to witness**) The figures come from the audited accounts up to 2000, which were produced to the Committee by Jersey Bus, and I have made certain adjustments. I have knocked

out management fees, because that is a standard commercial catch-all for all sorts of things. I have added in, as you said, the rent for the Weighbridge, which was assessed by Mr Lewis with the assistance of commercial valuers, and I think you made reference to that earlier on. I have added back in a reasonable sum for two directors working fairly extensively in the business and I have deducted interest on group loans, because, although the company had major bank borrowings, they also made loans of up to half a million pounds interest free to other group companies. I am not aware that there are any other recharges or anything else and Pricewaterhouse have confirmed subsequently -- admittedly subsequently -- that these accounts had a clear auditor's certificate said to be a true and fair view.

MR BLACK: This is after the event.

MR BLACKSTONE: This is after the event, but do you consider that my assessment here is reasonable?

MR BLACK: Quite frankly, there is no way ----

MR BLACKSTONE: Sorry?

MR BLACK: While I think I am a competent accountant, there is no way I could absorb these figures now or express a view on them.

MR BLACKSTONE: They are fairly simple.

MR BLACK: But I am very happy to consider them and come back to you and have a further discussion, if need be.

MR BLACKSTONE: Yes, please keep that schedule, yes.

MR BLACK: I think the point to be made, surely, is, firstly, the amount of resource you have put into this compared to the amount of resource I put into this at the time. Secondly ----

MR BLACKSTONE: Sorry, could I just stop you there?

MR BLACK: Yes.

MR BLACKSTONE: The amount of resource you put in at the time -- do you suggest that, in hindsight, you should have gone into more detail in these accounts before making assumptions and before giving advice to the Committee?

MR BLACK: The advice I gave to the Committee was that, on the face of it, the company

appeared profitable but, as you can see from the Act, I gave an immense number of caveats to that, and I also said -- and this is a recollection which appears in the Act but not coming from my own lips - - that I felt that the Committee was dealing with a monopoly provider and the only way they could have a proper relationship with a monopoly provider was through a full open book situation and greater financial transparency in their dealings with the company. Although that is not attributed to me in the Act, I think the wording which I gave them appeared as "*The company agreed to greater transparency in its dealings with the Committee on financial matters.*" I can't unfortunately comment on the willingness or otherwise of the company at the time to provide access to financial information.

MR BLACKSTONE: But you were provided with more information than you asked for originally voluntarily.

MR BLACK: Yes, but, really how much value would you have placed on that, especially when you couldn't tie it up in the accounts and when the best accounts they could provide you with were neither signed nor audited? This is not a company that, on the face of it, has actually shown true financial transparency. You keep on inferring to me that it was my job to wrangle the information out of them and encourage them to get their accounts audited and encourage them to sign their accounts.

MR BLACKSTONE: I didn't mention "*wrangling*", Mr Black.

MR BLACK: Well, you ----

MR BLACKSTONE: You have given an opinion to the Committee. "*Mr Black was of the opinion that the profitability of the company would not be greatly affected if its fare application was not approved at this stage.*" It is an extraordinary assumption.

MR BLACK: That is on the basis of the accounts I had and if you take into account the immense number of caveats in the previous paragraph.

MR BLACKSTONE: But, Mr Black, the turnover of the company on school buses, excluding school buses, is about two and a half million. They have asked for a fare increase of something like 3½%. That would result in an additional profit of £80,000. Is that insignificant?

MR BLACK: The school bus contract didn't appear within this at all, and I couldn't express a

view on whether the school bus contract was lucrative or not.

MR BLACKSTONE: No. Let me just repeat that question. Taking the school buses out of turnover -- and this is information which we had but which you could have obtained off Mr Lewis by one question, I assume ----

MR BLACK: Well, you are making a presumption here that, of course, this information would have readily been provided.

MR BLACKSTONE: I see no reason why it should not be provided because they volunteered a lot of information over and above what you asked for.

MR BLACK: I received an initial set of accounts.

MR BLACKSTONE: Did you go back to Mr Lewis and talk to him about all the information that he provided?

MR BLACK: I believe I did. My difficulty is, as I have made clear at the start of this, that I don't have any records of these things.

MR BLACKSTONE: Well, there is a letter of 28th October: "*Dear Ian*", with pages and pages and pages of additional unrequested information volunteered by Mr Lewis to assist you in your assessment. There is a manuscript letter of 3rd November, with more and more pages of unrequested information. If you got all this, why couldn't you go back and clarify yourself on any points which you were not certain of?

MR BLACK: My difficulty is that I don't have records, so I can't say what I did and didn't ask for and what was provided and what wasn't provided.

MR BLACKSTONE: But you could have gone back and asked?

MR BLACK: My difficulty is ----

MR BLACKSTONE: You were not forbidden from seeing Mr Lewis or ----

MR BLACK: ---- that I can't recall what I did go back and ask for or not. **(Pause)**

MR BLACKSTONE: You gave the Committee information which caused them to state that the fare application should not be approved. You also made reference to seeing the accounts of the parent company which included things like the Living Legend, the Boardwalk Café, Uncle Tom Copley and all. Whatever relevance that had to buses I do not understand. When you have had a

chance to look at my little analysis, you may understand that, if I can do that at home in my study without reference to the company, had you had full access to the company and their information and the ability to ask them questions you could have been able to establish a similar figure yourself.

MR BLACK: I think I have got to say that you have the benefit of hindsight ----

MR BLACKSTONE: Yes, we do.

MR BLACK: ---- which is a wonderful thing. You have the benefit of open access to the company's financial information, which I clearly didn't have at the time because they didn't provide audited accounts.

MR BLACKSTONE: I am not talking about group accounts, I am talking about the accounts of JMT and adjustments thereto.

MR BLACK: Yes.

MR BLACKSTONE: You said that you could have gone back to Mr Lewis. There wasn't a brick wall between the two of you. You could ask. He was referring to you as "*Dear Ian*", so obviously you are familiar and friendly.

MR BLACK: And I honestly can't recall whether he was willing and open or whether he was reluctant to provide the information. What I do know is that the information that they provided to me wasn't satisfactory.

MR BLACKSTONE: Why was it not satisfactory?

MR BLACK: Well, you know.

MR BLACKSTONE: I don't know.

MR BLACK: You know it wasn't audited and you know that it wasn't signed by the directors and you know that they didn't sign it until after that date. If they would have deemed it to have been important, they would have been sure that they provided the information.

MR BLACKSTONE: And you say you didn't ask them when the accounts were going to be signed off.

MR BLACK: Really, I think your line of questioning is unfair.

MR BLACKSTONE: It is a reputable company which has had a clear auditor's certificates

throughout its life and yet you hold a position that, because the accounts you saw had not yet been signed off, they were unreliable and you could not place any reliance on them.

MR BLACK: I received information. I said, on the basis of the information I received, I couldn't hold great store by it. That is clear in the Act. It is absolutely clear that I said that.

MR BLACKSTONE: It is.

MR BLACK: On the basis of what I received, the company was profitable. That, I think, is a statement of fact.

MR BLACKSTONE: It is, but I think your statements that "*The 1998 accounts were in draft and did not include an audit certificate, they have not yet been signed by the directors of the company*" all are true, but I think it is an unreasonable statement to make to a Committee which does not necessarily understand accounting and the delays that sometimes happen in preparation of audited accounts.

MR BLACK: I am sorry, I don't accept that. I accept I made a statement to the Committee, which is a year after the event, that I had received the best accounts for the company which were neither signed by the directors nor audited and I genuinely think it wasn't my job to get the organisation to provide the information. It was their obligation to provide it to me. If they thought that neither having accounts signed by the directors nor audited were important to have been provided to me, then they wouldn't have provided that, and they didn't. They clearly didn't think this was important. **(Pause)** What excuse can they have for not providing signed accounts and audited accounts?

MR BLACKSTONE: Because they had not been audited at that time.

MR BLACK: There is no excuse, is there?

MR BLACKSTONE: I have no further questions.

MR GARRETT: I am not an accountant and I have no intention of delving into that area. My particular area of interest at the moment is in relation to the Bus Strategy. Is it usual for a strategy such as the Bus Strategy to be taken before the States without any form of costings attached to it, any estimate as to how much this enterprise is going to cost the Island?

MR BLACK: Um, there is ... er, any report and proposition to the States normally is

supposed to include the financial implications.

MR GARRETT: Do you know whether the Bus Strategy included that kind of information and how accurate that information might have been?

MR BLACK: No, I honestly can't recall, but, yet again, if you would like me to, I will find out the answer to that question.

MR GARRETT: If you can.

MR BLACK: I am very happy to do so. What date was that?

MR GARRETT: This is the Bus Strategy which was the summer ----

MR SHEPHEARD: It is Project 104 of 2001, Mr Black, if that assists.

MR BLACK: I am very happy to do that.

MR GARRETT: Are you familiar with a report submitted by Mr J. Dixon to the Treasury dated December 2003?

MR BLACK: Mr J. Dixon is a member of my staff.

MR GARRETT: Right.

MR BLACK: I am sure he did submit a report dated December 2003, but I am not au fait with it as we speak.

MR GARRETT: Are you up to speed on the financial situation in relation to the Bus Strategy and the potential overspend on it?

MR BLACK: I do know that, following the tender process and as things have unfolded, the Environment and Public Services Committee on a number of occasions have come back to the Finance and Economics Committee and have said they have serious financial difficulties. The main one was that there was a problem relating, from memory, to do with the school bus contract and then probably the greatest one has been following the tender process and the acceptance of the contract with Connex. That left the States with a fairly major risk exposure and that risk has appeared in terms of usage, a necessary public subsidy for the buses, and so on a number of occasions I have received reports seeking additional funding for that.

MR GARRETT: Is it not true to say that the current deficit certainly in relation to the funds that are available within Public Services at the moment is running at about 1.96 million?

MR BLACK: I would have to confirm that figure, but that sounds right.

MR GARRETT: Do you seriously think that the States could have approved a strategy on the basis of knowledge that it was going to cost an extra 1.96 million above what was available in the Budget?

MR BLACK: That is a ... when it approved its strategy nobody wants to approve anything that costs more than the Budget. It might choose politically to spend more money on the bus service, because, for instance, they have got lots of nice new buses as a result of this process, but no one would choose to have an overspend on the Budget.

MR GARRETT: What is your view on the current situation? Do you think it is satisfactory?

MR BLACK: No.

MR GARRETT: Moving into a different field ---

MR BLACK: You haven't asked me why I think it is not satisfactory. I wasn't intimately involved, but I don't think there was a proper risk assessment undertaken in this process.

MR GARRETT: And who do you think was responsible for that? Who should have done it?

MR BLACK: It ultimately should have been the responsibility of the Committee to progress the process.

MR GARRETT: And yet I have actually seen a risk assessment that they went through. Clearly they didn't highlight the potential shortfall on funding. That process was deficient. Moving on to a different subject and going back to the issue of consultants, do you know if there are any guidelines, rules or anything else relating to the selection of consultants at all within the States?

MR BLACK: There is a Code of Directions on Approved Consultants. It mainly deals with the financial arrangements to do with it. From memory, I think that Code of Direction may not have been in place at the time of the Bus Strategy.

MR GARRETT: Could you let us have a copy of that?

MR BLACK: Absolutely. I will give you the date as well. I think it is Code of Directions 9.

MR GARRETT: Thank you. Can I ask you possibly a difficult question, but how would you as the Treasurer feel about the retention of a consultant who, by his own admission, wasn't qualified and wasn't experienced and was charging £400 a day on something of an open ended

contract? Do you think that is satisfactory within the States?

MR BLACK: I honestly think that is a bit of a sort of hypothetical leading question and I am not sure that is a fair question to ask me. If you want to ask me a specific question?

MR GARRETT: Okay, we will go back to Mr Griffiths.

MR BLACK: Right.

MR GARRETT: His area of expertise was clearly in relation to the production of service level agreements within the Health Service. He before us the other day admitted that he had received no formal training in the production of SLAs; that he had never worked in the bus industry; that he had never worked even in the broader transport industry; and yet he was retained by Public Services on £400 a day on an open ended arrangement. There is no contract in place; no clear terms of reference in place; but he is brought in by Public Services to work between them and Jersey Bus on £400 a day. Do you think that is satisfactory?

MR BLACK: Right. Well, I don't know the task he was given. I know if I employ an accountant from a local accounts partnership he costs considerably more than £400 a day, so I'm not sure I can express a view because I don't know what competence they asked for.

MR GARRETT: If the rules that you described before, which possibly were not in force at the time of this happening, but if they had been in force, do you think that situation would have been compatible with the rules?

MR BLACK: Well, firstly, let me state the blindingly obvious. You employ somebody who is fit for the purpose, don't you?

MR GARRETT: Yes.

MR BLACK: It depends entirely on the task required. I don't know what the task was, so I can't express an opinion.

MR GARRETT: It was to work on a service level agreement between Jersey Bus and Public Services, where clearly he had no experience at all.

MR BLACK: Well, that doesn't sound perfect, does it?

MR GARRETT: No. Okay. What was your personal view when you heard that Connex had been appointed?

MR BLACK: I didn't have one.

MR GARRETT: You are not a bus user?

MR BLACK: No, sadly, very occasionally.

MR GARRETT: Okay. In your view, if the States was embarking on this kind of project again, what should they do differently?

MR BLACK: Um ... **(Pause)** I should be fairly circumspect because I am not an expert on this or fairly close, but it would appear that something went wrong with the contracting process, and I can't tell you because I really wasn't involved why or what, but I have already referred, I think, that the contract left the States unreasonably exposed to risks. I am not sure, with the benefit of hindsight, that there was proper risk transference in the tender process.

MR GARRETT: Thank you for that view. I have reached the end of my questions, but, before closing, is there anything that you want to tell us or point us in the direction of any issue that you believe we should be investigating during our deliberations? **(Pause)** Is there anything that we haven't covered that you really would like us to know about from your perspective?

MR BLACK: Well, the only point I have made, forgive me, in a fairly difficult discussion earlier is that I was then of the view, and I still am of the view now, that if you are going to have a monopoly provider of any services in Jersey or anywhere else, then the only way you can actually work, because you haven't got competition, is by complete transparency. Looking back with the benefit of hindsight, which, again, is a wonderful thing, somehow or other the States have tried to run an arrangement with a monopoly provider for years without full transparency. I just can't see how it can work really because how is anyone going to know what is a fair arrangement on both sides? I think only if there is ... if you have a monopoly provider, there must be partnership, there must be openness, there must be trust and transparency and I can't see any other basis on which a sole provider of bus services could work in Jersey.

MR GARRETT: Could I just explore that point with you? So long as Jersey Bus was not making demands on the States for any money, in terms of, you know, funding, and so long as it was profitable and there were lots of visitors here and so forth, was that requirement or that need for an open book policy less significant?

MR BLACK: I can only surmise over many years that if there was a monopoly provider in Jersey, unless they decided that there was a reasonable return on its business and they then made their request based on that level granted, the chances are that either sooner or later we would reach a situation where either that company is making super profits or, alternatively, is making losses. The chances of having a monopoly provider and not having some open arrangement and hitting a reasonable level of profitability is small, infinitesimal. It is just not a sustainable arrangement, I would have thought, and I would guess the only way it works is if the company is making extremely good profits, the business is going well and the States sits back and allows them to carry on.

MR GARRETT: Bearing in mind that Jersey Bus had operated without an open book policy for many, many years, would it not be fair to say that this was a significant change in the arrangement and the management of that change was fairly critical to the success of the proposal?

MR BLACK: Yes.

MR GARRETT: Do you think that that change process could have been handled slightly differently, with hindsight?

MR BLACK: I am expressing an opinion now. My opinion is that things were getting tougher around this time. Perhaps it had been -- and I don't know, but perhaps it had been -- through the boom years of Jersey's economy, through the boom years of tourism, that running a bus company in Jersey was an extremely lucrative business, but what happened then was, after that affluence, the increase in car ownership resulted in people switching from buses to cars and, combined with the downturn in tourism volume numbers, it may suddenly be that tensions appeared in the relationship. Something that was extremely profitable in the past was not so profitable as it had been and one party, I guess, was desperate to maintain its level of profitability and the other party was suddenly faced with demands for fare rises, representing the consumers in the Island who were quite keen on keeping down the fare rises, so that it would be very difficult to work out who was in the right on this and tensions would have arisen. There could have been a breakdown in trust by both parties and, yes, that is how the friction arose. I really

can't -- this is where I came in on all this -- I can't see a sustainable arrangement for the future. But, if you assume you have a monopoly provider -- and I don't express a view on that, but that may well be what is best for Jersey -- then somehow or other they must have some open partnership/relationship. I can't see any way else of doing it really. Working on partial disclosure of information on a monopoly provider just isn't going to work.

MR GARRETT: But the skill in implementing change is the way in which you go about it to achieve agreement on both parts?

MR BLACK: Absolutely so, and you are here today because ----

MR GARRETT: That didn't happen.

MR BLACK: ---- they didn't manage it quite as well as they might have done.

MR GARRETT: Thank you.

MR SHEPHEARD: Mr Black, you referred to "*super profits*". How would you define them?

MR BLACK: An excess return on capital.

MR SHEPHEARD: How do you measure it?

MR BLACK: Um, you work on ... to talk from personal experience perhaps -- I should be careful actually -- I deal with a number of companies and you take a view on what would be thought to be an acceptable return on capital for an investor and anything in excess of that or unreasonably in excess of that is a phrase loosely defined as "*super profits*". Generally the only companies who can enjoy super profits for any period of time are those who somehow or other enjoy a monopoly. It could be a monopoly by way of patent, I guess, which is something like Microsoft, who effectively have no competitors; it could be a monopoly by way of geographical boundary, like being the only provider on Jersey.

MR SHEPHEARD: Would you accept that the provision of a bus service in Jersey is a natural monopoly?

MR BLACK: I'm not expert to comment on that. It could possibly be.

MR SHEPHEARD: Anything further, Mr Blackstone?

MR BLACKSTONE: Yes. Jersey Bus had operated for many, many years without any check on its accounts. As you say, open book policy where there is a public monopoly is the only way.

MR BLACK: Yes.

MR BLACKSTONE: But if they weren't asked for accounting information, they have got no responsibility to provide it, have they?

MR BLACK: Um, I think that is right and, if I was in that fortunate position, there is no way I would ever volunteer the information either.

MR BLACKSTONE: So Public Services should have asked for it earlier perhaps?

MR BLACK: I presume these things are determined by law, and I don't know how adequate the law was governing this. I can't just demand to see your accounts.

MR SHEPHEARD: Perhaps you would accept from me, Mr Black, that the law as it was and the law, I think, although I haven't looked sufficiently closely at it, to some extent as it still is, doesn't really deal with economic regulation.

MR BLACK: I have got to say that, from my time in Jersey, perhaps in all sorts of areas you will discover that in the past. I don't think ----

MR SHEPHEARD: I think that is universally true.

MR BLACK: I don't know if this applied to -- and no reflection on the companies -- the Jersey Electricity Company or the Jersey Waterworks Company. Jersey has become a regulatory place for the first time in the last year or two years, so there weren't those arrangements in place.

MR BLACKSTONE: I don't think I want to revisit our discussion about your reporting on the Jersey Bus accounts. I will obviously discuss that with my colleagues and we will report as we see fit. Therefore, I have no further questions.

MR SHEPHEARD: Mr Black, thank you very much for coming here today and thank you for agreeing to provide us with those additional bits and pieces. We look forward to receiving them.

MR BLACK: Okay. So, just to summarise what I am providing, I am going to provide you with information on whether there was some endorsement of the appointment of Mr Griffiths from the Treasury; I am going to provide you with a comment on the financial implications of the Bus Strategy, P104 of 2001; and I am going to provide you with a copy of Code of Directions (I think it is) regarding the appointment of consultants and the date that it came into effect.

MR GARRETT: Thank you.

MR SHEPHEARD: Yes, thank you very much.

MR BLACK: Thank you.
