

# STATES OF JERSEY

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

BLAMPIED ROOM, STATES BUILDING

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

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

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### EVIDENCE FROM:

**MR M. WINSTON**  
**(FourSight Consultants)**

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on

**Thursday, 27th January 2005**

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*Reviewed 15/03/05 Committee Clerk*

MR SHEPHEARD: Mr Winston, good morning.

MR WINSTON: Good morning to you.

MR SHEPHEARD: The Committee of Inquiry is receiving evidence from witnesses on oath, and I will immediately proceed to administer that oath to you.

**The witness was sworn**

MR SHEPHEARD: Thank you, Mr Winston. Thank you very much for coming here today. My colleague, Mr Blackstone, I think has some questions for you, and Mr Garrett and I may also have some questions for you when Mr Blackstone has finished his questions.

MR BLACKSTONE: Good morning, Mr Winston.

MR WINSTON: Good morning.

MR BLACKSTONE: I believe you are a certified accountant.

MR WINSTON: I am, yes.

MR BLACKSTONE: Employed by FourSight Consultants.

MR WINSTON: Yes.

MR BLACKSTONE: In November 2001, you produced a document "*Financial Overview of Companies expressing interest in the provision of the Jersey Bus Network Service*".

MR WINSTON: Yes, I did

MR BLACKSTONE: What was the purpose of this exercise?

MR WINSTON: As far as I was told, it was just to ... a number of companies -- I think 13 companies -- had formed an expression of interest in operating the Jersey bus service and I was told to give a quick look over the accounts of those companies and give a brief ratio analysis. I did say at the time that, in order to actually give a more detailed view on these companies, I would need to actually obtain more detailed financial information. I never actually received anything further beyond my initial review on that information.

MR BLACKSTONE: Yes. Your report does state: "*As the review has been performed using only limited financial information, in order to obtain a greater understanding of the financial performance of each of the short listed companies, a more detailed financial analysis will be required in the future.*" To your knowledge, was this further examination ever carried out?

MR WINSTON: To my knowledge ... well, to my personal knowledge, no.

MR BLACKSTONE: As the review appears to have been carried out from the published accounts of the companies, did you have any need to come to Jersey?

MR WINSTON: I didn't. I didn't have a need to come to Jersey for that reason, no.

MR BLACKSTONE: No. It is quite a hefty document for a preliminary overview.

MR WINSTON: It is, isn't it?

MR BLACKSTONE: Do you recall what your fee was for this work?

MR WINSTON: Um, well, I think it was about two days' work, which is about £800, I think.

MR BLACKSTONE: £800?

MR WINSTON: Yes.

MR BLACKSTONE: You are £400 a day?

MR WINSTON: Yes.

MR BLACKSTONE: As you are the accountant for the group, can I ask what Mr Griffiths' rate is, please?

MR WINSTON: As far as I ... It's usually a very similar rate. I mean, depending on the complexity of the job, they vary between ... it could be anything between £375 and £475 a day basically.

MR BLACKSTONE: Now, Mr Griffiths' work with Jersey Bus on the tendering process ----

MR WINSTON: That's right.

MR BLACKSTONE: ---- and rate of return and SLA and all the rest of it ----

MR WINSTON: Yeah.

MR BLACKSTONE: ---- was quite extensive and extended over quite a period into the Connex days.

MR WINSTON: It did. It did.

MR BLACKSTONE: Into 2002 to 2003, I believe. Have you any recollection of what your total fees for FourSight for this work would be?

MR WINSTON: Unfortunately, I couldn't actually comment on that. I mean, I would need to look back over ... I mean, John did the majority of the work, as you may be aware, and

obviously I think it would probably be John you would need to direct that question to.

MR BLACKSTONE:            Hmm hmm. Would it have been charged on a daily basis or a fixed fee basis?

MR WINSTON:                It would have been charged on a daily basis.

MR BLACKSTONE:            Mr Griffiths was the one primarily involved in this project.

MR WINSTON:                Absolutely.

MR BLACKSTONE:            As he was familiar with it, why didn't he carry out the accounting review?

MR WINSTON:                Well, I think, essentially John is not an accountant and obviously we are ... FourSight are management consultants and we obviously have various skills within the company. When needed, obviously something like the financial background would need an accountant to actually look at it in detail. **(Pause)**

MR BLACKSTONE:            Apart from the preparation of the report I referred to, what other involvement did you have with Jersey Bus and the bus operations in Jersey?

MR WINSTON:                Um, I suppose, during the period that John was working on it, he used to use me to basically discuss any financial issues that he actually had when he was looking at the various matters relating to Jersey Bus. It was more as a sounding board and also to really sort of say "John, maybe we ought to be considering looking at perhaps this." It was just ... basically it was almost like a second ear really.

MR BLACKSTONE:            Hmm hmm. And so you did look at some of the Jersey Bus accounts that had been presented to him?

MR WINSTON:                Certainly, yes.

MR BLACKSTONE:            These were the audited accounts of the company?

MR WINSTON:                Initially, we were only able to see initially the profit and loss accounts of the company. I think also it was the management accounts. I think there was difficulty initially obtaining the balance sheets of the company, and I think advised John that we needed to actually see these balance sheets in order to get a better feel for the company. I think the main issue as we saw it at the time was, although there was JMT's accounts, we weren't able to see the Diamond Group's accounts, which was the holding company, and obviously, therefore, we

weren't able to see the full picture. The problem was, of course, that one of the reasons for wanting to see the accounts was that at the time they were wanting a cost plus approach to the issue and obviously we needed to understand what the basis of the cost was and obviously what the basis ... what sort of additional subsidy was going to be needed for this bus service. At the time I think there was difficulty encountered in getting the information out. As I say, from my recollection really, it seemed to go through a series of meetings which I was not involved in and at some point or other this whole service level agreement and the cost plus basis just seemed to fall apart and they went out to the tender process, which is what I was involved in at the very end.

MR BLACKSTONE:            Hmm. I too am an accountant, by the way, so we are talking the same language.

MR WINSTON:                Yeah.

MR BLACKSTONE:            You said that initially you didn't get the balance sheets for JMT 1987.

MR WINSTON:                Yes.

MR BLACKSTONE:            Does that mean you did get them sooner or later?

MR WINSTON:                I can't recall, but I remember seeing the balance sheet when I was asked to do this review of the 13 interested companies.

MR BLACKSTONE:            Right, yes, because they had to submit full audited accounts.

MR WINSTON:                That was the only time I recall actually seeing them.

MR BLACKSTONE:            So you didn't necessarily see them before that?

MR WINSTON:                No.

MR BLACKSTONE:            Assuming, which is not necessarily a bad assumption, that John Griffiths did get the full audited accounts of JMT 1987 Limited, why would he want to see the accounts of other group companies? They weren't involved in bus operations.

MR WINSTON:                Well, as I say, it was trying to understand more fully the basis behind the actual costs themselves, because unfortunately, within the JMT accounts, there was a management charge. It was basically ... it was trying ... I think at the time the costs themselves, or the basis behind the cost plus, the cost itself had not been defined. I think if they had said

“The costs are going to be X, Y and Z and you don’t need to include certain other costs, e.g., the management charge”, but at the time there was what I would called detailed discussion going on to which I was not party and they were really ... and it was just trying to get together as much information as possible in order to actually formulate the basis behind what cost really meant.

MR BLACKSTONE: Fair enough, but ----

MR WINSTON: I think that is ----

MR BLACKSTONE: ---- I don’t see what, for example, Living Legend or Board Walk Café or anything else has to do with the bus operations in Jersey.

MR WINSTON: I wasn’t aware. I wasn’t aware that we were asking for those accounts. I knew we were asking for the ----

MR BLACKSTONE: For all companies within the Diamond Group you were asking for.

MR WINSTON: Well, as far as I was aware, we were asking for the holding company’s accounts basically, just ... I mean, the major reason for asking for the holding company’s accounts was to say how is the ... is the ... will the group of companies being spared to support this smaller company within the group. I mean, it was probably ... and all they had to do was to give a written assurance that that would have been the case, but, as I say, it never ... it seemed to all fall apart, as I said, and so these issues were never aired basically.

MR BLACKSTONE: But we had Pricewaterhouse, the company’s auditors. Their audit partner came and answered some questions for us and he said that he has been audit partner for a number of years in Diamond ----

MR WINSTON: Sure.

MR BLACKSTONE: ---- the companies in the Diamond Group ----

MR WINSTON: Right.

MR BLACKSTONE: ---- and he saw no reason or that there was any reason to suspect cross-fertilisation of trading operations between the various companies, and he has given a clear audit statement of every company in the group that he had audited. It seems that you might have been a little bit over suspicious.

MR WINSTON: Well, I think it was a negotiating process. I think basically when we were

looking at it, we needed to more fully understand the basis behind the costs. I suppose, at the time, if the information had been more forthcoming or good reasons had been given as to why we shouldn't really have it, then may be it could be resolved. It wasn't ... I mean, we are talking about a situation where two parties are in a negotiation phase and obviously one party needs to try more fully understand the basis behind their actual cost, because unfortunately the agreement was going to be based on a cost plus basis and it was just trying to fully understand what "cost" meant. If they had said "cost means this and this can be audited on an annual basis by whoever needs to see those figures", then I am sure that would have been fine, but it never got to that particular stage.

MR BLACKSTONE: When you produced this document, did you ask to see the accounts of other companies in the group?

MR WINSTON: No.

MR BLACKSTONE: No. Thank you. I believe you were also privy to certain management accounts information from JMT 1987 Limited.

MR WINSTON: That's right.

MR BLACKSTONE: Which Mr Lewis provided and which I've also seen in the early negotiations.

MR WINSTON: That's right.

MR BLACKSTONE: Perhaps you'd have a look at **this** schedule. (**Same handed to witness**) This I have prepared from the accounts of Jersey Bus from 1998 and 2000, which obviously had comparatives in them.

MR WINSTON: Hmm.

MR BLACKSTONE: And I did make a few adjustments based on, first of all, the management fees, which is usually a catch-all in group accounts, as you know.

MR WINSTON: Absolutely.

MR BLACKSTONE: Mr Lewis, in the management accounts, said that the directors should have a reasonable remuneration, which is fair enough, they are working hard for the company.

MR WINSTON: Hmm.

MR BLACKSTONE: And the Weighbridge premises were rent-free, according to the accounts, so we put back a commercially verified assessment of the commercial rent. I have taken out the management fees and I have also taken out a notional interest on loans to other group companies.

MR WINSTON: Hmm hmm.

MR BLACKSTONE: And I came down to a net profit either on turnover or on mark up on expenses, which don't appear to be excessive.

MR WINSTON: Hmm hmm.

MR BLACKSTONE: Would you consider that that is a reasonable assessment of JMT's bus operation?

MR WINSTON: Yeah.

MR BLACKSTONE: If I could do that, why couldn't Mr Griffiths?

MR WINSTON: Um, again, it was ... okay, we're looking at profit here, but what we were looking at ... what we were really looking at is it was the basis behind the actual costs themselves. So it was defining the actual cost. I'm not saying that the profitability here doesn't appear reasonable. It actually does. What I am saying is the basis behind the agreement was to be cost and we needed to define the cost.

MR BLACKSTONE: But theirs are all in the audited accounts, the audited profit and loss accounts.

MR WINSTON: We needed to get more detail behind it. I mean, I don't really ... I mean, at the end of the day, when you are having a negotiation between two parties and one party is asking for information regarding cost, it wouldn't be unreasonable to explain how those costs are defined. I mean, if you wanted to do a negotiated deal, you would probably provide that information. I mean, otherwise, I can't see ... I mean, at the end of the day, it's an agreement between two people, two parties, who are going to work together for a number of years and obviously, if there is difficulty encountered in getting that information, then obviously, with all the work, it will become difficult to negotiate further forward.

MR BLACKSTONE: Well, hang on, Mr Winston. We are being specific on accounts here. You have the audited profit and loss accounts and they have cost headings. You say you wanted



more information on those. Did you ask Mr Cotillard or Mr Lewis for a further analysis of the costs in the audited profit and loss accounts?

MR WINSTON: Again, you are asking me specifically. I would say that I was not ... John and I were looking ... we wanted to know what the ... we needed to understand what the basis behind those costs were. John may well have asked for that. He would have been keen to know that information, but I can't comment.

MR BLACKSTONE: Well, we shall be asking him, yes. But I still cannot see any relevance to the accounts of other companies in the group if you have the trading accounts and profit and loss accounts of JMT 1987 Limited, which was the bus operating company whose accounts were audited by a big five ----

MR WINSTON: Well, at the time ----

MR BLACKSTONE: Hang on a second. Whose accounts were audited by a big five company. You didn't choose to check with Pricewaterhouse whether there was any cross-fertilisation; you didn't choose to verify their audit progress over the years; and it seems that you're not aware whether Mr Lewis was ever asked for any further analysis in the JMT accounts.

MR WINSTON: I wouldn't have been aware. I know that John was asking for analysis, but, as I say, I can't ... I would only be giving you hearsay. As far as I was aware, he was doing that, he was asking for further information. I am sure that is well documented, but I can't ... I didn't personally ask for any of that information.

MR BLACKSTONE: No. But, again, considering the JMT accounts are audited by a reputable firm ----

MR WINSTON: I'm not disputing ... I'm sure the JMT account figures are actually right. I have got no doubt about that.

MR BLACKSTONE: Mr Mark James, their audit partner, has confirmed to us that he has seen no evidence of any expenses being farmed in from other companies. Well, if he had, he wouldn't have given an audit certificate, would he?

MR WINSTON: Absolutely not, no.

MR BLACKSTONE: The only thing I would question slightly is that you were only given profit

and loss accounts initially; whereas normally a complete set of accounts is a complete set of accounts.

MR WINSTON:            Hmm.

MR BLACKSTONE:        That would not have allowed you to make that adjustment I've made for the inter-company loan interests, but, apart from that, I do not see why you should have required any information on the other group companies. Diamond Group is a commercial group. They have commercial secrets, just as any commercial group does.

MR WINSTON:            Absolutely, although, I suppose, if they wanted ... if they were doing a deal like they were talking about, it wouldn't have been very difficult for them to say that the information couldn't actually be used anywhere other than between PSD and between the Diamond Group. I mean, they could have signed some sort of disclaimer regarding that.

MR BLACKSTONE:        Well, it has been signed at various times.

MR WINSTON:            As I say, I wasn't fully party to it, to all of this, so I can't comment.

MR BLACKSTONE:        But, as an accountant, you do agree that if they have got the audited accounts of the bus operating company, there is really no reason to ask for the accounts of Board Walk Café and so on?

MR WINSTON:            Well, I wouldn't have thought that would have been necessary.

MR BLACKSTONE:        Yes or no?

MR WINSTON:            It wouldn't have been necessary.

MR BLACKSTONE:        No. Thank you. **(Pause)** So really, Mr Winston, you have been very, very marginally involved in the preparing of one report and then acting as a sounding board?

MR WINSTON:            Absolutely.

MR BLACKSTONE:        I have no further questions. Thank you very much indeed.

MR WINSTON:            Okay.

MR SHEPHEARD:         Mr Winston, I have got one or two things that I would like to clarify with you. How big a company is FourSight?

MR WINSTON:            Well, it has a turnover of 750,000, I think, approximately. It has, I think it is, about 14 people working for it. It is not what would be thought to be a large company.

MR SHEPHEARD:         No. Of the 14 employees, how many are actually consultants?

MR WINSTON: Er, about 10 maybe 11 or so.

MR SHEPHEARD: And what sort of areas of expertise do they cover? I mean, you yourself are an accountant.

MR WINSTON: Yes. The main level of expertise within in FourSight is in the finance area. The majority of the consultants are qualified accountants. John himself is not a qualified accountant. He is more of a ... he has a high level of knowledge, but it is surface level within marketing and generally.

MR SHEPHEARD: You don't, for instance, have anyone there who simply consults on transportation matters?

MR WINSTON: No.

MR SHEPHEARD: That's all I have. Thank you for coming, Mr Winston. Please take a seat in the public area.

MR WINSTON: Okay.

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