Public Accounts Committee

Report on the States' Property Plan

States of Jersey
States Assembly

États de Jersey
Assemblée des États

Presented to the States on 13th February 2007.

P.A.C.1/2007

REPORT

The Public Accounts Committee

The primary function of the Public Accounts Committee is defined in Standing Orders[1] as the review of reports by the Comptroller and Auditor General regarding –

The audit of the Annual Accounts of the States of Jersey and to report to the States upon any significant issues arising from those reports;

Investigations into the economy, efficiency and effectiveness achieved in the use of resources by the States, States funded bodies, independently audited States bodies (apart from those that are companies owned and controlled by the States), and States aided independent bodies;

The adequacy of corporate governance arrangements within the States, States funded bodies, independently audited States bodies, and States aided independent bodies,

and to assess whether public funds have been applied for the purpose intended and whether extravagance and waste are being eradicated and sound financial practices applied throughout the administration of the States.

The Public Accounts Committee may also examine issues, other than those arising from the reports of the Comptroller and Auditor General, from time to time.

The Public Accounts Committee represents a specialised area of scrutiny. Scrutiny examines policy whereas the Public Accounts Committee examines the use of States' resources in the furtherance of those policies. Consequently initial enquiries are made of Chief Officers rather than Ministers. This is not to say that enquiries may not be made of Ministers should the reports and recommendations of the Public Accounts Committee be ignored.

The work of the Public Accounts Committee is ongoing rather than on a one-off basis and the Committee will return to topics previously examined in order to evaluate whether recommendations have been followed or procedures improved. If such a follow-up is unsatisfactory then the Committee may decide to hold further public hearings in order to identify the reasons for the lack of progress.

The current membership of the Public Accounts Committee consists of –

States Members	Independent Members
Deputy Sarah Ferguson (Chairman)	
Deputy of St. Ouen (Vice Chairman)	Mr. Tony Grimes
Deputy Alan Breckon	Advocate Alex Ohlsson
Connétable of St. Peter	Mr. Chris Evans
Connétable of Grouville	Mr. Roger Bignell
Senator Jimmy Perchard	Mr. Martin Magee

Introduction

1. In 2005, the States approved a proposition concerning the management of property held by the States, "States of Jersey Property Holdings: establishment, P.93/2005 of the Policy and Resources Committee, attached as an Appendix. This proposition envisaged that –

(1) a new unit, States of Jersey Property Holdings (JPH), would be established,

(2) responsibility for ownership, management and maintenance of all of the States' property assets

would be transferred from departments to JPH,

(3) JPH would be responsible for improving the efficiency of the States' property management and maximising, identifying properties that are no longer required for the States' use,

(4) maximising and, where appropriate, realising the value to the States represented by the property assets, and

(5) reporting to the States Assembly on the way in which it intends to discharge its responsibilities and on its performance.

2. As presaged by the original proposition, States of Jersey Property Holdings prepared a Strategic Plan which was included as an Appendix to the Strategic Plan issued by the Council of Ministers early in 2006. Subsequently an Annual Business Plan was produced and included as a part of the States' Business Plan for 2007. That part of the States' Business Plan was not approved by the States Assembly but, in effect, referred to the Public Accounts Committee.

3. This Report sets out the Committee's view on the Property Business Plan for 2007 after taking account of a report on the Plan which was published by the Comptroller & Auditor General in November 2006.[2] Following publication of that report, on 11th December 2006, the Committee held a public Hearing at which evidence was taken from Mr. Bill Ogley, Chief Executive to the States, and Mr. Eric Le Ruez, Chief Officer of Jersey Property Holdings.

The Committee continues to support the objectives and approaches set out in the proposition which led to the creation of States of Jersey Property Holdings.

4. The principal objective of the proposition was to achieve proper and effective management of properties held by the States of Jersey through the centralisation of management responsibility, staff and budgets in the hands of JPH.

5. It was intended that this would improve management of property holdings by –

(1) centralising staff responsible for management and maintenance thereby eliminating wasteful duplication between departments,

(2) through JPH charging annual rentals for property occupation which would more accurately reflect the true cost of property occupation, thereby ensuring that all departments recognise the full cost of their activities and seek to improve the efficiency of their use of accommodation, and

(3) through identifying and realising the value of surplus properties.

6. In the Committee's view, these steps were long overdue –

(1) The ineffectiveness of the States' management of its property assets had, over many years, been the subject of various investigations and reports.[3]

(2) Accommodating departments in many buildings of differing ages and differing conditions is unlikely to lead to efficient use of space and a minimisation of cost.

(3) Disseminating responsibility for maintaining the States' properties between many small units is not likely to be an efficient use of resources or to ensure that properties are properly maintained.

(4) Finally, creating a central record for all property and the costs of its management is in itself an important step since an organisation which does not record and measure the use of its assets is unlikely to take their efficient use seriously.

7. Thus the creation of Jersey Property Holdings is a welcome, if belated, step towards improving the efficiency of the States.

2007 Property Business Plan

8. There was little time available to JPH between the approval of P93/2005, its creation and the need to publish the 2007 Business Plan. As a result, this Business Plan is limited restatement of a series of aspirations and intentions together with the publication of a list of properties intended for disposal. Inevitably, most of these properties were long ago identified as surplus to the requirements of the States and thus as suitable for disposal. As Mr. Le Ruez said in the public hearing –

" ... we have concentrated on, shall we say, relatively easy targets, property that can be identified today as being surplus to the States requirements and which would be best sold rather than kept and perhaps being a liability to the States in future years."[4]

9. Inevitably, there had been no time to prepare a detailed long term plan for departments' property requirements when the 2007 Property Business Plan was published. As Mr. Le Ruez told the Committee –

"In preparing that first Property Plan, we did carry out a, I have to say, quite a hurried exercise in trying to establish departmental need for the next few years, where possible matching those either to existing property or to capital bids where new property or new land was required."[5]

10. **Given the limited time available for its preparation, in the Committee's view, a sensible approach was adopted to preparation of the 2007 Property Business Plan. It must be recognised, however, that the Plan represents no more than a first step towards achievement of the policy objectives set out in P.93/2005 and that consistent management attention will be required if those objectives are to be achieved.**

11. Because of its concern that the practical implementation of P.93/2005 should not be unduly delayed, the Committee reviewed what in its view are the principal stages by which the proposition should be implemented.

Transfers of responsibility

12. It is important that all property management responsibilities should be transferred to States of Jersey Property Holdings without unreasonable delay. It was evident when the Committee interviewed Bill Ogley and Eric Le Ruez on 11th December 2006 not all departments had transferred property management responsibilities to States of Jersey Property Holdings –

"The big one that is left is Health and Social Services ... the actual buildings themselves effectively are under the administration of Property Holdings, but for Health and Social Services we do not have the budget or responsibility for maintaining those buildings yet."[6]

13. In answer to subsequent questions it also became clear that responsibility for –

(1) the property assets of the Education Sports and Culture department would not be transferred until 31st December 2006,

(2) the property assets of the Homes Affairs department (i.e. principally, the Police Service, and the Fire Service) would not be transferred until the first half of 2007.

14. No date was given for transfer of the Prison's property.[7]

15. The related budgets were also being transferred to JPH. Of course, these transfers were not reflected in

the States published Budget for 2007 as the work for that had been completed before the transfers had been agreed. They will be reflected in the formal budget for 2008.[8]

16. By the end of 2006, about sixty staff would have transferred to JPH whereas in 2000, the Audit Commission estimated that the number of staff who should be transferred would be about 135.

17. The length of time taken for these transfers to be effected and the numbers of staff identified for transfer cause concern over the degree of co-operation being shown by departments –

> *"Mr. Le Ruez:"I mean, we have had full co-operation from the departments to date and the transfers have taken time because it is quite complex, actually, extracting the budgets relating purely to property and not to the services. But I can say that wit Transport and Technical Services that has been successfully achieved; Education we are just about there now; and with the Home Affairs budget we still have some negotiation to do but that is not a very large budget. The big one is certainly Health and Social Services and that is taking some time, I agree."*[9]

18. The Committee noted the progress that had been made in effecting the transfers of responsibility but was concerned that –

(1) the transfers of the Home Affairs Department's responsibilities together with relevant staff and budgets were taking so long; and

(2) Mr. Ogley and Mr. Le Ruez had been unable to give a date on which the propert responsibilities, relevant staff and budgets of the Health and Social Services department, a department with an extensive portfolio of properties would be transferred to JPH.

(3) The Corporate Management Board should be alert to and should act to prevent any department delaying the transfer of responsibility relevant staff and responsibility.

JPH's resources

19. It is important that JPH should have the professional skills necessary to discharge its responsibilities. Inevitably, in view of the early stage at which the 2007 Property Business Plan was prepared, the staff of States of Jersey Property Holdings consisted largely of the previous staff of property services and property management staff transferred from departments.

20. The Committee recognises that much has been achieved in the months since the creation of JPH –

> *"... a lot of the last twelve months or so has been spent in getting together a new structure called Property Holdings, setting ourselves up with a design and maintenance division, finance and strategy division, and a property management division. With that now in place and directors in place ... we are moving forward."*[10]

21. Yet it is acknowledged that JPH needs the following further skills at least –

(1) JPH needs to appoint an asset manager to be responsible for establishing departmental property requirements.[11]

(2) JPH will need either to have commercial property expertise within its own team or to have ready access to such expertise to ensure that when surplus property is realised the States' interests are properly safeguarded.

22. Timely recruitment will be necessary if the JPH is to be able to meet expectations. For example, although at the public hearing, Mr. Le Ruez was not able to indicate who would be appointed to act as asse manager, he indicated that the more strategic assessment of the States' property needs which he envisages

as this manager's responsibility would be brought to the States 'probably in 8 to 9 months' time'.[12]

23. The Committee noted the progress that had been made in creating the JPH team, but is concerned that delays in recruitment may impede JPH's ability to meet the expectations that P.93/2005 created.

Financial environment

24. Creation of the appropriate financial environment for JPH will be a critical step in encouraging departments to manage their needs for property more effectively –

> *"Mr. Ogley: ... it is a significant piece of work and we need to, as every organisation has gone through this transition, find the most cost-effective way of doing it that will change behaviours because that is what we are about."*

> *"Mr. Le Ruez: If you have departments using property but not actually paying for it in the sense that whether they have got 20,000 square feet or 10,000 square feet ... makes no difference whatsoever to their budget, they will happily sit with 20,000 square feet because it makes no difference to them. If you can introduce a system whereby it is advantageous for departments to use their property effectively, then we will have succeeded."*[13]

25. The Committee was told that Chief Officers had not decided how this would be done –

> *"Mr. Ogley: "... we do not know exactly how we will do it yet. There is a lot of work to go into it and I think that is what most organisations find, is it would be very easy to introduce a method of charging. You have to have a method which is realistic in terms of ... reflecting real value. So what you are not doing is entering into a system where you are giving people money ... to release property and the money they have got is worth more than the property... then all you end up with is everybody saying: 'Thank you very much, I will have my £100,000' and you walk away and you have got something worth half of it ... I think we have got a lot of work to do... I think it is important because in the long term it is what will change and make management of this much better and change behaviour."*[14]

26. Whilst Mr. Le Ruez suggested that this process would lead to the introduction of a fairer approach to charging in 2008[15], the Committee noted that Mr. Ogley appeared to be more cautious.

27. It has to be admitted that one of the consequences of the introduction of Ministerial government has been a lengthening of the process by which annual budgets are prepared and reviewed. For example, the draft budget for 2008 will be published in the early months of 2007. The effect, when considering the implementation of new infrastructure within the States is that lead times are very long indeed. This is a subject that may merit the Committee's closer attention in due course.

28. **The Committee accepted that the introduction of a 'fair and equitable method of charging' was a major and difficult piece of work not least to ensure that its desired effect to increase pressure to improve efficiency is achieved, but considered that –**

(1) the many years that had passed in reflecting on the proposal that such a system should be introduced, and

(2) the potential of such a system to encourage beneficial departmental behaviours,

(3) the Corporate Management Board would have failed in its duty to realise the expectations created by P.93/2005 if such a system were not introduced with effect from 2009.

Governance of JPH

29. Proposition P.93/2005 envisaged that JPH would be a –

> *"... department of the States, reporting to the Finance and Resource Minister under the new Ministerial structure. The Chief Officer of States of Jersey Property Holdings will be accountable to the Chief Executive of the States and to the Treasury and Resources Minister for the management of assets including the delivery of any agreed financial return to the States."*[16]

30. Proposition 93/2005 also envisaged the creation of –

> *"The Property Board, reporting to the Corporate Management Board, will initially be responsible for ensuring all necessary structures are in place to promote good corporate governance through transparency of action and clear lines of accountability.*
>
> *The Property Board will work with States of Jersey Property Holdings to produce the initial States Property Plan and thereafter provide an interface between departments and States of Jersey Property Holdings to review States property policy and its implementation through States of Jersey Property Holdings."*[17]

31. Although P.93/2005 gave the clear impression that the Property Board would be created at an early stage in the life of JPH, in fact this has not happened –

> *"Mr. Le Ruez: The property board, as I understand it, would be set up by the departments to loo at the services being provided by Property Holdings, and that has not been set up yet."*[18]

32. Furthermore, the purpose of the Property Board appears to have changed. Whereas the original Proposition envisaged that the Board would 'be responsible for ensuring that all necessary structures are in place to promote good governance', Mr. Ogley suggested that–

> *"The intent to create a property board is actually more of a customer service board than a governance board. It is for the people who are the occupants of the property to have a group to gauge their satisfaction with the way the property is maintained for their use."*[19]

33. It is clear that the preparation of business plans for examination by the States assembly was intended to be an important element of the oversight of JPH and of plans for property disposals in particular. This oversight could be circumvented if JPH were to make extensive use of the powers in the States' Standing Orders to make disposals without prior reference in a business plan agreed by the States Assembly. The Committee therefore welcomes the following explanation given by Mr. Le Ruez and expects that it wi be followed in respect of all property disposals proposed by the States irrespective of whether the properties concerned fall within the remit of JPH –

> *"Mr. Le Ruez: ... under Standing Orders the Treasury and Resources Minister could take decision and it would simply be reported to the States, but it is I think expected that for property disposals, certainly significant property disposals, the States would have the opportunity to consider the proposal before the Treasury and Resources Minister actually takes a decision."*[20]

34. One of the steps necessary to promote good governance would be the identification of proper ways of measuring the performance of JPH –

> *"Performance will be measured against public and private sector benchmarks and may be subject to review by the Public Accounts Committee."*[21]

35. Such benchmarks are not set out in the 2007 Property Business Plan.

36. Going beyond the plans set out in P.93/2005, the 2007 Business Plan envisages that JPH should become a

trading organisation in 2008 –

> *"The Deputy of St. Ouen: Bearing in mind ... that there is a huge volume of work to do to achieve all the objectives laid out in P.93, do you see [2008] as being achievable or even required?*
>
> *Mr. Le Ruez: Yes. Well, I think it is desirable and I hope it is achievable. It would require the approval of the States ... probably by no later than September [2007]. But I think it is desirable if Property Holdings is, as well as being able to increase income or increase effectiveness of property, but also be able to invest in property which will be required if we are really going to pursue the effectiveness of the use of office accommodation in the future. There will be a need for some capital investment, though, I have no doubt."*[22]

37. In a subsequent answer, it became apparent that 2008 represented the earliest point at which JPH could become a trading fund.

38. In passing it became apparent that, as a trading fund, JPH would be distinct from the development organisation to be established on the foundation of Waterfront Enterprise Board (WEB) which is intended to be a 'state-owned vehicle, 100% as a separate company, that would have the ability to develop sites'.[23]

39. Whilst trading fund status may eventually be appropriate for JPH, completing the formation of JPH and implementing the detailed proposals in P.93/2005 will require consistent effort and there is a risk that this work will be delayed by distractions such as the consideration of trading fund status.

40. **In the Committee's view, it is important that –**

    (1) the governance arrangements surrounding JPH should be put in place as soon as possible, and

    (2) irrespective of whether trading fund status is attractive for JPH, consideration of that status should not be allowed to delay the completion of the establishment of JPH and the implementation of the detailed proposals in P93/2005 for the oversight of JPH.

41. **The Committee will return to this subject after the end of 2007 to check that –**

    (1) the governance arrangements proposed in P93/2005 have been established, and

    (2) in particular, that appropriate performance measures for JPH have been agreed.

Savings: efficiency and disposals

42. The 2007 Property Business Plan envisages that JPH will –

> *"... deliver revenue savings of £1.5 m from 2008 and annual net capital receipts rising from £1m in 2007 to £4m from 2009 onward."*

43. It is recognised that actual receipts will vary significantly from year to year.

44. The Committee reviewed the projected efficiency savings (£1.5 million annually from 2008) which were described by Mr. Le Ruez in the following way –

> *"I expect to see some savings being made on property maintenance contributing to that £1.5 million and potentially some staff savings as well as increased income... some of it has already been achieved with the leases at Axminster House and Bond Street being terminated this year."*[24]

45. As such, the projected efficiency savings are not a saving on the true cost of property to the States. The current plan does not include the effect of any such savings, not least because JPH is not yet in a position to forecast what savings in the cost of property may be possible –

> *"Advocate A Ohlsson: ....when you get to 2009 you will have a clearer idea of what the true cost of property is to the States?*
>
> *Mr. Le Ruez: Absolutely, yes.*
>
> *Advocate A. Ohlsson: At which point you will see presumably more ambitious targets?*
>
> *Mr. Le Ruez: Well, we hope so, yes. Yes, I think there is more potential there, certainly, yes."*

46. In other words, the current projected efficiency savings are a cautious forecast of what should be possible.

47. The Committee also reviewed the current property disposals programme and noted that, on a conservative view, the realisable value of the properties identified for disposal represents a significant proportion of the total projected receipts for the years 2007-2009. It should be remembered that, in view of the limited time available for preparing the plan, the properties to be sold are largely those which had been identified as surplus before the creation of JPH which suggests that these projections are also cautious.

48. The proceeds of the proposed disposals are, as explained by Mr. Le Ruez and Mr. Ogley to be credited t the Land Acquisition Vote and thence to the Consolidated Fund and will represent a part of the funding of the States' planned capital expenditure. The Committee welcomed this confirmation, supporting the view that it is inherently unattractive and imprudent to use the proceeds of sales of capital assets to finance revenue expenditure. This general principle was endorsed by Mr. Ogley, the Chief Executive –

> *"Mr. T. Grimes: As a principle then, is it the view of the Chief Officer that you do not utilis capital sales to fund the revenue cost of the States budgets?*
>
> *Mr. Ogley: No."*
>
> *"Mr. T. Grimes: So a department that sells property would not be able to redirect those funds int the main annual expenditure budget?*
>
> *Mr. Ogley: This was the point of transferring all of the property into one pot, creating a Property Holdings, because the experience as was recounted to me was that that tended to be what happened. If somebody had a lot of asset value and could release it easily they could use it for investment, whereas ... these are States assets. That is right, is it not?*
>
> *Mr. Le Ruez: Yes."*[25]

49. As Mr. Ogley suggested to the Committee, it would be wrong to underestimate the scale of the change in practice that has already been achieved –

> *"... if you think back to the point at which we took the proposition to the States, until that point there had been virtually no property disposals. Everything was held in the back pocket to be used one day for whatever purpose, and there had been tremendous opposition to any form of centralised management and administration and transfer. Now, 18 months on it is a different world and what we are actually now talking about is accelerating the value of the property and I think departments are seeing the benefit that can come through."*[26]

50. The Committee agrees that the change that has been effected is significant. However, the Committee's review of the 2007 Property Business Plan suggests that the full financial benefits that ought to flow from

the changes and that ought to be material lie beyond the immediate period covered by the plan. Moreover, the Committee notes with concern that the States 2007 Business Plan suggests that it would be unreasonable to expect that further material efficiency savings might be achieved beyond the period covered by the plan. The Committee welcomes the following comment by Mr. Ogley during the public hearing–

"... we are now in the business ... of saying: 'Well, those were the promises at the outset. Now you can do better. Let us get on with it."[27]

51. **The Committee recommends the 2007 Property Business Plan for approval by the States as a step towards the achievement of –**

(1) effective property management,

(2) efficient departmental management, and

(3) maximisation of the value of the States property holdings.

52. **The Committee agrees with Mr. Ogley and Mr. Le Ruez that, as a matter of principle, the proceeds of the sale of capital assets should not be used to meet revenue expenditure and expects that this principle will be followed in all of the States' dealings with property irrespective of whether they fall within the remit of JPH.**

53. **The Committee will return to this subject after the end of 2007, to –**

(1) examine the outcome of the 2007 Property Plan,

(2) in particular, to examine JPH's management of the programme of disposals to ensure that JPH has taken appropriate steps to maximise the proceeds of any sale,

(3) to check that the proceeds of disposals have been applied in accordance with the arrangements described by Mr. Le Ruez and Mr. Ogley, and

(4) to check that there has been no delay in the steps necessary to achieve greater efficiency in the States' use of property.

APPENDIX

STATES OF JERSEY

STATES OF JERSEY PROPERTY HOLDINGS: ESTABLISHMENT

Lodged au Greffe on 3rd May 2005
by the Policy and Resources Committee

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

to refer to their Act dated 24th July 2002 regarding the Machinery of Government proposed departmental structure and transitional arrangements and –

(a) to approve the following principles for the future management and administration of States Property –

(i) the creation of a new department to be known as 'States of Jersey Property Holdings' under the Finance and Economics Committee and its successor Ministry, in order to develop a modern, innovative approach to the management of property and deliver the aims as set out in section 3 of the report;

(ii) the transfer of administration of all States property assets, with the exception of those assets under the administration of Trading Committees and Social Housing currently administered by the Housing Committee, to States of Jersey Property Holdings;

(iii) the transfer of existing staff with property responsibility to States of Jersey Property Holdings;

(iv) the development of a States Property Plan, which will include all States Property, to be agreed by the States as part of the States Strategic Plan;

(v) the development of a States of Jersey Property Holdings Business Plan in accordance with the agreed States Property Plan and approved by the States as part of the Annual States Business Plan, which will authorise the department to develop, sell, buy, re-allocate or otherwise manage the property or interests in property as identified within the plan;

(vi) the development of a fully integrated landlord and tenant system of property provision and maintenance between States of Jersey Property Holdings and States Departments, regulated through Service Level Agreements;

(vii) the introduction of a charging mechanism for all property assets to reflect the true cost of occupation;

(b) to charge the Policy and Resources Committee, in conjunction with the Finance and Economics and Environment and Public Services Committees, to facilitate the organisational changes necessary to implement the proposals for the future administration and management of States Property;

(c) to charge the Finance and Economics Committee to restructure relevant budget allocations and develop the necessary financial asset management arrangements to achieve (a)(i) to (vii) above;

(d) to charge all Committees of the States to co-operate with the Policy and Resources, Finance and Economics and Environment and Public Services Committees in the development of the proposals.

POLICY AND RESOURCES COMMITTEE

REPORT

1. Introduction

States property assets have been conservatively valued at £1.6 billion. This represents an investment of some £18,000 for every person on the Island.

All organisations, both commercial and 'not for profit', must make best use of their property to realise both a financial return and to ensure that services are delivered efficiently and effectively. The States of Jersey is no exception, but it also has a wider responsibility to ensure that assets are employed to the benefit of the Island.

The States has agreed a Strategic Plan which sets out the continuing development of our economy, thereby providing employment, and financial security for Island residents as well as generating the funds to support a comprehensive range of public services and a world class infrastructure. The States property is a valuable commodity which should be used to support and underpin the States Strategy. The current administrative approach must be changed into a more entrepreneurial and innovative approach which ensures that the best use is made of all property either for services, as a source of investment, or to underpin the wider economy and the Island's future.

Successive reviews by Environment Resources Management in 1999[28], the States Audit Commission in 2000 [29] and a report on the Future of Property Services in 2001[30] have highlighted shortcomings in the way that the States of Jersey manage their property assets. Key findings from these reports are –

- dispersed and inconsistent ownership and control of States' property;
- absence of a clear, single point of accountability for property;
- no system for accounting for the value, true cost of property assets and services – a valuable and scarce resource;
- slow decision-making and approval process through Committee structure;
- shortage of people with relevant property skills;
- inadequate separation between the strategic "client" (policy-making) function and the executive "provider" function;
- lack of authority and control to ensure that policies are carried out;
- property seen by users as a "free good", with no incentive to use efficiently or maintain properly, and;
- maintenance budgets used for other purposes.

Recognising these issues, the Policy and Resources Committee proposed, in P.70/2002, that, 'the Treasury and Resources Department will have responsibility for… corporate property (the 'client' role), including policy responsibility for property procurement, design and maintenance[31]'.

The rationale for an integrated approach to property management was confirmed in the Five-Year Vision for the Public Sector[32] and extended in the States Strategic Plan as a specific deliverable under Strategic Aim Nine: To Balance the States Income and Expenditure and Improve the Delivery of Public Services[33].

Most of the property occupied by States departments and other public administrations is owned by *'le Public'* which is the legal entity. In turn, the States of Jersey acts as a delegate of the Public and is entrusted with the stewardship of this public property [hereinafter referred to as 'States property'].

2. Corporate Management Board Review of Property

Charged with progressing these proposals, the Corporate Management Board asked the Managing Director of WEB to lead a review of property administration and management structure options.

The key findings from stakeholder interviews were as follows –

- There is no overall accountability for the performance of property within the States;
- the property skills of the Department of Property Services and WEB are used on an 'available to departments' basis rather than taking responsibility for the portfolio;
- there is no alignment between 'ownership' of property and authority to manage it;
- there is no central, co-ordinated strategy for States property;
- property is viewed as a 'free resource' without incentives or penalty to encourage more efficient use;
- incomplete data collection and management systems are hindering efficient delivery of property services and making value analysis of property performance extremely difficult to achieve;
- there is a growing maintenance backlog problem partly resulting from inadequate investment and partly from departments re-allocating property budgets to core operations at the expense of essential repairs; and
- no central procurement function or effective supply chain management provisions exist.

The collective effect of these issues has been to create a lack of confidence within departments that the States can, or will, efficiently provide for their future property needs in a comprehensive and coordinated manner. At a practical level, this has led to –

- high levels of time spent on delayed or aborted property initiatives;
- inadequate property maintenance planning and spending;
- a growing pool of unproductive and inefficient assets;
- sub-optimal use of land and buildings characterised by a 'lowest cost, easiest fit', short term approach to estate management;
- frustration within departments and between departments;
- slow and cumbersome decision-making on property disposal/development initiatives;
- excessive States involvement in property decision-making; and
- significant duplication of property management resources performing similar functions across numerous departments.

In summary, there is a very strong consensus amongst Chief Officers and stakeholders that the existing arrangements are ineffective and inefficient and that substantial benefits can be gained from centralising the management and administration of the States property portfolio.

3. Proposed structure

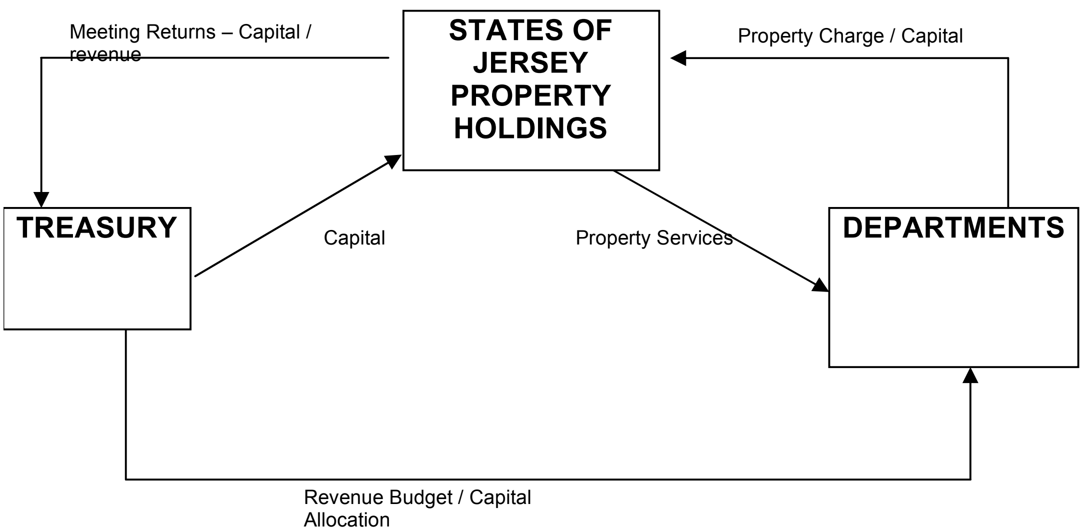
The proposed organisational structure is shown graphically below and in more detail at Appendix 1. It is a much simpler approach to property management than the existing fragmented systems and processes.

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

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

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

Figure 1 – Proposed structure



Responsibility for the administration and management of all States property assets and associated services will be transferred into a single department to be known as 'States of Jersey Property Holdings'. The exceptions are –

Property Administered by States Trading Committees.

The incorporation of Jersey Post is well advanced and relevant property assets will be transferred to the new company when established.

Both Jersey Airport and the Harbours Department are currently considering the best vehicles for delivery of services in these specialist areas. Until a decision has been reached with regard to the future status of these bodies, it is not appropriate to centralise property administration.

States Social Housing Estate

The States, in June 2004, agreed an amendment of the Housing Committee to the Strategic Plan, which recognised the need for a continued direct link between rentals paid and property management within States housing.

The Housing Committee is considering alternative proposals for the future management of the States' social housing estate, which will be submitted for consideration in due course.

States of Jersey Property Holdings will be a department of the States, reporting to the Finance and Resource Minister under the new Ministerial structure. The Chief Officer of States of Jersey Property Holdings will be accountable to the Chief Executive of the States and to the Treasury and Resources Minister for the management of assets including the delivery of any agreed financial return to the States. It will develop a modern, innovative approach to the management of property in order to have the following aims –

Aims

Optimise operational efficiency;

use the estate to improve the delivery of public services;

minimise under-performing/unproductive property assets;

optimise the efficiency of building maintenance;

minimise management costs; and

maximise and implement opportunities for cost reduction and for extracting capital from the portfolio.

States of Jersey Property Holdings will be accountable to departments for the delivery of modern effective property which meets their needs. It would be a requirement that maintenance standards would be maintained. It will operate contractual relationships with all its tenants. The quality and frequency of services provided to States Departments will be regulated through Service Level Agreements (SLAs), which will be reviewed on an annual basis. Responsibility for existing property agreements with third parties will be transferred to States of Jersey Property Holdings.

Staff whose principal responsibilities relate to property matters will be transferred to States of Jersey Property Holdings. The Policy and Resources Committee is mindful that organisational restructuring on this scale will require the co-operation of individuals, their departments and Committees. The key principle is to remove many of the day- to- day property decisions from individual departments, allowing them to focus on core service delivery and place property decisions in the hands of professionally qualified staff who are accountable to the CMB and Council of Ministers.

4. Property strategy

The review identified the lack of formal plans identifying the need for property and services across the organisation in the medium term as a serious weakness.

States of Jersey Property Holdings will co-ordinate, with States departments through the CMB, the development of a States Property Plan that defines departmental property requirements for a 5-year period. The States Property Plan will become an integral part of the States Strategic Plan.

The States Property Plan will identify and quantify potential surplus accommodation and determine proposals for the rationalisation of States property holding. For example the review looked at 16 primary States office buildings and concluded that occupied space per workstation was some 26% higher than the U.K. Government Office Standard and as much as 73% higher than modern office space efficiency standards. It concluded that this could translate into a realistic space reduction potential of 54,000 square feet which could result in a sustainable cost saving in excess of £1 million per annum.

The States Property Plan will also examine the potential to extract value from the States property assets, by obtaining a return on 'freed-up' office space and through the redevelopment of under-utilised properties. There is significant development potential within States property assets that could be unlocked to provide either a new income stream or capital receipt and further benefits to the Island.

The Vision for change approved by the States last year identified the potential to achieve significant savings by bringing under-utilised properties into productive use. The review has confirmed this initial view and a conservative estimate shows that there is potential to release in the region of £20 – £25 million from the States Assets. This could be by disposal or leasing to third parties. Such releases would result from improving the use of existing assets and reducing under-utilisation. The estimates assume that there would need to be initial investment in sites and premises in order to rationalise property and concentrate uses. It would also be necessary to retain sufficient land and property to meet future needs, and that is allowed for. This would have the added benefit of providing premises and space to support economic development and thereby minimise further encroachment outside existing developments.

States of Jersey Property Holdings will become the body charged with the procurement of new property assets. The States Property Plan will identify departments' requirements and produce a prioritised development schedule in accordance with the availability of funding agreed in the States Business Plan.

This overall strategy will be translated into an achievable and affordable States of Jersey Property Holdings Business Plan, to be submitted annually for approval by the States as part of the States Business Plan. This business plan will be put forward by the Council of Ministers after review by the CMB, and the Treasury and Resources Minister. It will include the property requirements within the approved States Property Plan. The approval of the States of Jersey Property Holdings Business Plan will authorise States of Jersey Property Holdings to develop, sell, buy or otherwise manage the property or interests in the property as identified within its business plan.

5. Charging and funding arrangements

A fundamental weakness of the current property arrangements is the inconsistent way in which occupiers of property are charged, or not, as the case may be. At present occupying departments may pay a rental that reflects market rent, or is lower than market rent (and may be nil). The rental charged is a matter of historic circumstance and this disparity causes a number of problems –

- there is no incentive for departments to achieve best value in occupation and use of property, particularly generic office accommodation;

- cost comparisons with other services providers (public and private sector) and historical data may be skewed; and

- the lack of a rental stream which reflects the value of the properties occupied, results in an insufficient budget provision to adequately maintain those properties and no provision to meet the future replacement cost of the asset.

To counter these shortcomings, a charging mechanism will be introduced that provides a charge in the form of an 'asset rental', which reflects either the market value of the asset or the cost of its replacement amortised over its useful life.

The charge will form part of a department's revenue budget and will be subject to the normal budget review process. Additional resources for new charges, to meet the annualised costs of additional capital, will be allocated only in accordance with the agreed States Property Plan. Budgets for capital charges will be adjusted following the rationalisation or disposal of property. Initially, there will be no impact on the States 'bottom-line' as the additional departmental budget allocations will be offset by a ‘credit’ budget in States of Jersey Property Holdings.

In this way, asset rich departments will have the incentive to manage their property assets more efficiently and effectively, as the charge will form a significant proportion of the controllable base budget. It will promote the review of the use of assets as departments attempt to reduce costs to meet efficiency savings targets or employ financial resources to higher priorities. The review process will identify expensive sites and equipment, by providing a more realistic figure for the cost of holding and maintaining property.

In addition to receiving an ‘income’ from States departments, States of Jersey Property Holdings will receive funding from three other principal sources –

- the revenue budgets associated with property management and maintenance, currently held within departments, will be transferred to States of Jersey Property Holdings;

- capital budgets for the procurement of new property assets will be allocated to States of Jersey Property Holdings, in line with the agreed States Business Plan proposals;

- income from rents received from third parties.

Where the States Property Plan identifies assets capable of disposal, the Treasury and Resources Minister may agree that the capital receipt can be applied to generate additional revenue or be ring-fenced for redevelopment, potentially reducing the call on the States Capital Budget allocation.

The Treasury and Resources Minister will take into account expected capital receipts when proposing overall expenditure targets in the annual States Business Plan to ensure that States spending is not increased in an uncontrolled fashion.

6. Benefits of reorganisation

An integrated property administration and management department will be able to –

- realise economies of scale and lower operating costs;

- standardise systems, processes and documentation to provide consistently reliable and timely management information;

- demonstrate transparency and accountability in property matters;

- operate in a business-like manner, providing a quality service regulated by SLAs; and

- provide a centre of excellence, capable of delivering best practice and creating a career structure for property professionals within the States whilst freeing-up service delivery resources.

The development of a strategic States Property Plan will enable –

- accommodation requirements across the States to be established, identifying opportunities for use or disposal of surplus assets;

- the development of a State-wide approach to the allocation of appropriate and prioritised revenue and capital budgets for property; and

- the creation of accommodation standards and corresponding performance criteria;

future long-term maintenance and replacement of property to be properly managed.

The creation of a charging mechanism supported by robust data will –

identify the true cost of occupation of property, enabling performance to be more accurately benchmarked;

encourage the efficient use of property and, where appropriate, allow unused and underutilised space to be released;

provide the basis for realistic property management and maintenance budgets; and

facilitate the move toward resource accounting within the States of Jersey.

7. Implementation steps

Information requirements

The transition from the existing structure to that proposed presents a number of challenges, the first of which is the need for sound, comprehensive data on which to base decisions. All pertinent asset and property services data must be collated into a single central property management system. Where base data is not available it will need to be acquired.

It will be necessary to collate and review all legal documentation relating to property holdings to ensure that it fits within the proposed model.

Creation of a Property Board

The Property Board, reporting to the Corporate Management Board, will initially be responsible for ensuring all necessary structures are in place to promote good corporate governance through transparency of action and clear lines of accountability.

The Property Board will work with States of Jersey Property Holdings to produce the initial States Property Plan and thereafter provide an interface between departments and States of Jersey Property Holdings to review States property policy and its implementation through States of Jersey Property Holdings.

Creation of States of Jersey Property Holdings

By approving part (a) of the proposition‘States of Jersey Property Holdings’ will be created.

To achieve the benefits outline above, States of Jersey Property Holdings will require personnel with the necessary skills and experience to lead the transformation and modernisation of the States property function. Recruitment to the post of Chief Officer is an essential early step to ensure that the organisational structure being developed will deliver.

Further key staff will need to be identified to manage the new structure. This will be a matter for the Finance and Economics Committee or Minister to determine, but any initial salary costs should be met from organisational efficiencies generated by the new structure over a 2 – 3 year period and thereafter further savings should be achieved.

States of Jersey Property Holdings will work closely with the CMB to prepare the States Property Plan. The Plan will include provision for the delegation of authority to States of Jersey Property Holdings for property activities undertaken within the remit of the approved States Property Plan.

A major early task will be the establishment of standard format Service Level Agreements between States of Jersey Property Holdings and property occupying departments, including the development of a property charging mechanism.

States of Jersey Property Holdings will then be able to produce a Business Plan. The States of Jersey Property Holdings Business Plan will be reviewed by the CMB and approved by the Treasury and Resources Minister. It will include agreed performance standards, with appropriate measurement and management processes.

Relevant revenue and capital budgets will be identified and transferred to States of Jersey Property Holdings. States of Jersey Property Holdings will then be in a position to take responsibility for States property assets.

The transfer of administration of States owned assets, as described in part (a) of the proposition, together with the transfer of identified property staff, will enable the creation of States of Jersey Property Holdings.

8. Financial and manpower implications

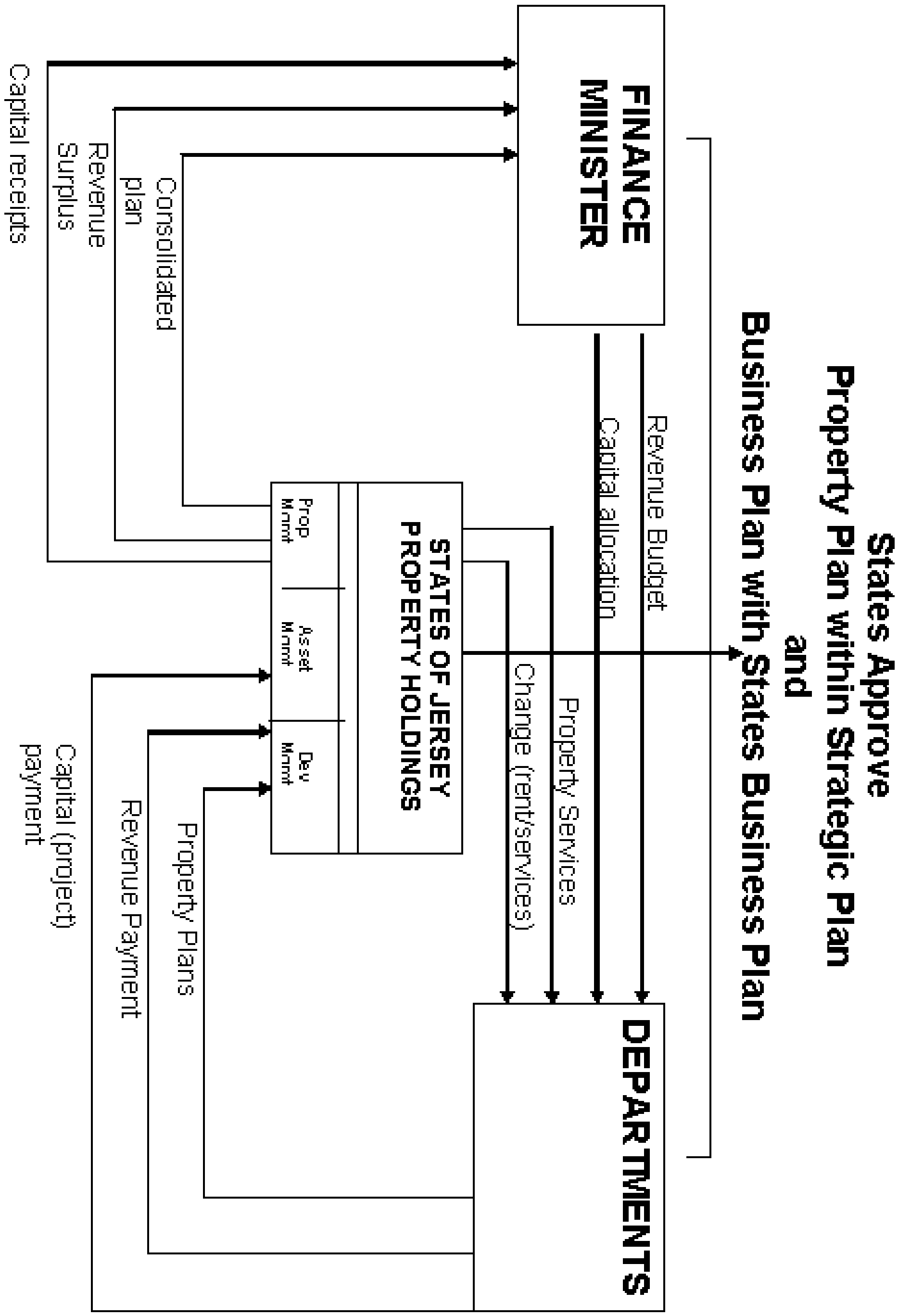
The transfer of existing capital and revenue budgets allocations for property related matters to States of Jersey Property Holdings, together with the introduction of a charge for property occupation, will be initially budget neutral. In the longer term, the successful implementation of an effective property strategy and management process has the potential to deliver significant efficiency savings across all States departments.

There are significant costs associated with the implementation of the proposed plan which may be up to £1.5 million, although such costs will be kept to a minimum. As much use as possible will be made of existing in-house resources to minimise the cost. This initial investment will be recovered from efficiency savings generated after the first 2 – 3 years of operation. The initial costs have been budgeted within the sum of £9.4 million which was identified as being required to deliver the change programme and subsequent efficiency savings of £20 million in 5 years' time.

A reorganisation on this scale will have far-reaching manpower implications. When States of Jersey Property Holdings is fully established, the overall level of staff resources is likely to be less than that currently employed across States departments.

As reported earlier the review has identified that with effective management it will be possible to achieve significant savings in the cost of running property and increasing income by leasing or selling surplus property. The change programme has included £5.5 million per annum savings by 2009 resulting from this property re-organisation. It is a significant element of the £20 million per annum savings by 2009. The underlying requirement is that current maintenance standards will be retained, delivered more efficiently and at less cost. Once all of the property responsibilities have been brought together it will be necessary to carry out a thorough review of the condition and maintenance requirements. This will allow the States to ensure that the proper level of maintenance is delivered to ensure that the Island's public assets are properly safeguarded for future generations.

APPENDIX



[1] *Standing Orders of the States of Jersey 1 January 2006, No. 132.*

[2] *R.C.88/2006.*

[3] *Such as: Review by Environment Resources Management in 1999, the States of Jersey Audit Commission in 2000 and a Report of the Future of Property Services in 2001.*

[4] *Transcript page 2.*

[5] *Transcript page 16.*

[6] *Transcript page 4.*

[7] *See answers given by Mr. Le Ruez, transcript page 5.*

[8] *See answer given by Mr. Le Ruez, transcript page 7.*

[9] *Transcript page 8.*

[10] *Mr. Le Ruez's answer, transcript page 16.*

[11] *Mr. Le Ruez's answer, transcript page 16.*

[12] *Transcript page 16.*

[13] *Transcript pages 11 and 12.*

[14] *Transcript page 13.*

[15] *Transcript page 10.*

[16] *P.93/2005, page 6.*

[17] *P.93/2005, page 9.*

[18] *Transcript page 3.*

[19] *Transcript page 18.*

[20] *Transcript pages 27 and 28.*

[21] *P.93/2005, page 5.*

[22] *Transcript page 21.*

[23] *Mr. Ogley's answer, transcript page 22.*

[24] *Transcript page 36.*

[25] *Transcript pages 30 and 31.*

[26] *Transcript page 14.*

[27] *Transcript page 15.*

[28] *Environment Resources Management (ERM): Strategic Review of Property Services, October 1999.*

[29] *States Audit Commission Report No. 12, 15th June 2000.*

[30] *Service Review undertaken by Drivers Jonas Limited, August 2001.*

[31] *P.70/2002 – paragraph 1.11.1.*

[32] *P.58/2005 – paragraph 7.9.*

[33] *P.81/2004 – paragraph 9.1.*