States of Jersey
States Assembly

États de Jersey
Assemblée des États

# Public Accounts Committee

# Review of the Jersey Innovation Fund

**Presented to the States on 11 April 2018**

**P.A.C. 3/2018**

## Contents

# 1. Public Accounts Committee Membership & Remit

1.1 The Public Accounts Committee's remit is different to that of other Scrutiny Panels in that it has a retrospective perspective and holds States Officers, rather than States Members, to account for their implementation of policy and procedures. It considers whether public funds have been applied for the purpose intended by the States and whether sound financial practices have been applied throughout the administrations of all States departments. It reports its findings to the States Assembly.

1.2 The PAC incorporates both States Members and non-States Members. This review has taken place during membership/Chairmanship changes, and was halted when the Public Committee fell between July 2017 and September 2017):

- Deputy Andrew Lewis, Chairman (from beginning of session until July 2017, when he stepped down as Chair and Member of PAC)
- Connétable Christopher Taylor of St John, Chairman (Member from beginning of session, Chairman from September 2017)
- Deputy Scott Wickenden, (Vice-Chairman from beginning of session until his resignation in June 2016)
- Connétable Simon Crowcroft of St Helier (Vice-Chairman from October 2016, then Acting Chairman from July to September 2017 when he resigned)
- Deputy Judith Martin of St Helier (Member from beginning of session and Vice-Chairman from October 2017)
- Deputy Montfort Tadier (Member from October 2017)
- Mr Robert Parker (non-States Member throughout session)
- Mr Michael Robinson (non-States Member throughout session)
- Mr Gary Drinkwater (non-States Member from beginning of session until retirement in July 2017)

# 2. Terms of Reference for this Review

2.1 The Jersey Innovation Fund was created to promote competitiveness, improve infrastructure, develop innovation and diversify, creating good jobs for local people. On its establishment, the States allocated £5million to the Fund in 2013, to make loans or grants to stimulate innovation and thereby economic growth.

2.2 The PAC's review considered the following aspects:

- How the full potential costs of the Fund, as agreed by the States in P.124/2012 (amended) were assessed, agreed, and by whom.
- When and how the quantification of risk appetite changed (from 10-20% agreed by the States to 50% outlined in Financial Direction 1.2 of 2014) and why this was not brought back to the States.
- Who was responsible for developing changes to the Finance Law to enable mechanisms for securing upside gains from successful loans, as envisaged by P.124/2012 and why the changes were not pursued.
- Why the Operational Terms of Reference were not changed when it became apparent they were unworkable in their current form.
- How lessons have been learnt from the outcome of the CMD's reviews and how the findings of the C&AG's review of the Innovation Fund can be applied more widely across the States Departments.

## 3. Chairman's Foreword

This report has been unavoidably delayed due to factors beyond the Public Accounts Committee's (PAC) control. The PAC is aware that the situation regarding the Jersey Innovation Fund (JIF) has 'moved on' since the Comptroller and Auditor General's Report in January 2017, but considered it necessary to present the information gathered to date and make findings and recommendations which could be applied to future schemes.

When gathering evidence, the PAC requested the former Accounting Officer to attend a Public Hearing. He declined to do so and advised (by email) that he was now residing permanently in the UK. The Committee has considered comments made by him in writing, and has referenced them in this report, but is aware that they cannot be challenged and are therefore more difficult to rely upon. Further, it appreciates that the former Jersey Innovation Fund Advisory Board Chairman and Members did not have to attend to give evidence, but did so voluntarily. The Committee also notes that the Board did not constitute a 'separate legal entity' or 'personality' and so any responsibilities placed upon it were not legally binding.

The PAC notes that, following the Comptroller and Auditor General's Report of January 2017, and once the granting of new loans had ceased, the emphasis for the Fund shifted rightly to forensic review, close engagement with borrowers and a focus on securing repayment of original debt and arrears. It further notes that a JIF Officer Group was formed to monitor the 'loan book' and brief internal stakeholders. Specialists were engaged to perform forensic loan reviews and to perform credit stewardship for the majority of the 'loan book', with supervision provided by the Officer Group.

The PAC accepts that the (former) Chief Executive saw a forensic review process to its conclusion. Some additional funding was committed to ensure borrowers were better placed to provide the requisite financial information that the newly constituted JIF Officer Group sought.

The PAC recognises that there was some progress with the Innovation Fund in 2017, including the full repayment of one loan and another borrower continuing to meet their capital and interest repayment obligations.[1]

Importantly, the PAC cannot concur with comments made in the States Assembly as recently as March 2018, that the JIF was considered a "success" [2] just because one loan recipient (who paid back their loan in full) has gone on to garner awards for their company's invention. The Committee notes that the States failed to capitalise fully on that success because no equity was taken in that investment, nor a Royalty agreement established, so the States cannot enjoy any ongoing profit or maximise its investment. The PAC was told that the relevant skill set (to do this) "*does not exist sufficiently within (the States), and with no critical mass of investment options to consider, remains an impractical outcome."*[3]

The PAC is concerned that the skill set was not considered at an earlier stage, along with proper cost estimates for the establishment and maintenance of the Fund, appropriate due diligence and risk minimising mechanisms put in place at the outset and a robust framework established for monitoring commitments made to the States Assembly.

The PAC is concerned that there are ongoing costs in recovering debt and that vital lessons have not be learned around responsibility and maintenance of such a Fund.

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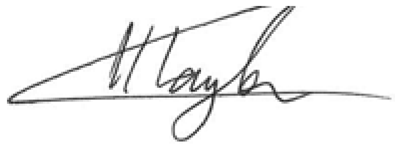
[1] Information received from senior Treasury Officer on 6 April 2018.
[2] States Assembly meeting of 19 March 2018
[3] Information received from senior Treasury Officer on 6 April 2018

During the gathering of evidence for this review, the PAC heard much discussion about the need to encourage ‘entrepreneurship’. However, it should never be forgotten that the Fund was established with taxpayers’ money and such money should be used prudently and wisely for public benefit. The PAC wishes to state that entrepreneurial schemes should not be pursued to the detriment of robust frameworks and due diligence in the monitoring of such schemes. It urges the Chief Executive Officer to implement the recommendations of this report.

On behalf of the PAC I would like to thank those who have contributed to this review in giving evidence, either orally or in writing, the Comptroller and Auditor General for her technical support, all of the support staff for their assistance and our officer for her work and support throughout.



Connétable Christopher Taylor of St John, Chairman, Public Accounts Committee

April 2018

# 4. Summary of Key Findings and Recommendations

**Costs and Maintenance of Fund**

**KEY FINDING: Cost estimates for the establishment and maintenance of the Fund were the responsibility of the former Accounting Officer, and they were underestimated and inadequate.**

**Risk Appetite**

**KEY FINDING: The former Accounting Officer demonstrated an unjustifiable oversight by failing to notify the relevant Minister to take back the re-evaluation of risk to the States Assembly to consider.**

**RECOMMENDATION: The PAC strongly recommends that the Chief Executive ensures that decisions made in the States Assembly are acted upon and implemented in line with the expectations of the States members. However, if subsequent issues arise which prevent implementation, the PAC strongly recommends that the matter be brought back to the States at the earliest opportunity, accompanied by a full explanation as to why it could not be undertaken.**

**Upside Gains (and commitments to the States Assembly)**

**KEY FINDING: Despite the commitment within P124/2012 (Amd), to bring a further proposition to amend the Public Finance Law, within six months, there was:**

a) **no conclusive preparatory work undertaken by Economic Development Department (EDD) or the Treasury;**
b) **no reporting back to the States to advise that the work was not and could not be undertaken in the original timeframe; and**
c) **no corporate monitoring of the undertaking to the States Assembly.**

**RECOMMENDATION: The Chief Executive should establish a robust system for implementing (and monitoring the progress of implementation) of all States Assembly decisions throughout the Departments. If such commitments cannot be honoured, the States Assembly should be informed at the earliest opportunity and offered an explanation as to why they could not be achieved.**

**Operating Terms of Reference**

**KEY FINDING:**

a) **The former Accounting Officer for JIF did not recognise the deficiencies within the Operating Terms of Reference (OTR) despite them being evident and drawn to his attention by the Board.**
b) **Beyond recording problems with the OTR in its minutes, the Board did not consider that pressing for necessary changes was its responsibility.**

**RECOMMENDATION: The Chief Executive should ensure that sufficient resources (not only financial but also human resources and expertise) must be allocated to all publically financed grant or loan schemes. He must also ensure appropriate due diligence and risk minimising mechanisms are in place from the outset of the project. If changes to Operational Terms of Reference or other frameworks and guidelines are thereafter deemed unworkable, the States must be informed at the earliest opportunity.**

**Roles and Responsibilities**

**RECOMMENDATION: The Chief Executive should ensure that Accounting Officers regularly review schemes within their remit to ensure all involved are clear and held accountable to the full extent of their role and responsibilities.**

# 5. Introduction and Background

### Establishment of the Jersey Innovation Fund

5.1 On 17th July 2012, the States approved a new Economic Growth and Diversification Strategy (P.55/2012). The Strategy envisioned how the States would work in partnership with private and third sector organisations to deliver four strategic aims:

- Encourage innovation and improve Jersey's international competitiveness;
- Grow and diversify the financial services sector capacity and profitability;
- Create new businesses and employment in high value sectors;
- Raise the productivity of the whole economy and reduce the reliance on inward migration.

5.2 To support the delivery of these aims, it was envisaged that the creation of the Jersey Innovation Fund (JIF, or 'the Fund') would increase innovation in the Jersey economy, thereby improving the Island's productivity, economic diversity and competitive advantage. The Strategy proposed that the Fund be capitalised with an initial £5 million allocation in the Medium Term Financial Plan (MTFP). Projects eligible for funding would range from direct business support for start-up, growth and inward investment through to strategic infrastructure in the private, public and third sector projects.

### Scrutiny of Proposed Fund and Recommendations for Improvement

5.3 The original proposition (P.124/2012), setting out the purpose of the Jersey Innovation Fund, was scrutinised by the Economic Affairs Scrutiny Panel, who published a comprehensive report (S.R.4/2013-Jersey Innovation Fund) on 27th March 2013. The Scrutiny Panel made fifteen recommendations to improve the proposed operation and maintenance of the Fund, reproduced in full at Appendix 1 of this report.

5.4 The Scrutiny Panel recommended, amongst other things, that a Partnership Fund would be a suitable model to adopt, in order to harness the considerable benefits of leverage, shared risk and private sector expertise. It also recommended that the development of a 'Royalty Agreement' template should be resolved prior to the States debate and that JIF should be self-replenishing. To this end, it advised that:

- clear financial objectives and Key Performance Indicators were established;
- formal guidelines were established between the relevant departments regarding interest rate levels;
- the process for establishing loan repayment terms was clearly set out;
- the equity element was developed within 6 months.

5.5 The Scrutiny Panel made other recommendations, most notably, that roles and responsibilities should be clearly defined, and a best estimate of annual operating costs for the management of the JIF, including all overhead support (external and internal costs), should be provided.

### Measuring Success or Failure

5.6 Crucially, the Economic Affairs Scrutiny Panel had recommended that an assessment should be undertaken of the estimated annual cost of operating the Fund against a measure of deliverables/outcomes arising from the utilisation of the Fund, thereby providing an indication of the true utility of the JIF. It had emphasised the need for greater clarity on defining both ‘failure’ and ‘success’ of JIF, both in an overall sense and as applied to individual, funded projects. It had recommended the establishment of:

- a precise framework for the monitoring of the performance of individual projects and the financial performance of the overall Fund;
- a formal mechanism to establish the circumstances under which the possible temporary or permanent closure of the JIF might be considered; and
- a common position by the Ministers for Economic Development and Treasury and Resources regarding the prioritisation of the various success criteria.

**Ministerial Response and Amended Proposition**

5.7 The Ministerial Response to the Scrutiny Report accepted all the recommendations and an amended proposition (P.124-2012 (Amd)) followed which included detailed Operating Terms of Reference (OTR) for the Fund. The amended proposition emphasised:

> ***Success for the Jersey Innovation Fund will be to encourage investments into areas of innovation that will deliver a competitive advantage for Jersey, attract additional private sector investment, attract high-value inward investment businesses and raise the productivity of local organisations, resulting in more job opportunities for locals.***[4]

**Roles of the Chairman and Board Members**

5.8 The former Chairman of the JIF Advisory Board was appointed with effect from 1st October 2013 (although the formal appointment letter was not sent until 20th December 2013). Subsequent to his appointment, the relevant Minister recruited four other members to the Board, a process monitored by the Appointments Commission. The three other members of the Advisory Board were the Accounting Officer, the Economic Adviser, and a representative of the Treasury, whose roles were not defined in the Operating Terms of Reference. The Chairman’s term of office expired on 30th September 2016, although (because a replacement was not sought) he continued until 7th December 2016.

**Roles of States Officers**

5.9 The PAC was aware that the current Treasurer was not involved in the establishment of the Fund, the issuance of the Financial Direction at the time, or the appointment of a Treasury representative to the Board. Those functions had been undertaken by his predecessor. However, he had a ‘hands-on’ approach since the responsibility for the Fund had moved to the former Chief Executive, that is, by December 2016.

5.10 The (former) Chief Executive, John Richardson, accepted that he had been involved with the Fund from its inception:

> ***“We were in the middle of our economic downturn, the global recession … effectively any opportunity for investment in innovation was stifled from a private financing position … Jersey was (not) the only jurisdiction that looked at … seed funding, to new innovative ideas to start helping boost the economy and diversify our economy”***[5]

[4] P.8 of P.124/2012 amended
[5] PAC Public Hearing with Chief Executive and Treasurer of the States, 16th May 2017

5.11 Following the former Accounting Officer's resignation in December 2016[6] (who also had the role of Chief Officer of the Economic Development, Tourism, Sport and Culture Department at the same time), the former Chief Executive took over the role of the Accounting Officer for the Fund to ensure proper and effective management of existing loans (including the engagement of external advisors).

**Unavailability of Key Witnesses**

5.12 The roles of JIF Executive and the Treasury representative were key to the administration of the Fund[7], and the PAC would have welcomed the opportunity to hear from the relevant officers. However the former Chief Executive advised they could not be interviewed (in 2016) because certain matters they were privy to may be *sub judice*[8], and the officers themselves would be involved in internal (department) procedures. The PAC has since requested updates on the proceedings and was told[9] in November 2017, that:

> ***'Disciplinary enquiries would be similarly protected from wider discussion although the PAC may wish to refer to States of Jersey HR department as to whether disciplinary investigations have been concluded and if there is any further action outstanding.'***

5.13 Following a further update request, the PAC was told, in January 2018, by the Chief Officer, Financial Services, Digital and Enterprise[10], that he had been in charge of the Fund since November 2017 and that 'a report and review into officer actions in managing the Fund was completed in May/June 2017'. He had been assured by the Director of Employment Relations and Organisational Development that its conclusions had been 'implemented as appropriate.' The PAC has not been privy to that report.

**Comptroller and Auditor General's (C&AG) Review of Jersey Innovation Fund[11]**

5.14 In her published report of January 2017, the C&AG reviewed the operation of the Fund as a whole, informed by detailed consideration of the individual loans advanced. Seven loans totalling over £2 million had been made to six borrowers. By the end of December 2016 only 26% of payments due had been received and one borrower was the subject of a winding up order. The provision for doubtful debts was £692,000 at 31 December 2015 but by 31 December 2016, it was £2.1m.[12]

5.15 The C&AG concluded that the arrangements for the Fund were inadequate from the outset. There was confusion about the roles and accountabilities of people involved and about the Fund's primary function (for example, whether it was supposed to be a "sinking fund"[13] or whether it would be replenished from future income generated by successful recipients). The C&AG was also critical of the lack of clarity in respect of the 'risk appetite' (that is to say, the level of risk deemed acceptable for default of loans) as well as estimates of the Fund's internal resource requirements.

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[6] Press release dated 3 January 2017: https://www.gov.je/News/2017/Pages/EDTSCResignation.aspx

[7] The PAC was advised by email of 6th April 2018 by a senior Treasury Officer, that the role of the Treasury Representative was, as a Non-Voting Independent Board Member, not one of day to day administration of the fund.

[8] Under judicial consideration and therefore prohibited from public discussion elsewhere.

[9] Email from senior officer at CMD, dated 24 November 2017

[10] Letter to Chairman of PAC, dated 29th January 2018.

[11] Link: https://www.jerseyauditoffice.je/wp-content/uploads/2017/02/Report-Jersey-Innovation-Fund.pdf

[12]http://www.statesassembly.gov.je/AssemblyReports/2017/R.67-2017.pdf?_ga=2.3800944.1979298067.1501079583-1582334087.1498468525, p.150 of financial statements, irrecoverability for advances from all funds is £2.1m.

[13] a fund formed by periodically setting aside money for the gradual repayment of a debt.

5.16 The C&AG had summarised a list of inadequacies in the Fund, from its inception through to its transfer to the Chief Executive. The C&AG strongly recommended that no further loans be made unless and until the significant failings identified in her report were addressed.

**Executive Response**

5.17 Following the C&AG's review in January 2017, the Chief Minister's Department undertook to appoint three organisations to undertake reviews in three key areas, namely:

- political involvement
- officer involvement and responsibility
- the administrative arrangements for loans paid out to third parties

Terms of Reference for those reviews were supplied to the PAC in a letter from the Chief Executive on 30th January 2017, and are reproduced in full at Appendix 2.

5.18 The PAC has requested all three reports but has received only the first,[14] which relates to the Ministerial responsibility for the Fund. The former Chief Executive had advised the PAC that the three reviews would be carried out over a short timescale, with the Review of officer involvement and responsibility taking up to eight weeks (to be completed by end March 2017). At the time of drafting this report (March 2018) the PAC has not received details of action taken, other than confirmation the second review was completed. The third review[15] was due to take up to six months to complete, however the PAC has not seen evidence of its completion either.[16]

**PAC Review**

5.19 The PAC launched its own review of JIF following the C&AG report. It wished to hear from those involved in the establishment or running of the Fund. It was mindful that the reviews commissioned by the Chief Minister's Department were likely to be conducted in private, and might not be published.

5.20 Two Public Hearings took place on 16th May, 2017, the first with the former Chief Executive (John Richardson) and the Treasurer of the States, and the second with the former Chairman of the Jersey Innovation Fund Advisory Board and two former members of that Board. The PAC had wished to speak to other senior officers involved in the administration of the Fund but was advised (as detailed in paragraph 5.12) that this was not possible.

5.21 The terms of reference of the PAC review were provided to each of the witnesses prior to the public hearings, together with a bundle of documents including the C&AG's report of January 2017[17], the Financial Direction 1.2 of 2014 (FD 1.2)[18], and a copy of the

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[14] Compiled by Jessica Simor QC, regarding Ministerial Responsibility

[15] A report on the financial status of the Fund referred to in the Chief Minister's statement to the States Assembly (link: https://www.gov.je/News/Speeches/ChiefMinisters/Pages/StatementInnovationFund.aspx)

[16] A senior Treasury Officer, in an email to the PAC of 6th April 2018, advised that a new Financial Direction on Grants has been drafted. In addition the EDTSC Department has undertaken a full review of its Governance Framework and implemented accordingly. Remaining lending responsibilities rest primarily with Treasury. That lending has undergone review recently ahead of the implementation of a new Loan management System.

[17] January 2017 – link to C&AG's Report https://www.jerseyauditoffice.je/wp-content/uploads/2017/02/Report-Jersey-Innovation- Fund.pdf

[18] FD 1.2 – link to Financial Direction: https://soj/depts/TRD/treasury/Financial%20Directions/Jersey%20Innovation%20Fund.pdf

Economic Affairs Scrutiny Panel report of 2013 (S.R.4/2013)[19] which reviewed the proposals as they were then for the establishment of the JIF. The witnesses were also directed to the Ministerial Response to that Scrutiny Panel report, and the recent report, R.45/2017[20] Review of Ministerial Responsibility, commissioned by the Chief Minister's Department, only insofar as it references officer responsibility.

**Documentation and Correspondence**

5.22 The former Chief Executive and Treasurer of the States disclosed some confidential documentation and correspondence to the PAC on request. The former Accounting Officer declined to give evidence in person to the PAC, citing his residence in the UK, however he agreed to respond to a number of written questions (received by email on 29th June 2017), which were then forwarded to the Chief Executive, Treasurer and the C&AG in order to give them a chance to comment. Documented responses and summaries of oral and written evidence given in response to the C&AG's recommendations form the substantive body of this report.

5.23 The PAC also referenced documents and emails referred to by the former Accounting Officer. It noted that he had criticised the C&AG and raised certain issues in previous correspondence with the C&AG or its own Officers. However the PAC was satisfied that all of the relevant objections and issues raised, had in fact been taken into account and addressed before the C&AG issued her final report.

[19] S.R.4/2013) link to Scrutiny Report: http://www.statesassembly.gov.je/ScrutinyReports/2013/Report%20-%20Jersey%20Innovation%20Fund%20-%2027%20March%202013.pdf

[20] R.45/2017 – Link: http://www.statesassembly.gov.je/AssemblyReports/2017/R.45-2017.pdf?_ga=2.167611773.232641016.1497344723-695215752.1454509117

## 6. Costs and Maintenance of the Jersey Innovation Fund

**PAC Review Term of Reference a): How the full potential costs of the Fund, as agreed by the States in P.124/2012 (amended) were assessed, agreed, and by whom.**

6.1 The PAC noted that the proposition to the States (P.124/2012 (Amended)) had envisaged that the allocated funding of £100,000 would be used to undertake due diligence, company searches, background checks, market research, credit checks, legal costs and specialist advice, and was based on the likelihood of 10 applications per year. A further £50,000 was allocated for human resources.

6.2 The PAC asked the former Chairman of the Board for his opinion of the adequacy of the funding for governance and monitoring of the Fund at its public hearing in 2017, and he replied:

> ***"… that was outside my remit and I was not involved in assessing the adequacy or otherwise… As time moved on clearly one could see that there were shortcomings in the way in which things were monitored and administered."***[21]

6.3 The Treasurer advised the PAC that it was the first time a fund of this type had been set up, and it was difficult to place a fixed cost on the operation of it because the amount of resources needed would have depended on the amount of loan applications received, accepted and thereafter managed. He also pointed out that the large quantity of rejected loan applications would have formed part of the work that the Accounting Officer and the Board would have had to undertake, but that he would have expected the lead department, the Economic Development Department (EDD), to estimate what was needed:

> ***"…it may seem slightly light, £100,000 that was estimated…I would have expected the lead department to have quantified those resources, putting a pound sign on…resource implications, manpower implications …and the need for specialist advice."***[22]

6.4 The former Chief Executive advised that the Economic Development Department (with Mr Mike King as the departmental Accounting Officer as well as the Accounting Officer for the Jersey Innovation Fund) had indeed estimated the cost of managing around 10 applications a year, to include external advice and due diligence:

> ***"The Economic Development Department estimates the cost of managing an estimated 10 applications a year will be no greater than £100,000. So I am reading that as being the amount of money that would be inscribed within the fund for the external advice and the due diligence, effectively."***[23]

6.5 However, the former Accounting Officer, in his written reply to the PAC, stated that the £50,000 allocated for human resources had been calculated internally and was based on an allocation of officer time (EDD JIF Executive) and an estimate of potential additional due diligence that might be requested by the JIF Board.

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[21] PAC Public Hearing with Former JIF Advisory Board Chairman and members, 16th May 2017. P7/8
[22] PAC Public Hearing with the Treasurer of the States and the Chief Executive, 16th May 2017.
[23] PAC Public Hearing with the Treasurer of the States and the Chief Executive, 16th May 2017. P15

6.6 He confirmed (in writing) that he had been involved in the estimation of the potential costs of operating the Fund, including the potential costs of defaults:

> ***"It is important to distinguish between the estimate of operating costs and defaults. The former was derived from a forecast of the number of applications (which was, by definition, difficult to estimate) and an estimate of the likely cost of processing each application, particularly those that proceeded beyond the initial "triage" conducted by the JIF Chair as part of the defined evaluation process. The latter was difficult to forecast although in the Scrutiny hearings and the subsequent R&P it was made crystal clear that there would be failures and that such failure could result in default and write offs."*** [24]

6.7 The PAC noted that the estimation of the potential costs of operating the Fund were contained within Paragraph 13 of P124/2012 (Amendment) which was lodged *au Greffe* on 17th April 2013. The "triage" (an initial review system for assessing loans) was established much later, at one of the Board's first meetings after its establishment (15th January 2014).[25]

6.8 The PAC noted that the Accounting Officer seemed to imply that the potential costs were calculated by estimating the number of loan applications that would proceed to detailed evaluation following triage. However, as the triage system was not established until nine months after the lodging of the proposition (which included the cost estimates), the Committee concluded that the Accounting Officer's statement could not be correct.

6.9 Furthermore it noted there was no clear understanding of the allocation of funding between the costs of human resources (£50,000) and the capital allocated to governance, monitoring of the Fund and due diligence checks (£100,000). Although costs were incurred and charged to the Fund, none of those costs related to external advice and support, as previously envisioned by the P124/2012 (Amendment) proposition. The PAC concluded that the establishment of a robust framework, by which due diligence, company searches, background checks, market research, credit checks, legal costs and specialist advice, could be obtained and used on a consistent basis, was not achieved.

6.10 The PAC concluded that establishing the framework, as detailed above was the responsibility of the former Accounting Officer and he failed to discharge that duty.

**KEY FINDING: Cost estimates for the establishment and maintenance of the Fund were the responsibility of the former Accounting Officer, and they were underestimated and inadequate.**

[24] Response from Mr King, former Accounting Officer for JIF and EDTSC, received by email to PAC Officer 29th June 2017

[25] Minutes of the Jersey Innovation Fund Board meeting of 15th January 2014.

## 7. Risk Appetite

**PAC Review Term of Reference b): When and how the quantification of risk appetite changed (from 10-20% agreed by the States to 50% outlined in Financial Direction (FD) 1.2 of 2014) and why this was not brought back to the States.**

7.1 The quantification of risk had been queried in the Economic Affairs' Scrutiny Report before the establishment of the Fund, and it was submitted that a level of 'failure' would need to be accepted by the States. The Ministerial Response to that report advised:

> ***"A review of a similar scheme in the UK – the Small Firms Loan Guarantee Scheme, reported a write off rate equal to 10%... It is estimated that about 20% of projects supported by the JIF will fail to reach their original forecast growth (jobs and revenues) and 10% in outstanding loans will fail completely."***

7.2 However, the PAC notes that a revised reference to risk was made within the new Financial Direction 1.2 (FD 1.2) published in July 2014:

> ***"It is acknowledged by the nature of the projects supported by the JIF that there is a probability of a 50% chance of failure."***

7.3 The PAC wanted to investigate how the risk status had changed significantly, from the relatively low level which formed the States debate and was quantified in the Ministerial Response at 10-20%, to the 50% stated in FD 1.2 (and used thereafter by the JIF Advisory Board).[26]

7.4 The former Chairman, Jersey Innovation Fund Advisory Board told the PAC that the absence of a Financial Direction specifically relating to the Fund, before the Board was established[27], was "a significant shortcoming." He told the PAC that he had been frustrated with the time it had taken to create FD 1.2, but that, despite it containing "conflicts and overlap", it was better than the prospect of another States debate on proposed changes to the Operational Terms of Reference, because:

> ***" … we were led to believe that … would be a long job."[28]***

7.5 The former Accounting Officer, in writing to the PAC, advised that a specific Financial Direction had not been included in the original report and proposition to the States, because it was thought that FD 5.1[29] and/or FD 5.5[30] would apply.[31] He stated that the Treasury Department had responsibility for drafting F.D 1.2 and that he had not had any involvement in its preparation. He considered the possibility of remitting the proposed changes (of risk quantification) back to the States wholly a matter for the Treasury.[32]

7.6 The PAC accepts that the States Assembly, during its debate on the establishment of the Jersey Innovation Fund, recognised there was some risk involved with JIF. However, it is concerned that the risk was not clearly quantified and put into a realistic perspective for the purpose of debating the issue. Moreover, the subsequent re-evaluation of risk within JIF, as demonstrated in the Financial Direction 1.2 subsequently pursued by the

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26 Official Hansard Debate of 1st May 2013, of amended proposition - from p.35- link:
27 PAC Public Hearing with former Chairman and members of the JIF Advisory Board, 16th May 2017.
28 PAC Public Hearing with former Chairman and members of the JIF Advisory Board, 16th May 2017
29 https://www.gov.je/Freedom%20of%20Information%20library/Financial%20direction%205.1.pdf
30https://www.gov.je/Freedom%20of%20Information%20library/R%20FOI%20Management%20of%20Grants%20LH170815.pdf
31 MK did not attend meeting in March 2014 when this was discussed. Minutes from 03/14 indicate that he was invited.
32 Response from Mr King, former Accounting Officer for JIF and EDTSC, received by email to PAC Officer 29th June 2017

Treasury Department, was not presented to the States for either consultation or agreement.

7.7 The PAC was dismayed to note that even when senior officers had deemed the necessary changes to the Finance Law to be more complex than originally envisaged, they decided to unilaterally pursue the promulgation of a Financial Direction which would afford greater risks to be taken with taxpayers' money. It did not seem to concern any of the Officers that this was contrary to what had been agreed by the States Assembly, and therefore should have been brought back for States Members to reconsider. The PAC noted the Board Chairman's comment, that even when the idea was raised of bringing back an amendment to the States, for elected Members to consider increasing risk of non-payments, it was summarily dismissed as 'a long job'. The PAC must draw the conclusion that such a delay was considered unduly onerous and therefore the officers pursued a much riskier, albeit easier, path. It is disappointing to note the unjustifiable oversight in not taking back the re-evaluation of risk to the States.

7.8 States Members must be given the full facts to make a balanced decision within any Proposition. The PAC strongly recommends that decisions made in the States Assembly are acted upon and implemented in line with the expectations of the States members. However, if subsequent issues arise which prevent implementation, the PAC strongly recommends that the matter be brought back to the States at the earliest opportunity, accompanied by a full explanation as to why it could not be undertaken.

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| **KEY FINDING: The former Accounting Officer demonstrated an unjustifiable oversight by failing to notify the relevant Minister to take back the re-evaluation of risk to the States Assembly to consider.** |
| **RECOMMENDATION: The PAC strongly recommends that decisions made in the States Assembly are acted upon and implemented in line with the expectations of the States members. However, if subsequent issues arise which prevent implementation, the PAC strongly recommends that the matter be brought back to the States at the earliest opportunity, accompanied by a full explanation as to why it could not be undertaken**. |

## 8. Upside Gains

**PAC Review Term of Reference c): Who was responsible for developing changes to the Finance Law to enable mechanisms for securing upside gains from successful loans, as envisaged by P.124/2012 and why the changes were not pursued.**

8.1 The amended Proposition, P.124/2012 (Amd), explains that existing legislation would not allow the JIF to be used to take an equity stake in a company. As a consequence, the proposition stated that the JIF should launch and initially operate by making available financial support in the form of repayable loans or non-repayable grants (with such grants only considered in exceptionable circumstances).

8.2 However the proposition also contained a commitment to bring back to the States Assembly, within 6 months, changes to the Public Finances Law to allow equity investments:

> ***Within 6 months of the launch (November 2013)…Treasury and Resources will launch a new R. and P. (report and proposition) that will allow the JIF to make equity investments in privately owned businesses and move towards a partnership fund … This will require (Economic Development Department) and (the Treasury and Resources Department) working closely with stakeholders to develop the report and proposition.***[33]

8.3 The Operational Terms of Reference contained in P.124/2012 (Amd) envisaged only a short time before the Fund could enter Phase 2, and take an equity stake in businesses (that had received JIF funding) so that it could benefit from the upside in their investments:

> ***' … The aim is that the Minister for Treasury and Resources will bring forward the Proposition and Report … within 6 months of the launch of the Fund.'*** [34]

8.4 No subsequent Proposition was laid before the States to facilitate such equity investments. Nevertheless, one loan agreement had an option to convert the loan to equity even though such an option could not, at that time, be exercised. The PAC questioned the Treasurer and the former Chief Executive as to whose responsibility it was to establish the timetable for such a proposition. The Treasurer remarked that although he had not been involved in preparations for any such amendment at the time, he considered that the work involved would be considerably more complex than a simple change to the Public Finances Law:

> ***"… It is not necessarily about taking any upside advantage of the loans that had already been issued but was moving the fund to a different operating model that may well have included loans …or grants."***[35]

8.5 He also advised that the Treasury would not have had significant input into the research and development necessary because it was not the leading Department. The former Chief Executive concurred with his view and stated that he considered it to be the responsibility of the Accounting Officer:

> ***"... (The Accounting Officer) who had experience on the Board … to determine the success and implementation of phase 1, how that was***

[33] This provision is included in p 124/2012 (p9) and states that the Minister of Treasury and Resources will bring forward the subsequent proposition after 6 months
[34] Jersey Innovation Fund: Establishment, Funding and Operation (P124/2012) – Amendment P9.
[35] Page 30 Transcripts of Public Hearing with Treasurer of the States 16/05/2017.

***working, lessons learned from it and how do you convert that into a revised phase 2 with equity? That would be the point at which he would have the discussion with the Treasury … to suggest it was the Treasury and Resources doing it first, I think, is wrong."[36]***

8.6 The Treasurer admitted he had met with the Accounting Officer, around two years into the operation of the Fund, in order to discuss the 'convertible option' within one of the loan applications, and that he had agreed to it, but reiterated that it was for the Economic Development Department (EDD) to lead[37]. The former Chief Executive agreed, stating that it was clear from the OTR that the Minister for Economic Development, the Accounting Officer and the department, were responsible.[38] He also agreed that the six months' timescale to bring a further proposition to the States, had been unrealistic.

8.7 The former Accounting Officer confirmed that he had not told any Officer or the Board, to prepare such a proposition for the Minister to take before the States, because:

***"…I recollect that due to heavy workload and competing priorities within Treasury it was felt unlikely that such an amendment could be brought forward within 6 months. With this as a given, to protect the States position, the JIF Board included convertibility clauses in loan agreements that were subject to changes in the law [being] approved by the States."[39]***

8.8 He accepted that it was the joint responsibility of the "Treasury and EDD officials" to monitor the implementation of such commitments made to the States Assembly, but that a work schedule of items requiring such approval was not developed.

8.9 At a later public hearing[40], the former Chairman of the JIF Advisory Board was asked whether he was aware of the commitment to bring back to the States a proposition to allow equity investment. He agreed that the Board had discussed it many times, but concurred with the Treasurer's remarks that it would have required considerably more than the amendment to the Public Finances Law to deliver, and that six months was an extremely optimistic timeframe. He mentioned that the relatively small scale of the loans meant they were not usually of the type that was in keeping with private equity investments, and he also concurred with the Chief Executive that:

***"…it is easy to say, if we could take equity we would benefit from the upside. In my view the JIF semi-loan scheme was not the vehicle to do it and…JIF had no separate corporate capacity (and) we had a £260 billion fund industry out there in St. Helier."[41]***

8.10 The PAC concludes that, despite there being a requirement to bring a proposition to the States for changes in the Public Finance (Jersey) Law within 6 months of the original proposition, that:

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[36] Page 33 Transcripts of Public Hearing with Treasurer of the States 16/05/2017.
[37] In an email to the PAC, dated 11th July 2017, and by way of reply to the former Accounting Officer's written correspondence, the Treasurer stated, "The expectation on the part of the Treasury was that Economic Development would take the lead in developing the framework. (This is a very clear objective in the Economic Development Business Plan for 2014, with no corresponding item in the T&R Business Plan for the same year)."
[38] Further evidence that this was an EDD responsibility is confirmed in the EDD Business Plan of 2014, which included the following objective: Develop the JIF into a Partnership Fund to allow it to make equity investments. (Phase 2)
[39] Response from Mr King, former Accounting Officer for JIF and EDTSC, received by email to PAC Officer 29th June 2017
[40] PAC Public Hearing with Former JIF Advisory Board Chairman and members, 16th May 2017.
[41] PAC Public Hearing with Former JIF Advisory Board Chairman and members, 16th May 2017. P21

- The Accounting Officer took little or no action to prepare the necessary background work
- The Accounting Officer and/or the Treasurer did not report back to the Minister or the States Assembly to advise the Assembly that the work had not and could not be done; and, moreover
- There was no monitoring of commitments to the States to ensure this was done

8.11 The PAC concluded that very soon after the commitment to bring a proposition back to the States had been undertaken, it was abandoned. The PAC was disappointed to note that all the officers had agreed that the creation of such a proposition (to enable the States to take equity or otherwise make upside gains) was deemed more complex than originally envisaged, and was therefore not pursued. However, no-one had taken the responsibility to advise the Minister that the commitment could not be upheld within the six months originally promised. It is disappointed to note that the decision not to make changes to the Public Finance Law was not relayed through the Minister to the States Assembly.

8.12 The PAC considers that this attitude typifies a more widespread problem of States decisions not being implemented in the way originally envisaged, or not being monitored effectively and robustly by the Officers charged with their implementation. It urges the (new) Chief Executive to establish a robust system for implementing (and monitoring the progress of implementation) of all States Assembly decisions throughout the Departments. If such commitments cannot be honoured, the States Assembly should be informed at the earliest opportunity and offered an explanation as to why they could not be achieved.

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| **KEY FINDING: Despite the commitment within P124/2012 (Amd), to bring a further proposition to amend the Public Finance Law, within six months, there was:**<br>**a) no conclusive preparatory work undertaken by EDD or the Treasury;**<br>**b) no reporting back to the States to advise that the work was not and could not be undertaken in the original timeframe; and**<br>**c) no corporate monitoring of the undertaking to the States Assembly.** |
| **RECOMMENDATION: The Chief Executive should establish a robust system for implementing (and monitoring the progress of implementation) of all States Assembly decisions throughout the Departments. If such commitments cannot be honoured, the States Assembly should be informed at the earliest opportunity and offered an explanation as to why they could not be achieved.** |

# 9. Operational Terms of Reference

**PAC Review Term of Reference d): Why the Operational Terms of Reference were not changed when it became apparent they were unworkable in their current form.**

**Inadequacies of the OTR**

9.1 The Operational Terms of Reference (OTR) which formed the major part of the amendment to Proposition P.124/2012, set out how the Fund was to operate. The PAC, mindful that the Fund was a new activity with a high risk profile, wanted to investigate why the OTR did not provide a robust operational framework for the Fund, and why inadequacies were not addressed. The PAC recalled that in the States debate of 1st May 2013, when setting out the establishment of the Fund, Senator Ozouf had indicated:

> ***"The decision today on the agreed revised operational terms of reference does strike the appropriate balance between the level of governance that is needed to put in place to manage overall risk, but also as a fund which is appropriately capitalised with an amount of public money."***[42]

9.2 At the first of its public hearings, the former Chief Executive confirmed that the Treasury and Resources Department (T&R) and the Economic Development Department (EDD) had been working closely together in the drafting of the OTR.

9.3 The C&AG's Report on the Jersey Innovation Fund[43] criticised the Operational Terms of Reference for being confusing and for substantially underestimating the officer resources required to run the Fund. The OTR also failed to allocate any specific roles to the Treasury and Resources representative or Economic Adviser, yet envisaged the JIF Executive undertaking a wide range of tasks, from secretarial and administrative support, to due diligence, maintenance of risk registers and managing aftercare for loan recipients. Furthermore, the OTR did not specify a mechanism for evaluating the overall performance of the Fund, either in policy terms (such as number of jobs created or tax revenue generated) or financial terms (such as write-offs incurred), despite the Fund having four strategic aims (listed in paragraph 5.1 of this report) and therefore objectives to measure against.

9.4 At the PAC public hearing, the former Chief Executive, whilst agreeing with the findings of the C&AG's report, said that the Accounting Officer had never made him aware that the OTR were not workable. He maintained that the OTR contained clear terms but conceded that the overall framework was not perfect:

> ***" … (there was a) lack of framework …the control/compliance governance position that needed to be established was not established … If only the Board and the officers had taken time between meeting 1 and meeting 2 to put in that key meeting, which did not happen."***[44]

[42] Official Hansard Debate of 1st May 2013, of amended proposition - from p.38- link:
[43] https://www.jerseyauditoffice.je/wp-content/uploads/2017/02/Report-Jersey-Innovation-Fund.pdf
[44] PAC Public Hearing with Chief Executive and Treasurer of the States, 16th May 2017. P 13

9.5 He added that the OTR was a policy document which set out the general direction, but that:

> ***"… the bit that was lacking … what they had to do and what was actually done….there was a gap between what was agreed by the States … and the actual day-to-day business of how they administered the Fund."[45]***

9.6 The Chief Executive also told the PAC that it was clear from the OTR that it was the responsibility of the Board to request expert opinions to ensure comprehensive due diligence and that it was for the Board to determine what specialist advice was required[46].

9.7 However, he considered that the Board had not obtained adequate advice:

> ***"…the first Board meeting was the inaugural welcome meeting and introductions and the second meeting they started considering loan applications. I cannot see anything in any of the Board minutes (about) …how do we convert that into a compliance framework."[47]***

9.8 The Chief Executive said that, at the third Board meeting, it was resolved that a meeting would be arranged between the Directors and the Minister.[48] He stated that he had highlighted the need to get controls, compliance, and governance in place.

9.9 The PAC put the former Chief Executive's observations to the former Chairman, Jersey Innovation Fund Advisory Panel, who disagreed. He told the Committee that the Board had discharged its functions to the best of its ability. He also considered that the Board was adequately resourced in the sense that expert advice could have been obtained, but:

> ***"I think that the Board that I was involved in appointing was a good strong Board able to advise the States on the applications before it …"[49]***

9.10 He commented that there were inherent conflicts and confusions within the OTR, therefore:

> ***"… it is almost impossible to say we have complied with something, which requires the same action to be carried out by 2 different people."[50]***

9.11 The PAC noted that the minutes of the Advisory Board of 11th March 2014 indicate confusion and the need for more direction from 'Government'. The minutes of 26th November 2014 also refer to 'frustrations' from the Board. However, it saw no evidence of matters progressing to the point where action was taken to change the OTR when it became apparent they were unworkable, indeed the Chairman had told the PAC that '*the prospect of another States debate on proposed changes to the Operational Terms of Reference*' had been advised against (by the former Accounting Officer), because it would take too long.[51]

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[45] PAC Public Hearing with Chief Executive and Treasurer of the States, 16th May 2017. P38.
[46] PAC Public Hearing with Chief Executive and Treasurer of the States, 16th May 2017
[47] PAC Public Hearing with the Treasurer of the States and the Chief Executive, 16th May 2017. P15
[48] Minutes 04/02/14, also referred to in Mins 11/03/14 when further details set out of proposed meeting.
[49] PAC Public Hearing with former Chairman and members of the JIF Advisory Board, 16th May 2017. P7.
[50] PAC Public Hearing with Former JIF Advisory Board Chairman and members, 16th May 2017.
51 PAC Public Hearing with former Chairman and members of the JIF Advisory Board, 16th May 2017

**Former Accounting Officer's Statement**

9.12 The PAC asked the former Accounting Officer (in writing) whether he considered there to be any weaknesses in the Operating Terms of Reference. Seemingly at odds with the views of others, he responded[52] that he thought they were broadly fit for purpose. He also said that he had commented on the 'summary of inadequacies' of the OTR by the C&AG, as early as November 2016, when he saw the first draft of the C&AG's report. He stated that he considered her criticisms to be, "determined on partial information", and that she had not contacted the recipients of loans directly nor examined individual phone records or other communications between officers and the recipients.

9.13 The C&AG has advised PAC that she obtained all the evidence she considered necessary to reach her conclusions. She explained that the evidence she obtained arose from interviews and an extensive review of documentary evidence, including emails. She has explained that, in the context of the design of the Operating Terms of Reference, she did not consider it necessary to obtain evidence from loan recipients or review phone records. She has also explained that she invited all parties, including the former Accounting Officer, to provide any further documentation relevant to the review and that she carefully considered all such documentation. The PAC does not accept the assertions from the former Accounting Officer to be valid reasons for discounting her conclusions that the OTR were confusing and that they failed to specify a mechanism for evaluating the overall performance of the Fund.

9.14 Further, the PAC agreed with the C&AG's evaluation that roles and accountabilities were poorly articulated and that key policy matters were not addressed. The evidence it received from all the witnesses underlined that the potential financial performance of the funds had not been adequately considered – and it does not accept the former Accounting Officer's assertions that communications between officers and loan recipients made up for, or were in any way, a substitute for, a robust framework for operating the Fund.

9.15 The PAC concludes that the reason for not amending the OTR when they were deemed unworkable was again, that no-one took responsibility for ensuring this was done, and that there was a reluctance to further delay the operation of the Fund in order to have a further States debate to make the necessary amendments. The PAC finds this attitude unacceptable. It relies on its officers to not only provide the necessary detail of proposed operations so that it can make informed decisions, but also to manage those undertakings in line with the decisions taken.

**KEY FINDING:**

**a) The former Accounting Officer for JIF did not recognise the deficiencies within the OTR despite them being evident and drawn to his attention by the Board.**

**b) Beyond recording problems with the OTR in its minutes, the Board did not consider that pressing for necessary changes to them was its responsibility.**

**RECOMMENDATION: The Chief Executive should ensure that sufficient resources (not only financial but also human resources and expertise) must be allocated to all publically financed grant or loan schemes. He must also ensure appropriate due diligence and risk minimising mechanisms are in place from the outset of the project. If changes to Operational Terms of Reference or other frameworks and guidelines are thereafter deemed unworkable, the States must be informed at the earliest opportunity.**

[52] Response from Mr King, former Accounting Officer for JIF and EDTSC, received by email to PAC Officer 29th June 2017

## 10. Responsibilities and Accountability

10.1 The C&AG's report emphasised the stated role and responsibilities of the Accounting Officer for the Fund and concluded that he could and should have done more to ensure that public money was protected. Concerns also included the role of the Advisory Board and action taken by the Treasury and Resources Department.

10.2 The PAC recalled that in the States debate of 1st May 2013, when setting out the establishment of the Fund, Senator Ozouf had indicated:

> ***"… the role, responsibility and constitution of the Innovation Board is absolutely critical to the operation. …the Board will review every application and, if required, obtain the appropriate external advice when an application requires specific technical expertise. They will carefully consider all the due diligence and background reports prepared by the Board's Executive Officer. They will make recommendations to the Minister for Economic Development to approve or reject an application, after being fully satisfied that the application has a reasonable chance of success. Importantly, it is recognised that approving a loan or grant must not be the end of the board's involvement; a robust after-care governance structure should be implemented with the board's full involvement to ensure that the performance of any investment is monitored and managed throughout the project life."[53]***

10.3 The PAC recalled that responsibility for proper financial management is set out in the Public Finances (Jersey) Law 2005[54] where Article 38 states:

> *"(1) The accounting officer of a States funded body is personally accountable for the proper financial management of the resources of the body in accordance with this Law."*

10.4 The former Accounting Officer advised in writing the extent of his involvement with JIF:

> ***"Regular meetings were held between officers and frequent updates on progress were provided to EDD and Treasury Ministers by officials. My recollection is that I attended the majority[55] of these meetings. As the JIF was an important, but not sole, element of the (Medium Term Financial Plan) MTFP, as EDD Chief Officer I devoted a significant amount of time to the development of the JIF from 2012-2016. Comment was made in the C&AG report regarding attendance at JIF Board meetings, with the inference being that a lack of attendance indicated a lack of attention to the effective running of the JIF. Nothing could be further from the truth. All JIF Board papers were provided in a timely manner by the JIF Executive and although (due to competing priorities) it was not possible to attend each Board meeting, I reviewed each and every one and, where necessary, made comments to the JIF Executive. It should also be noted that active JIF applications were the subject of numerous and frequent discussions between officers."***

[53] Official Hansard Debate of 1st May 2013, of amended proposition - from p.35- link:
[54] Further articles of the Public Finance Law and Financial Direction 2.2 clarify the responsibilities of the Accounting Officer.
[55] In Year 1, of 12 meetings the Accounting Officer attended 3 in full and 3 in part. The Chairman notes in Board minutes of 16th October 2014, the lack of attendance.

10.5 However, having considered the JIF Board minutes, the PAC noted that the Accounting Officer had only attended half of the 12 meetings of the Board during its first year of operation, and even then had only attended three of those in part. The Chairman of the Board registered his lack of attendance in the minutes of 16th October 2014. Further, the Committee considers that 'numerous and frequent discussions between officers are no substitute for robust framework and monitoring arrangements.

**Reporting Lines**

10.6 The former Chairman of the JIF Advisory Board told the PAC at a Public Hearing in May 2017, that during his relatively brief tenure, there were a lot of changes and that there was certainly confusion about who was responsible for what, both at civil service level and at ministerial level:

> ***"I had three different Ministers, two different Accounting Officers, at least four different executives at different times, so there was quite a lot of turnover and getting used to new things. But the members of staff who were responsible were, certainly in a number of cases, enthusiastic and really tried hard and worked hard but it did not necessarily follow that they had the skill sets to deliver."***[56]

10.7 He also reminded the Committee that the Fund had no separate legal capacity or 'personality' when considering the way in which the Board had operated, and its powers or lack of them.

10.8 The former Accounting Officer confirmed that reporting lines to Ministers could be subdivided into two clearly distinct periods:

1. From the inception of the fund to the election in Q4 2014 – (his) reporting line was to Senator Maclean as Minister for Economic Development.

2. Following the election in Q4 2014 the Chief Minister (Senator Gorst) reassigned certain elements of the EDD portfolio to the Chief Minister's Department.

10.9 The PAC notes that although the duties were transferred to the Assistant Chief Minister after the elections in 2014, the Ministerial responsibility remained with the Minister for Economic Development. The remit of the PAC does not include examination of Ministers' involvement but it does accept that there was confusion, or lack of clarity, at Ministerial level.

10.10 The former Accounting Officer blamed this transfer of functions for the subsequent confusion over roles and responsibilities. He stated that it had been undertaken with little or no consultation with officers and was poorly handled:

> "***Due to the delay in obtaining approval for what became the "Transfer of Functions" the period between the 2014 election and early 2016, the entirety of 2015 could best be described as chaotic, a situation that no party found satisfactory."***

[56] Response from Mr King, former Accounting Officer for JIF and EDTSC, received by email to PAC Officer 29th June 2017

**Responsibility for 'due diligence'**

10.11 The PAC recalls that the concept of how 'due diligence' was not only referred to in the OTR but also defined in the Financial Direction 1.2, specifically how it would relate to the Jersey Innovation Fund:

> ***'The JIF Executive must also ensure that adequate background checks are carried out for each application, including but not limited to: credit rating, tax/social security and financial checks. The JIF Executive shall include in the recommendation for the JIF Board a description of the due diligence undertaken and the outcomes of that work. The Board should formally consider whether the due diligence undertaken is sufficient and appropriate for the project in question and document and minute the decision. Any member of the JIF Board can request further due diligence to be carried out on an application. A further more detailed review should be undertaken by the JIF Executive, Accounting Officer for the Department and the Treasury representative if requested by the Board. Such due diligence shall have regard of the level of security available against the loan/grant. It should also have regard to the risks identified in the risk register for the project. During the due diligence and assessment process the JIF Board must consider all reasonable and appropriate security available and recommend to the Minister for Economic Development if and how any available security should be used to reduce any risk to the States of Jersey.'*** [57]

10.12 The PAC noted that litigation searches in Jersey and UK, personal checks in form of Company Director and Secretary, reports from Company House, Jersey tax office checks, and crime checks, are all considered standard processes in terms of 'due diligence'.[58]

10.13 The former Chief Executive considered the OTR to be explicit in terms of the JIF Board's responsibility, and cited the relevant passage:

> ***"The JIF Board, after being fully satisfied with the due diligence checks, reviewing the expert and economic opinions and a detailed analysis of the proposal, will make a recommendation to the Minister for Economic Development to approve or reject the project."*** [59]

10.14 However, the former Chairman of the Board told the PAC that it was **not** the Board's responsibility to undertake due diligence in terms of company or licence checks, and cited another part of the same OTR:

> ***"The JIF Executive will be responsible for administrative, secretariat functions and managing the due diligence processes."***[60]

10.15 He advised that in light of the above, the Board was aware of what needed to be put before the Minister but that due diligence checks were the primary responsibility of the JIF Executive, and in any event, the Board did not have access to the resources to undertake them.

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[57] F.D. 1.2 – Sections 2.3.1-2.3.6
[58] Confirmed by Affiliate of C&AG in response to draft report, 25th July 2017.
[59] Section 10 of P124/2012 Amd., page 19.
[60] Section 10 of P124/2012 Amd., page 18.

10.16 The PAC accepts that the Board was not required to actually undertake the necessary work (one of the responsibilities of the JIF Executive Officer, a key administrator of the Fund, whom the PAC did not have an opportunity to question). However, it concluded that the OTR did outline the responsibilities of the Board to ensure the work was undertaken and empower the Board to pay for external advice. The PAC concludes that the OTR were not sufficiently well-written so that roles and responsibilities were not clearly defined, and therefore open to interpretation, and regrettably, that the 'due diligence' was inadequate.

**Responsibility for 'aftercare'**

10.17 In response to a query posed by the PAC as to whose responsibility it was to provide 'aftercare' to a loan recipient, the former Chairman of the Advisory Board stated that there was no structured approach or ongoing responsibility upon the Board [61]. The PAC accepts that the OTR stipulates:

> ***"… the JIF Executive will have responsibility for ongoing management, aftercare and monitoring of all investments made and for reporting to the Board on these matters on a regular basis."*** [62]

10.18 The PAC noted that the JIF Executive's Chief Officer was also the (former) Accounting Officer and therefore they should have had direct and regular communication. It also noted that the Board, although not responsible for undertaking aftercare, was to have any aftercare issues reported to it on a regular basis.

10.19 The Board's former Chairman told the PAC that once the loans were agreed, the Board received information in a relatively sporadic way. The applicants who were successful were to report quarterly but they were often 'delinquent' in that undertaking, which he did not view as surprising, because, in his opinion, small start-up businesses would not perceive that to be a priority.

10.20 Whilst accepting that the loan recipients had a contractual obligation to provide management accounts, he commented that the Board could not enforce this obligation, because, "It is the States who are the lenders." He stated that the OTR made it the responsibility of the JIF Executive to monitor the loans. When asked why the Board would not be more interested to see management accounts, he replied:

> ***"…That is a slightly closed question in the sense would one be interested? One might be. Was it one's responsibility? No, absolutely not."*** [63]

**Risk minimising**

10.21 The PAC queried whether sufficient risk minimising mechanisms had been considered, including the advancement of funds in 'tranches' (smaller payments over a period of time). The Treasurer told the PAC that on reviewing the internal audit of the Innovation Fund, he had been surprised to note that, given the experience of some of the individuals involved, one of the loans had been advanced in one single payment, although it was within the OTR to loan up to £500,000. [64]

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[61] PAC Public Hearing with former Chairman and members of the JIF Advisory Board, 16th May 2017. P44
[62] P124/2012 section 5. Please note that P124/2012 Amd contains very similar wording (Section 10)
[63] PAC Public Hearing with former Chairman and members of the JIF Advisory Board, 16th May 2017. P44
[64] PAC Public Hearing with Chief Executive and Treasurer of the States, 16th May 2017.P47

10.22 When the question of risk minimising mechanisms was put to the former Chairman of the Advisory Board, he, for the most part agreed:

> ***"Whilst we were not urged by the Accounting Officer to do things in any particular way we were learning lessons as the 2 or 3 years continued, and after January or February 2015, no funds were advanced other than in tranches ... But with the benefit of hindsight, and with perhaps some greater input from those supporting us within the States who had oversight, there are certainly 2 loans which might have been better dealt with by advancement in tranches."***[65]

**Loan defaults**

10.23 He said that the first 'warning sign' (of loan defaults) occurred in the summer of 2015, when the JIF Executive (whom, he stressed, was obliged to monitor the loans) identified a potential defaulting borrower. The issues were escalated to the Minister in 2016. Although the former Chair of the Board had 'supported and encouraged' the (Economic Development) department to put greater pressure on the borrowers to report in a timely way, he refuted any suggestion the Board had ultimate responsibility:

> **" … The Board, the non-executive members of the Advisory Panel, did not have a responsibility for monitoring the loans. Our responsibility was under a later and rather conflicting and confusing part of the Operating Terms of *Reference*, to recommend action that the States, as lender, might take in the event of a breach."**

10.24 The PAC questioned the Treasurer and Chief Executive on the mechanisms in place to check loan repayments. The Treasurer confirmed that September 2015 was the first date it was noted that 'slippage' had occurred and he became aware there were discussions between the former Accounting Officer and the loan recipient company regarding "difficulties" of repayment:

> **"… there were early signs at that point that perhaps loans were not going to be repaid … we did the auditing in Q4, the audit report was issued in January (2016)."**[66]

10.25 In a written answer to the PAC regarding the management of the Fund, the former Accounting Officer accepted that he had had 'ultimate' responsibility:

> ***"…As the officer designated by the Treasurer as the JIF Accounting Officer, the JIF was my responsibility, something I have never shied away from. However the C&AG report attributes defaults and other issues related to the JIF entirely to deficiencies in JIF set up, management and process. As made clear to the C&AG on two occasions … I do not agree with this construct."***[67]

10.26 The former Chief Executive told the PAC that his own involvement was not until late 2015 when internal auditors investigated the Fund and eventually in November 2016, he took over the role as Accounting Officer and the administration of the Fund.

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[65] After March 2015, the 2 new loans were advanced in 2 stages, plus the second tranche of a previous loan was advanced.
[66] PAC Public Hearing with Chief Executive and Treasurer of the States, 16th May 2017. P44
[67] Response from Mr King, former Accounting Officer for JIF and EDTSC, received by email to PAC Officer 29th June 2017

10.27 The PAC notes the OTR required the Board to provide the Minister with a report on all activity at each half year. In a similar vein to the PAC's observations above, in respect of 'due diligence', the Committee accepts it was not the Board's role to undertake the actual monitoring of the loans. However it did consider that the Board had a role to fulfil in monitoring and reporting, and could have been more proactive in its approach, if necessary, asking the Executive Officer or Accounting Officer to provide the information. This does not take away from the fact that, ultimately the Accounting Officer and the Executive Officer were expected to be responsible and accountable for all aspects of monitoring the loans. It considers that the Accounting Officer's comments of the C&AG's report to reflect his misinterpretation of the report.

10.28 The PAC noted that a second loan had been advanced to a loan recipient, without key performance indicators being established on the first. It concluded that risk minimising mechanisms within the Jersey Innovation Fund were introduced late and were not robust enough. It also highlights the difficulty in establishing a Fund with no overall risk management in place and an ineffective monitoring and compliance framework model.

10.29 The PAC could only conclude that the officers failed to undertake those responsibilities in an effective way, either by a lack of recognition of the issues or by avoidance of responsibility, leading to failures in a number of areas already highlighted.

**RECOMMENDATION: The Chief Executive should ensure that Accounting Officers regularly review schemes within their remit to ensure all involved are clear and held accountable to the full extent of their role and responsibilities.**

## 11. Conclusions and Lessons for the Future

**PAC Review Term of Reference e): How lessons have been learnt from the outcome of the CMD's reviews and how the findings of the C&AG's review of the Innovation Fund can be applied more widely across the States Departments.**

11.1 In January 2018, the current JIF Accounting Officer provided a status of the Fund, as below:

N.B. Bold text represents new statistics:

| | As at 31-Dec-17 | As at 31-Dec-16 | TOTALS |
|---|---|---|---|
| Advances | 2,085,000 | 2,085,000 | 2,085,000 |
| Capital repayments due | 348,405 | 497,000 | 845,405 |
| Interest repayments due | 84,585 | 245,000 | 329,585 |
| Total payments due | 432,991 | 742,000 | 1,174,991 |
| Capital payments received | 250,950 | 130,000 | 380,950 |
| Interest repayments received | 140,032 | 66,000 | 206,032 |
| Total payments received | 390,981 | 196,000 | 586,981 |
| Payments received as a proportion of payments due | 90% | 26% | 50% |
| Number of advances | 7 | 7 | |
| **Fully repaid advances** | **1** | **0** | |
| **Not in arrears** | **2** | **0** | |
| In arrears: up to one quarter | 0 | 2 | |
| In arrears: more than one quarter | 3 | 4 | |
| In arrears: more than one quarter and winding up | 1 | 1 | (now in liquidation) |

The update to Exhibit 1 reflects the improvement to the status of the loans. One has now been repaid in full and the number of those in payment arrears has reduced from six to three and a further one now in liquidation.

It has not been possible to replicate Exhibit 2 and update for 2017 as the categorisations have changed year on year. This would also pose a higher risk of individual borrowers being identified with the real possibility of jeopardising future viability of those business and therefore prejudice our ability to secure repayment.

I trust this provides the additional clarity sought by the Committee and provides sufficient assurance over the management of the Jersey Innovation Fund.

Yours sincerely,

11.2 The PAC notes that since December 2016, one company has gone into liquidation and one loan has been repaid. Of the remaining five loans provided by the JIF scheme, a further two are up to date with payments and three are currently more than one quarter in arrears. The current Accounting Officer detailed in his letter of 29 January 2018, the provision for bad debt as at end of year 2017:

> ***'Provision for bad debt for five of the seven borrowers as at 31 December 2017 is £463,000 showing a write back of £1,169,000 of debt and a write off of £440,000. The movement is a result of the overall improvement of the status of the loans, including one now fully repaid and a reduction on number of those in arrears. The revised provision reflects arrears in capital repayment and interest payment as at the reporting period and ignores future interest i.e. not yet due.'***

11.3 He goes on to state that after the liquidation of one of the loan recipient companies, there was a write off of £440,000 representing the unpaid capital balance and interest net of liquidation proceeds:

> ***'Based on guidance from the liquidator it was estimated that £100,000 could be recoverable and so far £45,000 has been received with the remaining £55,000 included in the provision'.***

| | As at 31.12.2017 | As at 31.12.2016 | Year on Year Change |
|---|---|---|---|
| Provision | £463,000 | £2,072,000 | (£1,609,000) |
| Written Off | £440,000 | £0 | £440,000 |

11.4 The cost of 'forensic' reviews charged to the Fund as at 31st December 2017 was £227,981:

> *'… **reflecting the work to 'assess the financial viability and outlook for each borrower and to implement consistent and robust financial reporting that had been largely absent from the stewardship process since inception of the Fund.'***

11.5 The current JIF Accounting Officer added that that the reviews into political and officer responsibility were charged separately to the department, rather than the Fund, based on advice from the Law Officers' Department. Further, Internal Audit had planned a review of JIF operations in its 2018 work programme and findings would be presented to the Audit Committee and the C&AG.

**Current Operations of the Fund**

11.6 Prior to the involvement of the PAC, certain aspects of the JIF regarding third parties had been referred to the Attorney General's Office for investigation. In an email of January 2018, the PAC was told again that the matter remains under investigation with no decisions as to the appropriate course of action having been made at that time.

11.7 The PAC learned that during the course of the review, the JIF Advisory Board had been retired and a new Officer Group established. In December 2017, the group offered to share its Terms of Reference with the Committee in private, however the PAC do not consider this to be an acceptable response and believes the officers should be held to account publically, with the proviso that any matters *sub judice* or of a private nature (such as HR matters relating to an individual) would not be discussed.

11.8 The current Accounting Officer advised that loan book stewardship has been conducted through an Officer Group which was chaired by him as theAccounting Officer and Chief Officer, Financial Sevices, Digital and Enterprise (Chief Minister's Department). The other group members were the Director of Treasury Operations and Investments (from the Treasury Department) and a Policy Officer (also from the CMD). He confirmed to the PAC that the group had negotiated a temporary secondment, on a pro-bono basis, of a senior commercial banker to provide ' additional insights around covenant monitoring and loan management.'

11.9 Notwithstanding that it was pleased to receive a detailed update, the PAC find it difficult to evaluate the information provided. Although it has been told that the 'accounting treatment' has changed, the absence of details of the nature or impact of those changes has not been shared.

11.10 The PAC recognises that the creation of the Jersey Innovation Fund was a high risk enterprise and that losses were a significant part of that risk. However it is clear that whilst areas of risk were recognised by the Board, it considered them to be outside its remit and the former Accounting Officer did not seem to recognise the significant shortcomings of the overall set-up and administration of the Fund.

11.11 Overall, the PAC has evidence of:

- Poor initial estimation of costs for start-up and ongoing administration
- Confusion over roles, responsibilities and reporting lines
- Failure to carry out preparatory work required for P124/2012 (Amd)
- Failure to establish a comprehensive risk matrix (of individual loans and Fund )
- Failure to undertake work to amend the Public Finance (Jersey) Law
- Failure to follow up the establishment of equity stakes not followed up
- Failure to correct recognised deficiencies both in the OTR and operationally. (FD1.2 did not successfully resolve the issues)
- Failure to advise the States of significantly increased risk
- Poor understanding of the overall management of, or financial outlook for, the Fund

**Ongoing costs**

11.12 The PAC recalled an extract of a letter from the former Chief Executive Officer in January 2016, estimating the costs of the three CMD reviews:

1. Review of political involvement – estimated at £60,000/£80,000 depending on the scope and breadth of the investigation when the appointed QC has been able to review the initial documentation.

2. Review of officer involvement - £20,000/£25,000 – again this is depending on the scope of work as interviews progress.

3. Review of financial arrangements - the daily rate that has been agreed with the contract employee is £450.

11.13 The PAC noted that since the (former) Chief Executive took over as Accounting Officer for the Fund, he had engaged accounting firms to give advice on administering the Fund in respect of the seven loans.

**Lessons Learnt**

11.14 The PAC noted with interest an email from the Treasury and Resources Department, sent to the PAC Officer in November 2017[68], which stated that there were still some ongoing police investigations which have prevented any ongoing or new audit reviews into the JIF (pending conclusion). However, The JIF is now being managed through a separate officer group having retired the JIF Advisory Board in H2 2016.

11.15 The author of the email was keen to stress that JIF was:

> ***'… managed completely differently to how it was a year ago and officers are expecting a significant write back of the provision at the year-end (which is the next scheduled review).'***

11.16 The PAC would like to share the optimism of the officer but was concerned to hear comments made in the States Assembly as recently as March 2018, that the JIF was considered a "success" [69] and the example given, that a loan recipient who paid back their loan in full, has gone on to garner awards for the company's invention. The Committee acknowledges there was a success to the scheme as well as failures, however even that success was limited in the sense that the States failed to capitalise fully on it. Whilst it congratulates the loan recipient, the PAC notes that no equity was taken in that investment, nor a Royalty agreement established, so the States cannot enjoy any ongoing profit or maximise its investment.

11.17 As it is, when considering ongoing costs of experts brought in to advise on the recoverability or otherwise of loans, together with the unknown true costs of officers' time, the PAC concludes that the comments made in the States Assembly are overly optimistic and potentially misleading. When the Chairman of the PAC asked for clarification in respect of how many jobs had been created, for instance, in line with an original objectives of the Fund, that is to create new businesses and employment in high value sectors, the Chief Minister could not indicate whether any jobs had been created.

11.18 Furthermore there are no indicators that any of the other objectives of the Fund were realised, such as raising the productivity of the whole economy and reduce the reliance on inward migration. Whilst applauding schemes that encourage entrepreneurship, the PAC is concerned that vital lessons have not be learned around responsibility and maintenance of such a Fund. It urges the Chief Executive Officer to implement the recommendations of this report.

[68] Sent: 24 November 2017 10:51
[69] States Assembly meeting of 19 March 2018

## Appendix 1: Recommendations contained within S.R.4/2013, Jersey Innovation Fund published by the Economic Affairs Scrutiny Panel on 27th March 2013.

1) It is recommended that a Partnership Fund would be a more suitable model to move to, in order to harness the considerable benefits of leverage, shared risk and private sector expertise. This should be given serious consideration at the earliest opportunity. (8.3.16)

2) Greater clarity is required on defining both 'failure' and 'success' as they relate to the JIF, both in an overall sense and as applied to individual, funded projects. This should include:

- a precise framework for the monitoring of the performance of individual projects and the financial performance of the overall Fund
- a formal mechanism to establish the circumstances under which the possible temporary or permanent closure of the JIF might be considered (8.5.21)

3) To provide clarity about the very purpose of the JIF, there must be a common position established by the Ministers for Economic Development and Treasury and Resources regarding the prioritisation of the various success criteria. (8.5.21)

4) The source of the second £5 million due to the Fund should be clearly identified by the Minster for Treasury and Resources. (8.6.10)

5) The JIF should not adopt the principle of minimum or maximum funding levels per applicant. (8.7.19)

6) Partnerships, LLP's and sole traders must not be excluded from applying for funding. Therefore, there should be clarification of the consequences of the requirement for an applicant to be a business incorporated under the Companies (Jersey) Law 1991. (8.7.24)

7) If the JIF is realistically to be made available to the third and private sectors, and non-finance industries, the proposed eligibility criteria relating to GVA per employee and high growth business should be amended to a less demanding level. (8.8.11)

8) Whilst ensuring effective and robust processes are established where required, such as due diligence, continued attention should be paid to ensuring that the JIF is not overburdened by red tape. (8.9.8)

9) Outstanding issues relating to the work required of the Law Officers Department must be resolved, not least the development of the Royalty Agreement template, prior to the States debate. (8.12.13)

10) The JIF should retain the objective of being self-replenishing. It is vital therefore to ensure that in addition to implementation of the Panel's monitoring and cost related recommendations:

- a clear financial objective and Key Performance Indicators are established;
- formal guidelines are established between the relevant Departments regarding interest rate levels, and the process for establishing loan repayment terms is clearly set out;
- the equity element is developed, as proposed, within 6 months;
- grants are awarded <u>only</u> 'in extremis'. (8.12.28)

11) The Minister for Economic Development should formally engage with Jersey Business, with a view to that organisation undertaking the functions of the JIF Executive. (9.1.18)

12) All States Departments involved in the JIF must have their roles and responsibilities more clearly defined, most notably the Law Officers and Treasury and Resources. This will require formal discussions and should result in clear guidelines outlining their particular responsibilities. (9.2.10)

13) It is recommended that the number of Board members recruited from the private sector, through a full and formal recruitment process, should be set at a minimum of four (inclusive of the Chairman). (9.3.10)

14) The Minister for Economic Development must engage in formal discussions at the earliest opportunity with Digital Jersey and Jersey Business, regarding their roles in the JIF. (9.4.13)

15) A best estimate of annual operating costs for the management of the JIF, including all overhead support (external and internal costs), should be provided. Additionally, an assessment should be undertaken of this estimated annual cost of operating the Fund against a measure of deliverables/outcomes arising from the utilisation of the Fund. Transparency on this exercise will effectively provide an indication of the true utility of the JIF. (9.5.22)

16) **Concluding Recommendation:**

Due to the level of inconsistency in the proposals, and the lack of key details that could reasonably be available to Members and stakeholders at this stage, the Minister for Economic Development should consider the findings and recommendations contained within this report, and address the issues it raises, before the Proposition is debated by the States.

## Appendix 2: Recommendations made by C&AG, January 2017:

1. Make no new advances from the Fund, pending a fundamental reconsideration of its design and operation.

2. Reconsider the best means of achieving the underlying policy objectives of the Fund.

3. If loans remain a preferred means of financial support for innovation:
   - specify clear and quantifiable objectives against which the success of loan provision can be evaluated;
   - improve the arrangements to address all findings in this report; and
   - reconsider and clearly articulate the States' risk appetite and mechanisms for risk mitigation in light of that risk appetite.

4. Continue, with appropriate specialist support, action to protect the States' position in respect of underperforming loans.

5. As part of routine monitoring of debt recoverability, review the adequacy of provisions for doubtful debts routinely in the course of the year and revise as appropriate.

6. Consider the implications of the finding of this review that a culture of good governance was not central to decision-making in this case for the making and implementation of decisions across the States.

## Appendix 3: Terms of Reference of 3 Reviews by Chief Minister's Department as of 30th January 2017:

**Terms of Reference for the three reviews being undertaken into the Jersey Innovation Fund following the issue of the Comptroller and Auditor General Report dated 12th January 2017.**

**Whilst the three reviews have been commissioned separately, to ensure consistence between the reviews and to avoid duplication of work and hence unnecessary cost, the information obtained by each reviewer will be available to each other.**

**<u>Review 1: Political involvement in the Administration of the Jersey Innovation Fund</u>**

1 Consider the extent to which Ministerial involvement in matters referred to in the Report of the Comptroller and Auditor General, in particular matters identified at 15.2 & 15.3 of the conclusions and the conclusions generally, contributed to the deficiencies and failings identified in the Report.

2 Identify the time periods in which different Ministers had responsibility for the Jersey Innovation Fund and consider whether the involvement and interaction of different Ministers during such time periods contributed to the deficiencies and failings identified in the Report.

3 Consider any other matters that the reviewer considers necessary and appropriate to paragraphs 1 and 2 above that arise during the course of the review.

Following an initial review of documentation, please provide a written timescale and process for the completion of the review as well as any other anticipated matters arising pursuant to paragraph 3 above.

**<u>Review 2: A review of all officer involvement in the administration of the Jersey Innovation Fund.</u>**

1. Identify all SOJ employees involved in the administration and oversight of the Jersey Innovation Fund.

2. Clarify and establish their roles in the administration in regard to the JIF Board and Executive as set out in P124/2012 Amd.

3. Identify whether they discharged their duties in accordance with their defined roles and professional responsibilities.

4. Identify any breaches that may have occurred.

5. Identify individuals who have failed to follow the set policies, procedures and guidelines including the Code of Conduct for States of Jersey Employees, Financial Directions and the Public Finances Law.

**Review 3: A review of the administrative arrangements in place to ensure that all Grant and other payments made to third parties comply with States accounting practice and meet the objectives for which monies were granted**

Background

The Chief Executive Officer for the States of Jersey has called for a review into two specific areas within the scope of EDTSC following transfer in of accounting officer responsibilities under his remit. The Chief Executive Officer is expected to report back on the current situation within EDTSC to the Chief Minister, Minister for EDTSU, the Treasury and Resources Minister and the Treasurer of the States early in March 2017.

Scope of Work

Area One – Grant Payments

. The review will focus on a definitive list of grant payments and will consider compliance with:

1. The Public Finances (Jersey) Law 2005;
2. Financial Direction 5.5 Grants;
3. Where relevant, are administered in accordance with the Service Level Agreement ("SLA");
4. Are clearly linked to EDTSC strategic objectives as set out in the Medium Term Financial Plan ("MTFP");
5. Are linked to States of Jersey strategic objectives as set out in the MTFP; and
6. Are in compliance with any relevant Propositions attached to them.
7. Identify whether the expenditure of public funds by grant funded bodies had the relevant controls applied by the receiving body and whether the administrators applied appropriate levels of control in accordance with relevant accounting standards

In addition the SLA's and grants will be reviewed for best practice and progress against Internal Audit recommendations (audit reports to be supplied).