

**STATES OWNED COMPANIES**

**ACCOUNTABILITY**

**24 NOVEMBER 2008**

## **Introduction**

1. In the report of a review of corporate governance practice within Waterfront Enterprise Board Limited (WEB) which is published at the same time of this report, I have made recommendations concerning the accountability of WEB to the States. In particular, I have recommended that the Minister responsible for the States' oversight of WEB should be responsible for arranging that the annual report and accounts of WEB are laid formally before the States. The purpose of this would be to ensure that members of the States are made aware of the activities of WEB so that they may ensure that WEB's activities are subject to such scrutiny as they consider appropriate.
2. In a number of respects, WEB's position is unique. However, in addition to its interest in WEB, the States also hold interests in a number of other companies and I have considered whether and to what extent the observations that I have made in respect of WEB's accountability to the States apply to these other companies.
3. This report sets out the results of that consideration.

## **States Owned Companies**

4. Apart from WEB, the companies in which the States hold a significant interest are:
  - (1) Jersey Electricity Company Limited (Jersey Electricity);
  - (2) Jersey New Waterworks Company Limited (Jersey Water);
  - (3) Jersey Post International Limited (Jersey Post); and
  - (4) Jersey Telecom Group Limited (Jersey Telecom).<sup>1</sup>

## **Distinctions**

5. It is plain that there is a key distinction between WEB and the other four companies. Whereas WEB was created to be the means by which States policy with regard to the

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<sup>1</sup> The States own all of the shares in Jersey Telecom and Jersey Post. The States own approximately 54% of Jersey Electricity's share capital. The States own 100% of the issued 'A' ordinary shares of Jersey

development of the Waterfront could be implemented, the other companies exist to provide commercial services beyond day to day control by the States. It follows that the mechanisms of accountability that are appropriate in the case of WEB are not necessarily all appropriate in the case of the other companies.

6. This does not mean that there should be no accountability. The States are a major shareholder or the sole shareholder in each of the four companies. Consequently the States have the rights and interests of any major shareholder. Each of the four companies provides utility services which are crucial to the continuation of civilised life within the Island. Finally, the States' interests in these companies have a value that is material to the aggregate assets of the States.
7. The effect is that the States have a clear interest in the financial performance of these companies.

### **Financial reports**

8. Accordingly, one might expect that the annual reports and accounts of these four companies would be laid formally before the States so that members of the States are made aware formally of the financial performance of these companies.
9. This expectation is reinforced by the fact that the annual accounts of the States of Jersey (which describe the States' interests in these four companies as 'strategic investments') report that:

*“ . . . the accounts of these are not consolidated as these are strategic investments and information on these companies is better provided by reference to their separate accounts.”<sup>2</sup>*

10. As far as I am aware, no steps have been taken by the Treasury & Resources Department to lay these accounts before the States.

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Water together with 50% of the issued ordinary shares and 100% of the 7 1/2%-10% cumulative fifth preference shares. All of these holdings are stated as at 31 December 2007.

<sup>2</sup> Page xxv of the 2007 accounts of the States of Jersey.

**Availability of accounts**

11. Although it has not been normal practice to lay the accounts of these four companies before the States, certain information is available in the public domain:

<i>Company</i>	<i>Availability of accounts</i>
Jersey Electricity	This company is listed on the London Stock Exchange. In consequence its accounts are published and the company has regularly circulated copies of the accounts to members of the States. Copies may be downloaded from the company's website.
Jersey Water	This company publishes its annual report and accounts. The company has regularly circulated copies of the accounts to members of the States. Copies may be downloaded from the company's website.
Jersey Post	This company has only completed one trading year so far. It published its annual report and accounts and has circulated them widely.
Jersey Telecom	This company does not publish its full accounts. An annual financial review is published but does not include full accounts. Copies of the review may be downloaded from the company's website and are circulated widely.

12. Although financial information is available in respect of all of the companies, circulation of this information to members of the States depends upon each of the companies. It appears that practice has varied from year to year.
13. Jersey Telecom does not publish its full accounts because it believes that to do so would reveal commercially sensitive information to competitors. In doing this, Jersey Telecom is acting within Jersey's law.

**Recommendation**

14. In view of the importance of these companies and of the States' interests in them, it would be preferable if their annual report and accounts were made available to members of the States without fail. To this end, I recommend that:

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- (1) when accounts are received by the Treasury & Resources Department from any of the companies in which the States holds a 'strategic investment', they should be laid formally before the States by the Treasury & Resources Minister. This would ensure that every member of the States is notified and that the accounts appear on the website of the States Greffe.
- (2) where one of the companies persuades the Minister that publication of the accounts would be contrary to the commercial interests of the company (and thus to the States' interest as shareholder) the copy of the accounts laid before the States by the Minister may be redacted to the minimum extent necessary to avoid damaging those commercial interests.