
STATES OF JERSEY



THE STATES AS SHAREHOLDER: JERSEY TELECOM (R.109/2014) – RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

**Presented to the States on 20th January 2015
by the Minister for Treasury and Resources**

STATES GREFFE

**THE STATES AS SHAREHOLDER: JERSEY TELECOM (R.109/2014) –
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Ministerial Response to: R.109/2014

Report title: The States as Shareholder: Jersey Telecom

INTRODUCTION

JT has grown since incorporation, both in relation to service diversity and geographical coverage. The Minister believes it is reasonable to review the reasons for holding all shares periodically, as best practice. Furthermore, it is proposed to report to the States on the rationale for holding shares on a regular basis for openness and transparency.

As the Treasury has not embarked on such a review for holding its shares before, it is important to prioritise which shareholding to review first. It is agreed that, given the growth in diversity of service offerings and geographic coverage, JT is the most appropriate review to carry out first. It is anticipated that such a review will need the appropriate involvement of other States Departments, CICRA and JT's Board. The planning and implementation of such a review will need care and due diligence, and require the support of the Council of Ministers at key milestones. Any change in structure of ownership would require States approval.

JT's Board has been consulted before publishing this Response. Overall they are supportive of the recommendations and the Minister's responses, and have offered to provide assistance where appropriate. The Board is mindful that the deliberations on the outcome of the review should not be lengthy, as this could impact the States' shareholder value of JT, as well as being disruptive to its customers and employees. Further, that when a decision is taken, it is important to continue to bear in mind the independence of the Board and the statutory obligations of individual directors as contained in the Companies (Jersey) Law 1991.

The comments in this response in relation to the Comptroller and Auditor General (C&AG)'s recommendations reflect the anticipated timescales, but these may be subject to change as time evolves –

1. Planning stage (Q1 2015)
2. Tender issue, selection and appointment (Q2 2015)
3. Assessment (Q3–Q4 2015)
4. Report to the States on the outcome of the Review/States approval (Q1 2016).

The Minister's detailed responses are as follows.

CONCLUSIONS

Report Ref.	Conclusion	Comments
4.1	<p>The States has developed its function as shareholder and there is evidence of substantial satisfaction and compliance with the MoU.</p> <p>However, the telecommunications industry and JT have changed rapidly. After 8 years a reconsideration of the reasons for owning JT is needed. Should the States decide to retain ownership in whole or part, the reasons for this decision and the objectives of ownership should be clearly understood.</p>	<p>Agreed. The reasons for holding all Strategic Investment shareholdings, including JT, should be reviewed regularly.</p> <p>Consideration is being given to creating and publishing a report to the States covering the reasons for holding all the States' Strategic Investments periodically.</p> <p>Any Treasury and Resources recommendation for sale of part or all of the JT shareholding would be subject to the States' approval under the Telecommunications (Jersey) Law 2002, Article 32(5).</p>
4.2	<p>If the States retains ownership of JT, it should review how it performs the shareholder function focussing on:</p> <ul style="list-style-type: none"> • linking how it monitors JT to its ownership objectives; • the resources available to perform the shareholder function; • the MoU that governs the relationship between the States and JT; and • appropriate public accountability. 	Agreed.

RECOMMENDATIONS

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
R1	Reconsider whether the States wish to continue to own JT in whole or in part and, if so, articulate clearly all the objectives of ownership.	T&R	Accept	A full evaluation will be carried out for reasons for ownership. This will involve appointment of third party specialists and take time. The outcome will be presented to the States. In the interim, the 2015 business plan will be received by the Minister.	Q1 2015 to commence the review. By end of Q1 2016 to publish the findings to the States.
R2	Schedule periodic reviews of the States' continued ownership of JT and associated objectives.	T&R	Accept	To be timetabled periodically.	Periodically
R3	Adopt and monitor performance against Key Performance Indicators that are directly linked to all the ownership objectives in the MoU.	T&R	Accept	KPIs will be adopted in consultation with JT as part of the Annual Business Planning process for the start of 2015. Until the rationale for ownership is agreed, the Treasury will not be in a position to fully challenge these.	Q1 2015 JT's KPIs identified. Q2 2016 for KPIs to be mutually agreed by the Minister.
R4	Adopt a specific objective to reflect the States' risk appetite as shareholder and associated Key Performance Indicators.	T&R	Accept in principle subject to further evaluation	This will be developed when mutually agreeing KPIs.	Q2 2016 KPIs mutually agreed by SOJ.
R5	Reconsider the resources devoted to the shareholder function, including in light of the change in the nature of JT's business and the increased risk to the States' investment.	T&R	Accept	The resources required across the range of Treasury and Resources function will need to be reviewed in order to deliver the savings required in 2015. The Department needs to consider efficiency and effectiveness in how it employs its resources across all functions.	None – under consideration

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
R6	Undertake a thorough review of the MoU.	T&R	Accept	Comparisons in 2013 have already been made to best practice (e.g. UK Listing Authority disclosure). The timing of review and agreement for change is dependent on discussions with JT.	Q2/3 2015 – carry out review of proposed changes. Q3/4 2015 – Update the MoU and present to the States.
R7	Provide a clearer definition of proposed transactions for which consent is required, taking into account both the size, context and risk of the proposed transactions.	T&R	Accept	This can be included in R6.	Timing as per R6.
R8	Consider whether transactions in respect of specific infrastructure should require prior consent.	T&R	Accept in principle subject to further evaluation	Further research to be carried out and consideration of risks in discussions with EDD and any other interested parties. This can be included in R6.	Timing as per R6.
R9	Review the form and frequency of meetings required in the MoU.	T&R	Accept in principle subject to further evaluation	This will be reviewed and compared to industry practice. This can be included in R6.	This can be included in R6.
R10	Extend the requirements for Ministerial approval to remuneration of directors of subsidiary companies.	T&R	Accept in principle subject to further evaluation	This will be reviewed and compared to industry practice. This can be included in R6.	This can be included in R6.

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
R11	Require the publication of the annual accounts of JT excluding only those notes where the States are satisfied that publication would prejudice its commercial position.	T&R	Accept	Agreed for more transparency whilst being mindful of the competitive marketplace JT operates in.	This can be included in R6.