



Office of the Comptroller and Auditor General

**The States as Shareholder -
Follow-up**

14 March 2019



JERSEY AUDIT OFFICE

The States as Shareholder - Follow up

Introduction

1.1 The States control seven companies. These have a substantial financial impact for the States and economic impact for the Island (see Exhibit 1). These companies comprise:

- four 'strategic investments' with a total valuation of £374 million at 31 December 2017; and
- three other companies the results of which are consolidated in the States' accounts with net assets of £1,270 million at 31 December 2017.

Exhibit 1: States of Jersey controlled companies

Company	Nature of company	Percentage of share capital	Percentage of voting rights	Valuation at 31.12.17	Net assets at 31.12.17
Jersey Electricity plc	Limited by shares	62%	86%	£88.4m	-
Jersey New Waterworks Company Limited	Limited by shares	76%	83%	£43.7m	-
JT Group Limited	Limited by shares	100%	100%	£212.0m	-
Jersey Post International Limited	Limited by shares	100%	100%	£30.6m	-
States of Jersey Development Company Limited	Limited by shares	100%	100%	-	£57.5m
Andium Homes Limited	Limited by guarantee	n/a	n/a	-	£789.6m
Ports of Jersey Limited	Limited by shares	100%	100%	-	£422.8m

Source: States of Jersey Annual Report and Accounts for the year ended 31 December 2017 and Annual Reports and Accounts of controlled companies

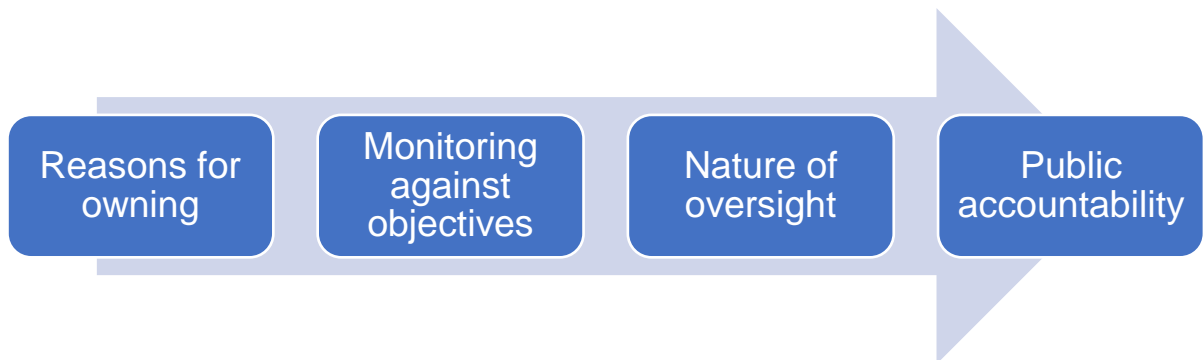
- 1.2 Although each company has its own management with responsibility for effective stewardship of the company, the States have an important role as owner to ensure that their interests are being protected and advanced. Discharging this responsibility requires:
- clarity about the objectives of ownership;
 - measurement of performance;
 - effective engagement;
 - clear arrangements for holding management to account; and
 - sufficient resources and expertise.
- 1.3 In 2014 I undertook a review of the States of Jersey shareholding in the JT Group Limited (JT) to:
- report on the adequacy of the States' governance arrangements to discharge their responsibilities as a shareholder; and
 - follow up the recommendations from a 2010 consultancy report on the proposed shareholder relations function.
- 1.4 My report made wide-ranging recommendations, from identifying the reasons for ownership of JT to improving public accountability about its performance. Many of the recommendations were applicable to the other companies controlled by the States. Indeed, with the incorporation of Andium Homes and Ports of Jersey, the number of States controlled companies has increased from five to seven.
- 1.5 More recently, the States have announced a move to a new Target Operating Model. This will involve the retention of an investment function in States Treasury and Exchequer and the establishment of a client-side partnership function in the Growth, Housing and Environment Department. The new arrangements are not yet fully established.

Objectives, scope and approach

- 1.6 The objectives of the review are to evaluate:
- the progress Treasury and Exchequer has made in implementing agreed recommendations;
 - the extent to which the recommendations as implemented have addressed the improvement areas identified in the report;
 - the adequacy of plans for the implementation of any outstanding recommendations; and
 - the effectiveness of the design and operation of the current governance arrangements for the States as shareholder.
- 1.7 The review focusses in particular on the States' role as the sole shareholder of JT and Ports of Jersey Limited (PoJL). It does not extend to the internal governance arrangements of the States controlled companies.

1.8 In undertaking the review, I looked at the areas identified in my 2014 report (Exhibit 2).

Exhibit 2: Focus of my work



Reasons for owning

- 2.1 Clarity about whether to own a company and the reasons for ownership are necessary preconditions for effective monitoring as a shareholder. In my 2014 report I highlighted the changed nature of JT's business, involving new activities and an increasing volume of activities outside Jersey. I concluded that, as a result, it was appropriate to reconsider the decision to own the company and the reasons for doing so.
- 2.2 Although there was a recognition of the need to address my recommendations and some initial steps were taken, progress on implementation has been slow (See Exhibit 3).
- 2.3 I recognise that, in the context of the JT Group, States Treasury and Exchequer was dependent on the development of the Telecommunications Policy that was not published until January 2018. In November 2018, the States appointed consultants to review the shareholder governance oversight arrangements, including making recommendations concerning objectives of ownership. The consultants have recently completed and reported the results of their work.

Exhibit 3: Reasons for owning: progress in implementing recommendations

Recommendation	Action	Evaluation
<p>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.</p>	<p>Overall arrangements</p> <ul style="list-style-type: none"> In 2015 The Jersey Regulatory and Competition Framework Review recommended the development of a clear policy for each of the sectors regulated by the Jersey Competition and Regulatory Authority (JCRA) including telecoms and ports. In response to the review the States published an action plan to address the recommendations by developing, in order, a Telecommunications Policy, a Ports Regulation Policy and a Postal Services Regulation Policy. The plan was not clear on the timescales for delivery. Presentation to Chairs of investee companies on 1 November 2017 acknowledged that the objectives of ownership were not clearly defined for all entities. Regular meetings between investee companies and the shareholder function take place and include some discussion of shareholder purpose and objectives of ownership. In November 2018 consultants were appointed to review the shareholder governance oversight arrangements, including making recommendations concerning objectives of ownership. 	<p>Partially implemented</p> <p>Since the publication of my 2014 report, there has been:</p> <ul style="list-style-type: none"> a focus on ownership objectives when PoJL was incorporated; and consideration of the objectives of JT in the context of a potential sale. <p>However, there is a recognition of the need to refine or develop objectives of ownership of all States controlled companies.</p>

Recommendation	Action	Evaluation
	<p>Jersey Telecom</p> <ul style="list-style-type: none"> • Reasons for ownership were explored in 2015 as part of a consultancy review and when a potential sale was considered. • The Telecommunications Policy was published in January 2018. • In December 2017 the shareholder function set out its intention to re-visit and take advice on the objectives of ownership of JT within six months following publication of the Telecommunications Policy. At the time of this review no objectives of ownership had been identified. <p>Ports of Jersey</p> <ul style="list-style-type: none"> • Reasons for ownership are set out in the proposition leading to the Air and Sea Ports (Incorporation) (Jersey) Law 2015. • A Ports Policy Group (PPG) was established to, amongst other things, set the Government's policy objectives in relation to PoJL. The Group only met once, in January 2017. It is unclear how its functions are being taken forward. 	<p>The appointment of consultants in November 2018 provides an opportunity to progress this recommendation.</p> <p>However, successful implementation will require effective working between the shareholder function in States Treasury and Exchequer and other departments responsible for policy development.</p>
<p>R2 Schedule periodic reviews of the States' continued ownership of JT and associated objectives.</p>	<p>No periodic reviews of the States' continued ownership of JT and PoJL have been scheduled.</p>	<p>Not implemented</p> <p>Implementation of this recommendation is dependent on the implementation of recommendation R1 above.</p>

Monitoring against objectives

- 3.1 In my 2014 report I highlighted the importance of developing and monitoring performance against objectives for ownership. I recommended:
- the adoption of Key Performance Indicators (KPIs) that stemmed directly from the reasons for ownership as expressed in the Memorandum of Understanding (MoU) in place between the States and a controlled company; and
 - the adoption of a specific metric relating to risk appetite.
- 3.2 Progress in implementation of my recommendations was in part dependent on the development of clear objectives for ownership that, as discussed above, have yet to be formulated. Progress has been slow but the development of proposals for KPIs is within the scope of the consultancy review commissioned in November 2018 (see Exhibit 4).

Exhibit 4: Monitoring against objectives: progress in implementing recommendations

Recommendation	Action	Evaluation
<p>R3 Adopt and monitor performance against Key Performance Indicators (KPIs) that are directly linked to all the ownership objectives in the MoU.</p>	<p>Overall arrangements</p> <ul style="list-style-type: none"> • The 2018 Business Plan for Treasury and Exchequer includes actions for the shareholder function to articulate clearly the States' objectives as shareholder to the Boards of the utility companies and to link these to KPIs which also reflect the States' risk appetite. • The specification for the consultancy review of the shareholder governance oversight arrangements commissioned in November 2018 includes making proposals for mandatory KPIs and for specific KPIs linked to current Strategic Business Plans. <p>Jersey Telecom</p> <ul style="list-style-type: none"> • KPIs are developed by JT in relation to its Strategic Business Plan objectives. • Section 2 of the current MoU outlines generic high level objectives (e.g. to be profitable and efficient and to be a good employer) but there are as yet no agreed objectives of ownership from which these derive. • An update to Ministers on the States' response to my report on Shareholder Function for JT in October 2017 confirmed that JT produces an annual Budget and Operating Plan which includes Strategic Objectives and a review of previous year performance. The Minister is required to approve this plan each year. 	<p>Not implemented.</p> <p>Performance monitoring relates to the JT / PoJL Business Plans that are developed by the companies. These are not driven by agreed objectives of ownership as these have yet to be developed.</p> <p>Much of the monitoring is around financial objectives.</p>

Recommendation	Action	Evaluation
	<p>However, the approval process is in the absence of agreed objectives of ownership.</p> <ul style="list-style-type: none"> Regular meetings held between JT and the shareholder function include discussion of performance covering such items as: group and business strategies, operating plan and budget, management accounts and JT's operational KPIs. <p>Ports of Jersey</p> <ul style="list-style-type: none"> The MoU provides for the agreement of KPIs, both financial and non-financial, including those related to management of historic harbours, environmental responsibilities and Public Service Obligations. KPIs are developed by PoJL. Regular meetings are held between PoJL and the shareholder function and include discussion of performance including headline performance (which is largely financial) and a Strategic Business Plan key deliverables update (which is narrative). 	
<p>R4 Adopt a specific objective to reflect the States' risk appetite as shareholder and associated Key Performance Indicators.</p>	<p>Overall arrangements</p> <ul style="list-style-type: none"> The 2018 Business Plan for Treasury and Exchequer includes actions for the shareholder function to reflect the States' risk appetite when considering its objectives for ownership. However, the risk appetite has yet to be agreed. The specification for the consultancy review of the Shareholder governance oversight arrangements commissioned in November 2018 includes identification of the risks of ownership and an assessment of risk appetite. The appointment of a new Director of Audit and Risk provides an opportunity for a sharper focus on risk management. <p>Jersey Telecom</p> <ul style="list-style-type: none"> An October 2017 update to Ministers on the States' response to my 2014 report included a commitment to develop an objective relating to risk as part of the development of objectives of ownership. There is evidence that risk is beginning to be discussed at meetings between the States and JT. However, the focus has been on JT's business risks and the discussion has not been 	<p>Not implemented</p> <p>No objective has been adopted and no KPI has been identified in relation to risk. Discussions of risk have taken place but in the absence of an agreed risk appetite from the States.</p>

Recommendation	Action	Evaluation
	<p>in the context of the States' risk appetite.</p> <ul style="list-style-type: none"> No KPI reflecting risk appetite has been agreed. <p>Ports of Jersey</p> <ul style="list-style-type: none"> There has been limited discussion of risk at regular meetings between PoJL and the States. However, the discussions have been in the context of PoJL's risk management system and risk register rather than the States' risk appetite. No KPI reflecting risk appetite has been agreed. 	

Nature of oversight

- 4.1 To serve as an effective shareholder the States must have the resources, tools and approach that allows them to perform the function effectively. In my 2014 report I recommended:
- reviewing the resources devoted to the shareholder function;
 - undertaking a thorough review of the MoUs; and
 - reviewing the nature and frequency of meetings between the States and the company.
- 4.2 There is evidence of action to enhance the resourcing of the shareholding function. However, arrangements are yet to be finalised as part of the move to the Target Operating Model. Progress on review of the MoUs has been slow (see Exhibit 5).

Exhibit 5: Nature of oversight: progress in implementing recommendations

Recommendation	Action	Evaluation
<p>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.</p>	<ul style="list-style-type: none"> • The job profile of the Director of Treasury Operations and Investments was updated in November 2015 to include responsibility to manage the relationship with the States owned companies. • A new role of Head of Shareholder Relations was created in February 2015. • In May 2017 members of the States Assembly were briefed on the intention to establish a Treasury Shareholding Advisory Sub-Panel. • An October 2017 update to Ministers on the States' response to my 2014 report recorded that: <ul style="list-style-type: none"> ○ the shareholder function had developed over the previous two years including through the appointment of a full-time Head of Shareholder Relations in 2015 and a new Director of Treasury Operations and Investments in April 2016; ○ the responsibility for shareholder relations was officially delegated to the Assistant Minister for Treasury and Resources in May 2016; and ○ proposals to establish a Treasury Shareholder Advisory Sub-Panel, focussing solely on the provision of advice to the Minister in relation to 	<p>Partially implemented.</p> <p>Resources have been reconsidered and the shareholder function strengthened.</p> <p>However:</p> <ul style="list-style-type: none"> • there are currently no established arrangements for accessing sector expertise. This omission may create an imbalance between the States and the controlled companies; • plans for the Shareholder Advisory Sub-Panel are currently on hold; and • it is too early to evaluate the effectiveness of the new

Recommendation	Action	Evaluation
	<p>shareholding matters, have been put on hold pending the new Target Operating Model which separates the investment management function and partnership liaison function.</p> <ul style="list-style-type: none"> The new Target Operating Model and relevant job descriptions split the previous shareholder function into an investment function under States Treasury and Exchequer and a client-side partnership function under Growth, Housing and Environment. The principles of the UK Financial Reporting Council's <i>Stewardship Code</i> have not been applied to the governance of the relationship with the controlled companies. In November 2018 consultants were appointed to review the shareholder governance oversight arrangements. 	<p>arrangements being established for a client-side partnership function.</p>
<p>R6 Undertake a thorough review of the MoU.</p>	<p>Overall arrangements</p> <ul style="list-style-type: none"> The States did not formally respond to or implement the recommendations in the 2010 consultancy review of the governance of States of Jersey owned utilities. The States undertook to incorporate the findings of the 2010 review in subsequent MoUs. The specification for the consultancy review of the Shareholder governance oversight arrangements commissioned in November 2018 includes an assessment of the MoUs. <p>Jersey Telecom</p> <ul style="list-style-type: none"> The JT MoU has not been revised and updated since my 2014 review. Review of the current MoU identified that: <ul style="list-style-type: none"> it covers four of seven shareholder levers identified in the 2010 consultancy review as appropriate for the States shareholdings; it has not been updated to reflect the requirements of the current UK Corporate Governance Code; 	<p>Not implemented</p> <p>The JT MoU has not been updated in response to either the 2010 consultancy review or my 2014 review.</p> <p>The PoJL MoU does not fully reflect the recommendations from the 2010 consultancy review or from my 2014 review.</p>

Recommendation	Action	Evaluation
	<ul style="list-style-type: none"> ○ there is no provision for Shareholder participation in the appointment of the Chairman and oversight of the composition of the Board; ○ there is no provision for Shareholder participation in setting objectives and agreement of strategy; and ○ there are no provisions for shareholder intervention in the event of substantial underperformance. <ul style="list-style-type: none"> ● An October 2017 update to Ministers on the States' response to my 2014 report included that definitions of transactions will be formulated as part of the work being carried out on development of objectives of ownership and upon the review of the MoU. However, this has yet to happen. <p>Ports of Jersey</p> <ul style="list-style-type: none"> ● Review of the current MoU identified that: <ul style="list-style-type: none"> ○ it adequately reflects five of the seven shareholder levers identified in the 2010 consultancy review; ○ although the MoU allows for participation in the appointment of the Board, it does not require oversight of Board composition; and ○ there are no provisions for shareholder intervention in the event of substantial underperformance. ● The MoU defines 'Important Management Decisions' that require Ministerial approval. However, these are very similar in nature to those specified in the JT MoU which has not been updated since my 2014 review. ● Notwithstanding the above, neither PoJL nor the shareholder function consider that the recommendation has been implemented in respect of PoJL. 	
<p>R7 Provide a clearer definition of proposed transactions</p>	<p>Jersey Telecom</p> <ul style="list-style-type: none"> ● The JT MoU has not been revised and updated since my 2014 review. 	<p>Not implemented</p>

Recommendation	Action	Evaluation
<p>for which consent is required, taking into account the size, context and risk of the proposed transactions.</p>	<p>Ports of Jersey</p> <ul style="list-style-type: none"> The MoU defines 'Important Management Decisions' that require Ministerial approval. However, these are very similar in nature those specified in the JT MoU which has not been updated since my 2014 review. 	
<p>R8 Consider whether transactions in respect of specific infrastructure should require prior consent.</p>	<p>Jersey Telecom</p> <ul style="list-style-type: none"> This recommendation has not been implemented. An October 2017 update to Ministers on the States' response to the 2014 report stated that transactions requiring consent would be considered as part of the work being carried out on development of objectives of ownership and upon the review of the MoU. <p>Ports of Jersey</p> <ul style="list-style-type: none"> This recommendation has been partially implemented. In response to Scrutiny Panel concerns, the draft MoU was strengthened to require the shareholder to lay all sales of property transferred to the Ports on Incorporation before the States Assembly for a period of 15 days to allow any States Assembly member to review the sale prior to it being agreed. 	<p>Partially implemented</p> <p>The recommendation in my 2014 report arose from the MoU for JT specifying two specific assets rather than, for example, core telecommunications infrastructure in the context of the States' wider objectives for JT.</p> <p>The PoJL MoU imposed a wide duty for notification but this was based on whether assets were transferred rather than the purpose for which the assets are used.</p>
<p>R9 Review the form and frequency of meetings required in the MoU.</p>	<p>Jersey Telecom</p> <ul style="list-style-type: none"> Requirements for quarterly meetings between officers and senior management and quarterly meetings between the Minister and the Chairman in accordance with the MoU remain unchanged. An October 2017 update to Ministers on the States' response to my 2014 report stated that meetings were being held in accordance with the requirements of the MoU. This is supported by my review of agendas and meeting notes. JT provides private briefings to States Assembly members at least annually. 	<p>Partially implemented</p> <p>Although the form and frequency of JT meetings has not been reviewed within the JT MoU, meetings are taking place on a regular basis and there is a good level of engagement between JT and the shareholder function.</p> <p>Regular meetings</p>

Recommendation	Action	Evaluation
	<ul style="list-style-type: none"> • Consultants engaged to review MoU. <p>Ports of Jersey</p> <ul style="list-style-type: none"> • The MoU requires three meetings a year between States officers and PoJL senior management and quarterly meetings between the Minister and Chairman. The rationale for the difference in the frequency of the meetings is unclear. • There is provision for an annual investment briefing by the Chairman and senior management of PoJL to the Minister. • My review of agendas and meeting notes demonstrates that the meetings between States officers and PoJL have not been consistently held in accordance with the requirements of the MoU. In the period 2016 to 2018, most but not all of the required meetings between the Minister and Chairman and two of the three annual investment briefings were held. <ul style="list-style-type: none"> • Consultants engaged to review MoU. 	<p>have been held between the States and PoJL but these were not fully in accordance with the requirements of the MoU.</p>
<p>R10 Extend the requirements for Ministerial approval to remuneration of directors of subsidiary companies.</p>	<p>Overall arrangements</p> <ul style="list-style-type: none"> • In January 2019 the States wrote to controlled companies to confirm that Ministerial approval for remuneration of directors extended to directors of subsidiary companies. <p>Jersey Telecom</p> <ul style="list-style-type: none"> • An October 2017 update to Ministers on the States' response to my 2014 report stated that this recommendation would be considered as part of the review of the MoU. • Review of the existing MoU suggests that it is capable of interpretation to cover remuneration of subsidiary companies. <p>Ports of Jersey</p> <ul style="list-style-type: none"> • Review of the existing MoU suggests that it is capable of interpretation to cover remuneration of subsidiary companies. 	<p>Implemented</p>

4.3 My concerns about MoUs extend beyond the two companies that are the specific focus of this report. For two other companies there are no such MoUs in place. Where they exist, the MoUs have rarely been reviewed and some have remained unchanged for over a decade. Where they reflect non-financial objectives of ownership, these are often not fully developed (see Exhibit 6). For example, three of the MoUs contain a very general objective about ‘being a good employer’ which does not provide a sound basis for developing Key Performance Indicators:

‘be a good employer; and be responsive to the wider interests of Jersey’s Island community within the framework of any licence under which it operates. For the purposes of this objective, responsiveness will be measured by reference to the fact that a significant portion of the Island’s residents are likely to be included in [the company’s] customer base and therefore the interests of customers will be closely aligned to the prosperity and well-being of the Island.’

Exhibit 6: Memoranda of Understanding

Company	MoU in place?	MoU reviewed since inception?	MoU reflects both financial and social objectives?
Jersey Electricity plc	No but Relationship Agreement in place - a requirement of Stock Exchange listing rules	Relationship agreement dated 14.11.14	No objectives set out. Agreement focusses on legal aspects of relationship
Jersey New Waterworks Company Limited	No	No MoU	No MoU
JT Group Limited	Yes	Dated 01.01.06 No evidence of review	Yes - but limited
Jersey Post International Limited	Yes	Dated 08.09.06 No evidence of review	Yes – but limited
States of Jersey Development Company Limited	Yes	Dated 07.03.12 No evidence of review	No
Andium Homes Limited	Yes	Dated 16.05.13 No evidence of review	Yes - but limited

Company	MoU in place?	MoU reviewed since inception?	MoU reflects both financial and social objectives?
Ports of Jersey Limited	Yes	Dated 01.10.15 No evidence of review	Yes - but limited

Public accountability

- 5.1 Although some of the States owned companies are operating in the commercial sector, they are owned by the public and so high standards of transparency can be expected unless there is a compelling reason to the contrary.
- 5.2 In my 2014 report I highlighted that JT published only abbreviated rather than full accounts. As a result information that would be in the public domain for the States or for a UK company was not publicly available. JT's full accounts are now published as are those for PoJL (see Exhibit 7).

Exhibit 7: Public accountability: implementation of recommendations

Recommendation	Action	Evaluation
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.	Full accounts for JT and PoJL are laid before the States Assembly and publicly available.	Implemented

- 5.3 Public accountability is not only about the numbers in the annual accounts but also about the accompanying words in the annual report. I highlighted above the identification and management of risk appetite. In my 2014 report I highlighted the risks associated with expansion into new activities and operations outside Jersey. I would expect such risks to be reflected in an annual report that is fair, balanced and understandable.
- 5.4 It is interesting to note that Jersey Post explicitly discloses the risks relating to off-Island activities in its Annual Report even though such activities represent only 30% of its activities. In contrast, JT does not disclose the risks even though off-Island activities represent over 50% of its activities. I am concerned that:
- JT's Annual Report and Accounts does not disclose the scale of off-Island activities; and
 - Although Jersey Post's Annual Report does disclose the scale of off-Island activities, its audited accounts do not include reporting of performance by major segments, including geographical segments.

- 5.5 Such reporting is required for UK listed companies but is discretionary for JT and Jersey Post and has not been required by the States. Segmental reporting would enhance transparency by providing better information on the performance of States owned companies that linked directly to the risks to which they are exposed.
- 5.6 I also found that the disclosure of significant risks to the business of JT and Jersey Post in their Annual Reports is limited and falls substantially short of the requirements placed on UK listed companies. Enhancing the public disclosure of risk would provide increased transparency of the operations of States owned companies.

Conclusion

- 6.1 Progress in implementation of my previous recommendations, both in respect of JT and other States controlled companies, has been slow. Action is now in hand including:
- engagement of consultants to review the MoUs with controlled companies; and
 - structural changes arising from the move to the new Target Operating Model that has established a client-side partnership function in the Growth, Housing and Environment Department.
- 6.2 However, it is too early to evaluate the impact of these steps.
- 6.3 The reasons for the slow progress in implementing recommendations that were accepted by management are less clear. I would identify two potential reasons:
- a culture where there was not a strong corporate priority to implement recommendations and monitor and report that implementation. Implementation was seen as the responsibility of States Treasury and Exchequer as the shareholder function. However, States Treasury and Exchequer was not responsible for the development of relevant policies that articulated why companies were owned or the non-financial objectives of ownership. In the absence of an agreed Telecommunications policy it was difficult for States Treasury and Exchequer to implement many of the recommendations I previously made; and
 - a disparity in the expertise of the shareholder function and the controlled companies. Effective oversight of controlled companies requires significant insight into the operation of companies operating in different sectors. I welcome the strengthening of the shareholder function since my previous report but I consider that bought-in capacity is required to secure the expertise in different sectors to ensure that the shareholder function is fully effective.
- 6.4 Many institutional investors formally adopt recognised principles, such as the *International Corporate Governance Network Stewardship Principles* or the UK Financial Reporting Council's *Stewardship Code*. Such principles require, for example:
- public disclosure of policies on how investors will discharge their stewardship responsibilities;
 - robust policies on managing conflicts of interest in relation to stewardship which should be publicly disclosed;
 - effective monitoring of investee companies;
 - establishment of clear guidelines on when and how investors will escalate their stewardship activities;
 - a clear policy on voting and disclosure of voting activity; and
 - periodic reporting on stewardship and voting activities.

- 6.5 In a UK public sector context, the Cabinet Office's *Partnerships between departments and arm's-length bodies: Code of Good Practice* sets out four principles:
- a mutual understanding of purpose, objectives and roles;
 - a proportionate approach to assurance;
 - a sharing of skills and experience to enhance value; and
 - open, honest and constructive engagement based on trust.
- 6.6 Adoption of recognised stewardship standards, reflecting both the ownership interest and the non-financial ownership objectives of the States, would provide a public demonstration of the States' commitment to acting effectively as a shareholder on behalf of the public.

Recommendations

- R1** Review all outstanding recommendations from my 2014 report in the context of all the States owned companies and, where recommendations are accepted, agree an action plan for implementation, with clear timescales and responsibilities.
- R2** Take into account the findings of the consultancy review currently in progress in developing the agreed action plan.
- R3** Prioritise the development of the Ports Regulation Policy and Postal Services Regulation Policy and reflect timescales and responsibilities in the agreed action plan.
- R4** Adopt a policy for the enhanced transparency of public reporting by controlled companies.
- R5** Undertake a formal post-implementation review of the effectiveness of the new arrangements for oversight of controlled companies under the Target Operating Model, including the shareholder and client-side functions, by the end of 2019.
- R6** Adopt, with appropriate adaptations, recognised standards for stewardship as an investor, reflecting the non-financial ownership objectives of the States.



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