

STATES OF JERSEY
Public Accounts Committee
Public Hearing

MONDAY, 23rd AUGUST 2010

Panel:

Senator B.E. Shenton (Chairman)
Connétable J.M. Refault of St. Peter (Vice-Chairman)
Senator J.L. Perchard
Senator A. Breckon
Mr. M. Magee
Mr. K. Keen

Witness:

Mr. J. Richardson (Deputy Chief Executive - Chief Officer Resources)

In Attendance:

Mrs. M. Pardoe (Scrutiny Officer)

[14:00]

Senator B.E. Shenton (Chairman):

Before we start, we do not allow photography during the session, so if you want to take some pan shots beforehand. **[Aside]** I tell you what I will do, I will go through the usual ... put my glasses on and read you the normal thing, which is ...

Senator J.L. Perchard:

Read you your rights.

Senator B.E. Shenton:

Read you your rights. The proceedings of the panel are covered by parliamentary privilege through Article 34 of the States of Jersey Law 2005 and the States of Jersey (Powers, Privileges and Immunities) (Jersey) Regulations 2006, and witnesses are protected from being sued or prosecuted for anything said during hearings unless they say something that they know to be untrue. This protection is given to witnesses to ensure that they can speak freely and openly to the panel when giving evidence without fear of legal action, although the immunity should obviously not be abused by making unsubstantiated statements about third parties who have no right to reply. The panel would like you to bear this in mind when answering questions. We will just wait for ... We would have asked Caroline along but she is on holiday.

Deputy Chief Executive - Chief Officer Resources:

She is on leave, unfortunately, so ...

Senator B.E. Shenton:

As you know, this is a review that is sort of ongoing. We have probably been working on this about 12 months or so so far, have we not, just ...?

The Connétable of St. Peter:

Since that road show at Havre des Pas(?).

Senator B.E. Shenton:

Yes, that is right. Okay. Now, the format is we are going to stick to one hour, so we are going to try and move things along quite quickly. It will be in public session for 45 minutes and then towards the end we would like to talk to you about some specific contracts which is commercially sensitive information so we will move then maybe into private session. But I think most of us actually have to get off at 3.00 p.m., so just bear that in mind. We had a funding request for procurement back in May. It was lodged by the Minister for Treasury and Resources asking for initial investment of £550,000 for staff recruitment and then the business case has identified a cost of £1.8 million per annum for 2 years and, therefore, the ongoing cost of this new structure will be an additional £800,000 per annum. So what I would like you to do is just give some background to the committee on where we are in terms of procurement and what this quite large investment will actually bring.

Deputy Chief Executive - Chief Officer Resources:

Right. Procurement, as you are aware, the Director of Procurement was appointed in 2006 and specific targets were set at that stage, which was to structure it in a way which would ensure that it delivered £2 million a year recurring savings. In order to make sure that those savings were actually achieved and delivered, that £2 million was pro rated across departments' budgets and taken off their budgets and then procurement had the task of on corporate savings, which covers all departments, actually identifying the saving and coming up with the figure. At the end of 2009 they had actually reached their target of £2 million and the breakdown is here. It is very much across all areas and it is very much in the commodity areas of common items, be it from materials you have on your desks today to furniture to some contracts but, as you can see from the list, it is a large number of relatively small savings.

Mr. K. Keen:

Is that £2 million a year, John, or £2 million altogether?

Deputy Chief Executive - Chief Officer Resources:

It is £2 million a year taken off departments' budgets.

Senator J.L. Perchard:

When did that start?

Deputy Chief Executive - Chief Officer Resources:

I think it was 2006.

Senator J.L. Perchard:

So it was another one of these invest to save ... spend ... save and reinvest?

Deputy Chief Executive - Chief Officer Resources:

Yes, they were given some additional resource but in return for the resource they had to generate savings. So in order to make sure the savings were generated, that £2 million was taken off departmental cash limits. So it is £2 million a year recurring savings, and that has been made in that document. Now, that is what we have done so far and when you look across the States and you look at the range of commodities that the States buys, I would say that is just touching the tip of the iceberg to where we have to be. The problem and the difficulty we have in the States is we are buying anything from hip replacement joints and drugs for the health service to education services to JCB diggers for T.T.S. (Transport and Technical Services) to pavement resurfacing. It is a very wide spectrum and in order to make sure that you have the level of professional expertise in those various areas, it is very difficult to have a generalist. You do need specific knowledge, and I can give you some examples now and certainly when we go into closed session of where we have had some particular success stories in recent months on having specialist expertise in to deliver some of those areas.

Senator J.L. Perchard:

Can I just interrupt you, John? Before we go on, since 2006 we have been saving £2 million per year on procurement recurring?

Deputy Chief Executive - Chief Officer Resources:

Well, the £2 million was taken off limits and then procurement had to demonstrate through a whole series of contracts they had let that they have now achieved that saving from procurement.

Senator J.L. Perchard:

These savings have been reinvested on a pro rata basis back into the same department? Because I have not noticed on the annual accounts a reduction of £2 million on a pro rata basis ...

Deputy Chief Executive - Chief Officer Resources:

Well, in terms of where the money went back in, I cannot answer that question directly. What I do know is that money came off departmental cash limits. So I know as Chief Officer of T.T.S., when we agreed this in 2006 my cash limit was, of course, reduced by whatever my pro rata amount was.

Senator J.L. Perchard:

But it is quite worrying, really, that we might be saving here but we are spending it in the same department there.

Deputy Chief Executive - Chief Officer Resources:

I think that is an issue which you perhaps touched on last week with the Chief Executive, but in terms of procurement that money was taken off departmental cash limits.

Mr. K. Keen:

I mean, John, I think when the original article appeared in the paper it was sort of ... they were talking about £2 million, as you say, on £130 million of spend. So that is like one and a half per cent on just revenue spending, I presume, and now revenue spending on other operating costs is £194 million. So the level at which you are talking about, £2 million, just seems so tiny that I am surprised you can almost measure it with any exactitude.

Deputy Chief Executive - Chief Officer Resources:

Well, it is down to individual contracts, so ... and it is there. We know how much it was before we went into it and we know how much it was for an item when we came out of it, so we can wrap those savings up. So it has been accounted for there. I have to say that the States, the systems we have for accounting for it are not particularly strong, so we have had to use an awful lot of manual calculation and managing spreadsheets internally to ensure that we captured it so we can demonstrate it. But we are confident that that information is valid and is correct. We know we have saved on, you know, letting a particular contract. It was X before we let it and it was then Y when we let it, so we will be ...

Senator B.E. Shenton:

Are those figures independently verified?

Deputy Chief Executive - Chief Officer Resources:

No, as far as I know they have not been. We have managed them internally.

Mr. K. Keen:

That is as a result of the skills of the department or the fact that they have gone to competitive tender?

Deputy Chief Executive - Chief Officer Resources:

It is the skills of the procurement department that was set up to actually go in and help departments identify a requirement, specify it, tender it, go through the proper procurement process. Sorry, if I perhaps just move on, that is where we have been, but as I think you have identified and certainly I would identify, that is ... I am saying that is touching a fairly small proportion of States spend and one can get in and influence it. So the question that we addressed some months ago, which has resulted in the proposition and the project plan going forward that I think some of you may have seen at the presentation before the debate, was effectively to put in a far more structured and far stronger procurement process so that we can then generate what we have identified as £5 million a year recurring savings to come off. I think I must stress here the influenceable spend. There are some areas of States revenue spend which is very difficult to get at in terms of influencing its expenditure. So the level of influenceable spend we think is there somewhere just over the £100 million mark. So we set £5 million as a target ... sorry, set £5 million because it is 5 per cent at this stage. In order to achieve it we have identified ... and I think this is quite important from the experience we have recently had, is that we will divide States procurement into particular commodity areas. So there will be a lead for professional services that would range from anything from letting contracts for legal advice to managing professionals, managing consultants, contractors. There would be a lead professional for the telecoms I.T. (information technology) ...

Senator J.L. Perchard:

Are you able to just give us an annual figure of approximate spend on each of these categories that you are going to read out?

Deputy Chief Executive - Chief Officer Resources:

Not offhand, sorry, no. I will just go through the heads of categories.

Senator J.L. Perchard:

Yes, I just wondered if you had a sort of ballpark ...

Deputy Chief Executive - Chief Officer Resources:

Professional services, telecoms and I.T., infrastructure, which is all of the engineering T.T.S. type materials, Property Holdings maintenance, health, education, and what we call procurement systems, which is an area that at the moment we think is particularly weak, is that there is relatively uncontrolled expenditure for the day-to-day commodities. So if someone in department A wants to go and buy one of these, they will go out and buy one. In department B they can go out and buy one of those. They might not necessarily be the same and there is very little control over how you make sure everyone buys the same item at the right price. What we are looking at in this section is that we would have what I would loosely call - but I think it paints the picture very well for you - an Amazon-style I.T. system so that all of the common items would be on an internal Amazon-style web system. So you would not be allowed to go out and buy one of these externally. If it is on the Amazon supermarket, States of Jersey Amazon supermarket, that is where you buy it and that is because the price has been negotiated, it is the right product for the job. So it will cover common items such as office equipment, furniture, stationery, food and beverages which you would use in departments, health products, but they would be restricted to Health, so any health professionals that get into it. So it is wherever there are items where many people need to have access to it, the system would be set up in such a way and those are readily available today in the marketplace. That will cover a large proportion of States expenditure.

Senator B.E. Shenton:

When the proposition was lodged in May there were 8 people employed in the procurement function.

Deputy Chief Executive - Chief Officer Resources:

Yes.

Senator B.E. Shenton:

Moving forward, how many people will be employed in procurement?

Deputy Chief Executive - Chief Officer Resources:

A further 6.

Senator B.E. Shenton:

A further 6, okay. Also, the proposition implied, although it was not said, that you would be investing about £2 million into I.T. infrastructure and systems?

Deputy Chief Executive - Chief Officer Resources:

Yes.

Senator B.E. Shenton:

So £2 million would be about the right figure?

Deputy Chief Executive - Chief Officer Resources:

Yes. We have a figure of £2 million for systems development over the 2010-2015 period.

Senator B.E. Shenton:

All right.

Deputy Chief Executive - Chief Officer Resources:

I can expand on it if you like.

Senator B.E. Shenton:

Yes, please.

Deputy Chief Executive - Chief Officer Resources:

That £2 million ... well, if I give you a very quick breakdown of the expenditure and where it is spent and what we will get for it, the staff costs are high to begin with because we will use specialist expertise to help us get all this set up, which I can go into in a minute of some of this work we have been doing, but then it drops down to a recurring cost which is the additional staff I have just mentioned. There is training. There is fairly heavy investment in training for the specialist staff but above all for departmental staff to be able to manage the new systems we put in. At the moment we do not train people on procurement so it is very piecemeal and experience is limited. So there is £140,000, £200,000, then 100 down to 50 for training. Specific projects, which is about setting up all the various contracts and letting contracts on a large scale, bringing them together. I can talk about health in a minute because that is one we have moved on with before this started which has been successful. Years 10, 11, 12, 182, 215, 300,000 a year on projects, setting them up. Systems, which is developing the existing I.S.(?) system as far as we can and bringing in new systems, which is as I have just described, the Amazon style, the intranet, to make sure that we have controls which we are currently lacking at the moment in many areas, 70, 130, 300, 200, 200, 200.

[14:15]

So there is a fair range of costs and the costs ramp up from 2010, which is the £500,000 the States approved a few weeks ago, £1.3 million in 2011, £1.8 million in 2012, and thereafter it drops down to £800,000 a year recurring savings. Those recurring savings ... sorry, those recurring costs when they are netted off against the savings result by 2015 £4.7 million a year recurring savings; 2016, £5.2 million a year recurring savings.

Mr. K. Keen:

I think it would be quite interesting for the committee to see the savings at some point and see the ... see your spreadsheet if that is possible.

Deputy Chief Executive - Chief Officer Resources:

I am very happy to go into it to you, but there is a lot of information here which is very commercially sensitive so I would need to make sure that obviously ... in private session I can reveal some of that to you, but there are other issues and other contracts which we are either letting or in the process of letting which I would need to be very careful. I am sure Mr. Magee will appreciate that his company is a major supplier so I need to be extremely careful about what I can say to you.

Senator J.L. Perchard:

Can I ask, Chairman, about how we are going to actually make this more efficient, how are we going to save the £5 million recurring? Bulk buying or best buying or both, I suppose? What are we going to be doing that we are not doing now?

Deputy Chief Executive - Chief Officer Resources:

Not bulk buying because bulk buying, as the Chairman said on the radio this morning, it means you go back to the old-fashioned corporate store which is the last thing we want to go back to. There are some areas where you do need a store and they will be ... they are either being run or will be run through procurement. What we have not got at the moment is corporate procurement and the Director of Corporate Procurement having authority into departments. Corporate procurement is very much a standalone unit within the Treasury. This structure which has been agreed by the corporate management boards - so all the chief officers have signed up to this - effectively takes these heads of category I have just referred to and puts that head of category into each department where they should reside. So the health one obviously will sit in Health, so that person will have a direct reporting line to the Director of Corporate Procurement so there is direct control in exactly the same way as finance directors have a direct reporting line to the Treasurer of the States but also they are in a department to help manage that business.

Senator J.L. Perchard:

Okay, so everyone will sign up to it. You might have touched on this, but how can we measure the performance of the procurement function and be satisfied that it is actually delivering what we say it is going to deliver?

Deputy Chief Executive - Chief Officer Resources:

As I explained at the beginning, this has been quite difficult to achieve and to manage. What we are setting up as part of this new process is working with the States' internal auditors to identify a process which will capture these savings. Certainly, as we invest in new systems, that system will have to be ... well, part of the specification and function will be to make sure that it captures the savings for us, but we do not want to end up having an argument over £5,000 here or £5,000 there. We have to set up a system right at the beginning, which is what we are doing now, with the internal auditors having verification of it to make sure that when we come up with a figure that saving has been made. I can give you an example. I will not name obviously names and I will not describe the detail of it, but there is one very big project which has just been let where it has been difficult but we have had to go into each department and physically measure what they are spending on this particular item at the moment and then the new contract has had to identify what it will spend in the future for the same volume. Then the tender has identified £400,000 a year saving. Obviously, for obvious reasons I cannot go further than that.

Senator J.L. Perchard:

Can you reassure me, John, part of the function of this new improved procurement department is not going to be to justify their existence by doing things like comparing the price of an aeroplane ticket if I want to leave to fly to London tomorrow morning with one that I might have bought 3 months ago? How can we be assured that the department will not actually be saying: “Yes, we have saved 200 per cent on an aeroplane ticket because it was on 24th February £280”?

Deputy Chief Executive - Chief Officer Resources:

Aeroplane tickets is one which has been extremely controversial, I have to say, but there are some benefits in the way in which it has been managed in terms of the overall savings that have come out. There have been arguments about saying the price that procurement quoted for an aeroplane ticket was, let us just say, £180 just as a round figure, and yet if you look on the internet you could have got it for £140. When you take into account the overall costs and the savings, effectively in 2009 ... I can find it quickly. There was an overall saving of £55,000 because once you aggregate it all ... and the example I would use, which is real, it actually happened, was that when 5 staff went on a finance project or finance tour(?) to India 3 years ago, all staff travelled free because it was on air miles that central corporate procurement had been able to accumulate by managing all air travel centrally. If you allow individuals to book their own individual travel, you never capture the corporate points for air miles.

Senator B.E. Shenton:

The former Senator Mike Vibert who was quite a large airline user when he was in the States, he always used to stand up in the States and say: “Oh, this did not cost me anything because we used air miles.” Now, I do not get air miles when I fly because I always book the cheapest flight and you do not get air miles. Who actually has racked up all these air miles and how?

Deputy Chief Executive - Chief Officer Resources:

If you book your flight through central procurement, you do not get them personally as an individual, we get them corporately. We get air miles.

Senator B.E. Shenton:

But airlines do not give air miles for non-refundable cheap fares.

Deputy Chief Executive - Chief Officer Resources:

Some of the very cheap, no, but where they are available we get corporate air miles which central procurement rack up so that when there is a fund, a pot of them, they can be used for various travel purposes.

Senator J.L. Perchard:

Without wanting to get into the specifics, I wonder how much time this department is going to spend telling us how efficient they are and the yardstick or the benchmark that they are using in order to measure their efficiency, and I used the example of aeroplane tickets. I did not want to talk about aeroplane tickets, but you could say: “We have saved 100 per cent on an aeroplane ticket” simply because of the time of purchase. You have to give us confidence that this department is not going to just be

telling us how good it is, it actually is going to be delivering real savings that are measurable.

Deputy Chief Executive - Chief Officer Resources:

Well, I think that is the list that is measurable. You can test that.

Mr. K. Keen:

The trouble is, John, you cannot share the list so it is ...

Deputy Chief Executive - Chief Officer Resources:

Well, I can share it in private because I am happy to release that information, but it would be wrong ... and I can also share one or 2 other very big contracts which have either been let or about to. Again not naming the contract and not naming the area, there was one that has been let this year, a few months ago, which was ... in terms of the procurement element of it was about £1 million. That contract saved £100,000.

Mr. K. Keen:

Surely you can provide a summary, though, without sort of going down to the individual suppliers, which categories, when? Surely you can do that, because I do not see how you could run the department if you did not have that sort of headline sort of information.

Deputy Chief Executive - Chief Officer Resources:

Well, the problem we have at the moment is that the department ... the procurement department is only working in areas where other main departments come and ask them for assistance. Some of the general commodity items which I have described are very difficult to track because our system ... our central I.S. system is not good at tracking individual items. We have recently ... and I have not had the results yet. We have put all of the data out of the system through a specialist company that has a very, very detailed search engine which effectively works it way through the entire system to give us areas of spend on particular commodities. That is something which we will have the results in a few weeks' time but any new system we have to have much better control to be able to know exactly how much we are spending on particular commodity items. This has been quite laborious in tracking this.

Senator B.E. Shenton:

Has the Home Affairs Department bought into this? Because they would not get involved in the procurement process centralisation a few years back.

Deputy Chief Executive - Chief Officer Resources:

Yes, as far as I know we have had 2 or 3 areas with Home Affairs that have worked. Some of these will be common across all areas.

Senator B.E. Shenton:

Right. Financial direction 5.7, we spoke to the department last year and we were promised a rewrite or rewritten version in September. We are still waiting. Why has it taken so long to reproduce this financial direction?

Deputy Chief Executive - Chief Officer Resources:

The direction is finished and it was finished some months ago, but what became very evident was that having a financial direction is one thing, but having the process and the procedures in place in order to make sure it is managed properly and delivered is another thing. If I use a very simple analogy, that is about the control which if you get it wrong that can hold you to account. Over on this side we have the people who are actually buying in this case, and in the middle we should have good systems and processes and procedures. That is something in the States we have not got, very strong procedures and processes. What we have done in order to support that is produce this, which is effectively a full set of procurement procedures covering anything from a minor works job through to a full tender for a multi-million pound project so that anyone who in the future has to use this as part of their procurement role is supported by a full set of documents which guides them through. So if they follow those procedures that are now written they should at all stages conform to this document. In the past we have had a document, few or weak procedures, and it is relying on individuals to interpret that document.

Mr. K. Keen:

Are you satisfied with how long that has taken, then, John, because you have had the department going from since 2006 and there was a predecessor in 2003. Why does it take so long?

Deputy Chief Executive - Chief Officer Resources:

No, sorry, the predecessor in 2003 was corporate stores, not procurement.

Mr. K. Keen:

Corporate supplies I think it was called, was it not?

Deputy Chief Executive - Chief Officer Resources:

Corporate stores. That was just running a big store, not a procurement service.

Mr. K. Keen:

I was involved in a review of it so I know what it did.

Deputy Chief Executive - Chief Officer Resources:

Yes, it was very different.

Mr. K. Keen:

Yes. Are you satisfied with how long it has taken to make some progress?

Deputy Chief Executive - Chief Officer Resources:

I am now. Probably if you had asked me that question a year ago when I took over it would have been a different answer because effectively what I took over was a department that had very little support and very little in the way of direction to actually get it running. I believe they had made the savings that are on this document but they had found it very difficult to get the buy-in.

Senator B.E. Shenton:

Well, why did they have very little support?

Deputy Chief Executive - Chief Officer Resources:

I think you have to ask the previous Treasurer and Treasury Department because procurement came under Treasury before. They needed a fair bit of support to actually get ...

Senator B.E. Shenton:

Are you saying they did not have the support of the Treasurer and the Treasury Department or support generally within the States?

Deputy Chief Executive - Chief Officer Resources:

Where they ... where they identified a project and they came round to departments, and I am speaking now from my old role as opposed to my current role, then I think they had fair support and they certainly delivered savings and results for us. But I do not think they had the ... they were not in the spotlight, they did not necessarily have the support and the drive, if I use that as an expression, to actually go out and get into departments and say: "Here is a plan, here is a savings target, we are here to help." The project I just identified where we saved £100,000 was one through talking to a department saying: "This does not look quite right. We think there might be a better way of doing it. Let me get the procurement department to help you do it", which we did and we saved £100,000.

Connétable J.M. Refault of St. Peter:

I think going back, John, when we first met you and Caroline to talk about procurement you were saying then there was no buy-in from the departments whatsoever. The savings you have currently got, those have been on the back of the department going out ... sorry, some of the departments going in to procurement to ask for assistance on a particular type of contract, one suspects. How are we going to get the rest of the departments to buy in to the principle they need to go through the procurement function?

Deputy Chief Executive - Chief Officer Resources:

Well, certainly with the new model then they have now signed up to the specialist being ... having a direct reporting line to the Director of Procurement, so effectively it is buy-in that, so that those 6 heads of category I have just described who are actually in the departments have a direct reporting line to both the department and the head of procurement.

The Connétable of St. Peter:

What will that achieve?

Deputy Chief Executive - Chief Officer Resources:

It will make sure that if we have a set of procedures then those are followed at all times. It means that the head of category has oversight of all procurement in that particular department to make sure that it is managed properly, it is challenged, the first question: "Do you need it in the first place?"

[14:30]

So there is a level of internal scrutiny that will go on inside every department to make sure that when a contract is let, it is let to deliver best value.

The Connétable of St. Peter:

If it is not are there any sort of penalties that will be meted out?

Deputy Chief Executive - Chief Officer Resources:

There are certain penalties in other directions. Obviously, sitting here today, this Public Accounts Committee is there to hold me and chief officers to account for delivering those savings. Certainly if we started to see, having a much better system in place, rogue spend then that is something that I would certainly deal with with the Treasurer and the Chief Executive with individual departments. At the moment it is very difficult to control spend when it is effectively devolved completely out to departments. If you have a system which is far more corporate, has more control ... I see one of your questions was about purchase cards which we will come on to in a minute. It needs to be properly controlled.

The Connétable of St. Peter:

How do you see purchase cards? Can we move on, Chairman?

Senator J.L. Perchard:

Could I just ask one question to wrap it up before we do?

The Connétable of St. Peter:

Okay.

Senator J.L. Perchard:

The £5 million anticipated recurring saving as a result of the new initiative for procurement, is that on a pro rata basis? Is that calculated on a pro rata basis across departments? Surely if it were to be that randomly calculated, there would be some departments that would be able to save more than others because they naturally are in the procurement business.

Deputy Chief Executive - Chief Officer Resources:

No, it is not pro rata across departments.

Senator J.L. Perchard:

Then how is that calculated, then?

Deputy Chief Executive - Chief Officer Resources:

The £5 million was taken as a percentage of the influenceable spend, so it is a target we have set. I hope we can achieve more but certainly our minimum is to achieve that in order to get the payback we have identified in this project.

Senator J.L. Perchard:

Influenceable spend is the categories that you read out earlier?

Deputy Chief Executive - Chief Officer Resources:

Is the categories read out earlier, yes.

Mr. K. Keen:

There must be some ... sorry, there must be some learning, though. After people have sort of bought badly once they will presumably stop doing it and, therefore, the need

for the department will cease to exist because they will be buying their pencils or whatever from the cheapest source. It cannot just carry on as ... surely there must be some learning in the departments.

Deputy Chief Executive - Chief Officer Resources:

Well, yes. Part of ... as I have identified here, we have training costs, so this is not just about training our own procurement team, it is about training people in departments who have authority to buy.

Mr. K. Keen:

But you have an ongoing £5 million savings ad infinitum and £2 million worth of costs ad infinitum sort of thing?

Deputy Chief Executive - Chief Officer Resources:

The savings that we anticipate is that certainly once you get the general commodities, this supermarket type operation set up, that should reduce quite significantly the costs of administering a very large number of individual lines. So that should reduce our costs, yes, but it will take some time, probably 2 years to get to that full stage.

Mr. K. Keen:

Would you still count that as a saving that would not have been made after that point?

Deputy Chief Executive - Chief Officer Resources:

I would hope that once we get it set up that we might well be able to reduce some of the staff that are actually running this service, but we are certainly going to go through a hump in terms of investment to get the results we want out of it.

The Connétable of St. Peter:

John, before we go into purchasing, there is another area there that really goes back to your previous role as chief officer of T.T.S. where you were very much involved with specialist type of procurement. How do you see your procurement officers getting involved with, say, somebody who wanted to go out and buy a new incinerator to make sure they go through the proper process? That is probably rather a grandiose one, but something very technical which the contracting department would have the expertise but the procurement officer may not?

Deputy Chief Executive - Chief Officer Resources:

Well, if I can ... can I use an example because I think it is very relevant. At La Collette the States are responsible for the seawater fire-fighting system to protect the fuel farm. We are in the process or T.T.S. were in the process just before I left of retendering the installation of all the new pipe work below ground and buying a whole new pumping system. So, very complex, very technical, a lot of engineering involved. We had someone from the central procurement department sitting on that project team and their role was not to get involved in the nuts and bolts of pipes and water, et cetera, but it was to make sure that we followed the right procedure in terms of specification, went through a proper tender process, pre-qualifications, tender evaluation, scoring matrix with quality, cost, all those items. So they were more of an oversight, not directly involved with procurement, but they made sure that what is now in here for major capital expenditure, controls were applied, and effectively that was the role they played. The other role they would also play again in this particular

area, not to the same degree that they would in buying a more general item, is to do with the formal contract. In engineering terms such as in T.T.S. you have very specific forms of contract and they tend to be managed by specialist engineers. So the incinerator was a particular type; the fire pumps are another particular type. We rely on legal advice from our own legal advisers or from specialists to make sure that formal contract is there, but the procurement team are there just to have oversight, effectively.

The Connétable of St. Peter:

That is a very good example from the point of view of T.T.S. I go back to my old stamping ground back in the States. If I was, for example, to want to buy a new Rosenbauer fire tender or Dennis, how would you actually ... somebody that did not know there was a difference between them, determine which one should be bought?

Deputy Chief Executive - Chief Officer Resources:

I would look at you as the chief to be telling me what you want in terms of specification and the obvious suppliers in the market, and in that particular case very few, and between procurement and your expertise they would develop a specification. It is to make sure that it is properly specified. Too many times have I seen examples where it is: "We need a new fire tender. The one we have had has been quite good, let us go and buy another one of those." Phone up: "Can you give me a price for another one of those, please? Oh, yes, we will have that. There is a purchase order, deliver it tomorrow." That is not very good procurement. I exaggerate slightly but ...

The Connétable of St. Peter:

No, you are not, that is about right. [Laughter]

Deputy Chief Executive - Chief Officer Resources:

There is a very, very different procurement route that we now follow.

The Connétable of St. Peter:

Thank you, John, for that.

Mr. M. Magee:

Can I just ask a question just ... it is a bit like Kevin's question. We are adding 8 staff to make a complement of 14 people. In the savings of £5 million, is there an assumption that there will be people who will leave the organisation who are currently in departments who are doing all this buying that is now going to be centralised?

Deputy Chief Executive - Chief Officer Resources:

Right. What I have touched on in terms of savings are savings which we accrue through reduced cost of purchasing, direct costs. So instead of that costing £1 it costs 60 pence next time. What is in addition to that £5 million savings will be the savings you get through efficiency, through staff not having to use their purchase card, laboriously make out purchase orders, manage purchasing, goods receiving, invoicing, et cetera. So on top of this there is further efficiency savings which we will expect departments to be able to liberate as we start rolling this programme out. That could be of a similar order to that £5 million. I have to say that is going to be the difficult one to track, but we have to make sure that ... we know we can track this because it is the before and the after, which is quite easy, but it will be difficult to

track but we do need to make sure and departments need to make sure that once we have put these efficient systems in then there will be efficiencies which we need to see coming out of those departments from manpower.

Mr. M. Magee:

Just as again a slight follow-on to that, will there be any bias towards using Jersey-based companies rather than U.K. (United Kingdom) companies?

Deputy Chief Executive - Chief Officer Resources:

It is a debate that we have almost on a daily basis at the moment. Everywhere we can we try and use local companies, but there are times when clearly the price differential is just too big that we cannot avoid it. We have to balance meeting the Island's economy and supporting it as strongly as possible against getting the best price we can and the best quality we can for the States. It is one of those balances that you have to strike and we have regular debates internally on the right direction, but we do try and support wherever we can local business and there are some very good examples where a lot of the business does so locally.

Mr. K. Keen:

Do you have a sort of guide percentage, John?

Deputy Chief Executive - Chief Officer Resources:

There used to be a percentage. I think it was if there was 5 per cent I think was the figure, if I remember rightly from days of old, that if a price was ...

Mr. K. Keen:

But now, what do you use now then?

Deputy Chief Executive - Chief Officer Resources:

We tend ... because we do not just go on price, we go on quality, our matrix for scoring on major tenders is on price and quality so that if the supplier can demonstrate price and quality then those on the scoring matrix will weigh up towards which way we go, but whenever it is ... the question is ... if we are going from a local supplier to a U.K. supplier there is always a fairly rigorous question as to is that the right ... is that the right decision, has it been made on the right grounds, are the scoring matrix for the quality versus price the right ones, has it been checked out properly? One recently which was a very big one was quite a difficult decision to take but it did go ... it went to a U.K. supplier but that U.K. supplier is using all local suppliers and labour to support the particular contract.

Senator B.E. Shenton:

You have an e-tender portal which is called ... I cannot remember what it is called now ...

Mr. K. Keen:

Tenders.gov.je.

Senator B.E. Shenton:

What we found is there is a lot of local businesses that were not aware of this. Are you satisfied that ...?

Deputy Chief Executive - Chief Officer Resources:

I am not sure when you did that survey but we have ... we are certainly aware that it was not ... it was not used as much as we hoped it was going to be to begin with. We then held 2 meet the buyer events and they were both attended by in excess of 100 local suppliers and very successful as well. I think we have learnt some lessons from it, which is also from feedback from the local industry, is that it was too complicated to begin with and we put too much information on it. To download it, if you ... you either had to read pages and pages on the screen or you pressed the print button and you printed reams of paper out. So that ... it is a learning exercise. We are streamlining that to try and make it simpler.

Mr. K. Keen:

Do you know how many hits you are getting on that website, John?

Deputy Chief Executive - Chief Officer Resources:

We have got ... we have got 1,710 registered suppliers on it. We have 846 Jersey companies. The number of sets of tender documents downloaded, 1,991, and we have had 662 tenders managed through it.

Mr. K. Keen:

And hits to that site?

Deputy Chief Executive - Chief Officer Resources:

Sorry, I have not actually got the hit rate, the actual hit. I have the suppliers and the number of documents. I can get it for you to help.

The Connétable of St. Peter:

Can we just move to purchase cards now, John? A few weeks ago actually I was down at Norman's getting some goods from the cement store, and this chap came in with, funnily enough, a T.T.S. vest on to get a couple of bags of cement and produced his purchase card and gave them a 4-digit order number or job number. Is there any control being put into that to reduce this amount of what I would call apparently ad hoc spend?

Deputy Chief Executive - Chief Officer Resources:

At the moment it is very open, it is too open at the moment, but that is not to say purchase cards have not got their right place because they are very efficient in terms of managing that flow of small expenditure. But the controls when they were first issued were in my view weak because within a purchase card they are not ... not personal credit cards, within the purchase card system which the banks operate you can put vendor categories and merchant categories on. So in that particular example you used, rather than us store cement in a central store and then issue it by the bag, it is much easier for our member of staff to go to a local builder's merchant and get it, but what I would not want is for that individual to be able to use that purchase card and go and buy items which were not connected with his or her particular area of work. So by applying the merchant category you control the expenditure on that purchase card right down to either an individual supplier if you want to or to a particular, say, building merchant supplier. So then you stop them ... that card will be invalid if you try and use it in a restaurant or you go and buy something else. Those

controls are not there but they are about to be put in place and there are also a lot of opportunities for, we think, pulling out some purchase cards. I am ...

Senator B.E. Shenton:

Can you give us a timeframe for when that will be in place?

Deputy Chief Executive - Chief Officer Resources:

In terms of putting the merchant categories on, certainly by the end of the year we want to have merchant categories on, but we have 2,119 cards out there. Unfortunately, we have to go through every card, every card holder, to determine the area of work they are in, which categories they need. So it is a very laborious task. Had it been done at the beginning it would have been much easier, but we have to go backwards. So we are setting it that it is by the end of the year that we want that in place. In terms of removing a number of cards, we think that is achievable. The slight concern we have and why we are being careful is that if we remove the cards but those people still need the ability to purchase, they have to then go in and use the main computer system which is very, very difficult to use without significant training. So, we want to put the controls in place to control purchase cards and tighten up a lot. I am cautious about actually removing too many too quickly because we are in danger of actually getting staff to use a system which would, one, be more time consuming and, 2, it will end up with more resource because bear in mind with a purchase card the individual fills in the log sheet with the ticket, the same as we will get when we get it from a supplier, an individual. They are responsible for that. They log it. Their manager signs it off at the end of the month and we have to be careful here because that transaction is then complete because all the financial transactions are done. If you go back to an old purchase system where you have goods received, notes, invoices, the Treasury will end up having to employ more staff to manage thousands of invoices coming in.

[14:45]

Mr. K. Keen:

That is understood, but as it stands at the moment what you are saying is the chap from T.T.S. could pop in La Capannina, sort of thing, with his wife effectively at the moment? That is ...

Deputy Chief Executive - Chief Officer Resources:

Yes, the simple answer to that is yes, he could, but he ... **[Interruption]** I will use T.T.S. as an example. He does know that when he gets back to work he has to staple that invoice into his logbook. So his manager will see that he went to La Capannina.

The Connétable of St. Peter:

Absolutely, his manager. Can I ...

Deputy Chief Executive - Chief Officer Resources:

Sorry, I just want to finish on this because it is very important. In T.T.S. I sacked someone for buying a can of coke, packet of cigarettes, packet of sandwiches on 6 occasions who ramped up £180 worth of expenditure on their credit card ...

The Connétable of St. Peter:

Too right.

Senator J.L. Perchard:

Quite rightly so.

Deputy Chief Executive - Chief Officer Resources:

So the message is very simple. If you have a purchase card it is on trust. If you break that trust you know what the consequences are.

Senator B.E. Shenton:

When you say 2,100 cards, that is about 1 in 3 as ...?

Deputy Chief Executive - Chief Officer Resources:

2,100, yes.

Senator B.E. Shenton:

That is an awful lot of people with cards.

Deputy Chief Executive - Chief Officer Resources:

Yes, it is a lot of people. It is too many, but the reason they ... the proliferation of cards has taken place is because the system is so difficult to use.

Senator J.L. Perchard:

Can I ask how much was spent ... sorry, in 2009 on the purchase cards and how much will be spent in 2011 on purchase cards?

Deputy Chief Executive - Chief Officer Resources:

I think I am giving ... I hope I am giving the right information here. It is ... we had ... get the right date, 2009, core data for one year's transactions shows we had 60,900 individual transactions representing £4.995 million spend on purchase cards.

The Connétable of St. Peter:

John, can you just clarify for me the difference which you understand between a credit card and a purchase card?

Deputy Chief Executive - Chief Officer Resources:

A purchase card is like ... it is the difference between a direct debit card and a credit card.

The Connétable of St. Peter:

Okay. So, for example, I have a Norman's account. I go down there with my Norman's card which I book goods out to me on and I get a monthly invoice. I can use my debit card, purchase card, or I can use my credit card. For example, if you are going down to get a couple of bags of cement rather than holding it in a central store, why could you not have used a Norman's card rather than a credit card?

Deputy Chief Executive - Chief Officer Resources:

Because not all the builder's merchants, using builder's merchants as an example, have that account card, that account system. So very few other organisations have that type of system.

Senator J.L. Perchard:

I am not surprised you have identified this as an area of weakness within the States system and I want to know really what you are targeting. You are going to reduce the number of cards but what are your targets in regards to purchase cards?

Deputy Chief Executive - Chief Officer Resources:

The area where purchase cards will really have ... sorry, the area where we will have an impact is when we get the States of Jersey Amazon-style supermarket running.

Senator B.E. Shenton:

When is that going to come in?

Deputy Chief Executive - Chief Officer Resources:

Subject to this project being approved, because we are in the design phase now going ahead, that is one of the early ones. We would want to get that in by 2011, end of 2011 at the latest.

Senator B.E. Shenton:

End of next year?

Deputy Chief Executive - Chief Officer Resources:

Yeah.

Senator J.L. Perchard:

So with regard to targets on purchase cards, reduction of 50 per cent?

Deputy Chief Executive - Chief Officer Resources:

I would hope we should be able to achieve at least that.

Senator J.L. Perchard:

Yes, and the amount of money then that is being spent on them would go along with that?

Deputy Chief Executive - Chief Officer Resources:

Well, the money will not necessary spend because we still have to procure the goods, but what we will be doing is procuring them in a far more controlled way so that when rather than ... again, bag of cement, if we have a contract with a supplier for provision of cement, then cement would be on the Amazon-style supermarket and you will only go and buy cement from that supplier. If we then track through the procurement system rogue spend on going to other suppliers, then we have an immediate route to go and clamp down on it.

Senator B.E. Shenton:

What about entertaining? Because cards are used for entertaining.

Deputy Chief Executive - Chief Officer Resources:

Sorry?

Senator B.E. Shenton:

Cards are used for entertaining as well, are they not?

Deputy Chief Executive - Chief Officer Resources:

They are used for travel and entertainment, yes.

Senator B.E. Shenton:

So there they will just go ...?

Deputy Chief Executive - Chief Officer Resources:

Those will be kept. I mean, I have one which I use ... I do not travel very much but when I do travel I will use it as a States card. That is where the benefit of them are. There are also some benefits in managing efficient financial transactions in certain areas where I just think it has got too big and it needs to be pulled back, streamlined.

Senator B.E. Shenton:

Okay. We need to move into private session just for the last 10 minutes, if that is all right, if I could ask members of the public to ... We will not record this, we all have good memories.

[Hearing proceeded in camera]

[14:50]