STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2013 – 2015 (P.69/2012): SEVENTH AMENDMENT (P.69/2012 Amd.(7)) – COMMENTS

Presented to the States on 2nd November 2012
by the Council of Ministers

STATES GREFFE

COMMENTS

Deputy J.A.N. Le Fondré of St. Lawrence proposes that the intended total amount of States income shall be increased by £2,250,000 in 2014 and 2015 by the payment of an additional distribution from the States of Jersey Development Company Ltd. in these amounts which the Minister for Treasury and Resources would require from the Company by 30th June of each year. This will have the effect of improving the States' financial position in 2014 and 2015 by £2,250,000 each year, but with an associated impact on the ability of the States of Jersey Development Company Ltd. to deliver significant projects which the States Assembly set up the Company to deliver.

As the 100% shareholder and owner of States of Jersey Development Company Ltd., the States is entitled to receive all distributions of funds from the Company. In determining any distribution the Company would take account of its required cash flows, which currently would include the funding required to enable the development of the old JCG site. To extract cash from the Company at this early stage is premature and will significantly impact, and possibly completely impair, the Company's ability to deliver significant projects which the States Assembly set up the Company to deliver. The States will also benefit from the Company's delivery of its objective for affordable housing which will be a feature of the development on the old JCG site.

The Council of Ministers opposes this amendment.

Comments (from SoJDC)

The States Assembly approved the establishment of the States of Jersey Development Company Limited ("the Company"/"SoJDC") on 13th October 2010. The Company came into existence on 25th June 2011 following the States' approval to the appointments of a new Chairman and Non-Executive Directors.

The objectives of the Company, as set out in its Memorandum and Articles of Association, which were approved by the States, are as follows –

(a) to promote, co-ordinate and implement a comprehensive strategy for the development of the whole of the St. Helier Waterfront area and including the greater harbour area and La Collette in accordance with approved Masterplan(s), Development Brief(s) and other relevant guidance prepared by the Minister for Planning and Environment and, where expedient, to undertake development directly;

(b) to exercise administrative control over the use of the land and the adjacent shore and water areas in the St. Helier Waterfront area and to liaise and consult with all relevant Ministers of the States and other governmental and regulatory authorities in relation to investment in infrastructure projects in and development of the St. Helier Waterfront area;

(c) to prepare detailed development proposals for specific projects of major regeneration of property and infrastructure within Regeneration Zones (for consideration by the Regeneration Steering Group);

(d) to undertake the regeneration of redundant States' assets within Regeneration Zones in accordance with approved Masterplans and Development Briefs (including the purchase of third party properties where appropriate) and to act as the preferred developer for projects of Jersey Property Holdings (procuring and managing project implementation as agreed and directed by the Regeneration Steering Group.

Property development is a completely different business model to that of telecoms, electricity and water. These companies have in place infrastructure and a customer base that generate fairly even and regular cash flows and profits every year.

Property development has lengthy lead-in times in terms of design and planning stage and then the construction stage before any income is generated by sales. Whilst there may be the recognition of profits during the course of a development in accordance with accounting policies, positive cash flow does not occur until the completion and sale of the final units. Up and until then a combination of equity and debt is required to fund the costs of these projects that can take several years to complete. To extract cash from SoJDC at this early stage is premature and will significantly impact, and possibly completely impair, the Company's ability to deliver significant projects which the States Assembly set up SoJDC to deliver.

Successful development companies depend on strong balance sheets and proper cash resources, whereas this amendment is designed to significantly weaken SOJDC in this regard (in the UK too many companies suffered from weak balance sheets to underpin a strong economic recovery in the building sector).

In accordance with the Company's Articles of Association, it is the Minister for Treasury and Resources that is the Shareholder representative. The Minister meets with the Company on a quarterly basis and receives quarterly accounts and projected cash flow forecasts. The Minister therefore has the most up-to-date information on the Company and its future operations to determine the most appropriate dividend policy on behalf of the States. The Company is an arms-length organisation with its own management structure; there is an appropriate governance structure in place to ensure that the Company operates appropriately and is focused on delivering a return to the States. Furthermore, the Company is 100% owned by the States of Jersey and therefore all surplus funds will be paid to the States in due course.

Whilst the Company did have a cash balance at the end of 2011 of £6.1 million, this cash is required to fund all of the design and planning fees associated with the Company's development of the Jersey International Finance Centre and the former JCG that the Regeneration Steering Group has determined should be delivered by SoJDC. In the current global financial crisis and discussions that SoJDC has had with banks, funders are not prepared to fund these pre-development expenses.

The Company has been making good progress on its current development projects. To take these dividends from SoJDC at this pre-development stage will mean that it cannot fund the designs of these important projects without States of Jersey assistance and may put into jeopardy the delivery of these significant developments. Based on these current live projects and the designs thereof, the cash balance in SoJDC will reduce to only £600,000 by the end of Q3 2014. On the commencement of construction of these projects, with the benefit of pre-lets and pre-sales, the cash position below assumes that SoJDC borrows back its pre-development costs to fund other projects, and it is this borrowing that generates the positive cash at bank balances in 2014 and 2015 (this borrowing is forecast to be £1.8 million in 2014 and £1.8 million in 2015).

Set out below are the future estimates of the figures set out in the Deputy's amendment –

	2011	2012	2013	2014	2015
Balance Sheet	£	£	£	£	£
Cash at Bank	6,134,209	6,760,180	2,123,974	2,682,347	1,831,619
Profit and Loss Account					
Turnover	1,965,409	2,228,401	2,005,384	2,736,435	2,487,472
Gross Profit	1,965,409	2,228,401	2,005,384	2,736,435	2,487,472
Operating costs					
Salaries	988,756	649,453	837,902	854,660	871,753
Premises and Establishment	104,333	104,920	109,219	111,403	113,631
Estate Management	392,401	460,125	464,848	469,328	478,714
Other	217,451	221,128	398,806	406,782	105,000
Finance costs			695,000	607,500	1,125,000
	1,702,941	1,435,626	2,505,775	2,449,673	2,694,099
Net Profit	262,468	792,775	-500,390	286,762	-206,627
Exceptional items:					
Replacement public car park for JIFC			500,000		
Resurface Waterfront roads			150,000		
Dividend to Treasury	–	840,317	816,400		
Net profit/(Loss) carried forward	262,468	-47,542	-1,966,790	286,762	-206,627

Under the latest 5 year cash flow forecast, and depending upon the timing of project delivery, the Company is proposing to pay a £3.5 million dividend to the States Treasury in 2016 and a £3.5 million dividend in 2017, and further significant dividends forecast thereafter.

The Company currently maintains the following areas of public realm on the St. Helier Waterfront: Les Jardins de la Mer, Marina Gardens (on top of the Waterfront car park), the Steam Clock and public gardens, the Weighbridge, the Waterfront road network, streetlights and landscaped borders, the Waterfront promenades. The costs associated with maintaining these areas are funded directly by SoJDC at an annual cost of between £525,000 and £600,000 (including staff).

The Company has investment properties, such as the Waterfront Car Park, to offset these costs and to assist in the running costs of the office and future developments. In the early days of the Waterfront Enterprise Board (WEB) (up until 2007 in fact), an annual grant was paid by the States to fund the Company's running costs. Between 1995 and 2007 the States paid a total of £5.27 million in grants to WEB.

The Company is now self-sufficient from a funding perspective and from 2016 will, subject to the projects being realised, be paying significant dividends to the States. However, this amendment, if adopted, will constrain the Company's ability to deliver its remit and the Company would require States assistance in its funding once again.

There are also significant resource implications to the local economy in the event any the current projects that the Company is currently working on are delayed.

The Company is wholly owned by the States of Jersey and therefore any surplus funds will be payable to the Treasury via a dividend at some point, however this early payment will hamper delivery and, in the absence of any private borrowing for this pre-development activity, SoJDC would need Treasury assistance for funding.

Financial and manpower implications

The proposed amendment would increase the intended total amount of States income by £2,250,000 in 2014 and 2015. This will have the effect of improving the States financial position in 2014 and 2015 by £2,250,000 and the balances on the Consolidated Fund by £2,250,000 in 2014 and £4,500,000 in 2015. However, this would leave SoJDC with insufficient cash to cover its pre-development costs (design and planning fees) in respect of the Jersey International Finance Centre and the former JCG and, in the absence of private borrowing for these activities, SoJDC would require the States Treasury to lend back the accelerated dividends to cover these expenses.