

STATES OF JERSEY

**Corporate Services Scrutiny Panel
Lime Grove House: Failure to Complete Transaction Sub-Panel**

FRIDAY, 2nd SEPTEMBER 2011

Panel:

Senator S.C. Ferguson (Chairman)
Deputy D.J. De Sousa of St. Helier
Deputy C.H. Egré of St. Peter

Witnesses:

Mr. D. Flowers (Director, Jersey Property Holdings)
Mr. J. Richardson (Deputy Chief Executive Officer, Treasury and Resources Department)
Connétable J.M. Refault of St. Peter (The Assistant Minister for Treasury and Resources)

In Attendance:

Ms. K. Boydens (Scrutiny Officer)
Ms. S. McKee (Training Scrutiny Officer)

[10:10]

The Assistant Minister for Treasury and Resources:

First of all, could I start with a complaint; it is too warm to be in here today.

Senator S.C. Ferguson (Chairman):

Tough. No sympathy.

The Assistant Minister for Treasury and Resources:

I thought I would not get much.

Senator S.C. Ferguson:

All right. Good morning, gentlemen. Welcome to this hearing of the Sub-Panel of the Corporate Services Scrutiny Panel regarding the Lime Grove House property transaction. I should point out the health warning regarding scrutiny hearings, and if you would just like to confirm you have all read it and are aware of it.

Deputy Chief Executive Officer, Treasury and Resources Department:

Yes, I have read it and am aware of it. Thank you.

Director, Jersey Property Holdings:

Yes, I have also read it before.

Senator S.C. Ferguson:

Now, I wonder if you could give your name and position for the purposes of the transcription.

The Assistant Minister for Treasury and Resources:

I am Constable John Refault, Assistant Minister for Treasury and Resources.

Deputy Chief Executive Officer, Treasury and Resources Department:

John Richardson, Acting Chief Executive, States of Jersey.

Director, Jersey Property Holdings:

David Flowers, Director, Jersey Property Holdings.

Deputy D.J. De Sousa of St. Helier:

Deputy Debbie De Sousa.

Senator S.C. Ferguson:

Senator Sarah Ferguson, Chairman.

Deputy C.H. Egré of St. Peter:

Deputy Collin Egré.

Ms. S. McKee:

Sammy McKee, Training Scrutiny Officer.

Ms. K. Boydens:

Kellie Boydens, Scrutiny Officer.

Senator S.C. Ferguson:

All right. Well, as you know, we have been having a number of hearings and the first stage we have gone through is to ask each of the particular witnesses of the chronology and background of their involvement in the whole series of events leading up to the transaction. So, in view of the fact that Mr. Flowers was probably on the scene before you, I wonder if you could run through your chronology of the whole series of events.

Director, Jersey Property Holdings:

Yes. I can do that. The first thing I would like to say is that the project to really provide facilities, premises, for the police started well before I arrived in Jersey, so my understanding is it started in approximately 1999, but I did not arrive until 2007, and one of the first things that was handed to me was a project appraisal review, which was an audit of all of the previous projects to provide new premises. So that document is I believe on file; we have delivered 4 lever-arch files, all of our files, to Treasury, so they should be available to you, and that document is in there. I do have a note that in August 2007 Paul Tucker, who was the Assistant Director, was talking with the owners of Lime Grove with a view to using the building to decant the occupants of South Hill, so the involvement in Lime Grove also dates back some years. I was given a summary of the budget position on the project prior to attending a meeting with Mr. Harper in 2008 and it basically showed me that the original budget allocation of £20.5 million had been eroded due to aborted costs on 2 projects, 2 previous projects: (1) the Esplanade site; and (2) Summerland site, and there had been an expenditure of £1 million approximately.

[10:15]

Senator S.C. Ferguson:

On what?

Director, Jersey Property Holdings:

Aborted fees. Fees with architects, surveys, et cetera, for the 2 projects, which did not go ahead. So there was some concern by my predecessor who said that he

would inform the Police Chief that, as the Accounting Officer, he could not sanction continued expenditure until the specification of the police requirements had been properly established, because basically we had an expectation in that police specification, which was far and above that which could be afforded within the budget, and so projects, which were getting to a fairly advanced stage, but they simply were not affordable. I looked into this; I had a meeting with Mr. Harper and it was apparent that what was happening is the police were using Home Office guidelines for the mainland, which were not really appropriate to the situation in St. Helier. They were certainly far and away above what is required on this Island and also the office standards required cellular offices rather than open plan. So the whole cost base was not appropriate. So my objective was to try and see if we could resurrect a project, which had effectively been stalled for close to 10 years. That process did not really begin to bear fruit until the arrival of David Warcup in the summer of 2009 and he also brought an interim deputy in the form of Barry Taylor, whom you have met. David was far more open to reducing the specification and far more pragmatic and we agreed that he would appoint a consultant to document all of his client requirements and that consultant came from the U.K. (United Kingdom) and he produced long schedules, which went through every single requirement, every space, every office, and set space standards. Unfortunately, those standards were a collection of what the individuals who ran those departments felt was appropriate, so they all added up to far too much again. So what we set about doing was to do value-management exercises, we held workshops with the police in Rouge Bouillon, initially with all the heads of the departments, and then we brought in the staff, et cetera. We went through every single specification and the net result is that we reduced the space requirement by 33 per cent and that reduced the overall cost by about £7 million. That then made the project affordable within spitting distance of the budget allocation. Another thing to note about the budget allocation is that unfortunately, when it was made, there was no provision for any building cost inflation, and so year by year the true value of that budget had been eroding, so the longer the project went undelivered, the lower the real budget. In parallel with working with the police on this particular project, we had also been developing a strategy for how States offices were to be used. We had analysed the whole of the States office portfolio and we had looked at the current usage, the current efficiencies, and in February 2009 we produced a draft office strategy, which was presented to the Corporate Management Board. So these 2 things were going in parallel and the reason I mention that is that the police office requirement, together with Home Affairs, is the largest office requirement in the States. So it seemed that it was appropriate to start to downsize, consolidate, to space standards, which were more appropriate for today, and certainly the standards, which have been adopted on the mainland for offices. The other thing, which David Warcup did, was to say that he was quite happy for the police, for their office requirements, to be in a normal office block; he did not think there were any particular specialist security requirements. He did however require that the police station, which is the custody suite and all of the things you normally find in a police station, there were particular specialist requirements and costs. So David was quite happy when I first showed him Lime Grove, which was in the autumn of 2009. I arranged an inspection and he looked at the building and he thought that it was appropriate for the police office needs and we did some outline costings for him in November and December and a report was produced with some options. This report, which I believe is on the files, which you should receive, goes through all of our space analysis. We also had at those value engineering workshops, we had our architects who had worked on the projects for previous projects for some years, who were verifying what could and could not be done, and the quantity surveyors, Colin Smith & Partners, so John Poole who had also worked on the project for many years. So the expertise and the knowledge of the project was being carried through. Also the project manager,

Richard Heald, head of capital projects, is an experienced project manager, and he had also been working on the police project for some time and he has successfully delivered a number of capital projects for the States, including the new control tower at the airport. So a lot of experienced professionals were engaged on the project. At the beginning of 2009, we were asked if we could hold the building, because at the time Lime Grove was being looked at by State Street as a possible expansion of their office facilities and, while we had been talking with the agents for Lime Grove House since the autumn of 2009, in January/February we started negotiating in earnest. There are various documents on the files, which can be used to verify what sort of negotiations took place. I visited again Lime Grove House with David Warcup in January 2010 after we had presented him with 3 options: one, probably the cheapest option, to go out of town, and we suggested that there was a site at the airport, but that was very quickly rejected, just not appropriate, but we felt it was relevant to put that on the table; the second option was to build a new police station combined on the Summerland site, and there were difficulties there because there are existing buildings and they are being used by the police and so there were costs on top of the normal construction costs for decanting, for moving people from one space to another, and that did not really meet David's requirements; and he felt that splitting the police station and their offices across town was the ideal solution because, in the event of an emergency situation, he could have some of his officers at Lime Grove put on uniforms and carry out different functions if it was not possible for the officers in Rouge Bouillon to attend, so that was an extra benefit of going for Lime Grove. A meeting took place on 2nd February to discuss possible options. There was an email dated 6th February from Mr. Richardson stating that he had decided to appoint Mick Heald as project manager, 50 per cent of his time. I mean this is a demonstration that the project was being treated seriously; that we needed to have a dedicated director on the project.

Deputy D.J. De Sousa:

What year?

Director, Jersey Property Holdings:

That was 6th February 2010, but unfortunately for various reasons that did not happen and so we carried on running this project as best we could. In February 2010, the vendor's agents indicated their clients were in discussions with a U.S. (United States) bank; they had hardened their negotiating position and they were looking for offers in excess of £10 million for the property in its current state. At that time the agents Buckley & Co. requested our best and final offer for the property and they subsequently indicated that the majority partner Peter Cameron was looking for offers in excess of £9 million. On 25th March, an offer letter was issued by the Assistant Director of Jersey Property Holdings for Lime Grove House in the sum of £8.75 million for the building in its current condition, subject to the resolution of snagging works and a suitable electrical supply, and the "suitable electrical supply" was for an office building, not for any specialist electrical services. It was accepted that if the police required additional power to the building that was down to us. I was not present when that offer was made and I had not had any contact with the vendors; this was being done by my Assistant Director. The basis of the £8.75 million bid was a previous external valuation by C.B.R.E. (CB Richard Ellis) who had been asked to value the property in August 2007 by Paul Tucker and they valued the building at a landlord's finished condition at £10.75 million, and if you were to equate the shell and core value, so take off what the landlord would do by putting in the air-conditioning and the suspended ceilings, et cetera, it equated to a value of about £9.25 million. The view was that this was quite a conservative figure at the time and so the valuer was valuing for us and not the vendor. Basically, under financial directions, Property Holdings is required to have at its disposal adequate funds

before making an offer and we did, we had an allocation of £17 million and the budget-holder for the project was Ray Foster, and Ray was aware of, and he supported, the offer that was made. Our offer for the building was made on a conditional basis and basically it was a principle price, which had been agreed. It was not detailed heads of terms, and the price was negotiated in order to ensure that we could hold the building. It was without prejudice, subject to Ministerial and States approval and it could have been withdrawn at any time.

[10:30]

It is rather like, if you were going to buy a house, you put in an offer and you possibly appoint a surveyor to have a look at it, and you would certainly, if you wanted a mortgage, go to the bank and they would also do a valuation on the property after you had agreed an in-principle price with the vendor. So there is no difference really, it is quite simple. So, one thing that is quite key, particularly in Jersey, is that it is very foolish to make a verbal offer; you have to put it in writing because there is a law, which is referred to as proprietary estoppel, it is in my report, so if you do not know how to spell it you can have that later, but basically, let us apply it to this situation, if you give assurances to a vendor that you are going to do something, and then you do not do it, and he incurs costs, then he can sue you for those damages. You have led him to believe that you are going to do it. So it is vitally important, if you are going to buy a property, that you are absolutely clear about the conditions; you make a conditional offer, and then the vendor cannot come back and say: "Well I let go of somebody else because you said you were going to do this." So our offer was very clear it was conditional and it was subject to contract, subject to Ministerial approval. Now, a meeting took place with the vendors of Lime Grove House and their agents at 9.30am on Wednesday, 31st March, and at this meeting the conditional offer was accepted, but there was a discussion. The vendors felt that we should be adopting the liability for any defects in the building and the power supply, and the reason that they suggested this is because they felt that we had discounted the building value for the landlord's fit-out works by too much. I think I need to explain how properties are valued in order that this can be understood. Basically, if you are valuing a commercial office building, the way that it is done is to look at comparable rental prices in the area, and then try to establish what you, as a valuer, would consider is appropriate, so discounting for different locations, different condition, et cetera. So you arrive at what you believe the rental value should be. You then convert that to a capital value by using a factor known as a yield, and a yield factor is simply what somebody might expect to get for their money if they had invested in the property, and so, the higher the yield, the lower the capital value from the rent, and the lower the yield, the higher the value. Once you arrived at an overall value for the building in a let-able condition, so that somebody could come in and do their tenant's fit-out, you then have to, if you want to acquire that building in shell and core state, you have to take off that figure what the landlord, the owner of the building, or yourself, might have to pay to do the initial category A fitting-out work, so that is the air-conditioning, the suspended ceilings, et cetera. Now we had put in our value a figure of £1.7 million and in fact when I come to the valuations you will see that figure was used consistently throughout, and I think the vendors felt that figure was too big and they felt it was somewhere around £1.3 million, so it was left that the vendors would demonstrate that any snagging, and they felt it was *de minimis*, and the cost of the basic electrical supply, upgrading it to current code standards, because the building was built 10 years ago, could be accommodated within the budget that we had put in our cost plan for cat-A fit-out. That was left up in the air but in hindsight this is something that you do when you get to detailed heads of terms. We then put together various propositions. Firstly, there is something I missed here, which is the Deputy Chief Executive Officer, John Richardson, had previously

requested an update on Lime Grove, this is before 31st March, and as the Director J.P.H. (Jersey Property Holdings) was still on sick leave; that was myself, he arranged to meet Mark Grant, who was the Assistant Director, at J.P.H.'s offices at 10.30 on 31st March. Now, the vendors had been in at 9.30; the Deputy C.E.O. (Chief Executive Officer) had required an update before going on vacation, Easter holidays were immediately afterwards, I think this was a Wednesday, and at that meeting Mark Grant confirmed that J.P.H.'s conditional offer of £8.75 million for Lime Grove had just been accepted and an exclusivity period of 6 weeks had also been agreed. There is a file note to that effect in the files that you will receive. When I returned to the office after the Easter holidays, I was informed the Lime Grove conditional offer had been made and was accepted and the Assistant Minister, Deputy Le Fondré, and the Deputy C.E.O. had been informed. So I was comfortable that we had followed the correct procedures in making a conditional offer and informing those that needed to be informed, because the Assistant Minister, Deputy Le Fondré, had full delegated authority for property and basically he was my main, well virtually my sole, politically the person that I reported to on all property matters. On 29th April, the Minister, Senator Ozouf, was briefed on the status of the police headquarters project by myself and the Assistant Minister, Deputy Le Fondré. The Minister for Treasury and Resources agreed in principle to this high-level project, subject to Property Holdings finding a way in which it could be achieved without a request to the States for the allocation of additional funds.

Deputy D.J. De Sousa:

What date was that, sorry?

Director, Jersey Property Holdings:

That was 29th April 2010. Basically we had an issue because the proposed project had a funding shortfall of about £2 million; this was despite the value-engineering exercise. It did involve the sale of the ambulance station site. What we were proposing was that we acquire Lime Grove, fit it out for offices, we would build a new police headquarters on the Summerland site, and move everybody over from Rouge Bouillon, and, as part of the project, we would build a new ambulance station, which was desperately required, and move that over on to the Rouge Bouillon site, and at the same time there was a C.S.R. (Comprehensive Spending Review) project, which was asking us to see if we could do a combined emergency service centre, so a joint centre, for ambulance and fire, sharing training rooms, et cetera. So what we were looking at as an overall project was we were providing, not only the police services, but also the ambulance services, and getting some C.S.R. benefits out of it. But that did mean that we had to project a value for selling the ambulance station site, which closed the funding gap. In other words, the overall project would have produced a surplus, but it would have required us to borrow because we obviously could not sell the ambulance station site before we had built the new ambulance station, et cetera, et cetera. So the Minister was concerned that he did not want to borrow and he did not want to go back to the States for some more money, so we were sent away to find a way of funding the project without the need for more money. At that time we were also progressing the overall office strategy, and one of the objectives of that strategy was to vacate the South Hill offices and move those functions into more efficient office space. Just following on with the chronology, Senator Ozouf was briefed on the police H.Q. (Headquarters) project on 5th May by Jersey Property Holdings. In a reported dated 12th May to Senator Ozouf and John Le Fondré, answers to various questions that were raised by the Minister at that meeting, he wanted to know if a valuation had been done and at that time we had the previous valuation but what was being requested was a second valuation, and while we had briefed BNP Paribas Real Estate in May, they had yet to complete their work to

provide us with a valuation. But we did advise of the appointment of BNP Paribas and we set out the possible funding options.

The Assistant Minister for Treasury and Resources:

David, can I just stop you for a moment, I am sorry, Chairman, I am just aware of the timeline of our meeting today, is this report already within the bundle that the Panel has?

Senator S.C. Ferguson:

Yes, we already have the BNP Paribas report.

The Assistant Minister for Treasury and Resources:

No, I mean the whole report that he has.

Director, Jersey Property Holdings:

No, these are my notes.

The Assistant Minister for Treasury and Resources:

These are your personal notes?

Director, Jersey Property Holdings:

These are my notes.

Deputy D.J. De Sousa:

What we have done when we have had each hearing is to ask people to give us their chronology of what has happened and where we are, and then we will ask the questions, and we have quite a few we need to ask.

Director, Jersey Property Holdings:

I will try to go through things a bit more rapidly, but I am trying to get some of the key things.

The Deputy of St. Peter:

I would ask you not to, I mean this is very important, and going through rapidly is not where we are, we want to listen in detail to what is being said.

The Assistant Minister for Treasury and Resources:

I am just aware that we have 2 hours this morning and we are already three-quarters of an hour into the first hour; that is my only point.

Director, Jersey Property Holdings:

I do not think it will be too much longer. There is an exchange of emails on file between Janet Marshall and Ray Foster dated 7th May, which would confirm the favoured option for the police was at a fairly advanced stage and Ray reported that we had informally run it past the Minister. This was basically around the C.S.R. savings on combined ambulance and fire. I have noted that paragraph 1 of the 12th May report refers to the BMP Paribas valuation. A progress report on the office strategy was sent by David Flowers, that is myself, to John Richardson and Senator Le Sueur in response to a request for an update and there are emails dated 31st May and 1st June, which refer to this. The first draft of the BNP Paribas valuation was delivered on 17th May but it was not completed and finally issued until 2nd June. On 3rd June, the Minister for Treasury and Resources sent an email to Ray Foster requesting an update on the police headquarter proposals by 5.00 p.m. on Monday, 5th June. So a briefing note dated 4th June to the Minister was sent, this was prepared by Ray Foster, went out under my name. Ray had undertaken to keep the

Minister informed. Paragraph 1 identified that the BNP Paribas report provides a shell and core value for Lime Grove House of £8.8 million, versus the J.P.H. current conditional offer of £8.75 million. It also, and I think this is important, it also clearly stated that detailed fit-out design was on hold pending funding approval. Basically, Ray is the budget holder, is following on from the previous Director who had said: "We are not spending any money until we are absolutely certain this project is going ahead, we have had too many aborted fees on it." So we did not commission architects to do detailed designs because what we wanted from the Minister was a Ministerial decision, which said that he was happy with the project and that we could go ahead and agree detailed heads of terms and secure Lime Grove House, and that was something that we were working towards.

[10:45]

Following receipt of the BNP Paribas valuation of Lime Grove, it was agreed that the vendors would be required to complete the snagging and the defects, rather than negotiate any lump sum, and the reason for that is that, if you are buying a shell and core building, you do not really want to touch the shell and core because it could negate any guarantees. Now, the situation in Jersey is that you do have a statute of limitations on defects, so it is questionable, but generally, as a principle, get the landlord or the owners to do anything to the shell. Now, it does not really matter who pays, it is who the contract is with. On 11th June, Mark Grant wrote to Peter Cameron confirming that the acquisition would be subject to approval by the Minister under the Standing Order 168 and the 15-day rule. What Property Holdings then did, in order to ensure that we would not have to borrow and we would not have to go back to the States for more money, we put together a series of property moves resulting in a larger project and this project would not only deliver the police headquarters and the police station, but it would also replace the ambulance station and release a number of States sites for disposal, including South Hill and the ambulance station land. I understand this sequence of property moves has been described as being complex; in my view it was not complex, and certainly in my experience of dealing with property matters it was a relatively straightforward series of transactions, and I will come to that later. The project would require no further capital allocation and it would reduce the operational space and the office space by about 50 per cent, so we were moving people into far more efficient space, reducing the cost of office accommodation to the States of Jersey, and at the end of the project, depending on the property market, because we had disposals involved, we stood to deliver somewhere between £8 million and £10 million, and that would then be seed corn capital to kick-start a further stage of this consolidation and rationalisation. So it looked to us as if it was a very sensible project and it was a meshing together of the police project, which had hitherto been standalone, with the office strategy. The Deputy Chief Executive and the Assistant Minister were kept informed throughout the development of this project, which required extensive negotiation with 5 States departments, including regarding the personnel moves, and there are emails of 4th, 5th, 9th, 12th and 13th July 2010, which refer to this. Basically, quite rightly, John Richardson was concerned that the different departments all signed up to the various moves, because we were moving people around, and in fact later in the process Mr. Richardson required that we sent letters to all of the Ministers and the Ministers sign up to the process. On 14th July 2010, the Minister for Treasury and Resources was briefed on the office strategy, which now included the police headquarters project, by the Director J.P.H. and the Assistant Minister, with the Deputy C.E.O. also in attendance, and emails dated 16th July from Ray Foster has the police headquarters costings attached. While the vendors of Lime Grove had extended the period of exclusivity, we were concerned that time was of the essence, and time is always of the essence if you are dealing

with the private property market because, if the States had owned a piece of land and we had a project to provide the headquarters, we could go to the absolute nth degree of detail in terms of feasibilities, but if you have a site or a property, which could go to somebody else, then it is important to try and move it forward. So we were concerned that it should not be lost to an alternative buyer.

Deputy D.J. De Sousa:

Were you aware at this stage of any other purchasers or leasers?

Director, Jersey Property Holdings:

We were aware right at the beginning that State Street had been in negotiations and we were aware that the vendors had given us an exclusivity period, but that State Street were still waiting in the wings, they needed office space. Eventually, they moved on to look at the Swanson Building, the Dandara development on the Esplanade. To draw up our costs plans, et cetera, which we were working on to deliver the business case, we used consultants that had worked on previous projects for the police, and the cost plans, and we used layout drawings from projects that were prepared by others who had considered leasing Lime Grove House, so Mourants, who are now State Street, had prepared their own cost plans using Colin Smith & Partners, our quantity surveyors, and they had layouts, and what we were anxious to do is to put together a business case, which was realistic, but not going to the cost and the detail of doing all the detailed layout for the police, because our objective was to try to get an authorisation to go into detailed heads of terms, because that was the key, and our big concern throughout this has been losing Lime Grove House. A further meeting took place with the Minister for Treasury and Resources on 19th July at which the police project was discussed as phase 1 of the office strategy and again the meeting was attended by myself and the Assistant Minister John Le Fondré and the Deputy C.E.O. On 28th July, the Deputy C.E.O. wrote to Mark Grant and Ray Foster requesting an independent financial appraisal of phase 1 to support the business case and Mark Grant replied with the details that John Poole, of our quantity surveyors, had verified all the build costs and BNP Paribas the acquisition and values. On 2nd August, Mark had been regularly in contact with the vendors, and he reported that they were still 100 per cent supportive but they were anticipating an October completion, so they were starting to say: "All right, let us get on with it." 31st August, the Deputy C.E.O. wrote to Mark requesting an update and emails dated 31st August between John Richardson and myself refer. We then come to 13th October when we felt that we put together sufficient information for a draft business case to go to Mr. Richardson as the Accounting Officer, and that was quite a long document, it had all of the appendices with the valuations, et cetera, and I then followed that up. That was delivered to Cyril Le Marquand House and I followed it up with emails on the 15th requesting, if there was any information that was required, because this was a draft and the normal process that I followed is that, in dealing with investment committees, is that there are usually lots of things that they want put in, either they do not understand it as it is not sufficiently clear, and so we were fully expecting that there would be further requirements. At the same time, there was growing pressure, political pressure, and concerns that we might lose Lime Grove House, and there were emails from John Le Fondré and Senator Le Marquand dated 16th and 17th October expressing the concern that Lime Grove's acquisition might be lost through unnecessary delay. So there was some pressure being applied. Phase 1 of the draft business case identified 2 options to meet the police requirements and a recommendation for one of them, and the 2 options were new build on Summerland or splitting it Lime Grove, et cetera. We were recommending the split solution, with Lime Grove House as the key for the offices, as the best solution from both an operational and financial perspective, and there are emails again, 15th October, and an email from Ian Le

Marquand to John Le Fondré dated 21st October: "I am very concerned that time is drifting and we still do not have an answer from John Richardson. If we were to lose Lime Grove through delay then that would be an absolute disaster. If John had this on Wednesday last week then surely he has had time to consider it and form a view by now." Well I can understand Senator Le Marquand's frustrations, but it was a big pack of information and I know that John Richardson was away from the Island on and off with some personal matters, so perhaps it was, in hindsight, unfair that amount of pressure was being put on, but I think the Senator was looking at a risk of Lime Grove going. So, again, there is an email from John Richardson to John Le Fondré dated 22nd October stating: "The police station scheme looks okay," but he has concerns regarding the cash flow due to values for disposal of South Hill and ambulance station sites, and he has had advice from 2 sources, one a well-respected private property person, if the values are not achieved. So he was concerned to de-risk the project and wanted to know where the net present value calculations were, and suggested that the project should be carried out by SoJDC (States of Jersey Development Company), which had not been formed at that stage. There was a response from John Le Fondré on the same day and the response from John Richardson to John Le Fondré was he suggested that the market had moved since J.P.H. values were obtained, but we did not have any information as to on what basis he had formed that view. Certainly, the information that we had, and I will subsequently come to the point, that BNP Paribas were asked to refresh their valuation in November, and they came to the view that their £8.8 million value was still valid, so we did not see that there had been any downturn in the market. There was certainly a shortage of investment capital and banks were suggesting that they would only fund two-thirds of development schemes, but we were also aware that private investors on the Island, looking for a place to get a decent return from their capital, were more than prepared to make up the difference, and certainly, if you can get 6 to 7 per cent return on your capital it is better than having it in the bank at the moment.

Deputy D.J. De Sousa:

So it was around this stage that things changed, was it not, around November?

Director, Jersey Property Holdings:

It was October/November, and I mean we had lots of requests from John Richardson for information, which we tried to provide. He asked for written confirmation from all the Ministers and all the departments and we sent letters out and we managed to get them, and that was no easy task, because they all had their own ideas, or some of them did, about where they really wanted their offices to be, T.T.S. (Transport and Technical Services) were not necessarily onboard with some of the things that we were saying at that stage, so there was a lot of negotiation to take place. The Deputy C.E.O. sent an email to John Le Fondré on 27th October and copied in Senator Le Marquand, Senator Le Sueur and Senator Ozouf, stating he was unable to sign off the business case and cited that there were too many uncertainties around property values and he said gaps in the J.P.H. methodology, which he was concerned about. He did say in the same email that it could still be possible to proceed with the purchase of Lime Grove. This was responded to by Senator Le Sueur on the same day, who agreed that careful financial evaluation was essential, but he warned that excess delay can sometimes prove fatal. There was an email from John Le Fondré to John Richardson dated the 27th, again same day, pointing out that the valuations were supported by external professionals, and any suggestion that the value of South Hill might have dropped by 50 per cent was not realistic. Certainly, when you are putting together a development appraisal, the factors that you look at are the condition of the market, an indication from Planning as to what density will be provided, and we had gone through that, we had a valuation prepared, a

development appraisal prepared, and we had also been to Planning to find out what they would accept on the site, and we felt that the figures that we put in were reasonable, but there was some concern, well what happens if they are not achieved? If the property market, if those values, which were assessed at the time, dropped by 50 per cent, then Jersey would have a bigger problem than simply this project, because a drop in the market of 50 per cent of property values is absolutely huge.

[11:00]

What happens in Jersey is that property prices rise and then they plateau in times of recession and then they rise again, because there is a shortage of property, so I have not seen in all the history that it has gone down except very, very marginally in that plateau period. So we were not expecting anything more than maximum 5 per cent decline. There were meetings between myself and the Deputy C.E.O. where he expressed extreme concern that we had made a written offer for Lime Grove House and that this had not been formally approved by the Minister or himself as the Accounting Officer. We were somewhat confused by that because basically there is not a requirement in the financial directions to make a conditional offer, certainly something that can be withdrawn at any time. There is a requirement that you have a Ministerial decision and the 15-day rule before you enter into any binding agreement. We felt that we had kept everybody informed, particularly the meeting I referred to on 31st March, but nevertheless the Deputy C.E.O. was concerned about that. He was also concerned about the value of the bid and he called myself to a meeting to discuss the draft business case and he stated that both he and the Minister had taken advice from a number of external sources, including W.E.B. (Waterfront Enterprise Board), and that he was being informed that the price agreed by J.P.H. for Lime Grove House was significantly in excess of the market value by as much as £2 million more than the appropriate price. W.E.B. also indicated they could construct an equivalent office to Lime Grove House on Green Street Car Park for circa £6 million. We have not seen any supportive information, any analysis, to support those estimates. As you will see when we get to the valuations, we eventually had 3 valuations, which, if you average them, come to £8.77 million as the value for Lime Grove, and each of those valuations included a fairly hefty figure, or discount, for the landlord's fit-out, a discount of £1.7 million. Arguably that figure is too high, the vendors would say it should be about between £1.3 million and £1.5 million, so those values would go up, if anything, certainly not down. We subsequently commissioned Colin Smith & Partners to carry out an assessment of what it would cost to build Lime Grove and they came up with a figure in excess of £8.25 million. So basically we were virtually getting the land, which the building sits on, for free, because the land is worth £2 million. So we really did not understand why there was a major concern about the value and the valuations. There was also a concern that the process to obtain the external valuation was not as it should have been, in that it was obtained after the bid had been put in. Well it is the normal process, basically, if there is sufficient evidence to negotiate a headline price, which we had from the previous valuation, then a subsequent valuation simply ratifies or verifies that figure, and it is the same thing that you would do if you were buying a house, you do not go and get the valuation before you put the bid in, you do it afterwards, and the valuation is to get approval from your bank or your funding authority that what you are paying for it is reasonable and fair, and we had done that. There was a concern raised again that there was not a letter of appointment to the valuer, to BNP Paribas, and that is incorrect. The process that was followed, and it is in the files, is that BNP Paribas were given an instruction by phone, which they then confirmed their normal terms and conditions in writing, and they asked for their terms and conditions to be signed and sent back, and that is what was done. So that was

all done on 15th May. I produced a detailed report responding to the concerns raised by the Deputy C.E.O. and that report was dated 31st October, it was following the meeting on the 28th, and it sets out all the bases of the external valuations and the process that was followed. On 4th November, there was an email from Mark Grant stating that the acquisition of Lime Grove was now seriously at risk because the vendors were becoming impatient with the delays. On 5th November, John Richardson added his comments to my report and I issued a revised version and again that is on the file. I referred to this before, but we received an upgrade in November of the BNP Paribas valuation, which confirmed their original figure was unchanged. Also in November we commissioned Stewart Rowney of Rowney Sharman, and they are professional property project managers, and asked them to carry out an independent review of the J.P.H. business case, and Stewart Rowney, he had worked on the Lime Grove project for other clients who were interested in the building, including R.B.C, (Royal Bank of Canada) and Mourants, and he confirmed that the assumptions in the case were sound and the business case only required some minor changes of style in his opinion; the order of documentation.

Deputy D.J. De Sousa:

He has told us as well, the way certain things were indexed and linked up and itemised.

Director, Jersey Property Holdings:

That is right; just to make it easier to follow. There was a high-level risk assessment in the business case and Mr. Richardson said that he was unhappy with that and he wanted a full risk workshop. So I arranged that to take place on 16th November and we commissioned Turner and Townsend, who are experienced in running risk workshops, and they sent 2 people over from the U.K. that we had used before, and we invited all the stakeholders, so all the Chief Officers from all of the departments involved, and Bill Ogle was also there for the end of the meeting, and John Richardson was there. The workshop identified 4 major risks to the project, the highest of which in terms of probability and operational programme and cost impact was failure to acquire Lime Grove, and the financial risk that was put on that was £7 million to £8 million, and that risk report is in one of these files, and it is certainly in the files, which you will receive, if you have not already.

The Deputy of St. Peter:

That report was mentioned yesterday; we are getting it.

Director, Jersey Property Holdings:

I also, at that risk workshop, I gave a presentation of the whole of the police project, and I also gave a presentation of the valuation of the property, and how it compared in the market. There was some discussion at that time around the figures and it was while Mr. Ogle was there and the view that was expressed openly in the meeting was that, despite what the valuation said, the Minister would be reluctant to accept the price that we were going to pay for Lime Grove House, or we suggested we paid.

The Deputy of St. Peter:

When you say: "The Minister," who are you referring to?

Director, Jersey Property Holdings:

The Minister for Treasury and Resources. I was then asked to prepare a report for the Minister, prior to a meeting, which was due to take place on 19th November, so I produced a report dated 18th November and that report, I do need to refer to it now, that report identified that, during the risk workshop, we had come up with a series of options to mitigate the risk on this project. Basically we said that you can stop this

project at various stages, if there is a problem with the market, and this is what you would do, and one of those options was to acquire Lime Grove, fit it out, and then, if it was felt that the market was not right to sell South Hill, that there would be sufficient money to refurbish the existing police custody suite on Rouge Bouillon. Obviously that is not an ideal situation for the police, and the police were very reluctant to go forward on that basis, but all of that could be contained within the budget allocation as it was. So that was our fallback position, and this report contains at the back a number of - this was the presentation - graphs which show the cash flow for various of those options, and this is the chart which shows the expenditure on Lime Grove and refurbishment of the existing premises and then you stop. This red band here says where you stop for as long as it is necessary, until you believe that the market for the sale of South Hill is appropriate and you are getting good value, and then you can start again and finish the project.

The Deputy of St. Peter:

Mr. Flowers, all this information is on the files that you sent to Treasury?

Director, Jersey Property Holdings:

Yes, and that is ...

Deputy Chief Executive Officer, Treasury and Resources Department:

All the facts that you will get.

Director, Jersey Property Holdings:

That is followed by ...

The Assistant Minister for Treasury and Resources:

You will have seen this already anyway, Sarah, last year.

Director, Jersey Property Holdings:

That was followed by the report dated the 18th, which also included at the end the analysis for the risk workshop showing the high-level risks and it also included the graphs of the different cash flow options, which I cannot find, but they are on the file for you. So we then had a meeting, or there was the meeting on the 19th, and I was initially invited to that meeting and I was then told by David Walcup by telephone that the meeting had been cancelled.

Deputy D.J. De Sousa:

Was that 19th November?

Director, Jersey Property Holdings:

That is 19th November. Excuse me a moment, I think I have filed my notes somewhere. Oh no, that is fine. At the meeting, I subsequently requested an update from the meeting ... basically asked where were we going with this, what was happening now, and I received an email from John Richardson saying - this was dated 19th November - that: "It was apparent that the Director of J.P.H. and the Assistant Director were potentially conflicted" and it issued a formal instruction: "That no one in J.P.H. was to have any further correspondence or communication with the vendor, his agents or anyone in connection with the Lime Grove property." I did inquire as to why it was thought that we were conflicted. The only explanation was that as we had put in a previous bid that it would be difficult for us to go back and change that bid, which I found very surprising, because that is what happens in property all the time. I mean, we deal with a huge number of situations where we put a ministerial decision to the Minister or the Assistant Minister and he does not like the price. It happens all the time. Then what we do is we say: "Well, what do you think

is appropriate?" and he says: "Well, I think you ought to go back and try and get some more" or whatever it is, and we do negotiate. So a headline figure is not always the figure that the transaction ends up at. On 21st November 2010, I wrote to the Deputy C.E.O. cautioning him against reopening negotiations with the vendors of Lime Grove House. I will quote from that: "I am not aware that the vendors are in a fire sale situation." They were certainly not in a fire sale situation, because their building, which is shell and core, is not depreciating.

[11:15]

Shell and core does not depreciate, because it does not have all the air-conditioning, it is not in use, there is minimal depreciation. It is not attracting any property taxes. There is no inheritance tax, so one of owners, who is quite elderly, could just pass it on to his estate without any cost. So he is sitting on a valuable property and he has proved - or the company, Drumcoille, have proved - that they were quite happy to negotiate quite hard on this building and they were not just going to let it go for nothing. So I was concerned: "I am not aware they are in a fire sale situation, and attempting to reopen negotiations at this stage could lead to the deal falling away, with the consequential alternative option costs being significantly higher than that which might reasonably be saved through further negotiation." So there was a limit to how much you could take off the price of that building, bearing in mind it was already below the average of the valuations, and we had already taken off more than we should have for the Cat A fit-out: "We continue to provide information to the Deputy C.E.O., who is taking over the negotiations regarding this project in December 2010 in order to assist in the resolution of any outstanding concerns. I am aware that the Managing Director of W.E.B. Stephen Izatt met with the police in December and expressed the view that Lime Grove House was not large enough to meet their office requirements and that J.P.H.'s calculations were flawed." This subsequently proved to be incorrect, because basically over the next few months, the Project Director was able to squeeze more people into Lime Grove House and reduce the amount of space, new build, that was required, and we were assisting him in that process. What I think needs to be said at this stage is that when ... I mean, hindsight is a wonderful thing, and if we could have jumped to the tighter space allocation right at the beginning it would have been great, but we could not, because the police were starting from a position where they all wanted cellular offices, and they wanted something which was 30 per cent bigger than we had arrived at. So to then try and squeeze it down any further at that stage would have not been practical. So on 14th December, the Deputy C.E.O. met with myself and raised a number of concerns regarding the performance of J.P.H. on the Lime Grove acquisition, and I produced a response on the 15th, which set out what I believed to be the answers to these questions. Again, he was concerned about the valuation and the fact that he felt that we put in a formal offer for the building without appropriate authorisation, which I do not think is correct, because I took advice from my Finance Director, Ray Foster, who is very experienced, in Treasury and said: "No, there is no financial direction, and even so we had, according to our files, kept everybody informed that needed to be informed." The Deputy C.E.O then documented his concerns with the business case in a report to the Chief Minister, the Minister for Treasury and Resources and Home Affairs dated 12th January. That briefing note was not shared with J.P.H. to verify the accuracy of its content before being issued. I subsequently produced a response, a management commentary to that report, which is included in the files that you will receive. A copy of this report was provided ... I did not even get a copy of the report at the time. A copy was provided to me by the Deputy Chief of Police later in January, so I was not aware that it existed.

Deputy D.J. De Sousa:

Is this at the stage when there was a change of Assistant Minister?

Director, Jersey Property Holdings:

It was, yes. It was at that stage that John Le Fondré left and that Constable Refault became the Assistant Minister.

Deputy D.J. De Sousa:

So is that where your dealings then ceased with the transaction?

Director, Jersey Property Holdings:

Yes, effectively my direct dealings ceased, but I do have some notes regarding the reports that were produced, because there was a subsequent report produced by Hugh McGarel-Groves under direction from John Richardson - it has been referred to, I believe, in the Scrutiny hearings - and basically there were a huge number of inaccuracies in that report. Mr. McGarel-Groves is not qualified in property matters, and he was being asked to give his opinion on property matters, and certainly his opinions on valuation et cetera were wrong, and also I believe he went too far in his opinions, to the extent that he was impugning the professional reputation of the team that were involved, including BNP Paribas and Buckley & Co. et cetera.

The Assistant Minister for Treasury and Resources:

Can I interject just for a second? I have not read the Hugh McGarel-Groves' report. Do you have a copy of that?

Deputy S.C. Ferguson:

Yes, one moment. Do not let us ... one of the problems we have is that if the flow of the discussion is interrupted, because if Mr. Flowers can finish ...

Director, Jersey Property Holdings:

Yes, I am nearly finished.

Deputy S.C. Ferguson:

.. and then we can ... because we have some very important questions to ask, in fact.

Director, Jersey Property Holdings:

I was very concerned about the report, to the extent that I referred it to the Comptroller and Auditor-General, and I believe that Mark Grant has also referred the report to the Comptroller and Auditor-General, because the report had been circulated, albeit to a limited audience, but the remarks in it were offensive. Later a further report was produced which was described as the final report, which withdrew all of those allegations, but my concern is that the reputational damage had already been done by the limited circulation of the report. It was certainly something which was bouncing around the property market fairly quickly.

Deputy D.J. De Sousa:

Are you aware of who got a copy of that draft report?

Director, Jersey Property Holdings:

Yes, I am. So I think at that stage, I will stop, except to say that later in the year, in April, I became ... well, first of all in November, at the time that the change of negotiating team took place, I warned about the possibility of the building being lost. Again, in April I received information from the market that State Street had not concluded their transaction for the Swanson building and that they wanted to open negotiations with the vendors of Lime Grove. I wrote a letter to the Deputy C.E.O. warning him that this was happening, and suggesting that it was not appropriate to

try and then reduce the price if the vendor had an alternative offer which was possible.

Deputy D.J. De Sousa:

Deputy C.E.O. Are you ...?

Director, Jersey Property Holdings:

It is John Richardson.

Deputy D.J. De Sousa:

The Acting ...

Director, Jersey Property Holdings:

The Acting C.E.O.

Deputy D.J. De Sousa:

Sorry, it is just that we now term Mr. Mick Heald as the Deputy.

Deputy S.C. Ferguson:

No, he is the Assistant.

Director, Jersey Property Holdings:

Assistant.

Deputy D.J. De Sousa:

It is confusing for me, so I am sure it is for everyone else.

Director, Jersey Property Holdings:

These letters that I sent are relevant. There is one further issue which does need to be aired, because I am sure it will be, and that is that in April time, there was some question as to whether or not the transaction had been agreed in detail on the defects and power supply. Well, it had not, because we had not done detailed heads of terms, and it was from my perspective in April time - it was a year since the original offer had been put forward, State Street were coming back into the frame - I was aware that the Minister was adamant that he would not pay the valuation price and wanted to reduce it, and I was aware that the vendor's agents were being quite tough on the defects, saying they would not negotiate on that. So from my perspective, without any ability for direct control, it looked like I was watching a train crash in slow motion, because there was nothing I could do about it, but you could see that if you go back to the vendors a year after you have put something on the table and you then try and chip £500,000 off the price and you have the issues about the snagging, although the vendors were adamant that they were *de minimis*, then they are going to go away. They are going to go to another purchaser or lease situation. So again, I warned of the consequences at that stage, and certainly the information I received about State Street was quite sound. They did not really have anywhere else to go. So if you want to ask any questions, I have got the files, I have got the documents.

Deputy D.J. De Sousa:

I just think we need to know now where Connétable Refault came in, so if you would like to now tell us your chronology of how you became involved and where you are.

The Assistant Minister for Treasury and Resources:

Well, certainly I think before we start, it might be useful if you did give a full copy of your notes to the Scrutiny Panel. There is an awful lot for you to try and absorb in an hour and a half of verbal delivery, so if you could do that, I would be most

appreciative. Where I came into this, clearly the issues had already been flagged up. There were a number of issues that were running. They had raised significant concerns about the project in itself, and simply - if I can just go back a little bit - there was an email that was circulated within J.P.H. on 1st July 2010, where it says: "I am concerned that ... is contemplating buying Lime Grove without a Cat A fit-out and bylaw permit. Is this allowed in the Finance Law States legislation?"

Deputy D.J. De Sousa:

Who is that from?

Deputy Chief Executive Officer, Treasury and Resources Department:

I think it is better not to involve the individuals. You have a copy of it. I would rather not name the individuals in public.

The Assistant Minister for Treasury and Resources:

In a public hearing. I would rather ... I can give you this copy. You should have it in your ...

Deputy D.J. De Sousa:

Is that a member of the team?

The Assistant Minister for Treasury and Resources:

Yes, it is.

Deputy D.J. De Sousa:

All right, okay.

The Assistant Minister for Treasury and Resources:

His name has been mentioned earlier by David, so you have his name, but I would rather not bring it up within this context, but you have got it already anyway in your bundle: "I cannot see the benefit of this, and it introduces huge risks. The cost of a Cat fit-out was not included in the cost of estimates for good reason. The wheeler dealer attitude is unsettling. As you know, I like a measured and structured approach." To give you a clue which one, this is the 1st July 2011 timeline, 11.31, so you can find it within your bundle. I think moving on to this here, which is when I was involved, again this is another internal email on 12th April, again the timeline to help you in your bundle, 22.01: "Mark, you have consistently represented the Lime Grove deal to Ray and myself as £8.75 million, a completed shell and core with no outstanding defects and power supply suitable for the building for normal office use. We have based our business case costs on that premise." I am just jumping through the email to the main points, and moving forward: "It appears that the only acceptable deal for both sides would involve rolling in the Cat A works with the snagging and power supply upgrade and the vendors providing a building to Cat A standard, although this would result in a higher headline figure, even £9.25 million."

The Deputy of St. Peter:

Constable, could you just slow down a little bit, because it will be hard for the ...

The Assistant Minister for Treasury and Resources:

Oh, sorry.

Deputy D.J. De Sousa:

Yes, for the transcriber.

The Deputy of St. Peter:

Bearing in mind this has to be transcribed and it has to be clear.

The Assistant Minister for Treasury and Resources:

Have you caught up?

Deputy S.C. Ferguson:

They do not speak English when they transcribe.

The Assistant Minister for Treasury and Resources:

“Although this would result in a higher headline figure, even £9.25 million. All in all, very messy and totally unsatisfactory.” I would just say in defence, this was a senior member of the Property Holdings’ team who was raising concerns at this time, and quite rightly so. If I can just quickly add as we go through that J.P.H. have done a significant amount of work through the period of time from the very start, as David has alluded in his report. They have worked very, very hard in trying to pull a number of threads together, but it did seem towards the end that - as from those notes I have just given you - things were not ... it almost appears that a single option had to be delivered rather than continuing to look at other options at the same time. That is the way it appeared. There were some issues which, to give you the best evidence there I would ask John to give you on the financial situation and the alternatives, which raises concerns back at the beginning of the year.

[11:30]

Deputy D.J. De Sousa:

I think we already had that yesterday, did we not?

Deputy Chief Executive Officer, Treasury and Resources Department:

There is a point I will raise later in clarification, because there is a slight difference in the interpretation between what David said and what I suggest. I will clarify for you.

Deputy D.J. De Sousa:

But we will have the transcript and you will have a chance to view the accuracy of that.

The Deputy of St. Peter:

It is very important for you ... my view as a Panel member, if I may, just for the moment, all right, we have got Mr. Flowers and the Constable here. The opportunity will always be had to come back if we need to come back on the evidence that we have been given, and we will come back to the Treasury as and when we need to - and this is my view; I know it is the view of the Chair - we cannot keep having this flow between one side and the other side if we proceed it that way. We need to get the evidence from one side to then make a balanced judgment against the other side, and I am sure that Mr. Richardson will have the opportunity to clarify any points that he may need to.

The Assistant Minister for Treasury and Resources:

Can I ask a question? Is this new information you wish to deliver?

Deputy Chief Executive Officer, Treasury and Resources Department:

This is information which is if it is not explained, I think it will be extremely difficult for the Panel to understand ...

Deputy S.C. Ferguson:

I think ...

Deputy Chief Executive Officer, Treasury and Resources Department:

... a significant difference between what David said. There is no difference, but I think you need to understand the difference.

Deputy D.J. De Sousa:

The only thing is did you make the point yesterday?

Deputy S.C. Ferguson:

We would like to finish going through the files before we come back on that, and to read the transcripts.

Deputy D.J. De Sousa:

We will not have your transcripts until tomorrow. Sorry, it will be Monday now, will it not?

Deputy S.C. Ferguson:

Yes.

Deputy D.J. De Sousa:

Yes, Monday, so we will look at the transcripts if this is something that has been repeated. If you have not made it, then it is fine.

Deputy Chief Executive Officer, Treasury and Resources Department:

It is something you will not even pick up. It is very simple and it does not conflict what David has said this morning, but you just need to understand it. The only difference is that David commented, quite rightly, that during my concerns that I raised about the value that could be obtained for South Hill, he used a figure of 50 per cent. Now, I was the one who said: "If you were to get 50 per cent cash up front and you got the remainder in terms of profit share or whatever you may take, what impact would that have on the cash flows?" David is absolutely right, so I am not disagreeing with what he is saying, but you just need to understand the context in which he then undertook the alternative cash flows which you will get in that pack, which showed a reduced initial cash flow, significantly, but then in terms of being able to fund the remainder of the projects ...

Deputy S.C. Ferguson:

Yes, I have in fact seen the emails on that. I think the figure used was 60 per cent in the emails, and once my colleagues have had a chance to read it, then we have got it in the information. I appreciate that there was a lot of work went into preparing these files, but in fact it would have been obviously helpful to have had them before now, but that is life. Now, I do not know whether ... I am sorry, had you finished, Constable?

The Assistant Minister for Treasury and Resources:

Thank you, Chairman. Really, the only other thing, again just another timeline issue I think it might be useful for you to reflect on within your bundle is on 6th April this year at 11.04. It is the bottom line comment on again an email between officers - where David did mention earlier on within his talk to you - and it said: "Finally, I would counsel against reducing headline price ..." This is what David said, but it goes on to say: "... by accepting responsibility for completing the snagging and defects in the building, as this would expose the public to any inherent defects liability which on the current set of terms would remain with the vendor." So I just wanted to put that in context with you, because that might ... with regard to where my involvement is, clearly the C.E.O., we know where we are to that point there. I had a very short

briefing from John and his C.E.O. on his concerns at that time. David also being new to the department gave me a very short briefing on a number of aspects, which included Lime Grove. Coming in, I wanted to know exactly what was politically sensitive and what was publicly sensitive issues and we spent some time going out looking at sites which were sensitive and also spoke at length about Lime Grove as well up that point, which I thanked him for doing that at that time. I do not really want to open new ground, but there were some sensibilities, and I am just going back to the item why was Property Holdings taken out, as they were deemed to be in conflict at this point, and one of the principal officers - and I am not talking of David here - there was a concern about his operations at that time, which have been subsequently dealt with.

Deputy S.C. Ferguson:

I think that takes us very neatly, if you will excuse me, on to the draft statement of the Minister for Treasury and Resources yesterday, which he has put into the public domain, where he expressed a number of concerns about the way Property Holdings was conducting itself. I would ask Mr. Flowers, under this there was - according to this - a lack of clarity in the communications, in that the Minister had not been told about the offer of £8.75 million and what was included within it. I do not know, have you got a copy of ...?

Director, Jersey Property Holdings:

I have, yes. I have read all of these.

Deputy S.C. Ferguson:

Yes, I think if we ... these concerns were raised by the Minister yesterday in public forum, and I think ...

The Assistant Minister for Treasury and Resources:

Chairman, if I may, just for a moment, as a matter of good order, you have just mentioned earlier on whether the C.E.O., he can raise comments on things that you have already got. You have that, so would it not be appropriate to fire that same argument now?

Deputy D.J. De Sousa:

That is what she is doing.

Deputy S.C. Ferguson:

Yes, I am doing. I am going ...

Deputy D.J. De Sousa:

The Senator ...

The Assistant Minister for Treasury and Resources:

No, when the draft has been done.

Deputy D.J. De Sousa:

No, it is not re-going over it. What we are doing is - and I would have thought you would have been pleased with it - addressing the issues that your Minister raised yesterday and we are asking Mr. Flowers to address the issues that were raised. So your Minister has told us what his problems are, so we are asking questions.

The Assistant Minister for Treasury and Resources:

I understand that, but this is not really a cross-examination hearing. This is about collecting evidence, and what you are saying ...

Deputy D.J. De Sousa:

That is what we are doing. We are not cross-examining.

Director, Jersey Property Holdings:

There is one standard to apply here.

Deputy S.C. Ferguson:

Well, there is, and we did not ask about these sort of peripheral matters yesterday, that were things that affected policy. We were given a statement by the Minister which makes a number of allegations, and I think that in the interests of equity we need to know the answers to these allegations, because they are very serious, and we will not cross-examine, we will question on them, because these affect the policy of pursuing the office strategy, which is what we are here for. We are here to understand what happened to the policy, in that the deal fell through.

The Assistant Minister for Treasury and Resources:

Fine, Chairman. I accept your position.

Deputy S.C. Ferguson:

This is why we asked Mr. Flowers to come to a formally convened hearing, and you yourself, Connétable, said that you would be accompanying Mr. Flowers, and then I think last night, was it, or this morning we were informed that Mr. Richardson was coming as well.

Deputy Chief Executive Officer, Treasury and Resources Department:

No, sorry, Chairman, that is incorrect.

Deputy S.C. Ferguson:

I am just ...

Deputy Chief Executive Officer, Treasury and Resources Department:

I advised your Scrutiny Officer that I would be attending all matters with all officers.

Deputy S.C. Ferguson:

Okay, that is fine, and we said: "Fine."

Deputy D.J. De Sousa:

Yes, we did.

Deputy S.C. Ferguson:

Yes, but our intention is to hear the evidence from Mr. Flowers. We have heard about your involvement, Connétable. Now we need to address these serious allegations made about the lack of performance by Property Holdings, the lack of communication with the Deputy Chief Executive and the Minister and the various other things that are listed in the annex. We have got: "Lack of progress of performance in pursuing the policies; lack of clarity over total project costs and funding; action taken to approve responsibility for the project." These are all on public record. In fact, they were on record at 2.30 p.m. yesterday afternoon, I understand.

Deputy D.J. De Sousa:

Before we even went through them. It is just addressing and making sure that all the evidence is fined up. That is it.

The Assistant Minister for Treasury and Resources:

I fully understand your position and what you are saying, but I must just ... and I accept your view and we will move on. All I will say at this moment is that I feel there is not quite a sense of equity here, in that you are saying on the one hand, the Chief Executive can only respond when he has seen the transcript of the notes that has been given and now you are offering somebody else a different alternative here today.

Deputy D.J. De Sousa:

No, no, no. You misunderstand.

The Assistant Minister for Treasury and Resources:

Well, if I can, just to move on, if the Minister is allowed to comment on the responses given by Mr. Flowers this morning, then I believe that would be equitable.

Deputy D.J. De Sousa:

Absolutely. It will all be transcribed and up on the internet.

Deputy S.C. Ferguson:

We do not want a tit for tat situation.

The Assistant Minister for Treasury and Resources:

No, absolutely not. So you are happy that there be another opportunity for the Minister to respond to these in the hearing?

The Deputy of St. Peter:

That is already in hand.

Deputy D.J. De Sousa:

Yes, absolutely.

The Deputy of St. Peter:

There is an email already gone out inviting the Minister, which we believe he is expected to do.

Deputy D.J. De Sousa:

We treat everybody the same.

The Deputy of St. Peter:

Because it is a balanced view here, and the view that I take, the purpose as I see of Scrutiny - and I do not wish to teach people to suck eggs - but you get information, you get evidence, and the role of Scrutiny is to test that evidence.

Deputy D.J. De Sousa:

In questions.

The Deputy of St. Peter:

Now, what we are doing, we are testing or hoping to test that evidence with Mr. Flowers against the evidence that was produced yesterday.

The Assistant Minister for Treasury and Resources:

Okay, fine.

Senator S.C. Ferguson:

We have already sent an email to invite the Minister for Treasury to return next week.

The Assistant Minister for Treasury and Resources:

If I had of known that, Chairman, I would not have raised my concern. Thank you very much for that clarity.

Deputy D.J. De Sousa:

Just to clear up, I was not saying that the Acting C.E.O. could not respond. What I was saying was if it was something that was discussed yesterday and brought into the open, we will look at it with the transcripts and then they will be able to verify it as well, so if it is not clear, he will be able to tell us.

The Assistant Minister for Treasury and Resources:

Excellent, thank you.

Deputy D.J. De Sousa:

It is just as you said, time is getting on.

The Assistant Minister for Treasury and Resources:

Chairman, if I just may continue with my involvement, I know you want to come on to your piece there. Certainly where I had got to, I raised a concern why it was deemed that J.P.H. were conflicted, and that was because there was an issue with a member of the team at that time which had been flagged up, and therefore it was deemed that it might be better overall to look at a different negotiating team to take this forward, because of existing concerns and what we deemed to be problems.

Senator S.C. Ferguson:

So it was your decision to remove the whole thing from Property Holdings?

The Assistant Minister for Treasury and Resources:

In a sense, yes, it was.

Senator S.C. Ferguson:

It was your recommendation?

The Assistant Minister for Treasury and Resources:

It was a joint ... it was a consultation and agreement among officers within the Treasury and the C.E.O.

The Deputy of St. Peter:

On what grounds was that decision made?

The Assistant Minister for Treasury and Resources:

Because of our concerns, as I have already stated, about a member of the senior team and his involvement.

The Deputy of St. Peter:

What were those concerns?

The Assistant Minister for Treasury and Resources:

Is this confidential?

Deputy Chief Executive Officer, Treasury and Resources Department:

No, it was said yesterday. You know the concerns, they were raised yesterday, that a senior member of the team had been entertained by the manager's agent to an expensive lunch. It was inappropriate behaviour and that is one of the reasons he

was taken off the project, and if I may add, the Comptroller and Auditor-General and I had met on the matter; he and I discussed it. He produced a report, which I commented on, and he is satisfied with the outcomes and the actions I took. I can provide ...

Senator S.C. Ferguson:

All right. You will have no worries if we ask the Auditor-General for a copy of that report?

Deputy Chief Executive Officer, Treasury and Resources Department:

I will send it to you.

Senator S.C. Ferguson:

Thank you.

Deputy Chief Executive Officer, Treasury and Resources Department:

It is not in the bundle, but it is my own internal correspondence, so I will send you a copy of that.

The Assistant Minister for Treasury and Resources:

I think it is fair to say, yes, this is important, but nevertheless ... to the acquisition of Lime Grove, but it was the instrument that caused the change from J.P.H. being involved to a second team being set up.

Deputy D.J. De Sousa:

We have to be careful here, because as Scrutiny, if there is any kind of internal dealings with employment, that Scrutiny is not involved in that. That is not what Scrutiny is about.

The Assistant Minister for Treasury and Resources:

That was my concern, why I asked the Acting Chief Officer if there was a confidential element to it, because this is potentially an H.R. (human resources) type issue, and I did not really want to expose that.

Senator S.C. Ferguson:

However, these issues were raised in public yesterday ...

The Assistant Minister for Treasury and Resources:

That is fine, yes.

Senator S.C. Ferguson:

... and I think these issues should be ... so if we are all ...

The Assistant Minister for Treasury and Resources:

Sorry, can I just finish off my little piece? But as a result of that, I recommended for consideration the employment or the engagement of a commercial ... a professional property negotiator to act on behalf of the States in the renegotiation of the terms. We sought and found a professional negotiator who had not been conflicted in any way with the landlord, the vendors, or had worked on any other matters with that particular vendor. It was slightly difficult; there were a number of prominent local negotiators, several of which were conflicted.

[11:45]

Senator S.C. Ferguson:

Yes, but excuse me, that was ... we are talking about a change in November, but as I understand it, your negotiator was not employed until end of March/April.

The Assistant Minister for Treasury and Resources:

Yes, you are right.

Senator S.C. Ferguson:

So why the delay?

The Assistant Minister for Treasury and Resources:

I can only tell you from when I become involved. It has been a long process; it has been a very long process overall. The delay, I think, was probably ... no, that is really supposition, I cannot give you that as hard evidence. It would be wrong.

Deputy Chief Executive Officer, Treasury and Resources Department:

The delay was because if you recall the dates that have been mentioned, Mick Heald was appointed - and we covered this yesterday - in early January. Mick Heald then undertook the gap analysis between the business case as presented in October and the gap analysis with J.P.H.'s senior staff, and it was then once we got that gap analysis completed and we were comfortable with the business case, it could move forward. It was at that time that the negotiator was appointed.

Deputy D.J. De Sousa:

So it took about 4 months to do a gap analysis?

Deputy Chief Executive Officer, Treasury and Resources Department:

About 3, because it was January Mick Heald was appointed, and I think it was the end of March, early April that the negotiator was appointed.

Senator S.C. Ferguson:

Okay. Well, let us get back to what we are really asking about. The department was accused of lack of performance, lack of communication with the Ministers and the ministerial team and inappropriate behaviour in the way it conducts itself. Mr. Flowers?

Director, Jersey Property Holdings:

All right. If we look at the allegations of poor communication, firstly, my line of political contact is with Deputy Le Fondré - or was with Deputy Le Fondré - and it was made quite clear to me by the Acting C.E.O. that he would be the conduit for any information to the Minister for Treasury, and that I was not to communicate with the Minister for Treasury, and on a couple of occasions when I did, there was quite a strong pushback. So I only communicated with Senator Ozouf when I was asked to directly by him. Now, I have referred in my summary to various briefing meetings with Senator Ozouf, one of which was on 5th May, and basically Ray Foster, who is my Finance Director, he sent an email to ... he circulated an email, a draft of a memo to Senator Ozouf, which we all contributed to, and then it was sent on 12th May: "This note is to provide you an update of the following issues raised at the meeting on 5th May." It says: "Valuation of Lime Grove offices. J.P.H. has had access to a valuation of the building undertaken for the current owner. BNP Paribas now has been instructed to provide an independent valuation which is expected on Friday, 14th May. An extension has been sought to a period of exclusivity with the owners. We are awaiting a response." The Minister was made quite aware on 5th May that we had obtained an exclusivity period and we were going for an extension, so I do not understand why the Minister ...

Senator S.C. Ferguson:

The Minister maintains ...

The Deputy of St. Peter:

Chairman, can I just ask one point?

Senator S.C. Ferguson:

Yes.

The Deputy of St. Peter:

It may be where you are going, I am not sure of the question, but the question I would ask, yesterday in the evidence given by the Minister, he indicated that he suggests that he was totally unaware of the offer that had been made, the figure of £8.75 million, until 30th October 2010, and he reiterated that several times.

Senator S.C. Ferguson:

He was totally unaware that a formal ... you know, a conditional letter had been issued.

Director, Jersey Property Holdings:

All right. Well, I have got an email here that was sent to me on 3rd June ... it was not sent to me, it was sent to Ray Foster, but I was copied in and so was Deputy Le Fondré and Mark Grant and others, and Jason Turner, who is the Assistant Treasurer, who was at the meeting on 5th May, and: "Can I please have an update on this by 5.00 p.m. on Monday?" "This" is the reference to the previous update on 13th May, so he was asking ... we had sent him an update on 13th May - but dated 12th May, the report - and on 3rd June, he asked for an update by 5.00 p.m. and that is what we provided him with, and if I can refer to that ...

Senator S.C. Ferguson:

But had he been specifically told that a letter had gone to Buckleys?

Director, Jersey Property Holdings:

Yes. Well, that is how ... I do not understand why he says that he does not ... he did not appreciate that, because we are referring in the briefing note on 12th May to extending the exclusivity period, so how were we supposed to have obtained an exclusivity period without putting an offer in writing? It is just not possible. If you do it any other way, if you do it verbally, I have explained the risks of that, which are you are open to claims for damages if it falls away through proprietary estoppel. So if I can just go on to 4th June, this was a note which was prepared by Ray Foster and it was sent out in my name. It was sent to the Minister for Treasury and Resources and Deputy Le Fondré. First item: "Valuation completed by BNP Paribas [as we said we were going to obtain] on R.I.C.S. (Royal Institution of Chartered Surveyors) Red Book basis valued at £8.8. million for shell and core only. J.P.H. will undertake full fit-out. Costs prepared on a cost per square metre basis. Snagging report expected next week. This will influence J.P.H. current offer of £8.75 million subject to contract and approvals."

The Deputy of St. Peter:

So that figure was physically mentioned in June?

Director, Jersey Property Holdings:

4th June.

The Deputy of St. Peter:

4th June.

Director, Jersey Property Holdings:

In this document, there is a breakdown of the funding cash flow and: "J.P.H. meeting with Deputy Treasurer on 15th June to discuss options for bridging finance." Remember I said that it started off as a standalone project and the various options that were mentioned in this document are: "Presale of the ambulance station site; lease on Lime Grove with an option to purchase; could link a land swap for ambulance station and make wait payment; acceleration of approved property disposals, J.C.G. (Jersey College for Girls), South Hill, others to provide funds in 2011 with repayment from the ambulance station." I mean, all of this is all there, all in front of the Minister and the Assistant Minister. I do not understand why the view was taken in October that this was all a surprise. We certainly do not spend our time pursuing projects which are going to come to nothing.

The Deputy of St. Peter:

Can I just move, if I may, for a second across to Constable Refault? Constable Refault, were you aware of what has just been said?

The Assistant Minister for Treasury and Resources:

When I became Assistant Minister in January of this year, yes, but not before that.

The Deputy of St. Peter:

So how do you equate that with your Minister's comment yesterday, which was made in the public arena, that he was totally unaware of the figure in October ...?

The Assistant Minister for Treasury and Resources:

I cannot comment on that, because I was not there at the time. I was not aware of that figure until January this year.

Director, Jersey Property Holdings:

I mean, you can see from the size of these files there were numerous reports.

The Assistant Minister for Treasury and Resources:

Sorry, I made an error. I was part of a P.A.C. (Public Accounts Committee) briefing in the Willow Room at the end of last year - I believe the report says you had a similar briefing - and the figures may have been contained in there, in direct answer to Deputy Egré's question. I do not recall the figures, because I was there at a very high level PowerPoint presentation. You will recall it was the same presentation given to both the P.A.C. and Corporate Services.

Director, Jersey Property Holdings:

The figures are in here.

The Assistant Minister for Treasury and Resources:

Though I must admit ...

Deputy S.C. Ferguson:

So that was following the office strategy?

The Assistant Minister for Treasury and Resources:

Yes.

The Deputy of St. Peter:

The reason for the question, Constable Refault, is that the Minister alluded yesterday that he always kept a running brief between himself and his Assistant Minister and there was a continuous running communication there. I am concerned that yesterday, he was quite clear in indicating that he said he did not have any knowledge of the figure of £8.75 million until 30th October, and I just wondered whether there been any briefing between you and he to that effect.

The Assistant Minister for Treasury and Resources:

Not prior to my engagement as Assistant Minister for Treasury in January of this year. I think the main difference he may well be referring to is he is not aware of any formal offer, rather than a sort of in principle offer, but that really is supposition. I just offer that to you as a different sort of ...

Director, Jersey Property Holdings:

Can I just come back on the question of the nature of the offer? It was a conditional offer. It could have been withdrawn and my view was that if there were any concerns within the first exclusivity period, we would have withdrawn the offer, but there were no concerns expressed by the Assistant Minister, the Minister or the Deputy C.E.O. So we had assumed that we had support for the bid. We had not negotiated final heads of terms. The final heads of terms would have been a detailed document which would have dealt with all of the discoveries after full surveys et cetera. We could not go to that stage without having the authority of the Minister and the ...

Deputy D.J. De Sousa:

Therefore the States ...

Director, Jersey Property Holdings:

Yes, and eventually the Minister did issue a ministerial decision which gave the Deputy C.E.O. a mandate to negotiate for Lime Grove up to £8.75 million. That is my understanding and that is the position that we were trying to get to. I do not know exactly when that ministerial decision was given. I do know that the offer which we had made was withdrawn in April so in terms of couching it as being some form of binding commitment, it was not. The only thing which is a problem with the bid is that the time delay from making that bid to either withdrawing it or confirming it. I mean, I will draw the analogy; if you bid for somebody's house and you had made them a conditional offer and then they had taken it off the market and possibly turned down other prospective purchasers, they are not going to be very happy if you come back 6 months later and say: "I have decided I want to take £500,000 off my offer proportionately." That is the issue. But if you want to go through the Senator's concerns one by one I am quite happy to answer them.

Senator S.C. Ferguson:

Well, they were on the communication and ...

Director, Jersey Property Holdings:

The manner in which we conducted ourselves?

Senator S.C. Ferguson:

Partly, that was one of them certainly.

Director, Jersey Property Holdings:

Yes, when the ...

Senator S.C. Ferguson:

A lot of play was made ...

The Deputy of St. Peter:

We received a copy of this yesterday. Did you get a copy via the internet?

Director, Jersey Property Holdings:

No, I understood it was in the public domain on the website so I had a look at it and I printed it off somewhere.

The Deputy of St. Peter:

So, you do have a copy; that is the point I am trying to make.

Director, Jersey Property Holdings:

Possibly have a copy somewhere on the table.

Deputy D.J. De Sousa:

Do you want to borrow mine?

The Assistant Minister for Treasury and Resources:

Yes, you have 3 at the moment.

Senator S.C. Ferguson:

During the hearing yesterday, as I say, the comments were the performance of Jersey Property Holdings generally and the inconsistency ...

Director, Jersey Property Holdings:

Which page would you like to go to?

Senator S.C. Ferguson:

If you go to page 18.

Deputy D.J. De Sousa:

Page 18 onwards, which is the annex.

Senator S.C. Ferguson:

The annex specifies his particular concerns. As I say, there was a comment taken at great length during the hearings yesterday about the inappropriate behaviour.

Deputy D.J. De Sousa:

We also had an email read out.

Director, Jersey Property Holdings:

Yes, there was an email on file from the vendor's agents referring to a lunch which one of my officers had attended. I was not aware he had attended that because I do not search through the files. We do have a gifts and hospitality policy and there is a register and one of my officers keeps that register. I questioned that officer about this particular meal and I understand that it was a set lunch for £17.50 which I did not think was unreasonable. I thought that it was probably a bit misguided but that lunch took place in June with somebody from Buckley & Co. Buckley & Co are on a panel of our agents that we use. I do not think it is unreasonable to meet for lunch, particularly as these agents that are on our panel are an extended team of Property Holdings.

[12:00]

We have tried to outsource what we do into the market to aid in flexibility and to get the professional expertise in, so we have a panel of 5 different agents. Those agents sometimes are themselves conflicted on particular projects so we can go to different agents. I discussed this matter with Buckleys and said I did not think it was particularly appropriate and their view was: "Well, look, we try to build a good working relationship with you and we do not have any illusions that any of your officers can be bought by a lunch because the processes of scrutiny and accountability in making any property transaction are way beyond the ability of any one individual to fix over a lunch. It is just not possible."

Senator S.C. Ferguson:

This was in June 2010.

Director, Jersey Property Holdings:

June 2010.

Senator S.C. Ferguson:

It was after the offer had been accepted.

Director, Jersey Property Holdings:

The bid had been accepted on 31st March.

The Deputy of St. Peter:

Within your experience, would you regard this as something which would cause the whole of the department to be removed from a negotiation?

Director, Jersey Property Holdings:

No, not at all. I think the property market works on a combination of trust and information and networking within the property market is extremely important because that is the way that you find out what other deals have gone on, what the prices are, what is coming into the market and it is fairly standard practice for people to meet for lunch and share what has happened. I am sure if you talk to any of the agents they will tell you that is what they are doing.

Senator S.C. Ferguson:

The other thing was that the Minister made great play yesterday, and I think I am right in quoting this because we do not have the transcripts, but he had grave issues about the performance of Jersey Property Holdings, both specifically and in general.

Director, Jersey Property Holdings:

Jersey Property Holdings has met its targets consistently and I produce a progress report each year. The only area where we have been behind and not performing, I believe as we should do, is in the disposal of properties and that is because we have great difficulty in persuading the States Assembly and the different ministries to let go of properties. In fact, you may recall a previous business plan debate late last year that there was a 3-quarters of an hour debate between 2 deputies in St. Martins over the sale of a postage stamp-size piece of grass between 2 properties; one was supporting one neighbour and one was supporting the other. When that was agreed that that postage stamp piece of land could be sold we then negotiated with the prospective purchaser and we had an independent valuation and the next thing we heard was that we were trying to extort excessive money from one of the parishioners because the price was deemed to be too high. So, I really do not know. If you are talking about a transaction of something in the order of £15,000 for a piece of land that would have increased the value of the purchaser's property considerably ... The only concern I have is that from February 2009 I have been consistently

trying to push an office strategy which has been going through numerous iterations. Here is a report dated 12th July 2010, one dated October 2010, the executive summary. We have 69 offices, 69 States offices in Jersey. It is quite ridiculous. The inefficiency of occupation is way below mainland standards, 10 years out of date. There are major opportunities to make savings and we have not been able to get support for this. It is always a sensitive thing when you are messing around with somebody's office because in some respects they get very attached to their space but this is something which the States has to grasp the nettle because the opportunities for savings are so great. As the early part of this report identifies offices at about 660,000 square feet are the second largest user of space in the States; the largest user being education buildings at 1.5 million square feet. So, we anticipate we can save a third of that area. So, if you are talking about performance that is the only area. Since I have been responsible for Property Holdings we have cut the base budget by £1.5 million over the first 3 years which was a 37 per cent cut in our budget. We prioritised our maintenance expenditure, we put in a new enterprise computer system to keep all the data so that we have one source of data for all the expenditure, the lease information et cetera. That has taken some time and some organisations that I am aware of still do not know what properties they have and without a proper database you cannot really move forward. The thing which concerns me about the comments that are being made is that I have not seen any evidence to support those allegations, so I am quite happy to deal with evidence because that is what I will provide. As I tell you now on the progress reports I am quite happy to give you that evidence.

Deputy D.J. De Sousa:

You said that in your time at Property Holdings you produced an annual report. Is that annual report automatically in the public domain?

Director, Jersey Property Holdings:

No, it is not, but I can make it available to you.

Senator S.C. Ferguson:

Thank you.

Deputy D.J. De Sousa:

Is it available to the ministerial team each time you do one?

Director, Jersey Property Holdings:

Yes, it is.

Deputy D.J. De Sousa:

Does it incorporate all the transactions and all the background information that you go through?

Director, Jersey Property Holdings:

All of the disposals and it goes into some detail. I will not go into specific projects, but there has been a huge amount of work which has been done over the last 3 or 4 years by the department.

The Deputy of St. Peter:

I am thinking back to where we are, the fact that we are dealing with Lime Grove and this particular exercise, and we were testing at the beginning part of the session the comments that were produced by the Minister and summarising it as best I can, the initial concern was that this offer was made without the Minister for Treasury and

Resources' knowledge. It appears from the information that you have given us, via your report, that the Minister may have been aware.

Director, Jersey Property Holdings:

The Minister was definitely aware after that the bid was made, the level of the bid, he was also, I believe, aware that we were going to make the bid because we informed him that we would negotiate a period of exclusivity and that was in February.

The Deputy of St. Peter:

Moving to the second point that was raised, the lack of clarity in Property Holdings dealing with Buckley & Co as the offer of £8.75 million and what was included within it. The comments were made that Property Holdings had agreed a price but not a whole deal. I think you have covered that within your notes as well.

Director, Jersey Property Holdings:

Well, I hope I have. Just trying to understand that you have a principal price and then when you go into greater detail and you agree final heads of terms that price may change. Buckley & Co are fully aware of that and so were the vendors.

Deputy D.J. De Sousa:

We know that because they did agree to the £8.25 million, we were told yesterday by Mr. Gothard. Terms were agreed in June and then the 15-day cooling off day period took us to the end of July and then the political process kicked in. So, we do know that they did negotiate and agree a different price and different terms and conditions as well.

Director, Jersey Property Holdings:

My view is that they would have negotiated quite hard on the defects because they knew we did not want to take them on board. It is no secret, property transactions are fairly straight forward. This is a report which I prepared on the valuations and provides all the supporting information.

Deputy D.J. De Sousa:

Obviously we will have to verify when we get the transcripts back, but we were told at length yesterday by the Minister for Treasury and Resources and his team and the Acting C.E.O. that we should not take valuations into account when purchasing because the States have a Triple A rating.

Director, Jersey Property Holdings:

That is only meaningful if you are then are in occupation and you then want to cash in on that by selling the property to an investment organisation and we produced a valuation. BNP looked at that because we asked them to. We wanted to see what the uplift in value would be if we were to do a sale and lease back. So, in other words buy our own covenant. But when you are going in to buy a property your covenant is not relevant. It is just not relevant if you are going to buy it; it is only when you want to sell it off and you are selling a guaranteed income stream. That is the value and when you look at State Street they ... well, you never know with the banks these days, but they are supposed to have a good covenant and so my expectation of the value of Lime Grove to the current owners Drumcoille, if they wanted to sell on the building with State Street as a sitting tenant would attract a yield of somewhere in the order of 6.25 to 6.75 which puts the value between £11 million and £12 million.

Senator S.C. Ferguson:

So, the value of the tenant, whether it is Triple A or B, in effect is affecting the discount rate which is effectively the yield?

Director, Jersey Property Holdings:

It can do. Yes, it is, it is the yield. Basically it is what you will get back for your money being locked into a building. It is equivalent to: "Well, I can either have it in the bank and get 2.5 per cent, or I can have it in this property and get 6.25 per cent."

Senator S.C. Ferguson:

So the yield is almost inversely proportional to the quality of the tenant?

Director, Jersey Property Holdings:

Yes, it is.

Senator S.C. Ferguson:

A bit like junk bonds and government ...

Director, Jersey Property Holdings:

Yes.

The Assistant Minister for Treasury and Resources:

If I may help just for a second, Senator. From what David has very clearly amplified there is that from Drumcoille's point of view to have a tenant in there now is of far greater value to them than to have sold it to the States in a matter of several millions of pounds.

Director, Jersey Property Holdings:

Yes.

The Assistant Minister for Treasury and Resources:

That is the nub.

The Deputy of St. Peter:

That is understood. If I can move on because I am conscious of time as well, yesterday we were handed 2 emails which are extracts from the green book but they were handed to us separately and it is also referred to in the Minister's annex. If I can just read ...

Director, Jersey Property Holdings:

Do you have the dates of the emails?

The Deputy of St. Peter:

The email is from David Flowers, sent on 12th April 2011. The time is 2201, to Ray Foster.

Director, Jersey Property Holdings:

Yes.

The Deputy of St. Peter:

The particular paragraph that has been looked at is the one that starts: "If the vendors take a view that ..."

Director, Jersey Property Holdings:

Yes. If I go to the very last phrase of that email which is: "All in all very messy and totally unsatisfactory." This is why I have described this at this time as standing looking at a train crash in slow motion.

[12:15]

If you have had a vendor who has been patiently waiting for a year and has let go of a potential tenant in States Street and you then try to negotiate on 2 fronts: one on the snagging and secondly you are trying to chip the headline price as well, it is a recipe for disaster. It is too far after the event and my intention of writing this email was that I was very concerned that we would lose Lime Grove and I was quite cross that this was happening but nothing I could do about it; I am divorced from the process. Even though I had never spoken to the vendors I was somehow being dragged into this conflicted category. So, I am sitting on the side lines and if you look at the penultimate paragraph I am saying: "What can be done about it in terms of negotiating to ensure that the States does not take on board the inherent defects liability but also settles on an acceptable price with the vendor?" So, I did some rough analysis in that paragraph which says that we had taken off the headline value, £1.7 million for a Cat A fit-out, and what the vendors are saying is: "Well, it is only going to cost £1.2 million to £1.3 million" and the figures stack up in that respect. So, the total cost of the project would not really alter if we absorbed the snagging but we do not want to do it. We want them to do it, we will pay for it. So, I was looking for a mechanism in this paragraph of how to do it. I was also warning Ray and Mark that if the deal fell over then this issue about snagging would be used as the excuse because there is no doubt, and I have been here 4 years now, that this is one of the biggest blame cultures that I have ever worked in and that there would be a witch hunt to find out: "Well, why did the deal fall over?" I am not saying this is the witch hunt, but what I am saying is that this would be latched upon as being the excuse. Well, that is not the reason. There are other far greater reasons. This is something that would have been negotiated out at the detailed heads of terms stage. The reason that we lost this deal is we took far too long, that there was not a recognition in the early stages when we put it that: "What is the problem with borrowing because we have assets that we know we are going to sell?" So, this sacred cow about not borrowing to get this project off the ground, all of that could have been dealt with back in February, March, April of 2010. The second thing is that if you alienate a vendor by withdrawing a bid that they have stayed with for over a year and then come back and say: "Well, look, we are going to knock £500,000 off" they are going to be desperately looked for somebody else to sell to because they know from all of the information that has been in the public arena about the benefits of the police project and the knock-on property benefits that would flow through. But on the other side of the table we stood to gain a huge amount of money but from their perspective there are 3 valuations that they are aware of and we are trying to knock £500,000 off.

The Deputy of St. Peter:

In your analysis of the end game one of the points that Mick Heald in his evidence yesterday said that although he was continuing negotiations I think the word was that things appeared to be going cold because he was not getting information back from the vendors.

Director, Jersey Property Holdings:

But that did not happen until July. We are looking from November to July before we are getting to grips with buying Lime Grove. To my mind, and to a number of people that I presented this to, and we did a lot of work as you know presenting to scrutiny, to P.A.C., to all the Ministers and Assistant Ministers before we put the business

case in, we had to, to get everybody's signoff. The comments were that this was a no-brainer. This was the right thing to do.

Deputy D.J. De Sousa:

What stage was all that going on?

Director, Jersey Property Holdings:

That was going on in July and August 2010 before the business case was presented in October. We did not want a situation where the Minister put a proposition to the States under Standing Order 168 and it was then called in. What we wanted to do was to get as many of the States Members familiar with the project, understanding the complexities of it and the potential benefits in order that it would not get called in but the Minister, I believe, was concerned that that was what might happen. I mean, my honest view on this is that I think the Minister has been badly advised by third parties as to value and that has given him some apprehension about bringing this proposition to the States on the price that we bid because quite rightly he has to justify it to the public, to the States Assembly, his decision to proceed with this expenditure and it is a large amount of money for the States of Jersey; there is no doubt. So, I understand his position but from the numbers that were floating around in October and the reaction there was an expectation, I believe, that this building could be bought for very little because it had been standing empty. I hope I have explained to you that a building standing empty with no outgoings is not a liability for the owners.

The Deputy of St. Peter:

I am conscious of the time. There is one point that I want to make absolutely clear. The concerns about performance from Property Holdings, particularly about this project, seem to stem around lack of communication. You have indicated along the lines you have presented within your notes to various people at various times, including the Minister, and equally you were answerable directly to an Assistant Minister who was in continuous contact with Senator Ozouf.

Director, Jersey Property Holdings:

That is correct.

The Deputy of St. Peter:

Another point I would wish to clarify, you mentioned earlier on in your evidence today that you were specifically instructed not to go directly to the Minister for Treasury and Resources.

Director, Jersey Property Holdings:

Yes. I think what Mr. Richardson felt more comfortable with was that he would deal with the communication with the Minister and that he felt that if there were 2 lines going through, one from myself and one from him, that there would be a potential for confusion and I accepted that. All of my communications, 99 per cent, were with Deputy Le Fondré, except when I was asked to produce a report.

Deputy D.J. De Sousa:

So, due to that, in your mind, because you were told to deal with the current Acting C.E.O. you understood that the Minister was being briefed by that person and you would be the conduit, you did say earlier?

Director, Jersey Property Holdings:

Well, I thought that there would be 2 lines: one going through Deputy Le Fondré, from a political perspective, and the other through the Acting C.E.O. because we

were having regular meetings and in my diary it shows that we had regular meetings about office strategy. This was a key element of office strategy. I mean, the input from the Deputy C.E.O. was very much along the lines of: "How do we de-risk this project? How can we break it down into stages?" At the time we had fluctuations in the finance service et cetera: "How do we ensure that we are not exposing the public to unnecessary risk?" That is what we tried to do and if you look at the report that was sent out to the Minister on 18th November you will see that it includes various options on cash flow including: "What happens if we have a major problem with property values? What do we do?" That was eventually the basis of the scheme which was worked up by Mick Heald. Mick Heald did some very good work and if we had had that resource earlier we could have been in a more detailed state at the business case stage. I felt that we had to put the draft business case in October because I was concerned that we were going to lose the vendor, Lime Grove.

Deputy D.J. De Sousa:

Can I ask one final question?

Senator S.C. Ferguson:

I think we are getting there, yes.

Deputy D.J. De Sousa:

What we have done with all the participants that we have asked to come forward and give us evidence, we have asked what their relative qualifications are for which they hold the position or were contracted.

Director, Jersey Property Holdings:

Yes, okay. I thought you might ask that. I need to jog my memory. Basically I have been responsible for running major property organisations for the past 40 years. For 27 of those I have been a director of a property organisation. My last role before coming here I was Group Property Director for Royal Mail and in that role I managed the whole of their estate across the U.K. We had 40 million square feet of space which is 10 times the size of the States portfolio. I had a budget of £550 million revenue a year for property and during the 6 years that I was at Royal Mail I was responsible for the delivery of £800 million worth of capital projects. In the last year, 2005/2006 we completed over 8,000 property projects and we completed the feasibility for a further 29,000 requests. I delivered some significant savings through rationalisation and consolidation of the estate. Prior to Royal Mail I was the Group Property Director for Swallow Hotels for 2 years, simply because after I had been there 2 years and we had sold all the pubs and made the company cash rich, Whitbread came in and decided to buy the company at 20 pence over share price and they did not want 2 boards, but during that time I bought the Four Seasons Hotel outside Manchester near the airport for Swallow Hotels, it then became a Marriott under Whitbread. I bought a £27 million hotel in Maida Vale and I bought a site at Junction 21 for £2.3 million which is now a Marriott Hotel and I also set up in the 2 years an arrangement to enter into Budget Hotels with Holiday Inn Express with Stannifer. Prior to that I worked for the Rank Group. I was Divisional Property Director from 1996 to 1998 and I was Property Director of Top Rank between 1994 and 1996. I worked for Whitbread prior to that for 10 years in 3 roles, the last one being the Vice President of Property Development in Canada, North America where I was resident there for 3 years. Prior to that I was the International Development Director from 1987 to 1990 and before that the Development Director in the U.K. from 1983 to 1987. Before that I spent 6 years working for Donaldsons, a chartered surveying company, which has now been absorbed into DTZ. Prior to that I worked for a firm of architects, Barrington-Baker & Partners, for 6 years. That all adds up to an awful lot of years. I was 4 years at University of Cambridge, King's College,

where I obtained a Masters degree in architecture. I have completed the managing directors programme at Duke University in North Carolina. I was a member of the property owners and occupiers forum. I was a member of the CBI (Confederation of British Industry) Property Committee which is by invitation only and the rest of the time I squandered.

[12:30]

Deputy D.J. De Sousa:

If you had any. So, suffice to say you have in your career had many positions where you bought and sold and acquired huge amounts of property with huge budgets.

Director, Jersey Property Holdings:

Yes.

Deputy D.J. De Sousa:

So, it is well within your remit.

Director, Jersey Property Holdings:

Yes.

Deputy D.J. De Sousa:

When you were taken on by the States of Jersey as Director of Property Holdings, in what capacity ... Were you given *carte blanche* to look at office rationalisation, strategy, looking at reducing the portfolio, purchasing? What was your scope?

Director, Jersey Property Holdings:

My mandate was to be here for 5 years and during that time to consolidate the establishment of Jersey Property Holdings, to ensure that the team was appropriate and to recruit a successor from somebody who was on the Island. During that time there was a need to establish a consistent approach to property and to reduce the cost of property to the public and the analysis which I sponsored was in looking at the whole of the portfolio to see if we could do more with less and I think there are opportunities in all areas but you generally start with the office estate. Just to give you an example, just to go back on to this, at Royal Mail we had 150 standalone offices outside of our mail centres et cetera and in the 6 years that I was there I reduced them to 18 with cumulative savings of £100 million and I put in place plans to reduce by a further 7 by 2011. So, my experience of consolidation was that it can reap huge benefits to any organisation and certainly when you are looking at the average desk space here being about 170 square feet per desk when the U.K. is looking at going anywhere between 80 and 100 maximum, we are grossly inefficient and the cost of each work space to the States is in the order of £6,000 to £7,000 per annum.

Senator S.C. Ferguson:

£67,000?

Director, Jersey Property Holdings:

£6,000 to £7,000.

Deputy D.J. De Sousa:

Between £6,000 and £7,000.

Senator S.C. Ferguson:

Sorry.

Director, Jersey Property Holdings:

Sixty-two would be a rather aggressive figure. I mean, this executive summary sums it up.

The Deputy of St. Peter:

Just as we draw to an end there are a couple of important things I want to clarify again. The documentation that you have we are still awaiting it from Treasury, do you have any idea as to when we will be getting that documentation?

The Assistant Minister for Treasury and Resources:

I think it is on its way to you as we speak. Certainly the aim was to get it to you by the end of play this morning.

Deputy D.J. De Sousa:

Is that all 8 files?

The Assistant Minister for Treasury and Resources:

That is the 4 files that Jersey Property Holdings ...

The Deputy of St. Peter:

Just to clarify for ...

The Assistant Minister for Treasury and Resources:

To clarify for you exactly what you have and you are getting, the files you have, which were 3 big Lever Arch files, that was a combination of various extracts that Mick Heald and the Treasury team put together quickly for you to get on Tuesday afternoon.

The Deputy of St. Peter:

Thank you for that.

The Assistant Minister for Treasury and Resources:

At 4.30 p.m. on Tuesday afternoon Property Holdings delivered to the Treasury 4 more big Lever Arch files of that sort of quantity each and those are the 4 files that you will be getting this afternoon.

The Deputy of St. Peter:

Also we requested the risk ... but that will be in one of those files?

The Assistant Minister for Treasury and Resources:

That is one of those files, yes.

Director, Jersey Property Holdings:

It is in here if you want a copy of it now?

The Assistant Minister for Treasury and Resources:

Well, it is coming to you this afternoon.

Deputy D.J. De Sousa:

Yes, that will be fine, thank you.

Senator S.C. Ferguson:

If we may have a copy of your notes.

Director, Jersey Property Holdings:

Yes, certainly. I will give you that now.

Senator S.C. Ferguson:

Right. Anything else? Thank you very much indeed gentlemen. I am sorry it has run over.

The Assistant Minister for Treasury and Resources:

Before we conclude, chairman, may I make 3 very small observations? I think it would be very, very useful for the panel to really focus on number 34 email 12th April 2011, time 2201.

Senator S.C. Ferguson:

Yes, I have a copy of it here. We had it read out in fair detail to us yesterday.

The Assistant Minister for Treasury and Resources:

The reason I am raising this again is that Deputy Egré raised the point about: "Was one lunch enough to buy a whole department while continuing negotiations." I think this sets out that within department the Head of Department was concerned about the department himself and reflected the Treasurer's concerns as well. Number 2, quick point with you, Mr. Flowers is absolutely correct, I am fully briefed as Assistant Minister and I pass that on through to the Minister for Treasury and Resources and I know there has been a constant throughput of information since I took over this year.

Senator S.C. Ferguson:

And you operate under delegated authority.

The Assistant Minister for Treasury and Resources:

Absolutely. But I cannot comment on whether that relationship existed prior to my taking over as Assistant Minister.

Senator S.C. Ferguson:

Well, no.

The Assistant Minister for Treasury and Resources:

The last point is just an observation and it really goes back to my role on P.A.C. and your role on Corporate Services last year. I do recall mentioned to my chairman at the time, Senator Ben Shenton, of the Public Accounts Committee, was it usual to have a briefing at this type of level that we did with Property Holdings and his view was: "No, it was the first time I have ever experienced this. Perhaps they want us on their side." I just make that as a passing comment.

Senator S.C. Ferguson:

I have been in the States since 2002 and so has Deputy Egré and, yes, we have had briefings. I mean, I had a very long briefing with Mr. Richardson on the East of Albert Project and you did a big briefing for States Members on the concept of the Easter Velvet Project, when was it, 2007? Yes, these are not unusual briefings.

The Assistant Minister for Treasury and Resources:

Well, it was the first one I had ever been in, albeit I have been here only 3 years.

Deputy D.J. De Sousa:

What I would say in reply to that, although I have only been there for 3 years, unlike the Senator and the Deputy to my right, but the Minister made great play yesterday about the size and amount of money that was being used on this transaction and that

he had concerns, therefore I would not see it as strange that the department that was looking to bring this forward would also want to give the right amount of due diligence to that project and by doing that knowing that States Members have to agree with it. I am always saying: "Why are we not getting presentations?" We need the information so I would not see it as strange myself, but that is me.

The Assistant Minister for Treasury and Resources:

It was a limited audience; that was my concern. It was not a wide audience.

Senator S.C. Ferguson:

Well, yes, but politicians have big mouths!

The Assistant Minister for Treasury and Resources:

I could not possibly comment.

Senator S.C. Ferguson:

Thank you very much indeed, gentlemen. As I say, we shall be seeing the Minister for Treasury and Resources again next week, all being well, and if we need you again, Mr. Flowers, may we call on you?

Director, Jersey Property Holdings:

You may.

Senator S.C. Ferguson:

Thank you.

Director, Jersey Property Holdings:

I will need some warning though. Some prior warning is all I need.

Senator S.C. Ferguson:

All right. Thank you.

Deputy D.J. De Sousa:

Thank you very much. It has been very useful.

[12:39]