STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2013 – 2015 (P.69/2012): EIGHTH AMENDMENT

Lodged au Greffe on 23rd October 2012
by Deputy J.A.N. Le Fondré of St. Lawrence

STATES GREFFE

MEDIUM TERM FINANCIAL PLAN 2013 – 2015 (P.69/2012): EIGHTH AMENDMENT

1 PAGE 2, PARAGRAPH (c)(iii) –

Delete the words ", with £8,500,000 of the 2013 allocation, £4,743,000 of the 2014 allocation and £1,757,000 of the 2015 allocation, dependent upon the approval by the States of the redemption of the States' 9% Preference Shares in the JT Group Ltd. as set out in paragraph (f)".

2 PAGE 2, PARAGRAPH (f) –

For paragraph (f) substitute the following paragraph –

"(f) to request the Corporate Services scrutiny panel to undertake a review of the proposal to dispose by way of redemption of the States 9% Preference Shares in the JT Group Ltd. for a redemption value of £20 million.".

DEPUTY J.A.N. LE FONDRÉ OF ST. LAWRENCE

REPORT

The Medium Term Financial Plan ("MTFP") proposes the redemption of 9% preference shares held by the States in Jersey Telecoms ("JT"). They will be redeemed at their nominal value of £20 million. However, we receive £1.8 million per year in income from these shares, i.e. a return of 9%.

The MTFP identifies that they are worth just under £30 million (see MTFP, page 381).

The very simple query is why are we realising something which pays a very good return, for less than it is worth?

The Telecommunications (Jersey) Law 2002 appears quite clear that the Minister for Treasury and Resources must act in the interests of the States (when acting on behalf of the States). Equally, it is very clear that the creation of the Preference Shares by the then Finance and Economics Committee was to ensure that the Board of Directors (of JT) would have the minimum return they had to achieve for the company's shareholders. In other words, they were put there in order to ensure a minimum level of performance by the Board. These shares are now being removed.

During 2012 we are due to invest a further £10 million into JT as 2½% preference shares. We have also allowed the directors to reduce dividend payments by at least £9 million (spread over the next few years). Total £19 million being invested into the company versus £20 million being withdrawn.

In other words there appear to be some very large movements of cash in different directions, which do not give a clear picture of what is happening and whether it is in the interest of the taxpayer.

Members are required to vote specifically on this matter as a separate part of the MTFP. I would submit that we do not have sufficient information to understand the benefits, or otherwise of this matter, and therefore to arrive at an informed decision. It is not clear if this is the best way to raise £20 million, given the returns foregone as a result of that decision.

For the avoidance of doubt, I am not challenging the expenditure towards which these funds are being allocated. I am purely asking the question as to whether the method by which that expenditure is being funded is appropriate, and I am recommending that this should be independently checked before we are asked to vote on it.

Accordingly, I submit that this matter should be independently reviewed by the Corporate Services Scrutiny Panel, before any decision is made, in order that the efficacy of these financial arrangements can be verified, and to ensure that they are in the interests of both parties (i.e. the shareholder as well as the company).

I hope members will be supportive of this perspective.

Financial and manpower implications

There are no manpower implications arising from this report.

The Scrutiny review can be accommodated within their normal budget allocations. There may be a slight delay in achieving the capital spend, however it is anticipated that either the review will support the disposal under the proposed terms, or it will identify a more financially efficient manner of raising the quantum of funds required.