



Scrutiny Office

**Corporate Services Scrutiny Panel:
Quarterly Hearing with the Minister for Treasury
and Resources
MONDAY, 25th SEPTEMBER 2017**

Panel:

Deputy J.A.N. Le Fondré (Chairman)

Deputy S.M. Brée of St. Clement

Deputy K.C. Lewis of St Saviour

Connétable C.H. Taylor of St John

Senator S. C. Ferguson

Treasury:

The Minister for Treasury and Resources

Treasurer of the States

Director of Financial Planning and Performance

Director of Treasury Operations

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[10:30]

Deputy J.A.N. Le Fondré of St. Lawrence (Chairman):

Thank you, Minister. The Corporate Services Scrutiny Panel: let us kick off. Minister, I draw your attention to the notices in front of which I am sure you are fully aware, and also we do expect members of the public and the media in the public seating to remain quiet at all times while the hearing carries on. As we proceed through the questions, we may stop you, Minister, if we feel you have answered the question sufficiently, because we need you, as ever, to try to be as concise as possible. If I am raising my hand, that should be taken as a sign we need to move on. For the benefit of the tape, if I start going round, Deputy John Le Fondré, Chairman of the Panel.

Deputy S.M. Brée of St. Clement:

Deputy Simon Brée, Vice-Chairman of the Panel.

Deputy K.C. Lewis of St. Saviour:

Deputy Kevin Lewis, Panel Member.

Connétable C.H. Taylor of St. John:

Constable Chris Taylor, Panel Member.

Senator S.C. Ferguson:

Senator Sarah Ferguson, Panel Member.

Treasurer of the States:

Richard Bell, Treasurer.

The Minister for Treasury and Resources:

Alan Maclean, Treasury Minister.

Director of Treasury Operations:

Simon Hayward, Director of Treasury Operations.

Director of Financial Planning and Performance:

Alison Rogers, Director of Financial Planning and Performance.

Deputy K.C. Lewis:

Minister, we have been led to understand that responsibility for the waste charge and its implementation has been moved to your Department and will be deferred until further consultation has taken place. Is this correct?

The Minister for Treasury and Resources:

Well, there has been discussion amongst Ministers, the Council of Ministers, about how the debate for the waste charge was going to be handled, and, indeed, it was being suggested that, as Treasury Minister, I might act as rapporteur for that particular debate. With regard to other matters as to whether it might be deferred or not, that is not yet a detail that has been finalised, or, indeed, how the debate itself and the timings are going to be handled, equally, has not been finalised.

Deputy K.C. Lewis:

Sorry, can you just clarify; has it moved to your Department or is that depending ...

The Minister for Treasury and Resources:

Sorry, I thought I had clarified the role as rapporteur for the debate was being mooted to be a Treasury and Resources matter – in other words, as Treasury Minister, I was being asked to consider taking it as rapporteur – but, again, these details have not been finalised yet.

Deputy J.A.N. Le Fondré:

So, the debate has not been deferred?

The Minister for Treasury and Resources:

The debate has not been deferred at the moment, no, but the Council of Ministers and the relevant Ministers are still discussing, following the recent or pre-summer debate being withdrawn, exactly how the timing and the handling would be managed.

Deputy J.A.N. Le Fondré:

So, at this stage, there are no changes in the plans that the waste charge will be debated before Christmas and probably as part of the budget?

The Minister for Treasury and Resources:

Not that I would want to say publicly; there are discussions being finalised as to the timing of what is going to happen with liquid waste and, indeed, for that matter, solid waste.

Deputy J.A.N. Le Fondré:

Will those discussions be crystallised and the debate coming to the States before Christmas?

The Minister for Treasury and Resources:

Those discussions will certainly be crystallised, and details will be announced shortly as to exactly what the plan is with regards to both of those elements, liquid and solid waste, and the timings.

Deputy J.A.N. Le Fondré:

So, the plans have changed?

The Minister for Treasury and Resources:

No, what I am simply saying is that Ministers are discussing what the options are for both liquid and solid waste and the timings for the debate and who is going to handle the relevant debate so in that respect that information will be made public.

Deputy S.M. Brée:

Minister, sorry, if I could just ask a quick question, you say that discussions have taken place at the Council of Ministers for you to be the rapporteur for the waste charge proposition. Why is that? Do the Council of Ministers not actually trust the ability of the Minister for Infrastructure to do it himself?

The Minister for Treasury and Resources:

I think the feeling was, as this was involving a charge, it would be relevant for the Treasury Minister to handle the matter. As I have said, this is an internal discussion that has been had among Ministers, and once a final decision is taken on the debate, the timing of the debate, if indeed the debate is going to go ahead as planned or if it is going to be delayed, what the rationale behind that will be, and all the other relevant details will be announced in a coordinated fashion, clearly the relevant Panels will be made aware.

Deputy S.M. Brée:

So, will you actually be bringing the proposition yourself, or will the Minister for Infrastructure be bringing the proposition?

The Minister for Treasury and Resources:

As I have said ...

Deputy S.M. Brée:

No, you have not made it clear, which is why we keep asking questions.

The Minister for Treasury and Resources:

Well, I am going to try and clarify it, because I believe I did make it clear twice. What I said was that what was being mooted was that, as Treasury and Resources Minister, I would be asked to be the rapporteur. Now, the question of course is whether indeed the proposition comes in the name of an individual Minister or indeed as the Council of Ministers.

The Connétable of St. John:

The previous proposition came from the Minister for Infrastructure. Are you now saying that it may be a Council of Ministers' proposition as opposed to a Minister for Infrastructure proposition?

The Minister for Treasury and Resources:

I am saying that it has been discovered that there may well be a change; it could be a fundamental change with regard to timings, but those matters will be announced in an appropriate way.

Deputy J.A.N. Le Fondré:

Is there further consultation required with, for example, the hospitality industry?

The Minister for Treasury and Resources:

Sorry, did you say "required", Chairman?

Deputy J.A.N. Le Fondré:

Is there going to be further consultation with the hospitality industry?

The Minister for Treasury and Resources:

I think the intention was to do some further consultation. Of course, the level of consultation is the key issue and the timing of that, and, of course, as we go on in these questions, you will appreciate that this starts to lead one to the position that the timing could well be an issue.

Deputy J.A.N. Le Fondré:

The observation I would make, having made it myself with what happened in the last debate, is, obviously, it would have been better, and the States took the view, that the debate was originally going to be deferred until the end of the year to allow proper consultation to take place outside of the busy season for hospitality. There is not much point trying to consult people at their peak time in August as opposed to, for example, in November, when hopefully things are a lot quieter and they can actually address and apply their minds appropriately to it. Is that part of the considerations?

The Minister for Treasury and Resources:

Yes, well, I think the first point is whether, indeed, sufficient consultation had been undertaken to date and then, if not, what additional consultation and with whom would be required since. I mean, your assumption that out of busy season would be easier I am sure is, in practical terms, perfectly reasonable, but I believe that quite a bit of consultation had been undertaken in any event prior to the point at which the proposition was lodged for discussion with the States, albeit later withdrawn.

Senator S.C. Ferguson:

This is all very well, but where is the additional funding for the D.F.I. going to come from with the delays in the liquid waste charge?

The Minister for Treasury and Resources:

Well, Senator, that, of course, is the most relevant question, about the funding of £11 million by 2019, and that is clearly another matter, but, both from a Treasury perspective and indeed the Council of Ministers, we need to consider if there are going to be any delays already we are looking at a reduction in the initial £3 million due to undertakings given in the States, which was going to reduce that down by reducing the charge itself for an initial period, in other words delaying the cost. So, we will be working on that to bridge the gap for that in any event, and then, beyond that, if there is any further debate that impacts upon the £11 million budget eventuality recurring then we will have to come back and advise what that is going to look like.

Senator S.C. Ferguson:

Well, you must have some idea by now.

The Minister for Treasury and Resources:

Well, we know what the quantum is.

Senator S.C. Ferguson:

And where is it coming from?

The Minister for Treasury and Resources:

Well, we know the quantum of the amount of money that needs to be raised. There will be short-term measures between now and the end of this medium-term financial plan period, because we are talking about a shortfall for 2019. What will need to happen beyond that, when we fall into the next medium-term financial plan, will be sustainable measures, and, if I may say so, that applies equally to the health charge, which the States rejected. That again is a sum of money that is being dealt with in the short term for the medium-term financial plans for 2019 with short-term measures, largely through the budget. Beyond that, beyond 2019, it will need sustainable measures to deal with those costs that are sustainable.

Senator S.C. Ferguson:

So, at the moment, with respect, Minister, you are not really sure where it is coming from.

The Minister for Treasury and Resources:

We are able to cover what we know is the existing shortfall from undertakings given at the time the proposition was withdrawn, in other words relating to the £3 million, which will be dealt with from underspends probably or from growth, those are the 2 areas that can manage that, and I think we have made it clear in the past that if revenue-raising measures are not delivered on then one of the options that we have available is growth, which, as you will be aware, would be withheld and growth is agreed at each relevant budget. It was around about £10 million of growth in this budget.

Deputy J.A.N. Le Fondré:

So, no doubt we will come back and discuss that when we have you in front of us on the budget, Minister.

The Minister for Treasury and Resources:

Yes.

Deputy J.A.N. Le Fondré:

A quick question: in the, shall we say, unlikely event that the matters concerning liquid and solid waste are deferred, would P.57 also be deferred, which is to do with domestic charges?

The Minister for Treasury and Resources:

I would imagine that the whole package would be deferred if that were the case.

Deputy J.A.N. Le Fondré:

Right, moving forward, Minister, the Housing Minister recently announced that Andium Homes has acquired the Gas Works site. Are you able to tell us how much was paid for it?

The Minister for Treasury and Resources:

I missed the question, sorry.

Deputy J.A.N. Le Fondré:

In relation to the Andium Homes having acquired the Gas Works site, are you able to tell us how much has been paid for it?

The Minister for Treasury and Resources:

May I just confer for a second? There is a question as to whether it is commercially confidential, but I think it has probably been ... (hushed conversation) Yes, it has been to the Royal Courts so therefore it is in the public domain, just to clarify the position. It was £11 million.

Deputy J.A.N. Le Fondré:

So, Andium paid £11 million for it; okay.

The Connétable of St. John:

Sorry, can I just clarify, that is for the housing portion that Andium is purchasing, or is that the whole site?

The Minister for Treasury and Resources:

No, Andium has purchased the site with consent for 253 units, and that is supported by a valuation. The valuation is based on that planning consent for 253 units.

The Connétable of St. John:

Are there any abrupt clauses or any other clauses within the contract that may result in further payments?

The Minister for Treasury and Resources:

Not that we are aware of, no.

Senator S.C. Ferguson:

And does that include the cost of dealing with the contamination?

The Minister for Treasury and Resources:

That is the purchase sum. So ...

Senator S.C. Ferguson:

Yes but how much extra do you expect to pay for contamination, or do they expect to pay for contamination?

The Minister for Treasury and Resources:

Well, the site would have been valued taking into consideration all factors relevant to the site, both the planning consent that I referred to and all other issues, which is normal practice; the valuers that will have valued it will have considered that.

Deputy J.A.N. Le Fondré:

You have told us how much was paid for it, for which we are grateful. The Minister also said that part of the site could be used to provide an extension to the town park that is currently funded by Andium. Where will the money for that come from?

[10:45]

The Minister for Treasury and Resources:

My understanding is that, if indeed it is decided to propose an element of that site becoming a park, an extension to the existing park, then the Minister for Housing would be bringing a proposition to the States for the States to make a decision on that and as part of that proposition there would have to be an indication as to how it was going to be funded but it certainly will not be in relation to Andium. Andium cannot use, for example, bond money to see their asset value depreciate.

Deputy J.A.N. Le Fondré:

Okay. Very quickly, how did they fund the purchase of the site?

The Minister for Treasury and Resources:

They funded it from their reserves.

Deputy J.A.N. Le Fondré:

Their own internal reserves?

The Minister for Treasury and Resources:

Their own reserves internally, yes.

Deputy J.A.N. Le Fondré:

They have cash reserves of £12, 15 million or something?

The Minister for Treasury and Resources:

They had cash reserves sufficient to be able to purchase the site. They did not use any bond money for that.

Deputy J.A.N. Le Fondré:

So, the States are going to be asked, basically, to fund another town park?

The Minister for Treasury and Resources:

The States I believe are going to receive a report and proposition from the Housing Minister to that effect, yes, which I believe relates to about 40 per cent of the overall site, which would see a reduction, quite significantly, in the 253 units.

Deputy J.A.N. Le Fondré:

So, just to confirm, the present scheme Andium bought at is 253 units, based upon the JEP reporting Andium are proposing 110 units, which is a loss of about 143 units, I believe, which would therefore imply that we are being asked, on the numbers you have just given us, to pay around £6 million for the acquisition of the town park. If the Treasurer wants to correct my figures, that is fine.

The Minister for Treasury and Resources:

You can make an assumption at that level. I mean, clearly, when the report and proposition is brought forward it will have an assessment on value in it, but it will be a fairly significant cost that I would suggest is going to be at least that, probably greater.

Deputy J.A.N. Le Fondré:

I was going to say, because then on top of that will be decontamination of the element of the town park prior to the creation of it; so, potentially could be at £10 million, £15 million, £20 million, maybe?

The Minister for Treasury and Resources:

Well, I would not get too carried away, but yes, I would be surprised if it was not up towards £10 million.

Deputy J.A.N. Le Fondré:

It is not going to be £8 million, realistically?

The Minister for Treasury and Resources:

We are speculating. Without the facts, it is impossible to give you more detail.

Deputy J.A.N. Le Fondré:

Okay. Is there any reason, for example, that the Parish of St. Helier could not be offered a loan to develop the park themselves?

The Minister for Treasury and Resources:

They can make an approach to that effect, and it can be considered, I suppose.

Deputy J.A.N. Le Fondré:

Would it not be best to do it the other way round? They are obviously very keen to have the facility; the States as you are aware have already voted on a £10 million town park, which is in place. If St. Helier are very keen to extend the thing, which is obviously for the whole benefit et cetera, would the States be minded to give them a loan and then they could refund it over time?

The Minister for Treasury and Resources:

I think one of the difficulties here is that, from a Treasury point of view, we do work quite closely with Parishes to deliver housing. Trinity is the most recent very good example, but there have been others, and that is fine where there is an investment return and the capital is ultimately returned, but, in this case, it would not be the case. It would be funding of a park which was a community facility, which is fine, but I think that needs to be a States decision, and then, as part of that, one needs to agree exactly how that is going to be funded, in a similar way to the debate that occurred on Plemontl, for example.

Deputy J.A.N. Le Fondré:

Okay. Do you consider it fair that taxpayers be asked to provide another town park for St. Helier?

The Minister for Treasury and Resources:

I think that would be one for the debate when it comes up.

Deputy J.A.N. Le Fondré:

I was asking for your position as Treasury Minister, Minister, charged with looking after efficient use of taxpayers' funds.

The Minister for Treasury and Resources:

Well, I think I am making it perfectly clear this needs to be a States decision. It certainly would not be a Treasury Minister's decision.

Deputy J.A.N. Le Fondré:

Thank you. Any questions from anybody else on this bit? No? Simon.

Deputy S.M. Brée:

Minister, you refer to the fact that Andium did not need to draw down on bonds in their latest acquisition. R.15, 2013 referred to an interest rate of 5 per cent for Andium to borrow from the States. Can you confirm that this is the actual rate being charged to Andium by the States of Jersey for access to the funds raised from the bond issue?

The Minister for Treasury and Resources:

There are 2 sums that have been charged to Andium for access to the bond money. One rate is 4.3 per cent, which has been applied where properties have been refurbished, a refurbishment rate, and, you are correct, 5 per cent was the rate that has been applied for the new development.

Deputy S.M. Brée:

So, Andium are paying above the rate that the States of Jersey are paying out as the coupon. Now, it does raise the question: are Andium, as a separately incorporated entity, allowed to borrow themselves in the market?

The Minister for Treasury and Resources:

I think that technically they would be able to borrow in the market. I do not know if the Treasurer wants to ... but I cannot see any reason why they would not.

Treasurer of the States:

By shareholder consent.

The Minister for Treasury and Resources:

Agreement; yes.

Deputy S.M. Brée:

Technically speaking, in principle, why would Andium not go to the market and actually borrow at a much lower interest rate than the Treasury Department are currently charging them and therefore be able to deliver more efficient social and affordable housing?

The Minister for Treasury and Resources:

Well, Deputy, why would we agree to that, as would be the requirement under the M.O.U, when we have bond money at the rate that is stated?

Deputy S.M. Brée:

So, let me ask you a question, Minister: as Minister for Treasury; would you rather borrow money at 3 per cent, or would you rather borrow money at 5 per cent?

The Minister for Treasury and Resources:

Deputy, you can answer the question yourself. It is fairly clear that anybody who borrows money would wish to borrow it at the lowest rate possible, but, in this particular instance, there was a decision taken to borrow the money in the market at a then low rate, a historically low rate, for the

purposes of developing first-time-buyer and social housing, and that is what is happening. Now, that money is available, there is a certain cost in having that money, it is important that it is lent out for the purpose intended at the outset, and that is exactly what is happening. It is also right that there is an appropriate return above the strike rate to ensure that the cost of administration and suchlike is covered and, also, over the longer term, the 40-year period that the money is borrowed for, the bond term, that both the interest and capital is repayable through a sinking fund, and that, again, is the rationale behind having an interest rate that is above what the strike rate is.

Deputy S.M. Brée:

So, are you covering 100 per cent of the cost of carry of the bond at the moment, or is it actually costing more?

The Minister for Treasury and Resources:

It is actually a 40-year term, as you, I think, are aware. In the short term, you are going to see fluctuations, and certainly we have seen fluctuations where there has been what you describe as a carry reduction, where the actual cost of carrying the funds is not meeting the rate at which they were borrowed at.

Deputy S.M. Brée:

So, you have what is called a negative cost of carry at the moment, is that correct?

The Minister for Treasury and Resources:

That is correct.

Deputy S.M. Brée:

So, how much? How much is it costing per year?

The Minister for Treasury and Resources:

Well, it varies, clearly, year by year.

Deputy S.M. Brée:

Okay, in 2016, how much did it cost?

The Minister for Treasury and Resources:

I was going to say, what I can tell you is that, in the States account, it was £6 million. Yes, £6 million.

Deputy S.M. Brée:

So, the taxpayer is paying an additional £6 million a year for a bond that is not fully drawn down and therefore is costing us above the 3.75 per cent coupon rate an additional £6 million a year just to have those funds available. Is that correct?

The Minister for Treasury and Resources:

What you have just said is not entirely correct. If I can just correct you, if I may, first and foremost, it is not £6 million per year; it was £6 million for 2016.

Deputy S.M. Brée:

All right, £6 million in 2016.

The Minister for Treasury and Resources:

So, it will depend and it will vary from year to year. I view it as a cost-of-capital protection, and that is the purpose of taking out a bond you need to focus on and the long-term nature of this. As I have said to you already, the anticipated return based on lending out the bond money at the rate that we have discussed over the 40-year period will return all interest and capital by 2054, which is the 40-year termination point. You cannot look at this in the short term. I accept the point that if you look solely at 2016 it does not look terribly good and I am sure you will have other years and periods ... because of course not all the bond money has been lent out and so you have a difficult position where, you will appreciate, the investment strategy for the money that is held has to be extremely liquid and therefore does not have the opportunity in attracting the returns that one might otherwise get. It also has to be securely invested because it is available for a specific purpose.

The Connétable of St. John:

The investment strategy for the Housing Development Fund includes 25 per cent in what is described as alternatives. 50 per cent of the fund is in cash, 25 per cent in absolute return bonds and 25 per cent in alternatives. Could you tell us what these alternatives are?

The Minister for Treasury and Resources:

Yes. I mean, they tend to be a range of investments. You can have, for example, commodities, hedge funds, private equity, real estate, managed funds, infrastructure. That tends to be the general ... I think it is probably ...

Director of Treasury Operations:

Yes, the investment strategy for the fund describes the alternatives as property, hedge funds and local infrastructure investment.

The Connétable of St. John:

And is it currently invested at 25 per cent?

Director of Treasury Operations:

Yes, it is pretty much in line with the strategy.

The Connétable of St. John:

You say infrastructure. How do you get a return off that, and what do you describe as infrastructure?

The Minister for Treasury and Resources:

I think with the specific investment strategy, as the areas that have been identified; infrastructure tends to be far more longer-term, typically 5 to 8 years or longer, but do you want to ...

Director of Treasury Operations:

Well, an example would be the Parish of Trinity Housing Scheme where the Housing Development Fund lent some monies to the Parish to be able to develop that scheme. We would consider that an infrastructure investment.

Deputy J.A.N. Le Fondré:

What are we actually invested in, then, in terms of alternatives?

Director of Treasury Operations:

It is predominantly schemes such as that, the local-infrastructure investment, and also the hedge fund asset class.

Deputy J.A.N. Le Fondré:

So, in terms of the local infrastructure, you have mentioned the Parish of Trinity, is it basically loans to the Parishes that are being funded through that or is there anything else?

Director of Treasury Operations:

The Parish of Trinity is the one individual loan that has come out of the Housing Development Fund at the moment for local infrastructure.

Deputy J.A.N. Le Fondré:

There are no loans to any States entities; we are not investing in Jersey Telecom, for the sake of argument, or S.o.J.D.C. or J.E.C. or ...?

Director of Treasury Operations:

No.

Senator S.C. Ferguson:

Which hedge fund are you in?

Director of Treasury Operations:

We run a pool of hedge funds; so, the hedge fund asset pool within the common investment fund is spread amongst 11 hedge fund managers. I do not have the list.

Deputy J.A.N. Le Fondré:

Are you happy with that? Shall we move on? Right. Okay. Sarah, we will move on to JT.

Senator S.C. Ferguson:

I think it was Friday or Saturday in the Evening Post you quoted a valuation of around about £400 million for Jersey Telecom. How did you arrive at that valuation?

The Minister for Treasury and Resources:

Well, first and foremost, Senator, I would respectfully suggest that relying upon, with the greatest respect to the media present, what might have been in the newspaper does not necessarily reflect what was said.

Senator S.C. Ferguson:

You also mentioned this on Thursday evening.

The Minister for Treasury and Resources:

I did, and what I actually said was that JT, as it is known, is held on our accounts in the books, their books have £212 million – I think that was the figure – and that it was likely the value could be £300 million to £400 million, significantly above what the book value is. That was the comment that was being made.

Senator S.C. Ferguson:

Well, where did you get that from, that figure? You must have discussed it with people.

The Minister for Treasury and Resources:

That figure has come from viewing sales of telecoms entities in the past, like in the Isle of Man and elsewhere, and there is a view that the company would be worth well in excess ... a book value of a particular asset is typically well below what the market value is, as you will appreciate, and then

there are examples elsewhere of telecoms companies selling for multiples relating to these types of figures.

Senator S.C. Ferguson:

So, you have not actually had a proper valuation done of it?

The Minister for Treasury and Resources:

I did not say I had. What I said was that it could be worth significantly above ...

Senator S.C. Ferguson:

Well, with respect, Minister, if you are going to quote figures, you do have to have a scientific basis for them, do you not?

The Minister for Treasury and Resources:

You can do them in a number of different ways, you need to make clear what you are saying, and what I made clear was that it could be ... that is a big difference to "it is" and, "We have had a valuation undertaken"; I did not say either of those things. I simply said that it could be worth £300 million to £400 million. That is not unreasonable when it is being presented in that way.

[11:00]

Senator S.C. Ferguson:

Have you received the auxiliary report?

The Minister for Treasury and Resources:

Which auxiliary report are you referring to?

Senator S.C. Ferguson:

The one that they are doing on telecoms.

The Minister for Treasury and Resources:

Yes.

Senator S.C. Ferguson:

When is that going to be circulated to States Members?

The Minister for Treasury and Resources:

I do not have the exact timing but I would imagine relatively soon. I do not know if you ...

Senator S.C. Ferguson:

When can we expect it? I wonder if you could find out and let us know.

The Minister for Treasury and Resources:

I think we would need to get an opinion from the Chief Minister's Department, because that is where it is and that is where it is owned.

Senator S.C. Ferguson:

Well, if you could let us know when we can expect to see it, that would be helpful.

The Minister for Treasury and Resources:

I would be delighted to do so.

Senator S.C. Ferguson:

Because last year the profits were £16 million of which £10 million was the retail side, up 60 per cent; so, surely we need to start getting separate accounts of the retail and wholesale sections in order to assess the value of the assets. When will you be doing that?

The Minister for Treasury and Resources:

Well, there are numbers of ways in which you can assess the values of particular entities, but the accounts are published in the way they are currently published, and I believe that there are going to be additional breakdowns in the accounting ... I do not know if you could help on this particular point, Simon, but I do believe that there is going to be additional information provided by JT in future accounts.

Director of Treasury Operations:

I would need to check that.

The Minister for Treasury and Resources:

We will check that for you.

Senator S.C. Ferguson:

Yes, because the other thing that would be useful would be to have a summation of how much the government has invested in JT by year and where they have got the money from to put into it.

The Minister for Treasury and Resources:

Okay.

Senator S.C. Ferguson:

You are working on a strategy for telecoms. When are you going to issue that?

The Minister for Treasury and Resources:

Well, it is actually not Treasury that is working on the strategy. Again, this is being co-ordinated through the Chief Minister's Department.

Senator S.C. Ferguson:

Well, presumably you discuss it.

The Minister for Treasury and Resources:

We have discussed it, but it is actually more than a strategy; it is a policy for telecoms.

Senator S.C. Ferguson:

When have your discussions indicated it will be available?

The Minister for Treasury and Resources:

It has been to the Council of Ministers at the last sitting; so, indeed, you should have access to it very shortly. In terms of publishing, I do not have a date that it is actually going to be published, but I would imagine it will be relatively soon. I should just caveat that by saying that is on the assumption that the full report is published as opposed to a shortened version taking into consideration any commercial confidentialities that may be relevant, but there will be nevertheless a document, a relevant document, published at some point in the not-too-distant future.

Senator S.C. Ferguson:

Well, we look forward to the Oxera report for a start, as well as the policy.

Deputy S.M. Brée:

Minister, on the book value of JT and your estimation of what it could be worth, does that include the infrastructure, the value of the infrastructure, or not?

The Minister for Treasury and Resources:

That would include the company and everything the company owns.

Deputy S.M. Brée:

So, that does include the infrastructure that is currently under the ownership of Jersey Telecom, or JT.

The Minister for Treasury and Resources:

Correct.

Deputy S.M. Brée:

So, you would be looking, if you sold it, to sell the infrastructure as well, then?

The Minister for Treasury and Resources:

That would be a decision that would need to be taken, and that gets into the areas of structural separation, for example, which has been debated many times in the past.

Deputy S.M. Brée:

So, who would be taking that decision, if JT were to be sold? Who would take the decision?

The Minister for Treasury and Resources:

Ultimately the decision process would work through a proposal from the Treasury, which would go to the Council of Ministers and ultimately the States.

Deputy S.M. Brée:

So, the States would be asked for its approval prior to anything happening, you can guarantee that?

The Minister for Treasury and Resources:

Well, I think not only can I guarantee it, I cannot envisage any circumstance where an appropriate Minister or a Council of Ministers would seek to sell an asset of that size and importance without a States decision, and I can add that, in the past, some 18 months or so ago, where the sale of part of the equity, you will recall, in JT was being mooted, that was also put in the public domain, that it would ultimately be a States decision.

Deputy S.M. Brée:

Thank you for confirming that.

Deputy J.A.N. Le Fondré:

Okay. Right, Minister. We are moving on to the States of Jersey Development Company, mainly inspired, not entirely, but mainly, by your recent responses to our final report. So, in the ministerial response, Minister, to our report on the Jersey International Finance Centre you rejected our recommendation that the bonus structure for S.o.J.D.C. should be published; in other words, the

basis on which the directors and Ministers may or may not receive a bonus. What is the reason for not having full transparency in a States-owned company?

The Minister for Treasury and Resources:

There are elements about the ability to attract and retain suitable staff. The information is fully available clearly to be scrutinised, and that is appropriate, but to put it into public domain, we felt, on that basis, was not reasonable.

Deputy J.A.N. Le Fondré:

So, just to reiterate, why cannot States Members or the public know the basis on which the bonuses are calculated?

The Minister for Treasury and Resources:

Well, I think for the reason that I have just pointed out; and, of course, it is not the case that it cannot be properly scrutinised, because, of course, it can, and your own Panel has the opportunity to be able to do that.

Deputy J.A.N. Le Fondré:

But it is a company owned by the public.

The Minister for Treasury and Resources:

Which is why it is appropriate that you, as a Scrutiny Panel acting on behalf of the public, can scrutinise matters; and that is exactly as it should be.

Deputy J.A.N. Le Fondré:

Can I just point out, Minister, that it is becoming standard practice among listed companies in the U.K. ... in fact, I did a very random sample of 2 listed companies – one was a property development company, and one was a very large bank – and they have very detailed measures and calculations indicating performance measures and bonuses in their accounts, almost, I believe, down to individual levels in certain instances. So, in other words, given that is becoming standard practice and bearing in mind the increased drive for transparency generally, why should a company, just to keep pressing you, owned by the States, owned by the public, not follow best practice?

The Minister for Treasury and Resources:

Well, I think there is not an unreasonable case for continuing to review that situation and reassessing the position, perhaps, but I have given you simply the rationale behind the decision contained within the response that you have just quoted.

Deputy J.A.N. Le Fondré:

So, perhaps we change “reject” to “under consideration”?

The Minister for Treasury and Resources:

We can give it some further thought.

Deputy J.A.N. Le Fondré:

Thank you, Minister; and we will let the Panel discuss it, but I think we may be interested in receiving on a confidential basis the existing bonus structure.

Deputy K.C. Lewis:

Minister, Building 1 of the Jersey International Finance Centre was completed in March of this year. The States of Jersey Development Company recently extended for a further 3 years a loan facility which was due for repayment this year, which related to the construction of Building 1. Why was this necessary?

The Minister for Treasury and Resources:

I think you are referring to the revolving credit, the £2.5 million?

Deputy K.C. Lewis:

Yes.

The Minister for Treasury and Resources:

Yes. It was agreed to extend that as the level of work that S.o.J.D.C. has underway at the moment requires them to have that ability to have a revolving credit to continue on with projects that they are undertaking, and what we have made clear to them is that, upon the disposal of I.F.C. 1, that revolving credit facility will be remade.

Deputy S.M. Brée:

So, why could the States of Jersey Development Company not repay the revolving-credit facility from its existing assets? Does it have a cashflow problem?

The Minister for Treasury and Resources:

No. I mean, it could have repaid, but the view was that, with the level of work that they are undertaking at the moment, the disposal of I.F.C. 1 has not completed yet, indeed it is likely to go to the market in January, and, of course, with the other projects that they are continuing on with it does not seem an unreasonable position to allow them to do that.

Deputy J.A.N. Le Fondré:

Can you just repeat that, Minister? You said the J.I.F.C. 1 is likely to go to market in January, did you?

The Minister for Treasury and Resources:

The first quarter of next year. I think I did say January; I was meaning the first quarter of next year.

Deputy S.M. Brée:

Sorry, you are saying, Minister, that the States of Jersey Development Company could have repaid the revolving-credit facility but a decision was taken not to. Who took that decision?

The Minister for Treasury and Resources:

I did indeed say that they could have paid, because, of course, they could – they have significant assets and suchlike – but the point I was making was that they have also a number of projects at the moment that are ongoing at different stages of completion, therefore they made the request to be able to extend the revolving credit, and that was a request that was accepted from a Treasury point of view on the basis that they would repay that revolving-credit facility on the completion of the sale of I.F.C. 1, which, as a moment ago I mentioned, is likely to go to the market ...

Deputy S.M. Brée:

So, like I was saying, Minister, who took the decision? Was it yourself?

The Minister for Treasury and Resources:

The decision to agree with revolving-credit extension was a decision that I took, yes.

Deputy S.M. Brée:

Okay, fine. I was just trying to find out who decided what.

Deputy J.A.N. Le Fondré:

The 2016 accounts show that S.o.J.D.C. only had around £3 million at the end of the year. I think you indicated that the balance of the credit facility was £2.5 million. So, would there have been cashflow issues if they had been asked to repay it?

Director of Treasury Operations:

The Board have asked the Directors to maintain a cash reserve of £5 million. So, whilst the accounts show a snapshot position at the end of December, they do generally stick to that £5 million cash in the bank for reserves.

Deputy J.A.N. Le Fondré:

So, they would have been below then appeared ...

Director of Treasury Operations:

So, they would have been below the Board's requirement, yes.

Deputy J.A.N. Le Fondré:

And the £2.5 million would have seriously depleted it?

Director of Treasury Operations:

Well, it would have reduced £5 million to £2.5 million, yes.

Deputy J.A.N. Le Fondré:

Well, you are at £3 million at the end of the year.

Director of Treasury Operations:

At the end of the year, yes, but we are well in to 2017.

The Minister for Treasury and Resources:

It goes back to the point that I made, that they could have paid it but clearly that would have been outside of the requirements set by the Board, which are very sensible.

The Connétable of St. John:

Minister, what is the reason for the delay in selling Building 1, I.F.C. 1?

The Minister for Treasury and Resources:

Well, the development has gone extremely well. 70 per cent has pre-lets, and there is a further, effectively, 20 per cent which are at the legal stage.

Deputy J.A.N. Le Fondré:

Just repeat that, Minister. There are what percentage ...?

The Minister for Treasury and Resources:

70 per cent which are legally binding contracts are already signed – so, effectively it is let – and a further 20 per cent which are at the legal stage and progressing. So, the vast majority of the building is anticipated to have been let by the end of this year. Now, there was an approach earlier in the year by an investor who was keen to buy the building. The Board took the decision not to progress with a very attractive offer that was made for the simple reason because there was a certain percentage of the building still not let and that S.o.J.D.C. would have had to carry the risk in the intervening period, and that is the reason that that sale did not progress, but why they believe that they will be able to go to market in the first quarter of next year is, as I said, they will be more than 90 per cent let before the end of this year or by the end of this year.

The Connétable of St. John:

Minister, before they started Building 4, as it was called – it is now I.F.C. 1 – before construction started we as a panel were informed that the old finance centre was 470,000 square feet and the demand was some 25 per cent higher than that. If therefore there is so much demand, how come we cannot fill the first building, which is only 70,000 square feet?

The Minister for Treasury and Resources:

I think I have just pointed out that the company believes that they will have 90 per cent let by the end of this year. There is no question of doubt that before the development started it was much more difficult to get tenants to commit with all the uncertainty as to whether it would progress or not. I have had conversations with one or 2 sizeable companies, one in particular that has taken a space now, that made clear that they were reluctant to commit while there was so much uncertainty surrounding whether the development would progress. Now that they are building up, the level of interest has increased significantly and commitment has also increased, and I think that is a very positive sign, both for the development and also for the company itself.

[11:15]

The Connétable of St. John:

But demand far exceeded 470,000 square feet, we were told, yet we cannot even find 70,000, and the building is there and finished. So, there is no risk factor; the building is actually there.

The Minister for Treasury and Resources:

Yes, but, Connétable, I would not be negative about this; I think it is an extraordinarily positive story that, by the end of this year, more than 90 per cent of the building will be let and, do not forget, the second building, which is I.F.C. 5, is more than 50 per cent let with pre-contract agreements and a lot of demand coming through that takes time to get to the legal pre-let stage.

This development, I.F.C., International Finance Centre, is going very well, and it reflects the fact that the economy is also performing well; and long may that last.

Deputy J.A.N. Le Fondré:

Can I just, I think, make 2 observations? By the end of the year it will be nearly 9 months, near enough, after completion. At the moment we are talking about 90 per cent let at the end of the year. I mean, we all hope it will get better, but is the building going to be sold when it is 100 per cent let, or is 90 per cent sufficient?

The Minister for Treasury and Resources:

The Board took the decision, based on the earlier experience earlier this year when the investor came forward, that they would go to market once more than 90 per cent of the building was subject to pre-let agreements.

Deputy J.A.N. Le Fondré:

Does that not fractionally reduce the value?

The Minister for Treasury and Resources:

If it is not 100 per cent?

Deputy J.A.N. Le Fondré:

Yes.

The Minister for Treasury and Resources:

No, it is a question, I understand, of risk transfer. So, as part of the negotiation, it may be the case that S.o.J.D.C. will have to hold some of the risk for the unlet space, possibly, but once it gets down to such small percentages it is normally part of an overall negotiation.

Deputy J.A.N. Le Fondré:

So, if we are carrying risk, somewhere in there there is a financial amount that attaches to that risk, therefore, presumably, if it was not let over a certain period of time – admittedly, it is only 10 per cent – it would impact on the gross proceeds received, would it not?

The Minister for Treasury and Resources:

Well, I think the risk was actually selling the building when it was a much lower percentage, because there the risk is at a much higher level and at that particular point it was deemed by the Board to be an unreasonable and unacceptable risk for S.o.J.D.C. to take. I think when it gets

down to a few percentage points it is probably likely just to be a matter as to part of the overall negotiation as opposed to the carried risk.

Deputy J.A.N. Le Fondré:

So, that was at the time when, apparently, “We have also had material interest from investors in acquiring both I.F.C. 1 and I.F.C. 5, which indicates strong confidence, which is good, in the future strength of the Island’s finance industry”, which was straight out of the Chairman’s introduction in the 2016 account. That was dated the 28th of March 2017, and now we are talking about a potential disposal a year later.

The Minister for Treasury and Resources:

The market has been getting much stronger, and you will recall, Chairman, that when valuations were undertaken and assessments on this project were undertaken, indeed by your own advisors, the yields that were being talked about ... I think your advisors were suggesting 7 per cent, whereas offers have come in significantly better than that, demonstrating that the development has been and is proving to be a success, both in terms of demand from tenants and also in terms of what the monthly capital value is going to be and therefore the return that S.o.J.D.C. and therefore the prospective shareholder will make, but we will wait to see.

Deputy J.A.N. Le Fondré:

We will look forward to seeing those figures, Minister. Is there anybody else before we move on? Okay, Chris, you are on question 9.

The Connétable of St. John:

The States of Jersey Development Company has listed a number of assets in its accounts which it intends to sell. It is item 8 in the accounts: land for an electricity substation, hotel interests, part of a public square and Castle Quay car park. Have any of these been sold so far?

Director of Treasury Operations:

I think the Minister provided you with a response following the previous hearing about the assets that have been disposed of. So, the lease for the Waterfront Hotel, the J.E.C. substation and the offices at Harbour Reach ...

The Connétable of St. John:

Have now been sold?

Director of Treasury Operations:

The lease has been reassigned rather than sold, yes.

Deputy J.A.N. Le Fondré:

Oh, I see, because you are talking about the original 150 year... yes?

Director of Treasury Operations:

Yes.

The Connétable of St. John:

Following on from that, Minister, according to P.73, the money would come back to the Treasury, is that correct? And has it gone back to the Treasury?

The Minister for Treasury and Resources:

There is an option for the money to come back to the Treasury at market value or whatever the proceeds ... if the asset is transferred, then it can come back for market value or be sold and then the money would come back on that basis.

Director of Treasury Operations:

So, on each occasion the Treasury consults with property holdings to establish whether there is a desire for that asset to be retained by the States of Jersey, but in each case they have suggested that they could be sold into the open market, following appropriate valuations.

The Connétable of St. John:

But the proceeds should be returned to the Treasury, otherwise we are effectively subsidising S.o.J.D.C. with taxpayers' assets.

The Minister for Treasury and Resources:

Yes.

The Connétable of St. John:

You agree? Good.

Deputy J.A.N. Le Fondré:

Can we just roll this back slightly, then? Going back to P.73 2010, which is obviously the proposition that created S.o.J.D.C and laid down the various conditions that the States put in place, in your response to us you make reference to "assets being transferred to States of Jersey at market value". That is a correct quote. However, you did not refer to the introductory part of that paragraph, which seems to make a very clear distinction between assets that were presently held at the time of the proposition and future assets. The assets that were held at the time of the

proposition are directly referred to in Appendix 5, and those are the ones that you then cited, which should have been transferred back to the States. So, the question arises: if the company has actually sold those assets and now is sitting on cash, should the cash be being returned to the States so that the States Members or the Council of Ministers can determine the appropriate use for such funds?

The Minister for Treasury and Resources:

Yes, in principle, but of course you have got a company that has a remit to carry out, and, if funds are required, whether it be the assets that were sold or the funds that resulted in the sale of those particular funds ... it is the same principle as for retaining assets at market value. If you actually sell those assets, which you would do at market value, if you retain the money within the company and the company uses the assets for furthering the objectives of the company then that is a reasonable ...

Deputy J.A.N. Le Fondré:

No, Minister, because the point is the States laid a condition down that those assets would be transferred back to them. They were not to be there to maintain the normal operations of the company. It was a very clear decision that those assets were going to be transferred to the States. Now, accepting that the assets had been sold and the quantum is several million pounds, should the cash arising from those sales now be transferred to the States? Now, you made a comment there, Minister, that "if the company required the funds". Would you like to expand on that?

The Minister for Treasury and Resources:

It was not a specific requirement other than surmising that if that company had a particular requirement for carrying out its remit and it had an asset ... you asked the question earlier on about equalisation of assets for borrowing purposes. So, you could take an asset and borrow against it, with approval of course. In the same way, if you sold an asset and therefore it was liquidated then that could equally be used for development.

Deputy J.A.N. Le Fondré:

But the point is, Minister, these assets, for many years, were meant to have been transferred back to the States so that the States and the taxpayer could directly benefit from the enjoyment of those assets or the proceeds from them. At the moment, they have been locked up in the company for some time, which seems in our opinion to be against the proposition approved by the States, and now the company has sold them; so, therefore, in our opinion, the cash should be transferred to the States, to you; well, the Treasury!

The Minister for Treasury and Resources:

Well, it would be very nice for me, of course! No, I take the point that you are making, but clearly it is a matter to ensure, as well, that the company can fulfil its remit that was also laid out.

Deputy J.A.N. Le Fondré:

But the remit -

Treasurer of the States:

It seems an odd thing to do in a world where you say the States has to buy it off the company at market value ...

Deputy J.A.N. Le Fondré:

No, Treasurer. Sorry, no, the proposition makes a distinction between assets that were held by the company at the time, which is what we are talking about, and assets ... well, let us call them future assets – Building 4, for the sake of argument, J.I.F.C. 1. Assets that were held at the time, which came in from the original W.E.B. [Waterfront Enterprise Board]... which obviously in certain instances ... but because land had to be granted to W.E.B. at that point for little, process of consideration and things like that, assets held at the time the S.o.J.D.C. was created ... there is a policy laid down in Appendix 5, and they would be transferred to the States. There is no mention of “at market value”. Would you like to go away and consider that?

Treasurer of the States:

Is that the assets that form the equity of the company?

Deputy J.A.N. Le Fondré:

No, they are the Radisson Hotel lease, the Weighbridge ...

Treasurer of the States:

The original £20 million?

Deputy J.A.N. Le Fondré:

No, the ...

Treasurer of the States:

A different one?

Deputy J.A.N. Le Fondré:

They are identified in Appendix 5.

Treasurer of the States:

Have you got Appendix 5 there, Simon?

Deputy J.A.N. Le Fondré:

If you wish to go back and consider them and give us a more informed response ... but what we are suggesting is that there is a distinction between assets held at the time that P.73 and S.o.J.D.C. were created, treating them one way and then, going forward, assets being treated differently for the future.

The Minister for Treasury and Resources:

Okay. I understand the point you have made, but I would just reconfirm the fact that the assets regardless ... because you made the point that the funds should be returned to the Treasury for the benefit of the public. The company is owned by the public, and those funds are therefore being used to further the objectives and aims of that particular entity.

The Connétable of St. John:

In other words, that is a direct subsidy from the States Treasury to the company and therefore the company is not competing on a level playing field with other developers.

Senator S.C. Ferguson:

And, in fact, it implies the company is short of money.

The Minister for Treasury and Resources:

You could argue that, irrelevant to this particular point, in any event, could you not?

The Connétable of St. John:

You have always stated, and it has been a principle of the Council of Ministers and yourself, that S.o.J.D.C. competes on a level playing field with developers, with the private sector, and yet you have just given them a subsidy here in excess of £3 million or whatever the sum is.

The Minister for Treasury and Resources:

Well, they were given the best part of £20 million worth of assets when they were set up in the first place. You have to capitalise the business as you ...

The Connétable of St. John:

Those assets would be returned in the sale of the subsequent developments that took place. However, these are separate assets, which have already been developed and should have been

returned to the Treasury some time ago. It should have happened in 2010 when the P.73 was discussed.

The Minister for Treasury and Resources:

Well, we will look back at the history of that, and we will report back to you on it, but the point I am making is that the assets were not assets that are lost assets that are owned by the company and therefore are owned by the public of the Island; so, the value of the business has been enhanced as a result of that.

Deputy J.A.N. Le Fondré:

Just to push forward, Minister, and perhaps in your considerations you might want to include these, many years ago, or a number of years ago, certainly in our time, politically, in the States, the Jersey Electricity Company sold an asset, it was the shop in Broad Sheet, and the States received a special dividend. There was a view at that point that the company could have retained the money and invested it in its own operations but actually this was a decision, it was a special event and that in that instance the taxpayer could decide, the States Assembly could decide or the Council of Ministers could decide the most appropriate use of that money. Perhaps you might wish to consider those matters. I think we want your assurance particularly that these assets were not sold just to generate cashflow. Would you like to comment on that now, Minister?

The Minister for Treasury and Resources:

Is that what you're speculating?

Deputy J.A.N. Le Fondré:

I was moving onto a question now that we would like your assurance that it was not sold for cashflow matters.

The Minister for Treasury and Resources:

I am not aware that that was the case.

Deputy J.A.N. Le Fondré:

Okay, good. Finally, Minister, just before we move on to a slightly different subject, still on the S.o.J.D.C., could we have asked S.o.J.D.C. to pay a dividend on this money, for example to fund the purchase of the land for an extension to the new town park?

The Minister for Treasury and Resources:

Well, we do not even know the value of the potential extension to the town park.

Deputy J.A.N. Le Fondré:

No, Minister, but it would have represented a softening of the likely blow to the taxpayer.

The Minister for Treasury and Resources:

I do not think there is any suggestion there is any blow to the taxpayer; as long as the value is still there, then it is not a blow. It is not a loss, is it?

Deputy J.A.N. Le Fondré:

On the town park?

The Minister for Treasury and Resources:

Well, that is subject, as I said earlier on, to, I would suggest, a States decision as to whether indeed any public money should be used for that purpose, but that is a matter that will need to come before the States. Where the funds ultimately come from is obviously secondary to that.

[11:30]

Deputy J.A.N. Le Fondré:

Moving on -

Treasurer of the States:

Just to clarify on the question that no options have been ruled out in that respect, if that sheds some light on what you have asked.

Deputy J.A.N. Le Fondré:

Okay, yes, that is interesting. Kevin, question 12.

Deputy K.C. Lewis:

Building 5 of the Finance Centre is under construction. Building 6 has planning permission. Are you expecting to commence Building 6 despite not having fully let the other buildings or sold Building 1?

The Minister for Treasury and Resources:

It will depend if the same criteria are met that are laid clearly down, that there needs to be enough pre-let agreements in place in order to cover the construction cost. I think I mentioned earlier on that Building 5 is more than 50 per cent let. It is actually 56 per cent, which is correct, and that has started with practical completion due at the end of July 2018. Building 6 could start should there be enough pre-lets in place in order to meet the undertaking and the requirements.

Deputy J.A.N. Le Fondré:

Just to interrupt, sorry – Kevin, has another question – that was to fund the construction costs, was it not?

The Minister for Treasury and Resources:

Yes.

Deputy K.C. Lewis:

When you say “enough”, what level of binding pre-let contracts will need to be in place for work to start on Building 6? So, you said “enough”; could you be a bit more specific?

The Minister for Treasury and Resources:

It depends on the terms. It depends on what the estimated cost of construction is going to be for that building, and it will therefore depend on the terms of the particular contracts that are secured. I cannot give you an exact figure.

Deputy J.A.N. Le Fondré:

A quick question, Minister: is there a possibility then that Building 6 could commence before we sell what is now referred to as Building 1?

The Minister for Treasury and Resources:

Technically, although I would say it is highly unlikely, on the basis that the intention is, with the level of interest and also the intention to go to market in the first quarter of next year ... and there is still 44 per cent of Building 5 left and still a small amount of Building 1 left; there is still quite a lot of capacity available.

Deputy J.A.N. Le Fondré:

So, would you commit that Building 6 will not start until Building 1 has been sold?

The Minister for Treasury and Resources:

I would not commit to that at this particular stage. I mean, if, for example, a single tenant or 2 tenants came forward and wanted to take the vast majority of the building and the advice from S.o.J.D.C., from the Board of S.o.J.D.C., would be to progress that then I think it would need to be looked at in overall context of what was being developed.

Deputy J.A.N. Le Fondré:

There are a whole load of risks in the whole development spectrum, but one of them, ultimately, the way we get profits out of this in the foreseeable future, is the disposal, the sale, of the buildings.

The Minister for Treasury and Resources:

Correct.

Deputy J.A.N. Le Fondré:

If we do not sell the building, we do not, in the short to medium term, get the profit.

The Minister for Treasury and Resources:

Which is why I have been able to give you the encouraging news that the majority of I.F.C. 1 will be let by the end of this year and therefore the property will go on the market in the first quarter of next year. We also know that earlier this year we had a very strong bid for I.F.C. 1, all of which is indicative of not just the strength of potential tenants' interest but also investors' interest.

Deputy J.A.N. Le Fondré:

I accept that, Minister. So the question is – we keep being told there is strong demand from tenants and there is a strong demand to buy – if there is a strong demand to buy, which is ultimately the test of what we are trying to do, surely, then, it cannot be unreasonable that if we have got 2 buildings – one is finished, one is being constructed – and one has planning permission, that we do not start building the third building until we have sold the first. You have just said - I will rephrase it - the Board have said that there is strong demand for the purchase. So, it should not be a problem.

The Minister for Treasury and Resources:

It should not, and I would agree with you; it does not seem unreasonable. All I am trying to paint is that there are all sorts of different scenarios that can occur. So, prior to the sale of Building 1, we have still got space left from Building 5 as well, and it is likely, I would have thought, therefore, that any other potential tenants would take up that space, but if there were a scenario where a substantial tenant were to come forward, or 2, who wanted to take the majority of I.F.C. 6 then it would be foolhardy not to give that serious consideration, and I would imagine that is exactly what the Board would do, but I am, I have to hasten to add, merely speculating, because your question was a speculative question.

Deputy J.A.N. Le Fondré:

But, I think, following that speculation, it is all very well there being tenants to take the space, but if there is no buyer ... it is all very well saying, "Yes, that is the other side of the risk". If we have

filled a building but there is no buyer, we are still left holding the risk, therefore surely, the case would be that you want to make sure that Building 1 is sold first before we start committing to Building 6.

The Minister for Treasury and Resources:

I think they are all factors that the Board would need to give careful consideration to before deciding how they were going to propose to progress.

Deputy J.A.N. Le Fondré:

And presumably the Minister and his team would also take into account ...

The Minister for Treasury and Resources:

Of course the Minister would be interested, as the Minister is always interested, in the progress of the development and, indeed, ways in which the company are proposing to progress that development.

Deputy J.A.N. Le Fondré:

Minister, before we move on, is it the Minister's decision as to whether Building 6 commences, as of now?

The Minister for Treasury and Resources:

The company has a clear remit, which is laid out, that they have to meet. So, if they are in a position to be able to meet that remit and they have the funding available, without any further requirement or recourse to the Treasury, then they would technically be able to make the decision to progress. The borrowing decision would come, if that were the case, which of course it would be ...

Deputy J.A.N. Le Fondré:

The Minister can take a view at that point, for whatever reason, not to approve the grant terms?

The Minister for Treasury and Resources:

Yes.

Deputy J.A.N. Le Fondré:

Anybody else at this stage, or can we move forward?

Senator S.C. Ferguson:

Yes, just one small one: is the security for Building 5 still in place?

The Minister for Treasury and Resources:

It would be, as far as I am aware.

Director of Treasury Operations:

Yes, it is.

Deputy S.M. Brée:

Can I just clarify that point? The borrowing against Building 1, which was originally Building 4, but we will call it 1 now, has security against it. The borrowing for Building 5 has security against it. Unless you release any security from the sale of buildings, S.o.J.D.C. do not have any remaining plots they can offer as security against further borrowing against the potential building of Building 6. Is that correct?

Director of Treasury Operations:

The bank views the facilities and the securities package. So, we get sight of the bank facility letters, and they list the security as a package of security with a number of sites named.

Deputy S.M. Brée:

Against what?

Director of Treasury Operations:

Against the net facilities of S.o.J.D.C.

Deputy S.M. Brée:

So, the whole of the site is taken into consideration every time S.o.J.D.C. go to the bank for borrowing; is that correct?

Director of Treasury Operations:

From what I have seen in the bank facility letters.

Deputy S.M. Brée:

So, security is not, as we understood it, named against an individual facility for an individual building, is that correct?

Director of Treasury Operations:

No, that is not correct.

Deputy S.M. Brée:

Then kindly explain ...

Director of Treasury Operations:

Every time the bank issues a facility letter for individual facilities all of the relevant sites are listed as security. It is not a method that I have been used to when I was working in a bank. So...

Deputy S.M. Brée:

Sorry. So, if S.o.J.D.C. fail to repay any of the facilities to the bank, in theory the bank have right of call on all sites within that area and assets belonging to S.o.J.D.C., is that correct?

Director of Treasury Operations:

The actual wording in the facility letter is that S.o.J.D.C. provides a guarantee, which is secured against the assets.

Senator S.C. Ferguson:

Which assets?

Director of Treasury Operations:

The assets that they own.

Deputy S.M. Brée:

All of them; every asset that the company owns.

Senator S.C. Ferguson:

Every asset of S.o.J.D.C.?

Director of Treasury Operations:

Every asset that is listed in the facility letter.

Senator S.C. Ferguson:

Which assets are listed in the facility letter, then?

Director of Treasury Operations:

I would not want to say that.

Deputy J.A.N. Le Fondré:

Well, they have been registered, yes?

Director of Treasury Operations:

They are registered, yes.

Deputy J.A.N. Le Fondré:

So, they are in the public domain?

Director of Treasury Operations:

Yes.

The Connétable of St. John:

Sorry, are there additional facilities that S.o.J.D.C. could use, additional properties that they could use, assets they could use, to secure further loans for Building 6?

Director of Treasury Operations:

There may be one or 2 listed in the back of P.73. I think they are earmarked for disposal, the ones we have talked of. So, they are not secured.

The Connétable of St. John:

But not sufficient funds to cover ...

Director of Treasury Operations:

It would not cover the cost of the whole building, no.

Deputy J.A.N. Le Fondré:

Can we go to question 13?

Deputy S.M. Brée:

Yes.

Deputy J.A.N. Le Fondré:

Okay, Chris.

The Connétable of St. John:

Thank you. Minister, do you agree with your colleague, the Environment Minister, who recently commented that the current Esplanade master plan is boring?

The Minister for Treasury and Resources:

That is a subjective view. I am sure if you asked the question of 100 people you would probably get a huge number of different views. I do not think that the Environment Minister was referring purely to one specific area, such as the Finance Centre. I think more specifically he was referring to the whole of the area and he was giving his opinion. I do not think it is necessarily boring at all. I think, from what I have seen to date, it shows some interest in the way that the town is developing, and I am not of the view that it is boring.

The Connétable of St. John:

As a tourist island, do you think visitors will take pictures of Building 1 and say, "We saw that", as they are walking past?

The Minister for Treasury and Resources:

Some might.

The Connétable of St. John:

Or would you agree with the Environment Minister that it is boring?

The Minister for Treasury and Resources:

I do not think he was saying that I.F.C. 1 was boring. I think he was talking about the whole site, that he would like to see something more exciting, and I think he was probably referring to some form of iconic structure. You do see iconic structures in public jurisdictions, and I think perhaps he was of the view that, as time passes and the rest of the area is developed, that there should be something a little bit more interesting to bring it out.

Deputy J.A.N. Le Fondré:

Okay. Can we move forward?

Senator S.C. Ferguson:

Given that I live next door to an iconic structure, I would query that comment.

Deputy J.A.N. Le Fondré:

Right, we are going to move forward. Minister, this is going back to your comments on our report. The wording on the condition in P.73, 2010, which, for the benefit of members of the public, is now on-screen and you have it in front of you. This is the condition by which construction could commence on the buildings. Now, in your comments, you refer often and have done to us before to the value of the unlet part of the building, and what I would like you to identify in that condition is: where does it state that unlet space can be taken into account upon the calculation?

The Minister for Treasury and Resources:

I think, Chairman, you have accepted the point that there is a lack of clarity in some of the wording within P.73, and my response talks about the fact that I do not disagree with the fact that there is perhaps a lack of clarity in some aspects and therefore we agree to look at that and bring it back with a little more clarity around the areas of wording where there is a certain amount of ambiguity.

Deputy J.A.N. Le Fondré:

So, just for the purpose of what we are dealing with now, from that wording where does it refer to the unlet space being capable of being used in a calculation for the commencement decision?

The Minister for Treasury and Resources:

Well, that is exactly the point. You have taken one example, which ...

Deputy J.A.N. Le Fondré:

No, that is *the* example of P.73. It is precisely the paragraph that is the relevant calculation for commencement.

The Minister for Treasury and Resources:

Well, where does it exclude it?

Deputy J.A.N. Le Fondré:

No, Minister.

The Minister for Treasury and Resources:

Yes, Chairman.

Deputy J.A.N. Le Fondré:

Okay, I will tell you what, Minister, I will read it, and you can stop me when we get to the point that says you can bring it into the calculation. "If it is proposed that a specific development is undertaken directly by S.o.J.D.C. before committing to construction costs, S.o.J.D.C. will have to secure a sufficient level of legally binding pre-sales or pre-lets to fund the cost of constructing the first phase of the scheme." You have not stopped me, Minister.

The Minister for Treasury and Resources:

No, I was enjoying listening to you reading it out. I make the point that I made previously. It does not preclude unlet space being valued, and the fact of the matter is ...

Deputy J.A.N. Le Fondré:

Minister, it says, "S.o.J.D.C. will have to secure a sufficient level of legally binding pre-sales or pre-lets". If the value of the space is unlet, it cannot be a legally binding pre-let, because you cannot have a contract with a tenant that does not exist. In here, where does it say that unlet space can be taken into account in this equation?

[11:45]

The Minister for Treasury and Resources:

But the point is that they do not start development until they have a sufficient number of pre-lets to cover the cost of construction. So, that is actually met. What you are talking about, of course, is the overall valuation of the building and delaying that ...

Deputy J.A.N. Le Fondré:

Sorry, just to clarify, on the first building, of which – public domain – about 24 per cent-odd was the amount of the initial pre-let, that in your opinion was sufficient to cover the total cost of construction of that first building?

The Minister for Treasury and Resources:

That sum of money was sufficient, but the unlet space has a value as well, as we stated previously, and that also has to be taken into consideration.

Deputy J.A.N. Le Fondré:

Sorry, to be clear, the pre-let agreement with that first hand was sufficient to cover the cost of construction of – let us call it – Building 4?

The Minister for Treasury and Resources:

Together with the unlet space, yes.

Deputy J.A.N. Le Fondré:

No, Minister, that is not the question I was asking.

The Connétable of St. John:

Unlet space does not have a legally binding pre-let. The clue is in the name. It is unlet.

The Connétable of St. John:

You cannot have a legally binding pre-let.

Deputy J.A.N. Le Fondré:

Basically, the wording is, “S.o.J.D.C. will have to secure a sufficient level of legally binding pre-lets to fund the cost of construction”, which we accept, as to the cost of construction, and so the legally binding pre-let valued has to equal or be greater than the cost of construction. It says “will have to secure a sufficient level of legally binding pre-lets”; there is no room there for unlet value or space. Do you agree it is not mentioned in that condition, as written there?

The Minister for Treasury and Resources:

It is not mentioned in that agreement.

Deputy J.A.N. Le Fondré:

Thank you, Minister. Can we move forward? Okay. Also, Minister – this is a relatively easy question, I hope; I think just possibly you are not understanding our position – why did you not agree with the recommendation in our report that required States Members to be actively notified of any transactions you approve involving S.o.J.D.C. rather than the present system of just leaving it on the website?

The Minister for Treasury and Resources:

I think by default Members are advised.

Deputy J.A.N. Le Fondré:

No, the recommendation was that ... at present, the condition is there is a 15-day period, grace period, before a ministerial decision can be approved, which is consistent up to that point of the transactions involving property holdings and the sale or acquisition of property. However, within property holdings, States Members have to be actively notified – there is a report that is sent out – whereas with S.o.J.D.C. there is no requirement to actively notify and so it just sits on the website. So, our recommendation was that we make the 2 systems consistent and that we move to actively notifying States Members, that is all. Perhaps you might wish to reconsider and have a look at that whilst we move on. Shall we move from that? Perhaps you could come back to us and have a look at that condition. It is not a major issue.

The Minister for Treasury and Resources:

I mean, in a sense, it is an important point, because, of course, it does give the opportunity – and obviously S.o.J.D.C. is operating commercially in the market – for competitors to potentially step in and damage a deal or scupper a deal.

Deputy J.A.N. Le Fondré:

No, the grace period is there already, and all we are asking for is that ... rather than it just being a decision is made and if by luck people spot it on the website they can query it, we are just

suggesting for transparency purposes that a report be sent, in the same way as happens on property transactions at the moment, to States Members. That is all.

The Minister for Treasury and Resources:

I understand the point, but my point stands as well. We will give it some further consideration, but nevertheless the fact of the matter is that if there is a 15-day period in that way then it does add to the potential risk of competitors stepping in.

Deputy J.A.N. Le Fondré:

The 15-day period is already there.

The Minister for Treasury and Resources:

I accept that.

Deputy J.A.N. Le Fondré:

It is how it is communicated, that is all.

The Minister for Treasury and Resources:

Yes it is, but that is exactly the point: it is available for Members who wish to go and look at it, but it is not done in such an open way.

The Connétable of St. John:

But it is on the website; so, it is public. It is just a matter of saying, "Would Members like to look at the website?" because I do not look every day and therefore may not pick up on it.

Deputy J.A.N. Le Fondré:

And the point was that one of the important decisions when we were looking at the process was lodged on the website ... I think that this was the day before the elections, and so, although there was a 15-day grace period, in reality States Members would have probably had other things on their mind than actually looking at the website. So, it is about just being, again, that bit more transparent.

The Minister for Treasury and Resources:

May I ask, Chairman, by making a change of the nature that you are suggesting, what you think the benefits will be over what is the situation at the moment?

Deputy J.A.N. Le Fondré:

Purely being more open with States Members. When I say open, just making sure that they are aware of how important decisions are made on one of our underlying assets, that was all.

The Minister for Treasury and Resources:

We will give it some further consideration.

Deputy J.A.N. Le Fondré:

Thank you. Right, I think we move forward on to hospital funding. Simon.

Deputy S.M. Brée:

Minister, can you confirm that the projected budgetary cost of constructing a new hospital, excluding contingencies, is still £392 million and has not increased?

The Minister for Treasury and Resources:

I have had no information to the contrary.

Deputy S.M. Brée:

So, you can confirm that it is still that figure?

The Minister for Treasury and Resources:

That is my understanding.

Deputy S.M. Brée:

So, when will you be lodging the new proposals for funding the new hospital?

The Minister for Treasury and Resources:

The intention is to lodge on the 30th of October, and I believe that information has been given to you already.

Deputy S.M. Brée:

Just to try and clarify the situation, we were originally told that you were aiming to lodge the new funding proposal by the 3rd of October. So, why the delay?

The Minister for Treasury and Resources:

Well, clearly, there is the matter of 2 elements to the proposition. One is for the funding strategy. Of course, there is the other matter relating to the business case, and, clearly, we wanted to have fresh clarity around that and also the progression of the planning matters before we lodged ... and it does take an awfully long time to conclude these points, particularly when it is cross-

departmental, a number of issues to be considered, and so there was a very slight slippage in time, but, as I have said, the intention is to lodge on the 30th of October.

Deputy S.M. Brée:

Okay. So, how will the new proposals to fund the hospital differ from those withdrawn earlier this year?

The Minister for Treasury and Resources:

That remains to be seen. I have commented publicly on a number of occasions, most recently, in fact at the I.O.D. debate, which I think a number of the Panel Members were attending, that the funding strategy which the Treasury proposed at the beginning of the year is, as a funding strategy, a blended strategy between borrowing and using some reserves, which I have no reason to believe is not broadly still the approach we would take, but we have had the Treasury Advisory Panel, together with external advisors, looking at the matter again. Time has passed, markets have been quite volatile, and there have been a number of other proposals suggested that are being reviewed, but as soon as that information has been considered then, of course, the proposal will be put together and lodged on the 30th, and, of course, I would be very keen that the panel looking at it – I believe, Deputy, you will be chairing it – will get that information as early before the lodging date as is feasible.

Deputy S.M. Brée:

When you asked the States to look at this earlier this year, prior to you withdrawing it, you stressed the fact that time was urgent; if we delayed, there would be considerable costs to this Island. That was one of the levers you attempted to use in getting the debate through the States. You are now saying you will not lodge until the 30th of October. So, how much has your delay cost the Island?

The Minister for Treasury and Resources:

First of all, I said there could be considerable cost, because I went on to make the point that markets are volatile and that is why I was of the opinion that we need to move as quickly as possible to give certainty. Governments need certainty. In the intervening period, markets have indeed been very volatile, and the cost of borrowing has moved as events have occurred both up and indeed down. I believe that the current position is very slightly up on the point at which the debate was previously going to occur but not materially so. As I have said, there have been many ups and downs. So, without doubt – this is in terms of markets – clearly there will be probably some more before we get to the point of actually debating and then, I might add, executing after that.

Deputy S.M. Brée:

I go back to my question. The cost of borrowing has increased and will continue to increase because there is an indication that interest rates will go up. How much has your decision to withdraw the original funding proposal cost, taking into account borrowing costs today versus where you were projecting them when you withdrew the proposal?

The Minister for Treasury and Resources:

Well it is interesting, Deputy; you seem to be taking a market position. You are predicting that they will go up. That is not by any means certain.

Deputy S.M. Brée:

Are you taking the contrary position then, Minister, that they will go down?

The Minister for Treasury and Resources:

I am not. I am simply saying, as I did previously, that it could be more expensive, and, indeed, it could be more expensive; indeed, it could be cheaper. We just do not know. I was wanting to remove one of the most important elements, which is timing, and that is why I was keen that the debate happened earlier in the year, which of course it did not.

Deputy S.M. Brée:

So, you are now saying timing is not an issue?

The Minister for Treasury and Resources:

I am not saying it is not an issue. It has been an issue at the beginning of the year, and it remains an issue, because we are still living in extraordinarily uncertain times and therefore volatile times. We have seen the cost of borrowing go up, and we have seen it go down. It actually got cheaper than at the point we were going to originally debate at one point.

Deputy S.M. Brée:

What was the date that you last looked at the cost of borrowing?

The Minister for Treasury and Resources:

Last Monday.

Deputy S.M. Brée:

As at last Monday, was the cost of borrowing higher or lower than on the date on which you withdrew your proposal?

The Minister for Treasury and Resources:

It was, I believe, slightly higher. Do you agree?

Director of Financial Planning and Performance:

Marginally higher but ...

Deputy S.M. Brée:

Therefore the cost of borrowing has increased; we can say that, yes?

The Minister for Treasury and Resources:

“Marginally”, I think was the term.

Deputy S.M. Brée:

No, the cost of borrowing has increased, yes or no?

The Minister for Treasury and Resources:

The cost of borrowing has increased, marginally, yes.

Deputy S.M. Brée:

Right. Okay. We will move on.

Deputy J.A.N. Le Fondré:

Right, moving on, Sarah, question 19.

Senator S.C. Ferguson:

The budget is due to be lodged next week. Is it? You are definite about that, are you? Is the States income for 2017 in line with your forecasts?

The Minister for Treasury and Resources:

It is exceeding forecasts, currently.

Senator S.C. Ferguson:

By how much?

The Minister for Treasury and Resources:

I think it is 4 per cent overall, but I will get you the figures in a moment.

Deputy J.A.N. Le Fondré:

Can we let loose Chris with his next question whilst you ...

The Minister for Treasury and Resources:

I can tell you. I have not got the figure, but we will get it in a second, of the overall, but we are talking about 2017 up until the end of June, where we saw income tax was up by 5 per cent over budget, G.S.T. was 4 per cent up, stamp duty was 8 per cent up and other income, including largely investments and what have you, was 26 per cent up.

Director of Treasury Operations:

So, £4 million up overall.

Deputy J.A.N. Le Fondré:

In total, £4 million?

The Minister for Treasury and Resources:

Yes.

Deputy J.A.N. Le Fondré:

Okay. Thank you very much.

The Connétable of St. John:

Minister, the Fiscal Policy Panel expressed concern in their August letter about the problems in introducing the health charge and the waste charge. What are you doing to ensure that any new proposals will be acceptable to States Members?

[12:00]

The Minister for Treasury and Resources:

Well, I would not dream of pre-determining what might be acceptable to States Members, but what I can tell you, which is what I have said publicly previously, is that there will be measures contained within the budget, which will be lodged on 3rd October, which will seek to bridge some of the gap in relation to the inability to introduce a health charge, that will deal with the position between 2018 and 2019, and, after that point, we will be making it clear, as I have already, that sustainable measures will need to be put in place to deal with the longer term as healthcare costs continue to increase; so, short-term measures up until the end of this M.T.F.P. period, effectively, which can be dealt with largely through the budget.

The Connétable of St. John:

The F.P.P. also mentioned that States finances are likely to face additional structural pressures in the medium term, when considering Brexit, changes to the finance industry, demographic pressures and declines in productivity. Do you agree with this analysis?

The Minister for Treasury and Resources:

I would not seek to disagree with it. I think it is a very fair assumption of the uncertainties that both Jersey and many other places face.

The Connétable of St. John:

Thank you.

Deputy J.A.N. Le Fondré:

Right, we will do our final question, from Sarah.

Senator S.C. Ferguson:

What changes have you made to your income forecasting process to take account of the review by Oxera earlier this year?

Treasurer of the States:

So, the revised income forecast will be out next week. We have used the revised formula, following the review of Oxera into employment income and pension in forming that forecasting.

Senator S.C. Ferguson:

So, that will be out with the budget next week.

Deputy J.A.N. Le Fondré:

Well, we look forward to reading and digesting it with interest. Right, Minister, thank you very much, that concludes the hearing; thank you to members of the public and thank you for your time.