

STATES OF JERSEY

Economic Affairs Panel Jersey Finance Limited

THURSDAY, 8th MAY 2008

Panel:

Deputy G.P. Southern of St. Helier (Chairman)

Deputy J.A. Martin of St. Helier

Connétable M.K. Jackson of St. Brelade

Witnesses:

Senator P.F.C. Ozouf (The Minister for Economic Development)

Mr. M. King (Chief Executive, Economic Development)

Mr. M. De Forest-Brown (Director of International Finance)

Absentees:

Deputy K.C. Lewis of St. Saviour

Deputy G.P. Southern of St. Helier (Chairman):

Good morning and welcome, Minister. I know you are taking time out of the Council of Ministers to come to this hearing. Before we start can we, for log notes purposes, just introduce ourselves, each of us. We know we know each other but just for minuting purposes.

Connétable M.K. Jackson of St. Brelade:

Constable Mike Jackson, Economic Affairs Scrutiny Panel.

Deputy G.P. Southern:

I am the chairman of this panel, Deputy Geoff Southern.

Deputy J.A. Martin of St. Helier:

I am the third member present, Deputy Judy Martin.

Mr. M. De Forest-Brown:

Martin De Forest-Brown, Director of International Finance, board member of J.F.L. (Jersey Finance Limited) and accounting officer for J.F.L. Grant.

Senator P.F.C. Ozouf (The Minister for Economic Development):

Philip Ozouf, Minister for Economic Development.

Mr. M. King:

Mike King, Chief Executive, Economic Development.

Deputy G.P. Southern:

As I say, welcome to this meeting; an unusual meeting, unique in fact probably so far in Scrutiny in that you have had time to read the bones of our report. First of all I have to say I apologise, I do recognise that we did promise to invite you back on 17th December when you first came to give us evidence. I apologise for that oversight. We did believe that we had enough evidence to issue our report. To finalise our report we understand that you wish to give us fresh evidence of important changes that you have instituted in J.F.L. that you think are significant and, therefore, we welcome you today to do that.

Senator P.F.C. Ozouf:

Thank you, Chairman. I do accept the apology. We have found ourselves in a rather extraordinary position I have to say because scrutiny is, I think, trying to ... and been set up by the States on the introduction of ministerial government to hold Ministers to account for their decisions. I am slightly surprised that there are not any ... that you do not have any Scrutiny Officers here because clearly there are ... whilst I am going to want to explain to you some changes. Because Scrutiny should be forward looking as opposed to being entirely backward looking, there are a number of issues in the draft report which I cannot attend before you and give you evidence without effectively going through. I would just point out that ... I mean, considerable work on our side at Economic Development with James Mews and Martin has been done to provide the panel with a lot of historical information. Jersey Finance have themselves spent a number of man weeks to provide information and the output that we have seen in the report so far. Obviously we cannot see the recommendations but I think it is fairly clear about where the report is heading in certain recommendations. Certainly

if a report is supposed to be linked between the 2 it is clear where some of those recommendations are going.

Deputy G.P. Southern:

They usually are, Minister.

Senator P.F.C. Ozouf:

Right. Well, then I must say to you, Chairman, that I find the report in large measure inaccurate, misleading and lacking in evidence.

Deputy G.P. Southern:

We are here to hear the evidence. Can we get on to the evidence, please?

Senator P.F.C. Ozouf:

I am afraid it must be said that this is a very difficult position for us to find ourselves in.

Deputy G.P. Southern:

Before you go any further, Minister, could I point out that we are not here to debate interpretations? We are here to hear your evidence about changes you have made which will or may significantly alter the conclusions or whatever that we may come to. At the moment I am hearing a political speech about the value or not of scrutiny. Can we get to the evidence?

Senator P.F.C. Ozouf:

Well, we need to get to the evidence and, Chairman, you need to understand that there is ... I have seen and you will have read this morning Jersey Finance's comments about the report and it must be clear, because it is clear to me, that there is a serious problem with the draft report that has currently been issued. It must be ...

Deputy G.P. Southern:

Minister, if you do not mind. I have received in writing this morning from J.F.L. their comments. Those comments will be taken into consideration. If we consider any of them are valid, they will be incorporated into our report. That is the normal way the

system works. I am not prepared to discuss that. It is confidential at the moment. I am interested to hear what you, as Minister for Economic Development, have done which significantly changes the accountability and practices of the J.F.L. which we have overlooked.

Senator P.F.C. Ozouf:

We will come to that. However, I must express some concern about effectively what the scrutiny draft report is covering here because whilst ... and we are going to go on to discuss some of the changes that we have made since the introduction of ministerial government. We have some comments by Jersey Finance which use phrases like: “express disappointment,” “misleading statements,” “a degree of misrepresentation.”

Deputy G.P. Southern:

Minister ...

Senator P.F.C. Ozouf:

I am sorry, I do ...

Deputy G.P. Southern:

We have received that ...

Senator P.F.C. Ozouf:

“Not in public interest,” “lobbying,” “inaccurate,” “an extrapolation of commentary which is lacking in evidence,” a conclusion which basically says that they are deeply disappointed at the level of misrepresentation and accuracies of the report. I mean, this is an extraordinary position.

Deputy G.P. Southern:

Minister, you are not here to speak on behalf of Jersey Finance. You are here to speak on behalf of yourself at this special meeting convened, after you have seen the report, in order that you can tell us exactly what you have done which is so significant that some of our conclusions may have to be changed. Will you kindly get on with that and stop rubbishing and playing politics with the whole process?

Senator P.F.C. Ozouf:

I want your undertaking, Chairman, that you will be carefully considering the representations that have been given by J.F.L. There is a further issue of, I think, quite important principle that needs to be raised, that I need to understand. You are holding a Minister to account for his or her (in my case his) decision-making. You are not, if I may say, holding J.F.L. to account about effectively their allocation of resources and their value for money. That is the job of the P.A.C. (Public Accounts Committee) and I am finding it quite difficult to reconcile what is effectively a scrutiny report which could very well ... many of the comments made and many of the recommendations, and indeed much of the evidence that you have asked for, is trespassing into the P.A.C. position and it is ...

Deputy G.P. Southern:

Minister, if I may, if you will allow me, I accept that that is a grey area and always has been with P.A.C. I work with it day in and day out on scrutiny. There is an area in which one might say there is an overlap between P.A.C.'s activities on any scrutiny activity. However, I am concerned that scrutiny in particular looks at policy and going forward and that is what I believe my report has tried to do and not to over-concentrate ... we can argue the toss until the cows come home on the past, but to look at what can be learned from the past and to take it on and that is my emphasis.

Senator P.F.C. Ozouf:

Well, I am finding it very difficult to see from the draft report anything which is about current and future and that is the very difficult position. Again, this may well be a very difficult issue but I am going to get this issue out on the table. You say, Chairman, it is your report. I hope it is your panel's report and I hope the panel has ... I note that there is no executive officer here. The panel has not chosen on this occasion to take expert advice in relation to this issue and I think I am entitled to ask the questions. You have again tabled a question this week for next week's States sitting in relation to transferring of money from some areas of activity, from Tourism and Agriculture. The underlying tone of this is that effectively we are somehow not supporting non-financial services and we are giving money ...

Deputy G.P. Southern:

Please do not put words into my mouth, Minister.

Senator P.F.C. Ozouf:

You are aligned, and publicly aligned, Chairman, with organisations such as the Tax Justice Network and the...

Deputy G.P. Southern:

That is completely unjustifiable. I have never been a member of that and it is not the issue before this panel. Minister, will you stop politicking and get on with the evidence that you think is so significant about how you have changed ...

Senator P.F.C. Ozouf:

This is a political scrutiny panel.

Deputy G.P. Southern:

No, this is an evidence-based scrutiny panel and you are not giving any yet.

Senator P.F.C. Ozouf:

Well, I would like to know where the evidence is. I would like your explanation and your assurance that you will be completing your report on an independent, impartial, neutral evidence basis. The analysis of the report so far shows that it significantly falls short of dealing with that. I would not be coming with such strong comments unless there was a serious issue. You yourself have said that this is the first and only report that you have conducted in relation to financial services, the biggest area of economic contribution. I think it is incumbent upon you to ensure that you are coming forward with an evidence-based report which can be reconciled with the evidence that you have given, and which cannot be accused of being biased towards a particular issue. I cannot see that from effectively the report you have given and I was further concerned by that by having a draft report and not being able to give in evidence ... I am not here on your invitation. I am here because I have said to you I need to give you evidence. That is all very important background for you to understand the extent to which there is a real issue with where we stand today. Where we stand today with the report, as is ... with the lack of linkage between the evidence that you have received and clearly some of the conclusions that we are arriving to,

because I think it is clear where this report is heading. This report is heading with recommendations of matched funding; it is going to make recommendations in terms of inappropriate lobbying (I do not know what the definition of “lobbying” is); together with a whole series of recommendations which will draw, you can guarantee, Chairman, a fairly vigorous response from myself and from the industry partners which we are working with.

Deputy G.P. Southern:

We are now quarter of an hour into the hearing. I have heard not one jot of evidence. Will you kindly get on with evidence that you think is so significant that we need to consider it?

Senator P.F.C. Ozouf:

Now, you have to ...

Deputy G.P. Southern:

Will you let me chair this meeting, because at the moment you appear to be asking all the questions and not us.

Senator P.F.C. Ozouf:

I am entitled to make submissions to a scrutiny panel which is going to be recorded in evidence and which the public will make their own minds up about and other colleagues and the States will make up their minds about where we find ourselves today. I would respectfully suggest that you should be at least publishing (because it is written evidence) the initial response that we have made. Perhaps not J.F.L.’s; I understand why that certainly may be confidential, but certainly the report that we have been given. I would ask you to publish the comments that we have given so far because it is apposite and it is relevant in evidence.

Deputy G.P. Southern:

At the moment what you are saying is we are dealing with the after match, the after publication. We have not published anything yet. We will take all submissions into consideration, very carefully. That is the assurance I can give you. Did you want to add something?

Deputy J.A. Martin:

As I say, we have now got 2 ... well, I have got 2 responses. I have got Economic Development and Jersey Finance. You did ask on Friday if you could come in and give us some more evidence and I was looking yesterday, going through some old papers, and we did, as the Chairman has already said, agree. We did interview Geoff Cook and Martin De Forest-Brown in March and we thought that they had given us enough evidence and they were accountable for the money that was supplied by your department. The grey area you seem to think is, I am in fact looking at Jersey Finance, the granting of money; because it is not your money, it is not my money; it is public money that we have given out and to see what the return is. You have also made the statement today that you are concerned we do not have a scrutiny officer. This is because we convened this at your ... we have scrutiny officers on holiday because it is bank holiday weekend but I do not understand the significance because everything is taped and if there are changes ... we have already had your response and now we could sit and argue about quite a few of your responses. What we do not ...

Senator P.F.C. Ozouf:

Well, maybe we need to do so.

Deputy J.A. Martin:

No, no.

Deputy G.P. Southern:

No, we are not prepared to do that.

Deputy J.A. Martin:

Sorry, Mr. Chairman.

Senator P.F.C. Ozouf:

Why not?

Deputy G.P. Southern:

We want evidence from you.

Senator P.F.C. Ozouf:

But we want evidence based upon arguments and we need to respond to effectively factual ...

Deputy J.A. Martin:

No, Philip. No, no.

Senator P.F.C. Ozouf:

The report is littered with factual inaccuracies.

Deputy J.A. Martin:

No, but then you want to rewrite the scrutiny process. We sent out a draft report you have 36 comments on. Now, that would be fine after ... and we totally agree, we missed you out in March. Also, you must have known that your representatives on the board were coming to us. Your representatives on the board did come to us and if we had made an oversight it would have been helpful if you had asked us then. I mean, it was an oversight on our part but you did know they were being interviewed and if you really thought you had something valuable to add, evidence-based, you could have asked to come in and see us or asked us then why we were not ...

Senator P.F.C. Ozouf:

Deputy Martin, we agreed ... I mean, without wanting to reinvent history and go over the ground that we have just been over, I am here because I have asked you to hear me and you have ...

Deputy J.A. Martin:

Yes, but you have not said anything and we have been here for 20 minutes.

Senator P.F.C. Ozouf:

Well, I have said quite a lot about a very critical set of comments that have been made upon a draft report, which I think is not the standard in which scrutiny in which to operate. I have raised some very serious questions about how we got to a situation where we have a report which is in draft form. You did not call a Minister to give

evidence. J.F.L. has given evidence and they are clearly extraordinarily unhappy with the report that has been submitted. To use words like “inaccuracies”, “bias”, “misrepresentation”, is extremely ...

Deputy G.P. Southern:

You are again repeating a confidential document which we have received and which we will take into consideration, Minister. Minister, you are just getting your retaliation in first. We have not published a document yet. You have had access confidentially in order to give your responses on the level of accuracy, as happens every time, and what you are doing is you are second-guessing. You are getting your retaliation in first and now you are about to try, I believe, to get us to debate your responses (which does not happen in any other situation) rather than give evidence.

Senator P.F.C. Ozouf:

But you have given your report without listening to evidence.

Deputy G.P. Southern:

I hear you state that you have significantly changed the way in which Jersey Finance works under your leadership and that is not in our current evidence or report. Would you kindly, after 25 minutes, get on with the additional information that you wish to give us about how J.F.L. have significantly changed what you have done and how we have overlooked it.

Mr. M. De Forest-Brown:

Can I just add something at this stage, just in response to comments made by Deputy Martin? That is that I have never been formally invited to the panel. I attended on numerous occasions, as you know, in support of others who were invited to the panel and those, in the main, related to extensive exploration over what happened over the past period, mostly pre-dating ministerial government. That was an extended exercise and, as the Minister has mentioned, did take significant resources to respond to that. I think if we went back there are grounds to support this, but my understanding throughout that process was always that that was the review of history and that there would be a future piece that would focus on what is happening now (what is happening under the ministerial government, what is happening certainly under my

own jurisdiction, and what our plans were for the future) because, on the face of it, it seems to me that that is probably an area of particular interest and a productive area to explore. But in terms of the comments that I have made in the past when attending these panels, I have kept myself to the questions that have been asked by the panel, relating solely to the past and to those issues because my expectation was that there would be future invites that would relate to what are the plans now or what is happening now and what are the plans for the future. So my key points there are, just for the record, I have never formally been invited and, whilst attending significantly, it was always my expectation that there would be future meetings for us to debate exactly what the plans are for J.F.L. now and going forward.

Deputy G.P. Southern:

You do not feel that the March meetings dealt with that?

Mr. M. De Forest-Brown:

No, I think the approaches in all the previous meetings definitely had a focus on the history and what happened there.

Deputy G.P. Southern:

I note your comments. Minister?

Senator P.F.C. Ozouf:

That is where the panel almost needs to ask us not just generic questions but they need to have focus questions, I would have thought, on the current and the future because there has been a great deal of focus on this report on the period from 2000 almost to the end of committee government. There have been virtually no questions from the panel, on all of the transcripts I have read, in relation to the issues now and that is almost where the panel ... which is why I cast doubt about your ability to hold this meeting today in a constructive way, with just the one simply generic question of: "Well, what changes have you made?" Presumably the panel wishes to be informed in a detailed way in what effectively has happened since the introduction of ministerial government, because that is what you are holding me to account for. There are changes that have been made and indeed we are going to probably explore some quite significant changes that have happened in the way that J.F.L. operates;

certainly the level of budget, certainly the accountability, the administrative arrangements, the modalities of holding J.F.L. to account with business plans and updates and all the rest of it.

Deputy G.P. Southern:

Minister, start where you like, tell me about what changes have occurred in terms of accountability under ministerial government.

Senator P.F.C. Ozouf:

Where do we start?

Deputy G.P. Southern:

Start where you like.

Senator P.F.C. Ozouf:

Shall we start, first of all, in relation to board composition?

Deputy G.P. Southern:

Go ahead.

Senator P.F.C. Ozouf:

The board composition of Jersey Finance has been reviewed and for the first time since the introduction of ministerial government, not only a politician has been appointed to a member of the board but a senior official; the senior official in financial services, formerly John Harris. I note neither John Harris nor Phil Austen have been called to evidence either but John Harris was appointed. With John Harris' appointment to the J.F.S.C. then Martin De Forest-Brown has been doing that; a clear indication of a need for, I think, a tighter communication between States and the activities of J.F.L. I should point out I think it is clear that the activities of J.F.L. have changed quite dramatically and that is nothing critical about what J.F.L. did in the past and the level of activities that was spent on awareness raising, so-called flag-waving trips to the Middle East, et cetera. Market conditions were different back in 2000 and beyond. There were certainly issues about the Island's reputation. There were issues about the Island's recognition, about awareness of Jersey in international

markets. We have now moved on, having help with the fiscal strategy, having been through a number of international reviews, having been complied with to a number of international standards. Now, it is not surprising that there is a much more forensic approach in dealing with the market activity, which means that some of the activities of J.F.L. of the past are no longer happening today.

Mr. M. De Forest-Brown:

Can I just add a few things here? I arrived in this post at the beginning of 2007 and took over from John Harris and Geoff Cook arrived at around the same time. I think an observation that both of us have had, coming new to this, is we were surprised at the approach to promoting the Island. By which I mean we thought it was, in simple terms, lightweight in terms of what a jurisdiction needs to do in the international context where competition is growing from every corner. We can look across every economy of the world and everybody is interested in financial services. It is a hugely lucrative business. The U.K. (United Kingdom) originally encouraged all of its overseas territories to get into international finance because it is a great way of small jurisdictions generating tax revenues for the governments. It is one of the few ways, because it is not so labour intensive. So worldwide you have got government spokesmen trying to build up their financial services. Everybody is trying to get a greater slice of that pie. There is massive competition for that pie in every way and we can see across the whole range of jurisdictions how they are increasing their spend and how they are increasing their promotion. Some representation was made on that in the past scrutiny panel. So we arrived at a context where we thought that the Island was not doing enough in terms of promoting the finance industry and so we set about discussion with Mike King and the Minister ...

Deputy G.P. Southern:

By the Island, do you mean the government or do you mean ...

Mr. M. De Forest-Brown:

The Island in the round because I think it is about an Island commitment and I think part of what sets out successful jurisdictions is where there is a total commitment. If you go to the U.K. the success of London recently has been unadulterated U.K. support for growing the finance industry. They have done everything that they

possibly can to try and generate that. If you go to other jurisdictions ... if you take somewhere like Singapore, you had an about-face half a dozen years ago where they suddenly decided they are going to do absolutely everything that they possibly can to promote this in all walks of life, all elements of government. Myself and the new C.E.O. (Chief Executive Officer) of J.F.L. were surprised that we seemed to be doing that relatively on a very modest budget and undertaking a fairly limited set of activities; basically some high-level flag waving in other jurisdictions. So we set about a conversation with Mike, as head of Economic Development, and the Minister to start a debate on that and that debate has been ongoing for some period. In response to that, from the start of those discussions, the concerns from Mike King and the Minister were tabled. They were comfortable that there was reasonably good corporate governance at Jersey Finance but if we were going to start considering raising our game, then we would need to improve that level of corporate governance. We would need to improve how much we are actively involved in their day-to-day decisions and scrutinising each decision, we would have to bolster our involvement and we would have to make sure that members were getting value for money from that spend and so there was broad support for that.

Deputy G.P. Southern:

When you say “we”, are you talking now as advisor for the government, the Minister or as J.F.L.?

Mr. M. De Forest-Brown:

We as the jurisdiction are getting value for money from the money, which is the people’s money.

Deputy G.P. Southern:

So you are talking about far greater involvement of the department in J.F.L. and its activities and a reduction in the arms-length, as it were, because it is a privately ...

Mr. M. De Forest-Brown:

Arms-length in the fact that we are kind of outsourcing that role to J.F.L. but actively involved to make sure that we are very comfortable that that spend is both spend on appropriate matters, which we have never had a concern with, but also spent as

effectively as possible. So part of the changes we made was a sort of almost root and branch rethink of exactly how J.F.L. was operated. So this goes beyond corporate governance. There was a whole range of areas that I looked at very closely with the executive team, the new executive team, and said: "Are we getting value for money from this?" We had a lot of feedback from members that the flag-waving event had done the job, a useful job in the period, but the requirement now from many of the gatekeepers, the people we were trying to market to (people who introduce the business) was very much focused on the demand for technical evidence; detailed, product-based explanation and promotion. So a significant part of the changes that have been made was things like ... I mean, if we take a major flag-raising event that may have cost something like, I do not know, £45,000 in the past. Now we have moved to a process where a team of 3 people will undertake a detailed visit to Hong Kong or India. We will go out on a Saturday, we will come back on the following Sunday (so it involves weekends), we will have back-to-back meetings throughout that week (typically 20 to 30 meetings with gatekeepers), with 3 key executives explaining exactly what Jersey is about and explaining details about products that we provide. The total cost of that will be around £6,000 or £7,000, so as a result of that we can do a substantial number of those instead of the one big flag-raising trip. All of that is meant to be background to say that we need to recognise that the world has changed, that the demands on us to compete effectively have gone up significantly, that J.F.L. is changing its model; but that is only the base line. There is a great deal more we need to do. Many of the other jurisdictions are undertaking other activities which we are not taking part in. Some of what we have done is to free up resource to allow us to do some of these things but there is clear demand for additional resource that we need to continue to be as effective as possible. So it is not just about corporate governance, although significant improvements have been made there. This is about a holistic picture of how Jersey, as a jurisdiction, presents itself or competes in a world economy where everybody, for obvious reasons, is trying to grab as big a chunk as possible of the financial services market because it operates for the benefits of the economy as a whole.

Deputy G.P. Southern:

You say that is just the base line and we need to work in different ways, yet more different ways?

Mr. M. De Forest-Brown:

Yes.

Deputy G.P. Southern:

Would you like to ...

Mr. M. De Forest-Brown:

I will take a pause. Mike, do you want to just add something?

Mr. M. King:

There is something I wanted to add regarding the specific question about what has changed since the advent of ministerial government. Philip and I arrived on the scene roughly at the same time. The J.F.L. Grant is the largest grant that is given by E.D.D. (Economic Development Department). There is an implication, I think, in the paper that, through the partnership agreement, that grant is not compliant with financial directions. Well, I can give you my absolute assurance that it is and indeed we have had regular discussions with the J.F.L. board and the chief executive to ensure that compliance and those communications are on record. What I would say is that the level of scrutiny of the business plan, both one and 3 year, and the marketing plan and the changes to that, which Martin has just referred to, is very, very significant and we have seen great changes. Now, what J.F.L. say in their document, quite rightly, is that they have not come under any political pressure to change. However, have we, either in a political or at an officer level (I include myself and Martin in that) asked some pretty difficult questions that, in the process of answering them, have ... the way that J.F.L. operates (Martin has just given you an example) has evolved. Yes, that is absolutely the case because we believe the rationale behind that is that we get a better return for the £1 million of E.D.D. money, which is one-sixteenth of our budget (interestingly fifteen-sixteenths being spent on the rest of the economy which generates something like 40 per cent of the direct and maybe 20 per cent of the indirect but that is ... we did address that at the previous meeting) but we do place funding under a significant deal of scrutiny and, yes, we do expect change and, yes, we do expect higher levels of productivity within the J.F.L. and improvements in their performance and the leverage they get from that marketing spend. So to think that we

sit back, just get a piece of paper and sign on the bottom line that this is okay and let the J.F.L. board get on with it ...

Deputy G.P. Southern:

Nobody here suggested that.

Mr. M. King:

... because they are independent, we do not do that. On the other hand, and this is a somewhat crude way of putting it, E.D.D. does not have a dog and bark itself. It relies upon the expertise in J.F.L., closely scrutinises, continually asks questions either from the Minister, Martin and myself, to make sure it's performance is improving. I believe, as the accounting officer for all of that £16 million, that the performance of J.F.L. has improved as a consequence of the different type and level of interaction we have had since the advent of ministerial government.

Senator P.F.C. Ozouf:

Just to underline that, I associate myself with all of the comments that Martin and Mike have just made. The good news is there was, in summary, an aligning of views between Martin, Geoff Cook, Mike King and myself in relation to the need to update and refresh the activities and the model between Jersey Finance and some of that is evidenced in things like board changes, having an additional member on the board. I got notice last night of J.F.L.'s A.G.M. (Annual General Meeting) in a couple of weeks' time. There is going to be further restructuring of the board put forward to members, which is going to be further tightening the arrangements that are in J.F.L. There is going to be an election for board members, which is a healthy situation. By the way, the members of J.F.L. also act as a very important scrutiny function to the activities that are there. J.F.L. is unique in the Channel Islands in getting subscriptions from industry. Guernsey, we have spoken about and I think it is something that you are genuinely interested in knowing about, is this interesting issue of comparable of how we compare in our spend versus other places. It is very difficult to get information about this because it is quite difficult to identify but what we do know is that we think that Guernsey is probably spending around £600,000.

Deputy G.P. Southern:

Yes, around £650,000.

Senator P.F.C. Ozouf:

£650,000. They are getting nothing from the industry and that is a source. There has been some lobbying by some people, I think; not a majority, a minority of people that think that members should not contribute. We have held the line very strongly. J.F.L. has done an excellent job. Geoff Cook has done an excellent job in not only keeping the existing level of subscription but getting more members into J.F.L. and we think that is good. We think it is healthy that industry provides the kind of level of resource that they are putting in. Guernsey does not but other jurisdictions ... the Isle of Man, we think it has about 10 people working in government. I do not know whether it is quite a Q.A.N.G.O. (Quasi-Autonomous Non-Governmental Organisation) or a P.P.P. (Public Private Partnership) but we think there are about 10 people working on the financial services promotion. We think that Singapore is spending very significant amounts of money. Obviously you will know of the very, very significant amounts of money that are being spent in Dubai to set up the Dubai International Financial Centre et cetera and that is the market in which we are competing. Also Switzerland; Switzerland presents a real new competitive threat in trust and fiduciary business.

Deputy G.P. Southern:

I think you will already find that in the report.

Senator P.F.C. Ozouf:

Yes. So when you ask the question, Chairman, about where we are going from here, you can expect that, having now changed very dramatically the activities of J.F.L., with no pressure but effectively there being an eliding of views of all the interested parties about what we should be doing, we are effectively creating the base line in order to further extend the resources that are available for marketing the Island. The panel should be in no doubt, and I can inform the panel that even as we speak this morning, we are putting final touches to a further injection of resources into upping the activities of J.F.L. in that very targeted way which Martin described, in certainly the areas of India, China and increasing some of our activities in London itself. This will be reinforced, we think, by the important conclusions of the London Business School research which Members will have an opportunity of hearing.

Deputy G.P. Southern:

Go on, Judy.

Deputy J.A. Martin:

Sorry, Philip, I just want to come in there. Apart from what you have just told me about, I have 2 points which I want on the transcript; you have told us about there will be an election of board members and why you do not keep a dog and bark yourself. I just have to go back to Martin's original comments, and we have had a very intense meeting, and everything I have heard from Martin and yourself is in this transcript about ...

Senator P.F.C. Ozouf:

But it is not in your report then, Deputy.

Deputy G.P. Southern:

We are debating the report before it is published.

Deputy J.A. Martin:

Excuse me, can I ...

Deputy G.P. Southern:

You want to get your retaliation in first. Please stop it.

Senator P.F.C. Ozouf:

You have issued your draft report, you say you have received evidence but clearly your report is not evidence-based because it is not there. If you have already heard the conclusions ...

Deputy G.P. Southern:

That is your opinion, Minister, not evidence-based.

Deputy J.A. Martin:

Martin said he had no ... when he came in he has never been asked ... when we had Geoff Cook, Richard Kirkby and Martin in, in March, on the first page, and I am just going to state this, and all the reading is the situation now. We are not mind-readers but this was March and if you are going to do something in May or June, that is fair enough, we do not know that, but it says: "I would like start, if I may, with you, Geoff [and this is from our chairman] and talk about the terms of reference and the objectives you see for Jersey Finance now. Would you like to outline that for us and see if we can explore it?" We have pages and all you have said about getting in to India and getting in to Singapore, it is all in here. I was scanning it over the last few days and it is all in here. We have written our report, and I still think it goes back ... unless you can say that we are not trying to find out if Jersey Finance Limited is spending the money that they are given in a particular way and promoting enough return from it for the money that is given, it is all political and I have not heard anything new.

Senator P.F.C. Ozouf:

But this is a political process and you are effectively holding me accountable for the political decisions of having made changes upon advice to the structure of Jersey Finance in terms of its board composition, encouraging, but with a willing partner, Jersey Finance to change the way it operates in terms of its spend and its business plan, and preparing the ground for a stronger, more focused, more forensic, more targeted J.F.L. of the future. Forgive me, Deputy, but you will understand my further concern when you explain that you have received evidence of a change in approach from the past to the present and the future and yet it is not in the draft report. I know the draft report is confidential but it is fair to say that J.F.L. and ourselves have a great deal of difficulty in reconciling what we believe to be the current situation with J.F.L. and the draft report. So if you need any encouragement to consider that evidence again and to consider the remarks that Martin has made and Mike has made about the important changes that have been made to J.F.L. then great; then we have achieved something.

Deputy G.P. Southern:

We have received 2 submissions in the normal run of things, following the confidential release of the report, and of course, as scrutiny always does, it will take

those submissions into consideration. If there are factual errors, they will be corrected. That is the way scrutiny works.

Senator P.F.C. Ozouf:

I hope so but it has been difficult to see that from the draft report, because you have received evidence and it is not in there.

Deputy G.P. Southern:

That is your opinion again, Minister.

Senator P.F.C. Ozouf:

Anyway, if we can conclude this by saying that you have taken on board (and if we needed to explain again, that is absolutely fine), but if we needed to explain the changes that have been made since the introduction of ministerial government in the way that Jersey Finance is operating and has fortified our belief in the value for money (but this is a P.A.C. issue) in relation to how J.F.L. is spending then fine, then we do not need to go on because I think the panel is aware then of the important changes that have been made.

Deputy G.P. Southern:

What is that? Go on, Judy?

Deputy J.A. Martin:

We are aware, Philip. When you say we have not used any of the evidence, I totally disagree. I mean we have kept the report quite ... maybe we could go on and do another ...

Senator P.F.C. Ozouf:

J.F.L. say they have been misrepresented.

Deputy G.P. Southern:

We could write a report that is 3 times longer but I do not know how we would do.

Senator P.F.C. Ozouf:

But it should be accurate.

Deputy J.A. Martin:

No, you are rewriting the protocols of scrutiny and we have allowed you in to give us more evidence. I think we have got a lot more evidence from March and what J.F.L. are doing. Our terms of reference are to see if it is value for money and these are ... you are saying evidence, these are new directions that J.F.L. are going in. The Treasury Minister says it himself, it is very hard to measure whether it is making a bigger return.

Senator P.F.C. Ozouf:

Again, he was being asked to comment on the past and it is my job to put in place the appropriate decision ...

Deputy J.A. Martin:

No, we were asking him a question of ...

Deputy G.P. Southern:

... about marketing.

Senator P.F.C. Ozouf:

Again, we have made changes about measurements.

Deputy J.A. Martin:

My next question to you is where we started on J.F.L. being separate ... you know, why J.F.L. started, because it was a recommendation that regulator and promoter should be completely separate. I am getting even more concerned listening to you today. You, as Minister for Economic Development, think it is great to get even further involved to something that ... well, you are saying, Philip, that you want more involvement in the board and you are the Minister.

Senator P.F.C. Ozouf:

Sorry, hold on a minute. Sorry, there is a fundamental misunderstanding there.

Deputy J.A. Martin:

I am sorry if I have misunderstood.

Senator P.F.C. Ozouf:

J.F.L. is not the regulator. J.F.L. is the promoter.

Deputy J.A. Martin:

No, I know that.

Deputy G.P. Southern:

We know that.

Senator P.F.C. Ozouf:

Neither is E.D.D.

Deputy J.A. Martin:

There is no misunderstanding there. I know that when they started out the report was that they had to completely separate the functions of regulator and promoter and J.F.L. started off with a government grant and it has grown and it is a different body, I agree, to what it started out to be. But it is still an arms-length grant-aided from Economic Development.

Senator P.F.C. Ozouf:

But must be held to account.

Mr. M. De Forest-Brown:

Sorry, just to be absolutely clear; there are 3 parties here: government, regulator and Jersey Finance. The original request or suggestion was that the regulator should not promote and that separation has happened and everybody is very happy with that. That has been clearly separated. What we are discussing here is the extent to which government is acquiring appropriate value-for-money processes, corporate governance over the promotional spend. All of the discussion we have just had about government getting more involved in J.F.L. is wholly sensible with good corporate governance in terms of making sure we get value for money and nothing to do

whatsoever with the separation of the regulator from J.F.L., which is established and has concluded.

Deputy G.P. Southern:

But we are talking about the new direction that you are taking, which is, as you say, far more technical.

Mr. M. De Forest-Brown:

Yes.

Deputy G.P. Southern:

Right. Now, can we move on to the technical aspects?

Mr. M. De Forest-Brown:

Yes.

Deputy G.P. Southern:

The new technical aspects, and talk about whose responsibility is it to do that. Is that the members of Jersey Finance, the member businesses, or is it the role of government to do that and to get involved at that level and the technical details and selling technically what Jersey can do or what particular companies in Jersey can do within that framework?

Mr. M. De Forest-Brown:

We very much outsource that technical role to J.F.L. because it is so complex that it needs extensive expertise. The key point here is that by outsourcing that role to J.F.L. they have access to and manage to obtain substantial free expertise that is input to that process. I mean, it is people on the front line who identify new opportunities, new changes of business development; as it is in any business. In any business it is the salesmen who go to a meeting and discover that they cannot sell their product because the buyer does not like it because it has the wrong widgets or it is the wrong colour.

Deputy G.P. Southern:

Or that the O.E.C.D. (Organisation for Economic Co-operation and Development) does not like it.

Mr. M. De Forest-Brown:

Or somebody does not like it somewhere, in terms of those who are buying our services and generating the revenue for the finance industry and thereby the Island. So for multiple reasons it is much more efficient for us to have the technical function placed within J.F.L. because it has access to the experts, it has access to those experts free of charge, it will be impossible for government to start with that sort of expertise in-house because (a) they would not want to work in government, they tend to want to work in the private sector, and (b) the breadth and depth of the technical knowledge you need would require very significant numbers of bodies to have that sort of expertise. I mean that is a challenge for jurisdictions the world over. We all know that industry and government will have debates about matters in other jurisdictions. An idea will be introduced and invariably there are concerns from those at the frontline using it saying: “Well, it does not work very like that. You need to paint it black rather than red if you want to sell this product.” So Jersey, I think, has got a very sensible model which is ... I mean, with such a small jurisdiction we cannot hope to build all of that infrastructure internally within government and so, therefore, outsources it and listens to what industry says in terms of what the needs are. Now, ultimately government makes a decision on whether we are going to introduce that. Legislation is placed by government and the role of myself in particular, and James and the Minister and Mike, is to look at the proposals that come forward and say: “Are those appropriate for the Island? Is this the sort of business we want to do? Is there anything in this that makes us comfortable or uncomfortable?” So ultimately the final decision on that is at government level. But in terms of understanding what colour the product needs to be and what are the technical details of the product, then that fundamentally is informed by advice from the industry.

Senator P.F.C. Ozouf:

Can I just reinforce that last point, which is that legislation is made by government, either by ministerial order, subject to States Assembly scrutiny, by legislation in the Assembly, and then obviously scrutiny by you scrutinising financial services legislation. Jersey Finance is just doing exactly as Martin says which is doing the

research and development. The ultimate decision ... they do not make orders. They do not make laws. We do. That is the check and balance in the control. The other thing that I wish to just reinforce is the enormous contribution that the industry makes to Jersey Finance free of charge. They pay their subscriptions but the amount ... I do not know whether we have made any ... and we could perhaps quantify it, we could ask J.F.L. The man hours of highly professional input that goes in to that function, that goes in to not only the marketing function but the research and development is absolutely enormous and I would venture to suggest is many multiples of the value of the cash subscriptions that they pay and J.F.L. are ...

Deputy G.P. Southern:

Absolutely, and that is recognised in our report. I appreciated that, the word we use is “appreciate”, so let us not ...

Mr. M. De Forest-Brown:

I think the report also says it is unclear that that is in the public interest, which seems an odd comment.

Deputy G.P. Southern:

Can I take us on to that, because ...

Senator P.F.C. Ozouf:

I think Mike wants to have a point.

Mr. M. King:

Yes, I just want to make one point about the value for money of the grant and what J.F.L. does for E.D.D. and for Jersey. I think it does 3 things. It is an organisation which, because of its membership and because of the way it is effectively a private sector organisation, has the ability to contribute in 2 areas and that part of the market development, which is what any sector in this Island should be striving to do: develop its product and develop its market. It aggregates expertise and it aggregates opinion and it aggregates opportunities on which we as the government, as the legislature, and indeed the regulator, which is the third part of that Jersey trinity or Jersey P.L.C. (Public Limited Company) can work collectively. Now, you talked earlier about

marketing and the effect this has on marketing spend and, you know, you really find out about that if you work in the market but you do see is that if you have got that tremendous advantage, which we have got in this jurisdiction, of bringing those 3 elements together and you do not market the jurisdiction as a destination and you do not do that on the basis of people who have this ability to aggregate the expertise, the opinion and the opportunities then you do not give yourself a chance of procuring competitive advantage. That is the real ability of J.F.L. Is it £1 million in today on which you are going to see an immediate return? No, it is not, because that is not the nature of the marketing opportunity in competitive operations like this. But you have got to be in the market to be able to maximise your ability to secure market share and we do believe that we are moving towards a much greater leverage between that which we put in and that which we get back.

Senator P.F.C. Ozouf:

In the longer term, both growing existing business, putting new lines of business for existing businesses in Jersey, but also welcoming new businesses to Jersey with the geographical plates of the world changing to the east, China and India, et cetera. There is a debate to be had and there is an interesting debate with Jersey Finance that we have had about their role in attracting new business into the Island.

Deputy G.P. Southern:

New businesses.

Senator P.F.C. Ozouf:

Sorry, let me rephrase: new institutions and new businesses in the Island. So you can expect that, for example, the additional resources that we will be putting in, in India and China, will be very much based about welcoming new institutions, low footprint institutions, to Jersey. Jersey Finance, I think, has a very clear understanding about what those multiple objectives are.

Deputy G.P. Southern:

So we are talking about introducing another foreign bank, an Indian or Chinese bank, into the Island?

Senator P.F.C. Ozouf:

Absolutely. There is no doubt that we are, with appropriate controls in place for regulatory standards which we hold ourselves up as being a very well, if not one of the best, regulating jurisdictions in the world.

Mr. M. De Forest-Brown:

Just to be clear, we do not have any candidates. This is ...

Deputy G.P. Southern:

If I use the word, attempting to attract.

Mr. M. De Forest-Brown:

Yes.

Mr. M. King:

From a strategic perspective, having a presence in a market, either direct or indirect, will result in one of 2 things: either you increase the deal flow into your existing institutions or you attract more institutions and it is the balance of that which are now very aligned on.

Deputy G.P. Southern:

I absolutely accept that and I think we are very clear on that. Could I take it down to the agenda that is appropriate for the Minister, which then talks about the balance between diversification and growth. Now, when we were talking only last week about growth means diversification, in this week I do not believe that can be applied, this sort of growth means growth.

Senator P.F.C. Ozouf:

Absolutely it can be applied. Let none of these comments about increasing the amount of resource and our much more forensic approach to development of the financial services industry with more resources be in any way suggesting that we are suggesting that other sectors of the economy should not be receiving attention. If you wish to scrutinise us on Jersey enterprise and all the diversification agenda which we discussed last week, then come and scrutinise us about that; because we are not only

making Jersey Finance Grant work harder, we are making the rest of E.D.D.'s money work harder too and we are seeing results.

Mr. M. King:

Financial services is a very broad church within which we continue to diversify, in terms of unregulated funds ...

Deputy G.P. Southern:

I have long been aware that diversification can be applied to the finance industry itself, as well as other ...

Mr. M. King:

Diversifying your product base, your market base and your institutional base, you are diversifying the tax base which de-risks it, which is what we should be seeking to do.

Senator P.F.C. Ozouf:

The diversification in terms of geographic risk as well; and as we are facing difficult times in terms of the economic credit crunch, et cetera, so we are seeking to increase our activity in the growing markets of the world. I do not think anybody around this table would be unaware of the importance of those new markets which we have discussed and the need for Jersey in order to take a slice of those markets in the future. But the investment needs to be made now and we need a J.F.L., which we now have, which is fit for purpose in order to go and achieve those objectives. It takes effort, it takes resource and it takes expertise.

Deputy G.P. Southern:

If I could come back to the question I wanted to ask, about the technical areas. Okay, there are, let us say, 300 ways of the finance sector making more money and doing different products. Some of those require oversight by the regulator and oversight by the government in political terms because of the nature of offshore finance and the relationship with the E.U. (European Union) and the O.E.C.D. So my question is, for example we have got ...

Mr. M. De Forest-Brown:

Government regulators have oversight of the finance industries across the world. It is nothing to do with us.

Deputy G.P. Southern:

Yes.

Mr. M. De Forest-Brown:

Sorry, you said that the regulator and government need to have oversight because of the nature of the financial services business. Our financial services business is exactly the same as you will find in any major financial service jurisdiction across the world and all of those have government and regulator oversight.

Deputy G.P. Southern:

Yes, I was not saying that we were in any way different to anybody else. The question is, I have seen whatever it is (is it 6 or 7) major initiatives on finance law on the ... waiting for law drafting. Where is the balance, and where is the correct balance, between this is in the interests of individual companies in terms of their profitability and the activity within J.F.L. of those members companies promoting, quite rightly, their own interests, and the interests of the government in saying: “Ah, ha, yes; you might be able to make money that way but what are the consequences?” Can you talk to us about that balance because where you get into the technical ... you are saying: “Technically we have access to the people who can do it and they have got the technical expertise.” But there has to be that oversight and that is where there is an issue.

Mr. M. De Forest-Brown:

It is an interesting question because in the way you have phrased the question it suggests that there is some degree of misunderstanding; because, I think I understood you correctly, you suggested how do we identify those proposals or the proposals or changes that benefit an individual company. I am not quite sure I understand the question because there are no examples that I am aware of where there are proposals on the table or anything in our legislative framework that support individual companies. They are very, very broad brushed ...

Deputy G.P. Southern:

Within Jersey Finance there are member companies. Part of the remit of Jersey Finance Limited is to promote the interests of its individual member companies and part of that relationship is tapping into expertise and those experts are paid by their companies to work for their companies. This is the interface between the political, the economic and the companies. That is not black and white. I will use the example. The example is one that we are all familiar with: Zero/Ten. Zero/Ten has been worked on and worked on. On a technical level we have had hours of input from Jersey Finance Limited and that has been the main conduit in saying: “If you want to do this here and get that there, this is the way it will work. You can make it workable.” However, it has still not technically been accepted by the E.U. It is still to go through that process. Now, the government is confident that it will be but there is still a question. That issue is multiplied a dozen times on a minor level with all sorts of initiatives, surely?

Mr. M. De Forest-Brown:

I am not sure I agree. Let me just turn a second and say in the tourist industry ... the guys that work with Mike in the tourist area work with people in the tourist industry to work on improving their product. They go and talk to them and say: “What do we need? What is it we need?” I am sorry, I am not quite sure I understand the question. We talk to the finance guys about what does the industry need to improve its product range. Tourists: the Tourism Department work with tourism and individual hotels and so on and say what do you need? The agricultural guys will sit with it and say: “What do you need?” I mean, they have their guys in the U.K. who are marketing potatoes, for example.

Deputy G.P. Southern:

In the tourism sector the industry might universally come to you and say: “We need a casino. We need legalised marijuana.” That would really kick-start the tourists. I do not know. At some point someone in the government says: “Hang on. We might be able to make loads of money from this in the interests of the tax take, but should we be doing this?”

Mr. M. De Forest-Brown:

But that suggests that there are proposals on the table at the moment that ...

Deputy G.P. Southern:

I am not saying that. I am using an analogy, an extreme, please. Do not try and put words in my mouth.

Mr. M. De Forest-Brown:

Sorry, can you just rephrase the question so that I am clear exactly what you are asking.

Deputy G.P. Southern:

I am talking about where in the process does government come in when you are operating at arms length with Jersey Finance, which in its constitution acts in the best interests of its members, and where is that check advance?

Mr. M. De Forest-Brown:

Let us be clear, first of all. Jersey's members are not a small number of isolated firms. They are pretty much the whole ...]

Deputy G.P. Southern:

No, I did not say that.

Mr. M. De Forest-Brown:

No, but just for clarity, they are virtually the whole industry.

Deputy G.P. Southern:

Yes.

Mr. M. De Forest-Brown:

So, they are represented ...

Deputy G.P. Southern:

That is well-noted. They are well represented.

Mr. M. De Forest-Brown:

So, generally when they are coming forward they are representing the interests of the industry. I mean, they may be talking about something in terms of trusts, so it might be the trust sector, but broadly they are coming forward with proposals that favour industry. Now, ultimately the check that you are asking about will be applied at the government level. If they came forward to me and asked: "Can we introduce marijuana for the finance industry?" Then I would probably say: "No, I will not support that."

Deputy G.P. Southern:

Most people would.

Mr. M. De Forest-Brown:

Likewise, if they wanted to introduce a casino I would probably say no. Since I have been here they have not ... I am not aware of any products or legislative changes that they have come forward with that I have a major concern. On the contrary, what I discovered, having arrived here, is that there is a backlog of absolutely desperately needed legislation to bring Jersey into a position where it can compete effectively with other jurisdictions and the reason that that has been case is because resources targeted at the finance area have been kept to an absolute minimum, so that we can ensure that we can maintain as much money as possible for other sectors of the economy. I think all that has happened is that we have recently had a period of success, we are rising on a rising tide, but there are a number of clouds out there, a number of challenges for us and we need to start thinking smarter and having a much more comprehensive approach because I think it will get tougher. So, I think that is the overall mindset and we are working closely with industry to say: "Well, where can we compete? Where are the areas here?"

Deputy G.P. Southern:

There are 2 elements there. There is more efficient spending, better targeted, and you are saying you are doing that, and there is also more spending.

Mr. M. De Forest-Brown:

Yes.

Senator P.F.C. Ozouf:

Absolutely.

Deputy G.P. Southern:

Now, the question on more spending is, who provides that more spending? One of the questions we try to address is, is that a government job? Is it more spending by government? Or, is it, heaven forbid, more spending by the industry? Where is the correct balance?

Mr. M. De Forest-Brown:

Well, I agree. That is an interesting debate, but what is slightly surprising me about the report is that there is not a single case anywhere else, from across the world, where that additional spending is being requested from industry. That is my fundamental concern. It seems that you have started with some historical debate, which was never conclusive, that it might be a good idea to get going on a match-funded basis, which makes absolute sense. When someone is coming to government saying: "Hey, we have a really good idea. Can we have some money?" You would say to them: "Well, if you think it is such a good idea let us put some money up first yourself." So, that seems like a fairly sensible place to start. What we face now is an increasingly tough, competitive landscape and the sort of money that we need to spend on competing and specifically, as Mike said earlier, promoting Jersey as a jurisdiction separately to the multinationals who are out there promoting themselves as a firm, who will be thinking about which jurisdiction they put business in. So, we need to make sure we promote Jersey in the round, requires amounts of money that hitherto we have basically been able to get away without spending.

Deputy G.P. Southern:

I do believe we have addressed that. It is this issue of promoting Jersey. I mean ...

Mr. M. King:

If you look at attracting either new business or new institutions there are 3 simple questions that they will ask about Jersey; where is it? Why should I go there? What am I going to get when I get there?

Deputy G.P. Southern:

The basics.

Mr. M. King:

I think government's position, the government's role, is to make sure that we can both answer and fund the first 2. What then is complemented by Jersey Finance and its members are, what are they going to get when they get here? But that additional funding, that additional government funding, is all about promoting the jurisdiction and that is the quality of the legislation and the competitive nature of the legislative framework we have, the quality of the regulator, and the scale and quality of the industry that is in the Island. Those 3 components make up the ability to promote Jersey. Now, there is a collective responsibility, in terms of funding an activity, from government, private sector, and indeed the regulator as well, to play a role in that and particularly when we are going down the areas of new territories we are promoting Jersey Plc, for want of an often-used word, and that is a government function, not just in Jersey, but it is a government function that is assumed by every small and large jurisdiction and I came from a jurisdiction where we used to spend significantly more, both in total terms and in per capita terms, on doing exactly that, with the objective of delivering economic output, which is what we do this for.

Senator P.F.C. Ozouf:

There is another role that Jersey Finance has and that is that we must bring forward legislation which is required upon. If we take the not for profit organisations law, there is a requirement that one has to put in place legislation. It is absolutely important that we have a body that we can go to in order to seek and to consult with to get informed comment to raise the level of decision-making when we are making regulatory decisions too and J.F.L. ... not only is there a communication from J.F.L. to us about new innovation, new legislation, of course the decision being finally ministerial, government and States, but there is also a requirement for us to ask representative bodies for their views on particular pieces of legislation and J.F.L., in the way in which they are now organised, having incorporated previously the associations now together, provides a vital service to do that. J.F.L. in that regard is no different from other organisations who we fund.

Deputy G.P. Southern:

And is not criticised by us in that regard as a mechanism of communication.

Senator P.F.C. Ozouf:

I think there are some interesting comments about lobbying which are pretty ...

Deputy G.P. Southern:

We can differ on the interpretation of the comments, but we are ... we do not agree.

Senator P.F.C. Ozouf:

I would encourage you to define what you mean by “lobbying”, for example. Because we do not understand what is in the report and certainly Jersey Finance is taking great exception to this particular issue because, as Martin says, the final decisions in relation to legislation, and there are numerous checks which the panel can think of. Any piece of legislation is made by order. We have been there. Not only that; any new company to the Island is subject to regulatory approval by the J.F.S.C (Jersey Finance Services Commission). It is subject to regulatory approval by the regulations of undertaking. It is required regulatory approval to improve staff. There are all sorts of checks and balances which are ... further on down the piece, which Jersey Finance are not involved in at all.

Deputy G.P. Southern:

If you like I will endeavour to explain, although it is in the documentation, I believe. The issue of lobbying is obviously a grey area and arises from the J.F.L. subsuming the role of J.F.I.A. (Jersey Finance Industry Association) some years back when one of the clear objects of the J.F.I.A. was to lobby for its interest members. I mean, that is fairly straightforwardly clear.

Senator P.F.C. Ozouf:

The Consumer Counsel gets significant resources from Economic Development in order to lobby us on consumer interests. The U.K. government spends resources in putting in place effective lobbying agencies to improve the quality of government

decision-making. I would encourage you to find an example of inappropriate lobbying that Jersey Finance has made.

Deputy G.P. Southern:

No, no, no. It is not a question of ...

Senator P.F.C. Ozouf:

Well, the report clearly indicates that you have some problems with it.

Mr. M. De Forest-Brown:

My impression is that we have an example of any lobbying is my ...

The Connétable St. Brelade:

Can I just make a point? I think one I picked up, and I think it is probably a question of direction more than anything else, but there was an instance with the probate thing and a letter came through via The Minister for Treasury and Resources whereas probably, in all truth, it ought to have come through E.D. (Economic Development) as the lobby through that direction. So, it really is a bit of a detail, but I think it is ...

Mr. M. De Forest-Brown:

No, I remember the example you mention and it is a good example. It is an interesting one to think a bit more about. What had happened is there was a proposal to introduce greater levels of tax on probate, if I recall, and Jersey did make a representation to that.

Senator P.F.C. Ozouf:

Jersey Finance made.

Mr. M. De Forest-Brown:

Jersey Finance made. Now, what they did is they wrote a letter in and said: "If you do this, this is what it will mean for products within the finance industry." Now, okay, you can say that is lobbying. The fact of the matter is, in a better-resourced government department ... if we had greater financial resources within my area, if I had tax experts in my area, they would have pointed out exactly those problems, what

those risks were for the overall economy. Now, the reason I did not respond personally is because I am not a tax expert. I do not have tax experts in my area. Jersey Finance came forward and pointed out: “This is what would happen if you do that.” Now, you can say that is lobbying, or you can say that is really valuable input for government to identify that what seemed, on the face of it, a perfectly sensible suggestion, there was a bit of a flaw below the waterline and it caused problems. That is the point.

The Connétable of St. Brelade:

I do not think anybody would argue with that point you make at all, but I think that just the direction in which it has gone is probably inappropriate and I would suggest that it ought to have come through E.D. who would have addressed other Members with the views of Jersey Finance.

Mr. M. De Forest-Brown:

Except that you will find ... and I do not think there is anything wrong with this, that J.F.L. and the Treasury are regularly in contact, in detail. I mean, just daily on any matter to do with tax and the reason is because once again government relies very significantly on the experts out there, the tax experts out there, because government does not have teams of tax experts. It hardly has any tax experts. It has people who are very good at collecting the operational collection of tax, but it does not have the experts out there who can see the problems of introducing a tax and what the knock-on impacts are.

Senator P.F.C. Ozouf:

The parallel, Constable, is that you sit as a valued representative on the Jersey Fishermans Association and the Jersey Fishermans Association does exactly the same thing, effectively, as Jersey Finance do, in terms of researching government interventions in the regulatory field. We do not criticise the Jersey Fishermans Association, in fact we welcome their intervention because ultimately the decision is ours, as legislators, on what we do, but the level of debate is obviously better because we have the Fishermans Association, because we have the Consumer Council, and because we have J.F.L.

The Connétable of St. Brelade:

I agree entirely. It is all down to I think the direction in which it is done. Can I just make a couple of points, Mr Chairman? I have been sitting back and listening this morning. I hope you will excuse me, but I appreciate what has been put forward this morning and I think it goes without saying that a healthy and successful finance industry in Jersey is crucial. It is crucial to the economic health of the Island and it is expected that it be driven by future policy, but I think what we have to consider between scrutiny and the executive is the public perception of how it is dealt with and it is probably clarified, as evidenced this morning, that there is a different interpretation on what has been put forward. Perhaps the evidence that has come through from both your side and I heard, with my colleagues, the evidence that has been put forward and you have interpreted it in a different way. Perhaps in a way in which you, coming from within, would not consider the public would be doing and it is perhaps something that should be addressed because I think the last thing any of us want to do is prejudice this linchpin to the Island's economy and I have to say that I come from that direction and perhaps we have future discussions, or perhaps you have future discussions, on how you might address that.

Deputy G.P. Southern:

I would support those statements absolutely in their entirety and what I would say in response to the Minister is that today you have reinforced what is contained in your submission, which again I repeat, would be part of the normal process and that in particular on lobbying we will pay careful attention to it, as we do every time we get a submission. So, both of those will be taken into consideration. We do intend to hold another panel meeting when our officer is back to guide us. Help is on the way. We will give absolute rigorous attention to the responses that you have produced. I am aware that time is moving on and I am aware that you wish to make several points and I do not know how many more you wish to make, but I would encourage you, if you wish to. If you consider there are significant factors that are not in the report in your response then by all means make them now.

Senator P.F.C. Ozouf:

I think your report is basically, if this is where the future report is going to be, at the moment dealing with funding. Now, I am not sure whether we have any more that we

have already said in our comments about funding. Suffice to say that if there is a recommendation coming forward that funding should be matched with the industry, we addressed that this morning. We have also said about the issue of increased funding and the necessity to do so because of the competition. So, I think we have dealt with all of that. The audit report and partnership agreement; I think that the only additional thing I would say on that is that the relationship between J.F.L. and Economic Development has changed very significantly. That there has been wide agreement from all the parties to do that. I would even venture to suggest that we will be refreshing and updating that partnership agreement at some point in the future in the light of the experience of the last couple of years and that is an appropriate thing to do. Everything is an evolutionary system and that partnership agreement was the first partnership agreement. It served well against the background but there is obviously ... that is going to be moved on. We probably need to reflect the new updated workings that we have between J.F.L. and myself in updating that partnership agreement and I think we ...

Deputy G.P. Southern:

I think somewhere in those words you said one of our recommendations but ...

Senator P.F.C. Ozouf:

We do not need you to recommend it. The work is already in hand.

Deputy J.A. Martin:

No, but I thought Mike said ... and we would take it out of the report because if we are making an assumption that the partnership agreement needs updating with the new codes and everything else. Mike said, I thought, 5 or 10 minutes ago that you could absolutely guarantee the partnership ...

Mr. M. King:

It was a bit longer ago than that. Absolutely.

Deputy J.A. Martin:

You said the partnership agreement is already up to date.

Mr. M. King:

Yes, in that we warranted recently to an Auditor General that all E.D.D. grants complied with financial directions.

Deputy J.A. Martin:

The new one.

Mr. M. King:

I am very pleased to say that with one exception they are and it is not - it is the J.F.L.

Deputy J.A. Martin:

So, it now incorporates that financial code direction 54?

Mr. M. King:

Well, I think the whole activity of E.D.D., whether it is in the partnership agreement or not, but any business plan, marketing plan or whatever, that involves activity in exchange for funding is compliant with financial directions as a consequence of the processes that are in place in E.D.D.

Senator P.F.C. Ozouf:

For example, the partnership agreement ... financial code direction, that is Mike and Martin's job and Mike's job to ensure financial compliance with financial directions, but there are, for example, the business plan that was issued by Jersey Finance because of this transitional approach that we are doing was approved but it was approved with a comment that it was very much regarded as work in progress as Jersey Finance update. We have had a further meeting this week, one of our regular meetings with Jersey Finance updating them exactly what they are doing. They are updated, they have reallocated various budget spends and we have been discussing about the plan plus. In relation to the public-private partnership issues I think we have made our points very clearly. I think the recommendation there was going to come that it should be matched. We differ on that and we would say comparable jurisdictions, I do not know whether there is any further information that we can give you on this issue.

Deputy J.A. Martin:

No, I mean ...

Deputy G.P. Southern:

As you said earlier on it is a difficult area to find out exactly what has been spent ...

Senator P.F.C. Ozouf:

But we have given you ...

Deputy G.P. Southern:

We have received that information.

Senator P.F.C. Ozouf:

I mean, just to reinforce that, the competition that we are dealing with is not only Guernsey and the Isle of Man, of which do not put any industry money in, but is Singapore, Dubai, Switzerland and those are putting in multiples of the times of direct government expenditure which may be hidden in relation to not direct costs with officials employed in government, quite apart from P.P.P.s.

Mr. M. King:

Can I just say one thing about return on investment that E.D.D. manage? I am a very simple soul, but the way I look at it, we spend roughly £80 per head of person working in the finance industry on our grant, roughly; 13,000 people, about £1 million. Each of those individuals, I think if I am right, Martin, contributes about £136,000 in terms of G.N.I. (Gross National Income) per capita.

Mr. M. De Forest-Brown:

Yes, something like that, yes.

Mr. M. King:

While it is difficult to quantify specific pieces of activity, that level of G.N.I. contribution continues to grow at significant levels and if you look at what impact J.F.L. would have to have, as a proportion of that increase, to justify itself in return on investment terms it is tiny and I think the point I made earlier about its presence in the

market, working the way it does with the regulator and the legislature, I think if you do the maths on that you will find that it is a pretty good return on investment. In fact, probably one of the best returns on investment that we have had.

Mr. M. De Forest-Brown:

This is an absolutely key point. I mean, let us be absolutely clear that the financial services industry worldwide has deep pockets. It has more money than other sectors across the world. That is not the point. You do not find in other jurisdictions, as a result of that, people or governments seeking to take more and more money from them because by the very nature of the business it is a fluid business and we have seen that in what is happening in the U.K. at the moment by the government's attempts to suddenly think: "Oh, we can tax these guys a bit more at the margin." Suddenly what has happened? Total uproar. People leaving the Island to the cost of the U.K.'s exchequer. So, something that may on the face of it seem quite straight forward has unintended consequences. That is very much the case here. At one level, is the finance industry here rich? Yes. Does it have deep pockets? Yes. Does that mean we can impose additional charges on it? I do not think so.

Deputy G.P. Southern:

No, no. Does it mean that we can ask it to pay for promotion which increases its own business? That is not increasing charges.

Mr. M. De Forest-Brown:

Let us say it that way. Can we ask them to pay additional money to generate additional profits that end up in their pockets? I do not think so and the reason I do not think so is because nobody else in the world is asking them to do that. On top of that we are already applying costs here in Jersey on the finance industry which they do not face elsewhere and therefore it is very easy to reach a tipping point.

Deputy G.P. Southern:

Those costs are?

Senator P.F.C. Ozouf:

G.S.T.

Mr. M. De Forest-Brown:

Things like G.S.T. costs. In particular, because of the way we have imposed G.S.T. on the finance industry, contrary to the public perception is that the finance industry pays that now and that is raising some questions in the trust industry because this is an additional cost that they have to pass on to their customers which can tomorrow switch their membership and move the thing to Switzerland, and some evidence of that happening. There we are. There is business being moved to Switzerland for £100. I mean, I can understand somebody not close to the finance industry just would not get it. "Sorry, you are making £1.X billion of profits and you are complaining that you are being charged an extra £100 and you are moving your business to somewhere else?" Now, I can understand people do not find that very palatable and in fact I do not find it very palatable and I am involved in the industry, but that is the fact of the matter and what we have is an extremely successful model which is respected by people across the world. It is a good public-private partnership. We have a good level of commitment from a number of firms who regularly question: "Well, why do we pay any membership here at all? There is no reason to fund this membership when we are working in 6 different jurisdictions. Why are we paying here when we do not have to pay in any other jurisdiction?" They question every single cost.

Deputy G.P. Southern:

You sum up the situation ably.

Mr. M. De Forest-Brown:

Therefore we have to be extremely sensitive to any suggestions. I think my overall thoughts were, in reading the report, that if I had arrived here yesterday and picked up the report and read it I would be talking to one group of people who were saying: "This has been a successful process. It is widely respected. They have managed to build a very significant model around very modest finance." I would hear one story from one set of people saying: "This is a real success. It is something that should be celebrated. It is something that the Island have done well. This is in support of a key finance industry which is critical to the Island." Then I pick up the report and read it and I get the impression, rightly or wrongly, that it says: "Well, I think we should just

tell the guys to pay more.” It does not seem to celebrate the success and it does not seem to come through as supportive of the finance industry and that is the separation.

The Connétable of St. Brelade:

Can I suggest, and I would be interested to receive your comments. If I could put forward the notion that perhaps the States contribution to Jersey Finance was more of an insurance premium than an investment. What would your remarks be to that?

Mr. M. De Forest-Brown:

Well, I would have to understand a bit more what you meant about that. I think all of the money we are supplying to J.F.L. is an insurance premium; it is in the nature of a part of the total jurisdictional commitment to the finance industry to encourage it to be here, to encourage it to grow here. That goes for everything. That is flights, that is nice ice creams, it is the whole piece. It is why people are here.

Senator P.F.C. Ozouf:

And an investment for a return for the people of Jersey. An investment which is returned in prosperity, raising standards of living constantly, health services, education services, and a society in which everybody can reach their full potential because we have full employment and it is an investment that the public is making and the point is that we are ... if you call this some hypothecated expenditure from the contribution from financial services you could put that ... Treasury does not like hypothecation but until recently J.F.S.C. was collecting on our behalf £11 million from the ...

Deputy G.P. Southern:

And that case is reflected in our report from the industry itself. I am surprised to hear it in a sense coming from The Minister for Economic Development, but albeit I take your words that you were saying earlier. If I can I will try and work them into the final report.

Senator P.F.C. Ozouf:

I think what I would hope we have achieved this morning is a section in the report which will deal with the period since the introduction of ministerial government until

now and shining a torch perhaps, looking at the crystal ball, on where we are heading in future and if you have observations about improvements in relation to what we can do then they will of course be listened to very carefully but the report is backward looking as opposed to forward looking. If we have attempted to give information this morning, even though it appears that some evidence has been given, then we have achieved something.

Deputy G.P. Southern:

We will endeavour to pay that careful attention, you can rest assured.

Mr. M. De Forest-Brown:

My concluding comment is that ultimately if the report concludes that the industry should pay more, rightly or wrongly, that will be read as a report that says that this jurisdiction is not as encouraging for the finance industry as it is ... is not as encouraging as other jurisdictions are in supporting the finance industry and I think that will be damaging to a critical industry that produces all the benefits for the Island. I genuinely think you have to think very carefully about the impact that that report will have and the level of damage that can be caused by it.

Deputy G.P. Southern:

I will. The panel will pay particular attention to those sorts of sentiments. Thank you.

Senator P.F.C. Ozouf:

Martin De Forest-Brown is giving you a professional opinion there and when I asked earlier about an absence I thought that scrutiny was not only using the good officers of the scrutiny office to conduct its administrative affairs, but normally also employed experts in order to inform its deliberations and I am surprised ...

Deputy G.P. Southern:

Please Minister, leave us to run scrutiny. I accept your words, however we are in charge of scrutiny and surprise, surprise, you are not.

Senator P.F.C. Ozouf:

But you are accountable for your reports.

Deputy G.P. Southern:

I am accountable and I will be accountable for my report and I am the name that goes on it and I will back it.

Senator P.F.C. Ozouf:

Well, your panel. I think it is a unanimous report.

Deputy J.A. Martin:

It is a collective.

Deputy G.P. Southern:

Of course, we always have unanimous reports. We have never had a split yet. Thank you, Philip, and thank you Mike and Martin.