

21.11.02

3 Deputy K.F. Morel of St. Lawrence of the Minister for Treasury and Resources regarding Debt rating (OQ.227/2021)

Will the Minister explain why one of the stated aims of the recently published debt framework, R.132/2021, is to maintain an investment grade rating of BBB- and above given that this represents the lowest investment grade rating on the Standard & Poor's and Fitch's scale?

Deputy S.J. Pinel of St. Clement (The Minister for Treasury and Resources):

Rating agencies such as S.&P. (Standard & Poor), who provides the States of Jersey's credit rating, research the financial health of each bond issuer and assign ratings to them based on that assessment. The agencies create a hierarchy of ratings to help investors assess an issuer's credit quality compared to others. Bonds with BBB- and above are considered investment grade. Bonds with lower ratings are considered speculative and often referred to high yield or junk bonds. Investor appetite for such bonds is generally limited and to have such a rating could lead the States to experience difficulties in issuing debt in the future. I acknowledge that a BBB- rating is several notches below the current AA- which was affirmed by S.&P. in July of this year. I continue to aspire to ensuring that Jersey's credit rating is as high as possible but I am also conscious that unforeseen events such as changes to the States balance sheet or economic situation can impact on the rating over the medium term. With that in mind, maintaining a minimum investment grade rating is, therefore, advantageous to ensure that States bonds are attractive to the widest range of potential investors.

4.3.1 Deputy K.F. Morel:

I thank the Minister for the lesson in the things that rating agencies undertake. But companies in a BBB- category can carry interest rates that are approximately 4 per cent higher by today's standards - and obviously in different eras that can change - than the best investment grade, AAA+. Why is the Minister for Treasury and Resources prepared to consider issuing debt in such circumstances and why has she not set tighter rules for Jersey's debt framework?

Deputy S.J. Pinel:

There are very tight rules set for Jersey's debt framework, as the report explains. The level of BBB- is not set with the intention of an expectation of future downgrades and it lies about 6 notches below the AA- where we sit at present, so it is considerably lower. It simply acknowledges the cut-off point between investment grade and junk bonds, as I explained, and at this time I am not aware of any reason why S.&P. may be considering a downgrade.

4.3.2 Senator S.C. Ferguson:

We are in a position where it appears that we are going to have quite a significant capital programme which requires us to get a higher level of debt. Does the Minister really not realise that the rating could compromise future attempts to raise funds and will require a higher rate of interest as Deputy Morel has said?

Deputy S.J. Pinel:

The proposals for financing, for instance, the capital project of the hospital have all been taken into huge consideration and analysis. As I have said repeatedly, the high level of our 2 major reserves and the interest revenue that they achieve is the collateral required by bond issuers in order to give

us the credit rating that we have got and issue that level of debt. We have gone into this very considerably and carefully.

4.3.3 Senator S.C. Ferguson:

But a lot of the so-called support for the rating is money which belongs to taxpayers, the Social Security Fund and things like that, or the property which will take for ever to realise. Does the Minister not realise that she is abandoning the long-held view in Jersey that we should have a minimum of borrowing and really conduct ourselves as prudent householders? We are throwing away a reputation that has taken years to put together and she is just throwing it down the sink.

The Deputy Bailiff:

What is the question?

Senator S.C. Ferguson:

Does the Minister not realise that with this approach she is going into a high debt policy set up rather than the old well-thought-out policy of not being a debtor nation?

Deputy S.J. Pinel:

I would not dream of throwing anything down the sink; I am incredibly prudent when it comes to this and that is why issuing debt at a much lower interest rate than taking money - taxpayers' money, as the Senator referred to - from any of the reserves which return a much higher investment rate is a very prudent way of doing it. I understand what the Senator is saying is the Island has not had massive debt before, but neither has it had to build a brand new hospital, and so the prudence is very much there.

4.3.4 Deputy S.M. Ahier of St. Helier:

The S.&P. ratings published on 19th July 2021 state: "We therefore expect net debt will begin improving again by 2023." Does the Minister have similar expectations?

Deputy S.J. Pinel:

Yes, inasmuch as obviously investments are very volatile, but the analysis that was done on all of this, the likelihood of the Strategic Reserve alone being able to repay the borrowing by 2060 was 97.9 per cent. So, yes, the analysis has been done and one has to take into account the volatility, but a long-term issuer of the bonds will take that into account as well.

4.3.5 Deputy S.M. Ahier:

The S.&P. report goes on to say: "The full investment returns from 2021 to 2024 will contribute to a lowering of Jersey's net debt position." Is this the Minister's intention or will she allow S.&P. rating to decline?

Deputy S.J. Pinel:

I am not in charge of the S.&P. rating assessment but all our intentions are that by 2024 we will not have a deficit.

4.3.6 Deputy R.J. Ward:

Can I ask the Minister: has a risk assessment of the worst-case scenario of a rating of BBB- for the effect on the Jersey economy been undertaken?

Deputy S.J. Pinel:

Every single risk assessment has been undertaken otherwise this would not have been in the framework.

4.3.7 Deputy R.J. Ward:

Would she share that risk assessment and what are the main features that we would face in that worst case scenario?

Deputy S.J. Pinel:

We have published the report of the framework and the information is in the report.

4.3.8 Senator K.L. Moore:

Could the Minister outline the engagement with industry that she has undertaken prior to setting this new lower standard, and what is their feedback to her with regard to the impact that this lower standard would have upon the Island's reputation as a high quality, well-regulated finance centre?

Deputy S.J. Pinel:

I have to correct the Minister; it is not a lower standard that has been set, it is just the lower end of the investment strategy and, as I said before in an answer, that it is 6 notches below the AA-standard at which we stand, which is very high compared to other jurisdictions at the moment, and we maintain that rate all the time we have the collateral in the reserves to back it up should it be required.

4.3.9 Senator K.L. Moore:

The Minister has simply not answered my question. I refer to this as a lower standard because the Minister is setting the sights not only of herself but of the Island to low in the view of many people. I would simply like her to answer the question (a) what consultation has taken place with the industry, (b) what is the feedback and (c) she can now answer, if she will, why she has set her sights so low for the Island.

Deputy S.J. Pinel:

I thought I had answered that. We have not set the sights low for the Island at all. The BBB- is not set with a future expectation of downgrade, it simply acknowledges a cut-off point between investment grade and junk bonds.

The Deputy Bailiff:

You have not answered the point about consultation with industry or feedback, have you, that you were asked by Senator Moore?

Deputy S.J. Pinel:

Sorry, Sir. Yes, there was huge consultation across the board, as is detailed in the debt strategy framework, and the banks that are doing the assessment of bond issuers with Jersey-based banks with a significant presence in the Island, and they will have their results I think 22nd November.

[10:30]

4.3.10 Deputy K.F. Morel:

Every time we issue debt our rating is likely to drop and interest rates will rise. My understanding of the debt framework is that the Minister for Treasury and Resources is willing to issue as much debt as she can while not tipping into junk bond territory. Does she believe that Islanders, weary of new

levels of debt, would expect the Minister for Treasury and Resources to take a far more cautious approach, and will she amend the debt framework to reflect this?

Deputy S.J. Pinel:

The debt framework will be adjusted when the debt is issued, when it is taken out, so for the hospital with the breakdown of how that has been issued and how it has been achieved. So that will be public knowledge when it has happened, it will be adjusted then, but that is not at the moment.

Deputy I. Gardiner:

Before I am asking my oral question I would like to ask for your ruling. Previously I raised that there is no answer given to Written Question 440. In the meantime the written question answer was given, I found it online, and it is not satisfactory from my perspective. Why I am raising it now, because it is likely to impact the answer to my oral question. They are connected. The question was will the Minister provide the breakdown of expenditure on the Our Hospital project from 1st September to itemising the payment made by amount, date, and recipients. My oral question is connected to this and I would like to ask for your ruling if the answer is sufficient before I ask my oral question.

The Deputy Bailiff:

Generally the Presiding Officer under Standing Orders has some time to consider these matters and normally I would consider them with the written question and answer in front of me and that is what I propose to do in this case and give a response later today so you need to press on with your oral question.