

**QUESTION TO BE ASKED OF THE PRESIDENT OF THE FINANCE AND ECONOMICS
COMMITTEE ON TUESDAY, 22nd JULY 2003 BY SENATOR E.P. VIBERT**

Question

- (a) Would the President inform members of the total amount of 'off balance-sheet borrowing', that is capital expenditure not funded by a Capital Vote or from Trading Fund Balances – either external funding or internal funding – to which Jersey is currently committed?
- (b) Would the President supply details of each loan giving members –
 - (i) the purpose of the loan, the date it was taken out, the balance owing, the total amount of the loan and the interest being charged?
 - (ii) the source of the funds for each loan?
- (c) Would the President advise the Assembly what the Committee's policy is on 'off balance sheet borrowing'?
- (d) Would the President inform members of the current amount held in the Strategic Reserve ('the rainy day fund'), and the projected return this year?

Answer

- (a) The States of Jersey does not have any material 'off balance-sheet borrowing'. This is because all material loan or financing arrangements between the States of Jersey and third parties are disclosed in the Audited Accounts of the Treasurer of the States as at 31st December 2002 and I would direct members to note 20, page xxxvi of those Accounts which discloses finance lease capital commitments outstanding as 31st December 2002 of £35.5 million. As such, all of the States of Jersey's financing is 'on-balance-sheet'.

Of this £35.5 million finance lease commitments identified in the Accounts: £1.7 million is funded from the Capital Fund, £1.1 million will be funded by the now incorporated Jersey Telecom Group Limited, £25.3million is funded by the Harbours and Airport Committee and £7.4 million will be funded through General Funds through rentals charged to Committee cash limits.

In addition to the above, there exists a small number of internal financing arrangements which were initially funded from cash balances and which will be repaid through Committee cash limits. These arrangements amounted to £4 million (Jubilee Wharf, La Collette Bus Garage, Les Quennevais Dance Studio) as at 31st December 2002.

Furthermore, the Housing Development Fund advances sums for the development of social rented or first time buyer property, which are repaid through the sale of these properties to first time buyers or to Housing Trusts, through rentals achieved from completed developments or through allocations to the Fund provided through the Capital Fund. The balance of properties that are awaiting transfer to Housing Trust or are in the administration of the Housing Committee amounted to £35,679,896 as at 31st December 2002.

Whilst not amounting to borrowing, as disclosed in note 19 page xxxv of the Financial Report and Accounts 2002, the States have provided guarantees up to a maximum of £20.2 million as at 31st December 2002 to financial institutions in respect of the borrowings of Jersey New Waterworks Company Limited and up to a maximum of £5.5 million in respect of the borrowings of Jersey Arts Trust in connection with the renovation of the Opera House.

Whilst also not amounting to borrowing the Housing and Finance and Economics Committees have agreed to provide financial support to various Housing Trusts in respect of their bank loans entered into in connection with the Trusts' development of social rented housing. The Finance and Economics Committee issues 'letters of comfort' to the banks in respect of such loans. These letters of comfort do not constitute guarantees. As at 31st December 2002, letters of comfort, in respect of loans totalling £80.3 million were in issue.

- (b) As the question asked, specifically excludes financings funded from the Capital Fund or Trading Funds, I have excluded all such arrangements from my answer to this question, including the Housing Development Fund. I have also excluded finance arrangements entered into by departments for minor items such as photocopiers, etc..

Material 'external' loan or lease financing funded other than through the Capital Fund, Trading Funds and that now assumed by Jersey Telecom Group Limited amounts to one lease and leaseback arrangement, approved by the States on 16th April 1996 to fund Morier House. The balance of the capital outstanding at 31st December 2002 and the original capital sum borrowed on that arrangement amounted to £7,360,738, interest charged to the Accounts for 2002 amounted to £636,467, and the interest rate applicable is 6 %. The arrangement is between the States and RBSI and is being repaid through rentals paid by departments occupying that building through relevant Cash Limits.

Internal Funding

The following internal financing arrangements currently exist –

1. Jubilee Wharf

This is an arrangement, funded from internal cash balances to provide office accommodation for the Housing Department. The original loan of £2.5million, which was drawn down in 2000 and bears interest at the Kleinwort Benson 1 month fixed plus one percent, will be repaid from the Housing Committee's Cash Limit over 20 years, replacing rentals that used to be paid to third parties. This arrangement was agreed by the States (September 2000).

2. La Collette Bus Garage

This is an arrangement, funded from internal cash balances, to provide a Bus Garage at La Collette. The original loan of £2million, which was drawn down in 2002 bears interest at the Kleinwort Benson 1 month fixed plus one percent, is being repaid from the Bus Operator's rental payments (£180,000 pa initially) over 20 years. This arrangement was agreed by the States (P.61/2002).

3. Les Quennevais Dance Studio

This is an arrangement, funded from internal cash balances, to provide a Dance Studio at Les Quennevais Sports Centre. The original loan of £300,000, which was drawn down in 2001 and bears interest at 6%, is being repaid from extra income arising from the use of the Studio over 5 years. This arrangement was agreed by the Finance and Economics Committee (may also have been the States, if drawings were presented).

- (c) I refer the Senator to the stance of the Finance and Economics Committee as recorded in the Resource Plan, 2002, and I quote from page 13 of that document:

'The Finance and Economics Committee recognises the possibility of funding projects outside the Capital Fund, through the use of private finance. This will normally, however, only be considered where a new funding stream, which meets the cost of financing, can be put in place. This income must be permanent and not adversely impact on the overall States' financial position.'

- (d) The market value of the investments held by the Strategic Reserve as at 30th June 2003 was **£391.8 million**.
- It is not possible to predict the return for the Reserve for 2003 as this will depend on movements in Bond and Equity Markets and changes in interest rates which are factors outside the Finance and Economics Committee's control.