

2014.09.09

3.11 Deputy S. Power of St. Brelade of the Minister for Treasury and Resources regarding the discussions for a bond for Andium Homes Limited:

In placing the bond for £250 million to finance future funding for Andium Homes Limited, could the Minister outline the specific discussions he had with prospective issuers of the bond and advise whether these were based on the projections now stated in Budget 2014, namely the projected budget deficits for the next 3 years of up to £90 million and possibly more in the future? Thank you.

Senator P.F.C. Ozouf (The Minister for Treasury and Resources):

I have been through this a number of times. First of all the question asks “now stated in Budget 2014” I think the Deputy means Budget 2015.

Deputy S. Power:

Yes.

Senator P.F.C. Ozouf:

Yes, so I am assuming that. First of all, I hope the Deputy still agrees that having achieved a coupon of 3.75 per cent fixed interest for 40 years is delivering everything he wanted as the Minister for Housing. Secondly, I do not recognise or understand again, with respect, how the figure of £90 million for deficits over the next 3 and, as the question says, possibly more, has been calculated. No decisions have been made by this Assembly on tax or spending beyond 2015 so no discussion can be had about... I am coming to a later question of whether or not there is a structural deficit, which I will deal with. As far as the bond issuance is concerned, all the available information at the time was shared with the 3 appointed book runners, financial and legal advisers who were involved throughout the insurance process. There were so many discussions, too numerous to list in an oral question because there were lots of face-to-face meetings, emails, conference calls and all the rest of it. The purpose of the discussions was to prepare the documentation, plan the road show, to ensure that we supplied the correct information required by potential investors. I was provided with regular updates by the former Treasurer. I can say this, my own involvement with the bond issuance was with the Minister for Housing. We went on the roadshow promoting what we had done and having a lot of very tough questions from really, really informed and smart investors in bonds over the period of time that we did the roadshow in Edinburgh and London. All of the bond investors are interested in historical results and how this Assembly has proven in the past to deal with any challenges of the future.

3.11.1 Deputy S. Power:

That long answer, which was another example of filibustering, did not answer the question. The question was did he specifically discuss the projections that we are now aware of, of a funding deficit with those particular prospective issuers of the bond? Did he specifically discuss that there was likely to be budget deficits for the next 3 years?

Senator P.F.C. Ozouf:

This issue about deficits of the next 3 years, the answer is, yes, there was absolutely full disclosure, granular discussions, tough discussions. I get tough questions in this Assembly. But if I may say, bond investors and credit committees of multi-billion pound investors know exactly how to get under the skin and how to answer. Perhaps they have had legal training like the Attorney General and the Solicitor General of answering questions. Nothing can be

hidden from the people that we were proposing. We have a published prospectus, full information, and this Assembly and this Island has one of the best track records in terms of publicly-disclosable information past and present and we have a good track record of dealing with problems in the future. That is the impressive thing that all the bond investors had; loose talk about future deficits, deficits this year which have been done to get the best of economic growth, is frankly not the most important issue. Is this Assembly capable in the future of dealing with challenges of healthcare spending and the rest of it? I believe we are. Investors, having got the lowest margin of any bond issue around in recent times, showed that those bond investors have confidence in our track record, have confidence in the current situation and have confidence in the future. Frankly, they know better than some of even I do about international trends. **[Members: Oh!]**

3.11.2 Deputy G.P. Southern:

The key question is, I think, was the information contained in the 2014 Budget about the shortfall between predicted forecast revenues and what was coming in shared with the people making the decision? Or was it a much larger shortfall between predicted and actual or pre-forecast in the 2015 Budget? Were those 2 pieces of information, £45 million and £75 million plus, shared with the assessors?

Senator P.F.C. Ozouf:

Well not only that there is the S. and P. (Standard & Poor's) report and the S. and P. information that is done, which I am just getting a copy of that so I can answer the question a bit later, the fact is that we have seen a shortfall in revenue in 2013, fully disclosed, and we explained it, where it came from. We are now seeing a downgrade in income for 2014 and 2015. This is exactly as many people would have expected the contagion of the euro crisis finally coming through into our numbers. The remarkable thing is that in 2011 and 2012 we beat the forecast by £27 million and an extra £17 million. These numbers will go up and down. Short-term knee-jerk reactions are not the good way that Members of Assemblies and Budget Ministers deal with things.

The Deputy Bailiff:

Minister, you must keep to the question.

Senator P.F.C. Ozouf:

It is long term and we have a great track record. Do not condemn it; celebrate it.

The Deputy Bailiff:

Minister, you must keep to the question.

3.11.3 Deputy G.P. Southern:

The question was, were the 2 figures on shortfall over expected revenue shared with the assessors on 2014 or 2015? Is the answer yes or no?

Senator P.F.C. Ozouf:

All information was given and the track record of beating estimates was also something. The confusing thing is the world tanked after 2013 and the revenue, because of the resilience of our finance industry, continued to come in. We have now seen a deficit because we want to spend money and cut taxes. Why are people criticising? I just do not understand it.

The Deputy Bailiff:

This is not a debate about the Budget or about the facts in relation to Andium Homes. It is question time. Deputy Le Hérissier.

3.11.4 Deputy R.G. Le Hérissier:

When the Minister did brief the parties in England and Edinburgh - and I hope Edinburgh did not get the word given what might happen next week, when he did do that - was surprise expressed at the fact that this was the first time after generations that the Island Government had deliberately sought to go into debt? Was surprise expressed at that?

Senator P.F.C. Ozouf:

No, and, again, I just do not know. Sometimes I think that Members wake up in the morning and they have forgotten everything that we have done in the past. What is this about we have not done deficits? Can I remind the Deputy of this chart? I will send it around. We ran budget surpluses in 2008 and 2009, we ran a deficit in 2010, we ran a deficit in 2011 from the drawing-down of the Stabilisation Fund because of the hugely prudent decisions that this Assembly made to deal with the issue of the change in corporate tax regime. I then arrived at the Treasury at the start of my term of office, warned about a public deficit ongoing of £100 million by 2013. This Assembly backed those proposals. Some Members did not do it. Some of the Members criticising me now are saying: "Oh no, should not have done that." We dealt with the deficit, we are in a good position, and what we are doing is we are building on putting money into the economy to be in the best position to deal with spending demands that many Members will have after, hopefully, some of them will have got re-elected. I just do not understand the issue.

3.11.5 Deputy J.A.N. Le Fondré:

Just one point while I am standing up is that we have a different forecasting model from 2012 onwards so I am not really interested in what happened in 2011 and before plus different economic circumstances, so would the Minister stop referring backwards? The question the Minister was answering in relation to the issues of the bond, could he also just clarify both for that and for the credit rating agency, were they given the I.T.F.G. forecasts which include dates of April 2013, it is dated September 2013, and it includes the shortfall of £70 million in income forecasts?

[11:15]

The reason I repeat the question is because in response to my written question they are not listed there. Just a yes or no.

Senator P.F.C. Ozouf:

I am getting a barrage of dates and we are moving around. I have a question about Budget 2014 when the Deputy means 2015; Deputy Le Fondré asking back from 2013. All information... let us be clear, the bond roadshow happened at the end of May. The income tax forecast for next year was effectively finalised at June. This Assembly and all people involved in the bond issue were aware and are aware of the exogenous factors faced in our financial industry and how that is going to affect it. We had lots of discussions about the future of Jersey and I was able to say with pride that this Assembly has tackled previous problems, not put issues away and that is why we are in a strong position. Unlike most other places, we have 100 per cent of G.D.P. (Gross Domestic Product) on our balance sheets in assets as opposed to all the other bond issuers which go around Edinburgh and those great financial advisers there because they have debts of 100 per cent the opposite way. We are not even zero. Most places are 100 per cent debt. We have 100 per cent of assets. I just do not understand the issue.

The Deputy Bailiff:

Minister, this is question time. You are supposed to be answering questions, not making speeches.

Senator P.F.C. Ozouf:

It is questions but it is questions about the detail where I am being told that forecasts have not been made. I know you are saying that we have a Budget debate next week but I need the facts out so that we can have a proper debate about the Budget, not have a debate which is based upon misinformation, revisionism and accusations that the Treasury has not been absolutely transparent in everything it has because it has. I need to make those points.

The Deputy Bailiff:

Thank you, Minister, you have done that. A final supplementary?

3.11.6 Deputy S. Power:

Yes, Sir, with great trepidation. **[Laughter]** I am going to bring the Minister back to the bond and the time it was taken out in the early part of the summer which he referred to as May or thereabouts. Was the Minister aware then of the significant changes that we are now aware of in the forecast and was he able to advise the issuers and the credit rating agencies and the banks of these changes in the forecasts?

Senator P.F.C. Ozouf:

The forecast was not finished until 30th June. We spent a lot of time thinking and talking about the reasons why Jersey's income would increase and not increase. I was able to explain what we are doing in the financial framework which is the new financial services strategy now delivering results: HSBC bringing business back to Jersey; 2 private equity firms bringing business to Jersey. Bond investors are taking a 40-year view. They are not interested in minor blips in terms of latest forecasts, they are looking at the resilience of the last 30 years of Jersey's economy, the way this Assembly has prudently dealt with estimates of the past and track records over 40 years. We are in a strong position and what are we doing? We have people saying that we are in a weak position. Deputy Power should be saying: "Fantastic, 3.75 per cent investment in social housing for 40 years at some of the lowest rates that anybody has ever got; fantastic" with full transparency and ongoing 6-month reviews ...

The Deputy Bailiff:

Yes, that question took 12 minutes.