

3.8 Senator S.C. Ferguson of the Minister for Treasury and Resources regarding provision for local investors to invest in the Housing bond issue:

What provision, if any, will be made for local investors to invest in the Housing bond issue?

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

A Ministerial Decision on 24th September regarding the process and outcome of appointing 3 joint managers known as bookrunners was made. The bookrunners' principal task is to market the bond to investors who will hold the bond and receive the interest payments due, known as the coupon. On 10th March another Ministerial Decision was approved with a planned timetable for the bond issuance. The timetable was proposed after careful consideration of certain factors that will ensure the most up-to-date information to potential investors receive during a roadshow. The roadshow will happen on 26th May in Edinburgh and London. That is after the accounts for the States of Jersey in 2013 has been reported and also Standard and Poor's latest finance assessment of Jersey has been made. Sovereign bonds are typically bought and traded through institutions like central banks, sovereign wealth funds, pension funds, insurance companies and hedge funds. These are known as wholesale investors. The maturity date for the States of Jersey bond is unlikely to be anything less than 20 or 30 years, which I am advised makes it an unlikely prospect to be attractive for retail investors.

3.8.1 Senator S.C. Ferguson:

Given that it will be an attractive rate of interest for anyone who has got money in a bank deposit, why not?

Senator P.F.C. Ozouf:

I understand why the Senator asks the question. The reality is it is my job, as required by the proposition, for setting up the housing entity and getting funding for the housing is to get that at the lowest possible cost. That lowest possible cost is issuing a bond at a wholesale market. I accept the bank interest rate is very low but there are many other products that are available through normal retail distribution channels for investors to increase their return on ordinary bank accounts. Issuing a States bond, which is designed to get the lowest interest rate over a long period of time, I fear is not the solution to those particular investors' current issues for low interest rates.

3.8.2 Deputy G.P. Southern:

Would the Minister for Treasury and Resources like to point out where the extra costs come from such an offer to your local market?

Senator P.F.C. Ozouf:

We have had a lot of advice. This has been one of the key issues that we have asked the advisers that are advising us to the bond issue have made. Indeed, we asked, when we asked for the tenders for the bookrunners, for them to set out proposals if they judged it appropriate for retail bond offering. For example, there have been a number of retail bonds that are issued. The reality is that those are more complicated, they are more administratively cumbersome to operate, and they have ... I have got one example before me of a bond that has been issued which is over 200 basis points over the equivalent of the gilt rate. Jersey, with our credit rating, hopes to get a much lower basis point over gilt rate. We are trying to reduce that in order to cost. I would hope that we would be a very slender amount over the current 30-year gilt rate, and that is the difficulty. We are issuing a bond effectively for corporate world not for the retail market in order to reduce the cost.

3.8.3 Deputy G.P. Southern:

Does the Minister not think that there is a balance to be struck between economic considerations and political considerations?

Senator P.F.C. Ozouf:

This is one of the challenges that I face. My job, I think, is to reduce the cost of the bond for, effectively, Andium and the other social providers that will be able to access this cost. We want to reduce the cost of operating and running social housing, not increasing it. I do accept what the Deputy says about the retail offer. Malta, for example, does issue public debt - lots of it - on their stock market but of course that is an entirely different economy. This is not the solution for the retail market but it is something that we would look at in future.

3.8.4 Senator S.C. Ferguson:

I have organised for clients investments in such things as the Eurobond market and so on. Will the Minister go back and reconsider ways in which locals can invest in these bonds because I have had an interest expressed by people in buying these, as there were in the Housing bonds, in the J.E.C. (Jersey Electricity Company) bonds in days gone by. Will he go back and reconsider means of enabling locals to buy these?

Senator P.F.C. Ozouf:

I have looked at this and discussed this extensively with my Assistant Minister. Currently at the moment the 30-year gilt rate is 3.46 per cent. I would hope that we would be able to issue our bond at obviously basis points above that, but certainly not 200 basis points. Some I am afraid there is a conflict here, which I cannot reconcile. I cannot reconcile what is a retail requirement that the Senator wants with effectively my job, which is I think the right public interest job, of reducing the cost of funding for the housing entity. We have taken this as a sovereign issue to reduce the cost of housing and passing it on to ensure that Andium principally has a lower borrowing cost than others.

[10:30]

If we start offering a retail offering the costs of borrowing will be higher and we will not get that 30-year cash. I have looked at it, I have nothing further to add. I am not prepared to look at it again. I had considerable advice on the matter.

3.8.5 Senator S.C. Ferguson:

The Minister has not answered it. It is to discuss with the wholesalers means of going through their outlets to retail outlets and he is presupposing that the investor ... because they would be informed investors, expert investors, going into this. He has presupposed that they do not know what they are talking about. Would he please go back and reconsider it?

Senator P.F.C. Ozouf:

I will not reconsider it because I have already considered it on a number of occasions with the advisory team. If the Senator is talking about expert investors with, for example, a minimum denomination of £100,000 then they will be operating in that particular market and they will be free to operate just as they are buying gilts or other things, these are high net worth expert investors. We have looked at this, we have rehearsed it, we have been back to the bookrunners and it is the judgment - and I have accepted the advice from the Treasurer and her team - that it is not appropriate that we suggest that this is a retail offering, and that is against effectively my obligations in order to reduce the cost of borrowing, moreover to get borrowing which is fixed for a long period of time. I am happy to share with the Senator the

documentation and the work that has been done but I have to say, we have come to the end of the road, and we need to get on with this process.