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3.5 Deputy J.A. Hilton of St. Helier of the Minister for Treasury and Resources regarding projected profits in respect of the Jersey International Finance Centre:

How does the Minister justify an increase of approximately £50 million in projected profits in relation to the Jersey International Finance Centre compared to earlier forecasts?

Senator A.J.H. Maclean (The Minister for Treasury and Resources):

The figures provided in my recent press release reflect the forecast gross development value of the Jersey International Finance Centre development on disposal, less the forecast gross development cost, as adjusted for inflation, over the development period. These figures are, therefore, not directly comparable with previously stated estimates of returns, but were produced on a current price basis. However, if inflation is removed from this latest valuation then the figures broadly support previous estimated returns and, for the avoidance of doubt, include contamination and remediation costs. This clearly demonstrates the Jersey International Finance Centre project is not only still viable, but that increasing levels of interest by prospective tenants demonstrate the ongoing demand and need for such quality grade A office accommodation. I should add that the Treasury and Resources Department commissioned this latest independent professional valuation earlier this year primarily for internal purposes as we track progress of the development from the perspective of shareholder of the States of Jersey Development Company. The valuation was only released publicly following ongoing concerns being raised about the viability of the project, specifically in light of uncertainty around the impact of contamination costs.

3.5.1 Deputy J.A. Hilton:

Gosh, I hope there is a Member in this Assembly with a far bigger brain than mine who can decipher that answer. Referring specifically to Building 4, the Deputy Chief Minister made a statement last week in response to the Scrutiny Report where, although not agreeing with the findings of the Scrutiny Report, welcomed the Ernst and Young submission. Does the Minister for Treasury and Resources therefore agree with their findings, which shows a profit of £3.04 million, i.e. 12.04 per cent profit on cost? If so, how does the Minister reconcile that figure with the one given earlier to Members in answer to a question I submitted on 20th October of £7.5 million net profit?

Senator A.J.H. Maclean:

I would thoroughly agree with the Deputy on one point; this is a complicated matter. There have been a number of valuations over a period of time and valuations undertaken on different basis, and that is confusing for Members. It is confusing for members of the public as well. As such, I have given this a great deal of thought. In order to clarify better, I am going to, first of all, invite States Members to a briefing on this particular development for an update. I think it would be very useful to allow Members to get more information, and the explanation of the different types of valuations in particular are laid out clearly for Members to understand. With regard to the report itself, produced by EY, first of all, like the Deputy Chief Minister, I welcome that report. I think it was a very useful report to get. I think the assumptions that they have made with regard to the valuation of just over £3 million is a positive one. They have used some very conservative assumptions in their calculations and I think that is useful. Certainly, from our point of view, one might describe that as a worse-case scenario perhaps. I think that the rationale behind the other evaluations, one of which the Deputy has just mentioned, do vary quite considerably. The point of the EY report is that they

are saying: "Go ahead with this particular building" and they are saying: "Go ahead with the next one as well, providing the circumstance does not materially change in the intervening period".

3.5.2 Deputy J.A. Hilton:

The EY report is suggesting that we go ahead with the building because so much money has been invested in it now that to withdraw would cost the taxpayer so much money, and that is why they are saying that. The Minister did not answer my question. There is a big difference between £3.04 million and £7.5 million, and that does not even take into consideration all the other considerations around the value of the land, the cost of the contamination, the disposal of the contamination and I could go on. Will the Minister please answer that question?

Senator A.J.H. Maclean:

It is very difficult on the floor of this Assembly to answer in detail a question of that nature. Quite simply, factors are included. First of all, the £3.04 million contained within the EY report that the Deputy refers to does include costs for contamination. It does ...

Deputy J.A.N. Le Fondré of St. Lawrence:

Point of order, Sir, it does not. Absolutely, it is very clear in the Ernst and Young report that they have excluded decontamination costs.

The Bailiff:

It is not a point of order, but you are asked to clarify.

Senator A.J.H. Maclean:

The Deputy was so quick out of the chair I had not finished my sentence. What I was trying to say was that - and this explains some of the differences and difficulties with explaining values, particularly in relation to this matter - and that is that there were costs that were included by the EY report, contamination is one, but there are other areas of professional fees, and assessments that they put in at a certain level, which is proven to be much lower than the actual costs which have been met and seen by S.o.J.D.C. (States of Jersey Development Company). In real terms, the £3 million does appear to be realistic; conservative, as I said earlier on. It is produced by EY. Just for the avoidance of doubt, EY are not saying: "Go ahead because you have invested so much money to date", they are actually saying that on their calculations at the current time this particular development and this particular building, in particular, is viable and there is no reason to stop. Why would you stop when you have already got a building that has been assessed to return more than the cost of construction - in other words a positive return - which is exactly what is contained within the EY report.

3.5.3 Deputy J.A.N. Le Fondré:

I will stick with a very simple question at this stage. On the written response to Deputy Hilton, in relation to the DTZ valuation, it cited that the valuation was prepared on the basis of special assumptions set out in the valuation report. Could the Minister simply elaborate what those special assumptions are?

Senator A.J.H. Maclean:

The special assumptions are something that a valuer would include when considering whether the value is done on a present-day basis. As I have said, there are 2 different elements in my opening answer. This particular one was on practical completion at the end of the development and after the first rent review, 3 years after the first rent review. So on that basis, and I think the Deputy

therefore understands what I am saying, why there is a differential between the price that went out in the press release, which was largely for internal purposes, as I stated, but when you take out the inflation you come back to a very similar figure to the previous BNP valuation, for example, that has been previously publicised or the outcome.

3.5.4 Deputy J.A.N. Le Fondré:

I thank the Minister, because I had shed an element of light and he is right: this is not the place to be exchanging on detailed matters and I am sure he will be welcoming the opportunity at some point to be explaining it directly to ourselves on the panel. I think, and could he confirm, that my understanding is correct; what he is saying is that the DTZ report and valuation is done at a different period in time, takes account of inflation and therefore that is why the reported profit in the press release is basically double? So, therefore, his definition of “broadly support” the BNP valuation of £50 million means that as far as he is concerned the numbers at the moment are that the returns are around £50 million, in his view, if we are comparing BNP and DTZ?

Senator A.J.H. Maclean:

Yes, broadly. As I have said, the valuation that was undertaken was undertaken largely for internal purposes. It was published, as I stated in my answer, to try and quell some of the uncertainty and concern that existed. The basis that it was done on was the completion of not just building number 4 but all the buildings across the development at the end of the development period, and that is going out to 2026. It includes inflation through that period of time, as one would expect, and this is a typical way in which a valuation of this nature is undertaken. This is not something that has been dreamt up by Treasury. This is an independent valuation, undertaken by professional valuers, following a set criteria. So a red book valuation in other words under those particular terms. I would point out that not only this valuation, but also the valuation undertaken by the bank that made the loan, the private funding to S.o.J.D.C., they have also come out with a positive valuation for building number 4. There have been numerous valuations now to suggest that this is a viable project, and even the EY report, however you want to look at it, however conservative the assumptions that they have included in there in terms of costs may be, they still come out with a positive return. That is the fact of the matter.

[10:30]

3.5.5 Deputy S.M. Brée of St. Clement:

Reading the response from the Minister to the written question by Deputy Hilton, I am very pleased to see that the report will be provided to the Corporate Services Scrutiny Panel. One would ask when obviously, but, more importantly, can the Minister explain under exactly what circumstances it would not be in the public interest to publish the report in full more widely, bearing in mind that the public of this Island ultimately own the land on which the building is going to take place, and own the shares in the development company?

Senator A.J.H. Maclean:

The Deputy raises a really important point: the public of this Island do own the land, the public of this Island do own, effectively, S.o.J.D.C.; it is their company, which we are looking after, and ensuring that it performs in the best way that it possibly can. There is a board of directors that has responsibility under the law to do exactly that. The point is some details being released into the public domain would give competitors a competitive advantage which could devalue the investment and the value of the land and the development which is owned by the public of this Island. Why would we want to do that? That is part of the consideration that I will have to give in terms of what

is released and what is not, but what I can say, and was made clear in the written answer to Deputy Hilton, is that we will release to the Scrutiny Panel the details of the DTZ report.

3.5.6 Deputy M. Tadier:

Confidential information such as how long a rent-free period they are being given, I am sure, is something of interest to the public, which will not be released; so I will not ask that question, but the question I will ask relates to the sunken road, which I think can be seen to be tied to what future projected profit is made, depending on whether we do or do not sink the road. So the question is: are there still plans to sink the road? If not, why not?

Senator A.J.H. Maclean:

Just on the first part of the Deputy's question where he was talking about rent-free periods; effectively, he is talking about incentives. This is not something that is unusual for the States of Jersey Development Company; all developers give incentives to attract tenants into their buildings. The reason, as far as this valuation from DTZ has been undertaken on the basis that it has been undertaken, in other words, on practical completion and at the end of the first rent-free period when the building is fully let, is that the rent-free periods, or any incentives that may exist, will have been eroded through that period and you get a true value of the building. What we are seeing, therefore, is a fair reflection as to what this development can be worth at the end of the period. I just wanted to make that clear; there is no great mystery around these rent-free periods or any other incentive. This happens with development companies around the world; it is a typical and normal part of the commercial development world. With regard to the sunken road, which the Deputy raised in the second part of his question, he will be well aware that there are 2 phases to this particular masterplan and this particular project, and that is phase 1, which is the Jersey International Finance Centre, and those are the 6 buildings that we are referring to. Those are the 6 buildings that are contained within the majority of the valuations that have been undertaken and that is the area where the valuation and the returns that we are talking about are focused. Yes, there is a cost in the future for phase 2, and I have made it clear that, with regard to masterplans, they are not rigid documents, they are documents that planning authorities again globally use to give themselves guidance for future development. It is a living document that will evolve over time as circumstances evolve in due course. But that is something for the future; at the moment, we are dealing with phase 1, which is the 6 buildings on the Jersey International Finance Centre; what comes after that is something that we will need to consider as we move forward.

The Bailiff:

May I say to Members: this is not a debate, it is question time, and we have already spent more time than we normally would. On the other hand, there were fewer questions than usual and so I am just going to let this run a little bit longer. The Connétable of St. John?

3.5.7 Connétable C.H. Taylor of St. John:

Can the Minister give this House assurance that the rent-free period and the inducements given to the sole tenant, that has so far been found by S.o.J.D.C., and I say "sole tenant" because there is only one so far, are within market norms?

Senator A.J.H. Maclean:

First of all, Sir, thank you for letting this run on longer; it is very kind of you. **[Laughter]**

The Bailiff:

I knew you would appreciate it.

Senator A.J.H. Maclean:

You are obviously enjoying it as much as I am, Sir. To get back to the specific question: as far as I am aware, and I am not sure there is a particular norm, but I have no indications, or I have certainly been given no indications that this is outside of what one might expect in the commercial world; but I cannot give any more detail than that to the Connétable. The key to this is in the valuation, and the valuation looks at “on practical completion”, when all the incentives have been eroded through the system, the value of the buildings as they come up for review and are ultimately sold. Frankly, that is very positive and we should all be pleased that, at the moment, it seems to be on track and remains a viable project much needed by the Island.

The Bailiff:

Do you see what a wonderful opportunity, Minister, it is that when I say we will carry on, nobody wants to ask any more questions? Final supplementary.

3.5.8 Deputy J.A. Hilton:

Ernst and Young have raised serious doubts that office development alone will generate sufficient surpluses to generate even a small proportion of the public realm and highway improvements of the underground, or the underground car park, and the lowering of the road, which has a possible combined cost of £90 million. In this Ernst and Young report, which the Ministers have said that they welcome, they have used terms such as “commercially unrealistic”. Does the Minister agree with Ernst and Young that the States need to revisit the Waterfront masterplan to arrive at a more balanced and commercially-viable mix of uses and public realm improvements?

Senator A.J.H. Maclean:

The Deputy is talking about the overall scheme and, as I have said, the masterplan is not rigid; it will evolve over time as circumstances evolve. There is no doubt that it will continue to be looked at, and I would be very surprised if there were not, in due course, changes proposed at some point in the future. What I am pleased about with the Ernst and Young report, and I think it is a very good report, is that it highlights the fact that, first of all, building number 4 is viable; it says we should go on with that, it said go on with building number 5 because it forms part of the role and development, as you can see, and there are some very positive aspects. What I am surprised about, I have to say, is the Corporate Services Scrutiny Panel’s conclusions that have come out in findings and recommendations that have come out from the report. I thought, reading their findings and recommendations, when I read the Ernst and Young report, I was reading a different one. In some respects, I would ask, regarding the panel’s own conclusions, and I would be interested to know, they talk a lot about Ernst and Young but they do not refer to any other evidence that was gathered during the process. This is Scrutiny after all; an evidence-based exercise. I would be interested to know, apart from the Ernst and Young report, what other evidence is there that is being demonstrated that leads to the rather negative conclusions, findings and recommendations within the report of the panel. I would be interested in due course to hear those details, and I am sure I will.

3.5.9 Deputy J.A. Hilton:

A supplementary, please; I cannot leave that to go unchallenged. On page 53 of the Ernst and Young report, it says: “We have severe reservations as to whether there will be sufficient demand to enable development of the full Jersey International Finance Centre proposals, totalling 480,000 square feet of office accommodation, over the medium term of, say, 5 to 10 years.” They are referring,

specifically, to the 6 buildings; not about any of the other infrastructure changes. So I would like to make that point here and I would like the Minister to come back and answer that point.

Senator A.J.H. Maclean:

Yes. Again, as I said a moment ago, the Deputy is referring to the whole scheme which is going to roll out over a period to 2026, or so. It is a long-term basis. So there are 2 elements: one is the 2 buildings, the first one that has started, which has proven to date, from all the valuations that have occurred, to be viable. We can look at demand. There is a certain amount of work and evidence with regard to demand. There are, I can tell Members, 20 prospective tenants that S.o.J.D.C. are currently talking to; that accounts for about 325,000 square feet. Importantly, and I think this is really important because it is about confidence, since the development started with building number 4, since the construction work began, there have been 6 new inquiries because people in this Island and businesses in this Island, have begun to feel some confidence that it is going to happen. All the uncertainty is one of the reasons that it has been so difficult in the preceding period to get tenants to commit - with the considerable cost involved - in moving towards a lease agreement when uncertainty exists. We need to get behind this development; it is beginning to work and it is in the economic interests of this Island, I have no doubt. We heard on the radio, only the other day, that the Chief Executive of Jersey Finance was making some comments about the demand side, about the fact he had not had the opportunity to give his side of the story about how much demand there was in the marketplace as we see finance recover: profits up, new jobs being created. That is a good piece of news.

The Bailiff:

Minister, you have gone probably much more than a minute and a half. No, Deputy; this is not a debate. We have come to the end of question time. That was the final supplementary and that is final.