

2021.09.14

8 Deputy I. Gardiner of the Minister for Treasury and Resources regarding the sale by JT of Internet of Things (OQ.183/2021)

Will the Minister state in relation to the sale by J.T. (Jersey Telecom) of Internet of Things, the proceeds of the sale and what percentage of the proceeds will be distributed to the States of Jersey as shareholder?

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

The Assistant Minister for Treasury and Resources will answer the question.

Deputy L.B.E Ash of St. Clement (Assistant Minister for Treasury and Resources - rapporteur):

For commercial confidentiality reasons, I am not able to confirm the exact gross proceeds of the sale. Members may recall from briefings at the time of the sale that J.T. are continuing to hold a percentage investment in the I.O.T. (Internet of Things) business, which we hope will generate further shareholder returns. Following deductions of that investment and the transaction costs, which are a fairly complicated business, that leaves the net proceeds, so the net proceeds that were paid to Jersey Telecom, excluding those factors of reinvesting in the new business. So, of the net proceeds, the amount that will return to the Government will be 28 per cent. We will be continuing discussions with the board as to the application of the balance of proceeds as the deal finally moves to a conclusion, including potential future returns to the shareholder. Obviously a lot of the money that will remain with Jersey Telecom will be invested into the Island's infrastructure.

8.8.1 Deputy I. Gardiner:

Would the Assistant Minister explain to the Assembly how the 28 per cent return to the States of Jersey shareholder was determined?

Deputy L.B.E. Ash:

It was a discussion that we had with Jersey Telecom. As to the amount that ... you cannot hear me?

The Greffier of the States (in the Chair):

Sorry, Assistant Minister, Deputy Morel is flicking his microphone on but it needs to go through the chat, I cannot cover both. It was an attempt to communicate discreetly, which has obviously failed completely. Deputy Ash, do you want to continue with your answer?

Deputy L.B.E. Ash:

Yes, not a problem. Yes, we had various discussions with Jersey Telecom. It is obviously up to their board of directors ultimately as to the dividend that we receive; it is a special dividend. They have plans for funds within the business. We obviously wish them to pay us a special dividend and this, after negotiations, was agreed to be a satisfactory initial payment to us. As I say, in effect, the Island benefits considerably more than we are getting back due to the fact that they are doing such things as de-risking the network, which will cost tens of millions of pounds, and of course we will be looking at 5G.

The Greffier of the States (in the Chair):

We have on this question Senator Mézec, Deputy Southern, Senator Ferguson, Senator Moore, the Constable of St. John, Deputy Ward and Deputy Morel. The Bailiff likes to keep things to within

about 8 minutes, that is quite a challenge, so I would hope for quick answers and quick questions but it is obviously an important subject. We are close to a lunch break, so maybe I will take one Member and then invite the adjournment if Members wish to adjourn. So the first would be Senator Mézec.

8.8.2 Senator S.Y. Mézec:

Can I ask the Assistant Minister exactly when it was that the I.O.T. was separated from the rest of J.T. into its own entity and when exactly it was that discussions about selling the I.O.T. began and was there an overlap between those 2 events?

[12:45]

Deputy L.B.E. Ash:

I do not have the exact date that the I.O.T. business was set up by Jersey Telecom. There was a definite period between it being set up as a separate standalone business and the decision that it should be sold.

8.8.3 Senator S.Y. Mézec:

Can the Assistant Minister therefore confirm that at the point at which the I.O.T. was incorporated into its own separate entity to J.T. that there was definitively no intention at that point to go on and privatise it?

Deputy L.B.E. Ash:

I do not sit on the board of Jersey Telecom so I will not know their exact reasons for that decision. I do not think they, at that time, had any decision to sell it, they merely saw it as a standalone business that was not part of their core services, so they decided to run it as a separate entity.

LUNCHEON ADJOURNMENT PROPOSED

The Greffier of the States (in the Chair):

Thank you, we have passed 12.45 p.m. Does any Member wish to propose the adjournment? The adjournment is proposed. Is it seconded? **[Seconded]** I detect a general desire to adjourn, so therefore I adjourn until 2.15 p.m.

[12:46]

LUNCHEON ADJOURNMENT

[14:20]

The Bailiff:

We continue with question 8 that Deputy Gardiner had asked the Minister for Treasury and Resources. I have listed to speak Deputy Southern, Senator Ferguson, Senator Moore, the Constable of St. John, Deputy Ward and Deputy Morel. That will be all that can ask at this particular point because we have spent a long time on this question.

8.8.4 Deputy G.P. Southern:

The point is surely not what percentage was distributed but what sum was distributed. We normally get a tax return off J.T.; how much is the tax return now? Has it been maintained or is it more or less than what we have done historically in the past?

Deputy L.B.E. Ash:

Obviously we will be still getting a return from Jersey Telecom as a dividend. If he is asking what the total sum is that we are going to initially get from this project, which I find slightly ironic coming from the questioner who absolutely asked how could we cancel this deal and now appears like ...

Deputy G.P. Southern:

Please do not do personal.

Deputy L.B.E. Ash:

You asked how we could cancel this deal.

The Bailiff:

No, if you please, would both the questioner and the answerer not engage in direct communication, address everything through the Chair? If there is a problem with the way people are being spoken about it is for the Chair to correct. I did not hear anything but let us continue with the answer, please.

Deputy L.B.E. Ash:

I will direct it to yourself, that it was suggested by the questioner that we should look to cancel this deal and now is back asking how much money we are going to receive. I can put a figure to that sum which may well assist him; the 28 per cent would equate to around £40 million that will be returned to the Government by Jersey Telecom.

The Bailiff:

A supplementary question, Deputy Southern?

Deputy G.P. Southern:

No, that is quite a significant sum we are having, I would have thought.

The Bailiff:

Sorry, is that a question?

Deputy G.P. Southern:

No, it is not, Sir.

8.8.5 Senator S.C. Ferguson:

I find the Internet of Things is the whole future of the telecommunications industry, so will the Assistant Minister like to check that the board was not planning a sale before the split?

Deputy L.B.E. Ash:

I would imagine that it was always on the board's minds that there could come a time when this particular company, they either reinvested and expanded it within the Jersey Telecom empire or they looked to sell it. The problem with anything in the technology industry, and I am sure you are aware, one thing is the future at one time and then is not. It is not long ago - well it is not long ago if you are of my age - that all the phone boxes were pretty much replaced with phone cards and it was going to be the future: phone cards, we do not have to put coins in there any longer. Well, you do not find phone cards anymore and you do not find phone boxes anymore. So, what the board of Jersey Telecom had to decide was: were they going to expand this section of their business or were they going to seek a buyer as an ideal time? They decided that this was the ideal time to dispose of

this business. If it does go from strength to strength - we have no idea whether it will - they have retained 16 per cent within it.

8.8.6 Senator S.C. Ferguson:

The taxpayer owns this company and therefore there should be more transparency. If the board was not considering planning a sale before the split, would the Minister not consider that the board was incapable of strategic planning and ask the board to reconsider their position?

Deputy L.B.E. Ash:

I believe that it was in their overall plan in 2017 that it may become possible that they would have to look to dispose of this part in the future or certainly address it. As I said, you get to a stage where you either purchase new or buy into new businesses and expand it to stay globally competitive or you find the right time to sell it to somebody who would. They decided it was the right time to sell it. As a Government we employed someone to look into whether that decision was the correct one and they came back stating that it was definitely the correct time to do it and that it was a great price at which we were going to deal.

8.8.7 Senator K.L. Moore:

Could the Assistant Minister describe to Members, please, the intentions of Jersey Telecom as a publicly-owned company with regard the use of the proceeds of the sale that they hold, what they intend to do with it? Also, what infrastructure projects the Assistant Minister might intend to do with this £40 million that the public purse is now holding? Would that include a contribution towards the hospital costs, for example?

Deputy L.B.E. Ash:

There are a fair few questions there. I will come to the last one first about the hospital. The sales proceeds were received by Jersey Telecom and therefore the proceeds cannot arbitrarily be taken for the Our Hospital project. The funding solution for the Our Hospital project is laid out in detail in P.80/2021, which the Assembly will debate next month. As for the individual dividend that has been paid, the allocation of these monies will be set out in the forthcoming Government Plan which is due to be published next week and you will see where this £40 million, the Government can see it being spent. Coming back to Jersey Telecom and the money they are retaining, as I have stated, there will be money that has to be put into the de-risking of their network which will run into tens of millions of pounds. They will also be looking at 5G. They will also be looking, if you like, at the next I.O.T. offering that they can find. Not an I.O.T. offering but the next business opportunity that they can look to invest in that will hopefully give similar returns to the Government that this has.

8.8.8 The Connétable of St. John:

Before lunch the Assistant Minister told us a 28 per cent return had been negotiated. Does the Assistant Minister feel it acceptable to dispose of such a valuable asset without knowing the full benefit to the shareholder beforehand?

Deputy L.B.E. Ash:

It is a good question. We did have obviously an idea of where Jersey Telecom were looking to sell this business for. We did not at that time discuss what was in it for us, if that is what you are asking me. What we did discuss was whether it was the right thing at that time to do for Jersey Telecom. We consulted with, among ourselves obviously, and also with external agencies that decided it was exactly the right thing for Jersey Telecom to do. If I could also say, this Assembly has often doubted

why we have non-executive directors on the salaries thereon. Well, when you are having people like the chair of Jersey Telecom who was formerly the chief executive, I believe, or the C.E.O. (chief executive officer) of Cable and Wireless, who was obviously a major helper in driving this through, in securing this deal for the Jersey Telecom and securing this money for the States of Jersey, I think we can see why we need good quality non-executive directors within our companies.

8.8.9 The Connétable of St. John:

My question was not about the timing of the deal or the rationale for the deal, it was about whether we knew how much we were going to get as a shareholder. My supplementary is: what percentage of J.T.'s proceeds that they have retained are available to them for acquisitions compared to infrastructure investment?

Deputy L.B.E. Ash:

I would not be able to give you an exact amount but I would suggest it is going to be around 20 to 25 per cent that they will retain a similar amount, slightly less than we have, for looking at future investment opportunities for the group.

[14:30]

The Bailiff:

Deputy of St. Martin, you have indicated a desire to ask a question. I am afraid I have already called the final list for questions on this and I am not taking anymore.

8.8.10 Deputy R.J. Ward:

Some of the questions I was going to ask have been asked, if not answered. Can I ask the Minister, given that the Internet of Things is being seen as the future of technology but at the same time we are being told this is the right time for Jersey Telecom to sell its interests in the future of technology, what risk assessment was undertaken that we may be missing out on future assets for the States-owned company? The price we have got now may look good on paper but it may be way more in the future. How is that going to be judged by the Minister in the short time that you have left in the Assembly?

Deputy L.B.E. Ash:

There was considerable advice obviously taken, not only by ourselves, which we did, but by Jersey Telecom as a company, and the board, as I say, are immensely experienced in this sort of business. It is probably that if they had not expanded, the I.O.T. side of Jersey Telecom would have just withered and died, so they had 2 choices. One was to expand it or one was to leave it alone and just sit with it because they would not have had the place on the global stage. As far as if the I.O.T. business continues to flourish, continues to go from strength to strength, we still have the I.O.T. side of things based in Jersey, that new business is based in Jersey, and we still have a reasonable shareholding within that. So if it does we will not miss out on the financial rewards in the future and that is why it was such a great deal, not only for Jersey Telecom, but for the Island.

8.8.11 Deputy R.J. Ward:

Does the Minister know if there are any other plans for other areas of Jersey Telecom to be hived off in this way with the same principle lying behind them, that there is perhaps some jam tomorrow, if not all of it, for States-owned assets?

Deputy L.B.E. Ash:

That is the easiest question so far: no, I do not.

Deputy K.F. Morel:

My questions had been asked, and while I have been wracking my brains for new questions, the extent of interrogation means I have run out of any new questions, so I have to withdraw.

8.8.12 Deputy I. Gardiner:

At the Public Accounts Committee we asked not just once about memorandum of understanding and the communication and relationship between the Government of States of Jersey and Jersey Telecom. The Assistant Minister's answer when mentioned that the board of directors decided: "We wish to negotiate" and following the Connétable of St. John's question, the answer that we received, I am still not clear if we, the States, as a shareholder must have clarity in distribution between the company and the States in advance.

Deputy L.B.E. Ash:

In answer to your question on the M.O.U. (memorandum of understanding), the M.O.U.s have now been fully reviewed for every company and will now become available for people to see. Obviously all the companies are very individual in their nature, which is why it takes a while to get something that is generic but something that is also company specific. In answer to whether or not we would look at how much we gain when a company looks to do a transaction of this sort, that would not be in the M.O.U. because we asked these companies and their boards to act in the best interests of the companies. We would not then go down to: "Well if you do this, how much is in it for us?" It just would not be in an M.O.U. It would be: "Is this in the best interests of the company that the board are acting in this way?" I think undoubtedly it was and undoubtedly it is.