

STATES OF JERSEY

Corporate Services Scrutiny Panel

MONDAY, 5th DECEMBER 2016

Panel:

Deputy S.M. Brée of St. Clement (Vice Chairman)

Connétable C.H. Taylor of St. John

Deputy K.C. Lewis of St. Saviour

Senator S.C. Ferguson

Witnesses:

The Minister for Treasury and Resources

Assistant Minister for Treasury and Resources

Treasurer of the States

Comptroller of Taxes

Deputy Comptroller of Taxes

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[11:02]

Deputy S.M. Brée of St. Clement (Vice Chairman):

Right, first of all, good morning, Minister, Assistant Minister and officers. Thank you very much for attending. This is the quarterly public hearing with the Minister for Treasury and Resources. Minister, if I may draw attention to the notice in front of you, which I am sure you have seen before. To members of the public and the media who are here, this is a public hearing. I would respectfully request that you remain quiet at all times and if you could please ensure that all mobile devices and phones are at least switched to silent, that would be very helpful. Minister, we have a number of areas that we need to question you on. We will go through them relatively quickly and we would ask that where possible you provide us with clear, concise and hopefully reasonably short answers because there are quite a number of areas that we need to talk about. For the purposes of the recording tape, if we go round the table introducing ourselves, my name is Deputy Simon Brée. I am Vice Chairman of this panel, acting Chairman for the purposes of this quarterly public hearing.

Connétable C.H. Taylor of St. John:

Constable Chris Taylor, panel member.

Senator S.C. Ferguson:

Senator Sarah Ferguson, panel member.

Deputy K.C. Lewis of St. Saviour:

Deputy Kevin Lewis, panel member.

Assistant Minister for Treasury and Resources:

Constable John Refault, Assistant Minister for Treasury and Resources.

The Minister for Treasury and Resources:

Senator Alan Maclean, the Minister for Treasury and Resources.

Treasurer of the States:

Richard Bell, Treasurer.

Deputy Comptroller of Taxes:

Paul Eastwood, Deputy Comptroller of Taxes.

Comptroller of Taxes:

Richard Summersgill, Comptroller of Taxes.

Deputy S.M. Brée:

Thank you very much indeed. If we start on the first area of questioning that we have for you, Minister, which is looking at the proposal, proposition, that you have put forward for the funding of the future hospital, you have stated that the future hospital project is estimated to cost £466 million. Purely for clarity's sake, can you please confirm that the proposition you have put forward is that £400 million will be issued as a bond and that the remaining balance of £66 million will be sourced from elsewhere? Is that correct?

The Minister for Treasury and Resources:

No. What we have said, in fact, is that up to £400 million will be a bond and that is the proposal that we are looking at, and the remaining balance of £66 million is coming out of already allocated funds for that particular project.

Deputy S.M. Brée:

So the additional £66 million, where is that going to be funded from?

The Minister for Treasury and Resources:

That is ...

Treasurer of the States:

£23.6 million is already funded by the States. The balance will be from planned excess returns on the strategic reserve.

Deputy S.M. Brée:

So when you say that up to £400 million will be issued as a bond, what is the plan? Is it to issue £400 million or is it not to issue £400 million?

The Minister for Treasury and Resources:

It is exactly that. We have worded it in that way to ensure that we have enough flexibility because clearly the process that is to be followed now is that the proposition has been lodged. The States will need to debate the proposal and hopefully agree it, and then there is approximately 3 months following the process for securing the bond. As such, because of that timescale, we need to ensure we have flexibility should conditions change and we may well seek to use perhaps more reserves and less money being raised from a bond.

Deputy S.M. Brée:

Okay. Now, the figure of £466 million excludes certain items. Can you please clarify what these items are and what the projected additional costs in relation to these items are?

Treasurer of the States:

So, the first thing that is excluded is any replacement accommodation for key worker accommodation, the plan being there for Andium to provide that accommodation, which would result in a revenue consequence which is spelt out in the report, and I am sure you have read it, or approximately £1 million is the early estimate of that number. I am just reminding myself of what is excluded. It also excludes the demolition and ... I will rephrase it, demolition and adaptation of those parts of the site that will not form part of the new hospital.

Deputy S.M. Brée:

So what is the projected costs for the demolition?

Treasurer of the States:

I do not have those costs to hand. I have the costs that are within the provision, not the costs that are outside the provision, some of which depends upon the future use.

Deputy S.M. Brée:

But if you are asking the States to debate the funding proposition, do you not agree that the States should be in possession of the full facts as to the full costs for the project?

Treasurer of the States:

This is the full cost of building the hospital. It is clearly stated it is the full cost of building the hospital. Whenever you have built the hospital and now the States have decided it would build it on that site, you would have the costs of demolition whichever site you would choose. If you built it on a different site, you would still have to pull the existing one down.

Deputy S.M. Brée:

Not if you built on a clean site such as the waterfront, but anyhow that is not the subject of discussion at the moment.

Treasurer of the States:

The hospital would still need to be demolished.

Deputy S.M. Brée:

So what are the costs for demolishing the existing buildings?

Treasurer of the States:

I do not have those costs to hand.

Deputy S.M. Brée:

Have you worked on those costs?

Treasurer of the States:

I have not personally. We will ask the ...

Deputy S.M. Brée:

Well, has anybody within the Treasury Department worked on the costs that will be included in the overall project? I am not talking about the construction of the new hospital. We are trying to look at this as a total envelope of costs.

Treasurer of the States:

Yes, okay. I do not have those ...

Deputy S.M. Brée:

But you are saying nobody has worked those costs out yet?

Treasurer of the States:

I do not know what the future site of ... that part of the site is going to be used for at this point. So when we talk about demolition, we also do not have the adaptation or redevelopment costs for that site because we do not at this point have a decision as to what the remainder of the site will be used for.

Deputy S.M. Brée:

What additional items then, excluding the staff accommodation revenue costs, the demolition costs which you do not have to hand at the moment, what other items are excluded from that £466 million?

Treasurer of the States:

So there is a piece of work that needs to be completed in terms of whether the redevelopment ... the extent to which Patriotic Street needs to be redeveloped can be kept within the £466 million with a view to using Car Park Trading Fund for any additional funds. Currently, the position is we believe early in the day that the £466 million would be sufficient for those costs.

Deputy S.M. Brée:

But you are saying the work has not yet been completed, is that correct?

Treasurer of the States:

As the Chair is aware, we need to do some more work to get to the final business case for the more precise costings, and that work is to do. That was entirely openly communicated, I believe, to States Members in the debate last week.

Deputy S.M. Brée:

Okay. Moving back to the bond itself, can you just confirm for the record how you intend, on the proviso that obviously the States Assembly gives it approval, that the bond be structured in simple terms?

Treasurer of the States:

Firstly, just following up on your first question, what we have done in the report and proposition is outlined the favoured approach at this time. As markets will move - and I believe we had the conversation about that in my presentation to States Members - between here and when we go out for the bond, that is why we have said we are not certain that it will be £400 million at that point in time. To answer your question, from looking at the strategic reserve, we have built upon the previous decision of the States to use the strategic reserve transfers for the construction of the hospital. Clearly, that precise agreement of the States no longer applies in that we are no longer doing a 297 build over 8 or 9 years and, therefore ... sorry, and in addition we have used funds during the M.T.F.P. (Medium Term Financial Plan) period 2 from the strategic reserve, which means that that plan cannot be delivered. However, using a similar principle ... and firstly it might be worthwhile just backtracking slightly. The decision to go for a bond is on the basis of over a 40-year period we are very confident from our investment portfolio we could earn more than we would currently pay on a bond, which makes very good sense at this point, therefore, given the current crisis, to go for a bond rather than take the money out of reserves. Otherwise you would lose far more in investment gain. In terms of how we are addressing the funding of the bond, we can also ... we have modelled it and we have done some sensitivity analysis around it ...

Deputy S.M. Brée:

I was talking, though, if I may bring you back to the question itself, was just simple terms for the record the intended structure of the bond, not the funding of it.

Treasurer of the States:

Oh, the structure of the bond, sorry, I misunderstood. A public-rated sterling bond.

Deputy S.M. Brée:

Fixed coupon over a period of what, maturity date 40 years from date of issue?

Treasurer of the States:

We were looking 30 to 40 years at the moment. So while we have been doing the work we have been looking at different durations between 30 and 40 years.

Deputy S.M. Brée:

Okay.

Treasurer of the States:

Sorry, I misunderstood.

Deputy S.M. Brée:

All right.

Treasurer of the States:

You will get on to that.

Deputy S.M. Brée:

No, we go on to talk about the funding side of things a little bit later. I was purely trying to get clarity into the situation because there seems to be a little bit of, if you like, lack of clarity as to exactly what term the bond will be. Thank you for that. Now, obviously, this proposition is due to be debated on 17th January 2017. Is there a risk that the projected coupon rate that the States will have to pay to investors will be higher by the time it is debated and the issuing process completed?

The Minister for Treasury and Resources:

Obviously, yes.

Deputy S.M. Brée:

Have you factored this into your costings of the bond? I mean, are you working on a range of coupons or are you pretty much when you are looking at the actual cost of the bond fixing on a particular coupon rate?

The Minister for Treasury and Resources:

No, we have done sensitivity analysis on the proposal. We have seen the bond market move in recent days and recent weeks, quite considerably following the U.S. (United States) elections, but that said, the rates available currently - and they will change - are considerably lower than they were, for example, when we went for the housing bond, which was struck at 3.75.

Deputy S.M. Brée:

So what is the range of coupons that you are factoring into your costings? What have you been advised would be the range that you should work out costings at?

The Minister for Treasury and Resources:

I think costings have been looked at across the range close to where the housing bond was struck at to see the viability of the funding proposals.

Deputy S.M. Brée:

No, the question I am asking is you are obviously taking advice on this. I am asking what is the range of coupon rates that you are working on when working out the costings. Is it 2.5 to 3? Is it 2.6 to 3.1? That is what we are trying to get to.

Treasurer of the States:

I will have to give you the report in terms of the volatility we previously looked at. The point I would make is by the time we come to debate or closer to the debate we need to revise that work.

Deputy S.M. Brée:

Yes, this is ...

Treasurer of the States:

The work that we did 6 months ago and the work that we did previously is of little use to you now and by the time we get there it will be of little use then.

[11:15]

So we will provide updated forecasts based upon the figures as and when you come closer to the debate. We can model whichever figures you like. We have done some volatility testing around the coupon rate ...

Deputy S.M. Brée:

When will you be providing that report to States Members prior to the debate? Because if the debate is on 17th January, when will you be able to provide an updated report to States Members?

Treasurer of the States:

I think if you go too close to the debate it will not help States Members, so I would think a couple of weeks before the debate would be okay, with a view to giving an update as to the likely coupon rate almost live so we know whether we are within a degree of competence at a point that you debate it.

However, I would say again that by the time we come to do the deal, if the market has changed what you are being asked to do in the States Assembly is to give the Minister the authority to borrow up to £400 million for a duration yet to be determined for a quantum to be determined based upon the market at the time we go to the States.

Deputy S.M. Brée:

Okay. Minister, as you are probably now aware, this panel has indicated to your department that we shall be undertaking a review of the proposition that you have put in front of the States for the funding. Now, as the debate date is due for 17th January, this gives this panel naturally very little time to complete a proper review. Now, on such an important issue as the borrowing of such a large amount, why was your proposition not lodged earlier?

The Minister for Treasury and Resources:

Timing is clearly very difficult. I think I have said previously at hearings such as this and in private hearings that we would have wanted in an ideal scenario to lodge as early as possible and to ensure that the panel had suitable time to be able to review the proposals that we were presenting. It was simply circumstance around a number of factors aligned to this proposal that meant that we had no choice but to lodge it when we did. We will work clearly with the panel to ensure you have suitable time to be able to review it.

Deputy S.M. Brée:

What factors delayed you in lodging?

The Minister for Treasury and Resources:

Just market conditions, pressure of work with the completion of the M.T.F.P. There was very little time, as you will appreciate, between the end of the M.T.F.P. and then the preparations for the budget. Putting the workload through the Treasury team meant it was very difficult to finalise any sooner than we did.

The Connétable of St. John:

When we met 4 weeks ago, which was a Monday, you said it was going to the Council of Ministers that week and hopefully by the end of that week you should be able to lodge. You lodged 2 weeks later than that, which was last Monday, a week ago. We are just a little bit concerned and confused as to why we were told 4 weeks ago we should have it by the end of the week and we had to wait another 2 weeks.

The Minister for Treasury and Resources:

I think what you are referring to, Connétable, is a private hearing that we had where I gave an indication that ... or whether it was private or not does not really make much difference.

The Connétable of St. John:

It was a public hearing.

The Minister for Treasury and Resources:

But the point is that it was an indication of what the intention was from a lodging point of view.

Treasurer of the States:

It was a private hearing to the subpanel for the hospital, as I understand it. I was not present.

The Connétable of St. John:

No, it was a public hearing.

The Minister for Treasury and Resources:

Well, whether it was or it was not, the fact of the matter is we gave an indication as to when we were hoping to be in a position to lodge. What you say is quite correct. It did, in fact, go to the Council of Ministers and then some additional work was undertaken in that intervening 2 weeks. So, effectively, we are talking about a 2-week difference from when perhaps we might have been in a position to lodge to when we did lodge. I mean, the important factor is that as a Scrutiny Panel you have an important piece of work to do to be able to consider this proposition and you need to be able to have suitable time to do it. The only point I would raise in that is it is difficult from our point of view to get this proposition together and get it lodged, but equally timing is also very important. I know you appreciate that, so we all have to work as hard as we can to try and get a desired outcome.

Deputy S.M. Brée:

Okay. If on 17th January next year the States Assembly do approve your proposition, if you decide to go the bond route, when do you expect to issue the bond?

The Minister for Treasury and Resources:

Well, the process as I understand it takes approximately 3 months.

Deputy S.M. Brée:

Okay. Have you as yet appointed an institution to be the lead manager on the issuance?

The Minister for Treasury and Resources:

No.

Deputy S.M. Brée:

Are you in discussions with institutions to appoint them?

The Minister for Treasury and Resources:

There have been discussions but not with regard to appointing at this stage.

Deputy S.M. Brée:

Why is that? Why have you not appointed somebody?

The Minister for Treasury and Resources:

Well, it would not be appropriate to do that at this stage. I do not know if you want to ...

Treasurer of the States:

We have an adviser at the moment and we are going through the process of considering whether we continue with that or go for an open procurement.

Deputy S.M. Brée:

Who is your adviser at the moment on this?

Treasurer of the States:

At the moment advising in respect of the work is the entity that we had for the previous bond, so EY.

Deputy S.M. Brée:

Ernst & Young, yes, EY as it is now known. So you have not sought advice from any form of lead manager in this area who is used to issuing structuring into the primary debt market?

Treasurer of the States:

We have extensive advice from EY of the process up to now. What I am saying is now that we are in a position to go forward, we are going through the decision-making of deciding whether we continue with EY, which their existing contract is not for this piece of work from this point, or we go through a full procurement process. We have had advice from EY.

Deputy S.M. Brée:

Okay. Looking a bit wider, if you were to decide to issue a bond, over the 40-year life of the bond what have you calculated to be the total costs to the States of Jersey, including all costs and fees?

The Minister for Treasury and Resources:

Are you talking about adding up all the interest over the period and all the costs and fees on ...

Deputy S.M. Brée:

I am just trying to seek clarity on what ... if you issued a bond of £400 million at the projected coupon rate that you are working on, what is the total cost over 40 years, including all costs and fees?

The Minister for Treasury and Resources:

We have looked at it in a slightly different way. I mean, there is obviously a calculation of that nature, but the point we have been looking at is, first of all, we have assessed returns but the issue is around how we pay for it, the affordability and ...

Deputy S.M. Brée:

We go on to that question later. I just wish to seek clarity from you, Minister, as to what is the total cost. Have you not calculated that?

Treasurer of the States:

I have calculated. I am just trying to remember the last time I looked at it which one I used. I think the number we looked at was about 820, but I would have to come back to confirm the precise number because, as the Minister said, we have not been concentrating on that. We have been concentrating on the total proposition, which is how much money one would make from the investment over the period compared to those costs.

Deputy S.M. Brée:

Yes, but you have to establish ...

Treasurer of the States:

I may be unique but that is not the way I look at a mortgage when I go ...

Deputy S.M. Brée:

You have to establish costs first to work out whether or not the returns you are anticipating will meet the costs.

Treasurer of the States:

Yes, and they keep changing with the bond.

Deputy S.M. Brée:

So at the moment you cannot give us a figure?

Treasurer of the States:

I do not have the spreadsheet in front of me, no. If I had known you were going to ...

Deputy S.M. Brée:

I am surprised that you are unable to give that, but anyhow. Looking then within the proposition at the way in which the actual costs, which you are not sure what they will be, how we are going to fund it, the proposition states that the funding costs will be covered by the excess accumulated returns on the Strategic Reserve Fund. Is that correct?

The Minister for Treasury and Resources:

Yes, the coupon will be covered in that way, which is estimated to be somewhere around about £10.5 million per annum based on ...

Deputy S.M. Brée:

Depending which coupon rate you use, which you are not sure which range you are working on at the moment?

The Minister for Treasury and Resources:

No, no, we have had a look at a number of ranges. You are being very naughty here, Chairman. We have done a lot of sensitivity analysis ...

Deputy S.M. Brée:

Well, sorry, no, I did ask you a quite clear question. You were unable to answer that question, which was: what is the coupon range that you are factoring into your costs?

The Minister for Treasury and Resources:

No, what I said was that we have looked at sensitivity analysis across a range of potential rates.

Deputy S.M. Brée:

Okay.

The Minister for Treasury and Resources:

So it is very clear. I also made it clear that we had done that all the way up to the existing and prevailing rate for the housing bond, which is 3.75, which is significantly above where the current 2.7 rates are that are in the marketplace today but are changing on a daily/weekly basis.

Deputy S.M. Brée:

Okay. So how much excess accumulated return is generated at the moment on the Strategic Reserve Fund? Just give us an indication of the levels we are talking.

Treasurer of the States:

So, current, year, the returns on the strategic reserve at the end of October were 12 per cent.

Deputy S.M. Brée:

Okay, 12 per cent.

Treasurer of the States:

Which corresponds to roughly 10 per cent over the ongoing rate of inflation.

Deputy S.M. Brée:

I was going to say that is 10 per cent over inflation as opposed to ...?

Treasurer of the States:

Roughly, yes. In answer to your previous question, roughly £886 million.

Deputy S.M. Brée:

That includes all costs and fees?

Treasurer of the States:

Not today's rate because I have not looked at today's rate for the bond but I know you ...

Deputy S.M. Brée:

No, no, but that includes all costs and fees?

Treasurer of the States:

No, that would exclude some of the bond fees, so add a couple of million on to that, yes.

Deputy S.M. Brée:

Okay, all right.

The Minister for Treasury and Resources:

If I may say so, Chairman, in a sense it is a rather strange way of looking at it because when you take out a mortgage, for example, on your house you do not ... or very few people would look at the total cost over the lifetime of the mortgage. What they would prefer to do is look at what it is costing

you and what the asset is going to be worth at the end of it and what your payment source is going to be, which is the way we have been focusing ...

Deputy S.M. Brée:

I would have to disagree with you there, Minister. The first thing most people do is go: "How much is it going to cost me?" as opposed to: "How am I going to fund this?"

The Minister for Treasury and Resources:

Yes, but not over the lifetime ...

Deputy S.M. Brée:

Once I have established the cost of something, I can then work out how I am going to pay for it, but anyhow.

The Minister for Treasury and Resources:

Very few people do it over the whole lifetime of the mortgage over 30 years from a residential point of view. It is important and, in fact, the work has been done looking at the total cost, but we have focused more on the affordability of it on an annualised basis and also the affordability over the term.

Deputy S.M. Brée:

Okay. Let us move on then. So, based on your calculations, have you calculated yet what is the amount per year over the life of the bond that would need to be withdrawn from the strategic reserve to service the coupon on the bond as a percentage?

Treasurer of the States:

Assuming we were at a £400 million bond, and there is no decision for a £400 million bond, based upon our latest estimates, which are probably a bit out of date now because it was a couple of weeks ago, that would roughly be £10.5 million per annum. That is roughly where we think the yields are now, 2.6 per cent. That is £10.5 million. If it was a 40-year bond, then you times that by 40.

Deputy S.M. Brée:

Okay. Right, no, it is purely seeking clarity at this point in time. So, if public finances do not return to surplus by 2019 and it becomes necessary to add additional fiscal stimulus to the economy, will there still be sufficient headroom within the accumulated return on the Strategic Reserve Fund to service the bond?

The Minister for Treasury and Resources:

Well, as I have said, we have done quite a lot of analysis over historic returns, because that obviously gives you some sort of indication as to what returns you are likely to expect in the longer term looking forwards, and on that if you go back to the middle 1980s you see that we have achieved ...

Deputy S.M. Brée:

Yes, but, Minister, as I am sure you are aware, most investment advisers quite clearly state historic yields are no indication of future performance.

The Minister for Treasury and Resources:

No, they are not, but it is ...

Deputy S.M. Brée:

So you have to just be careful.

Treasurer of the States:

Which is I think what I have been trying to say for the last 15 minutes.

The Minister for Treasury and Resources:

Absolutely, but it is nevertheless wise to look at historic performance when considering what future performance may be. The point I am trying to make is historically since the middle 1980s returns have been 4 per cent, exceeded R.P.I. (Retail Price Index) by 4 per cent, over that entire period of the best part of 30 years. So the plans that we have and the analysis we have been doing is looking at this particular bond and repayment of it, the £10.5 million, over the next 30 to 40 years at a rate of 2 per cent over R.P.I.Y. (Retail Price Index excluding Mortgage Interest Payments and Indirect Taxes). We have seen this year that the strategic reserve has grown fairly strongly, but we are very cautious looking at just one year, one quarter terms. We are much more interested in looking at longer-term patterns, which is why we have set 2 per cent over R.P.I.Y. over the next 30 to 40 years for this particular programme, which compares quite well and quite conservatively and appropriately to historic returns.

Deputy S.M. Brée:

So if - and this is just trying to again seek clarity - the projected yields on the strategic reserve do not come to pass and you have to, therefore, dip into the capital of the strategic reserve to fund the coupon because you have that ongoing liability, what process would you have to go through to do that?

The Minister for Treasury and Resources:

Well, just before I answer the second part of your question, the first part of the question, the greatest risk, if I can put it that way, or likelihood of dipping into capital, is in the early years, as would be patently obvious, because the modelling we have done shows that the strategic reserve, currently sitting at the end of October at just over £800 million in value, would grow by 2057 on the assumptions we have talked about - that is 2 per cent above R.P.I.Y. - to a figure of £3.6 billion.

[11:30]

That is after paying back the capital in 2057 of ... assuming we borrow £400 million, that would be after repaying the capital of £400 million and would leave quite significant excesses in the latter years above what the R.P.I. growth would have been on the fund.

Deputy S.M. Brée:

So you are perfectly satisfied that the projected excess accumulated returns on the Strategic Reserve Fund will be more than sufficient to (1) service the bond and (2) repay the capital at the end of the term of the bond?

The Minister for Treasury and Resources:

Well, the modelling that we have done shows that the weaker period, which as I have pointed out is in the early years - that is when the highest level of risk that if there was a down year from investment returns, which happens as you will appreciate - but the modelling we have done shows the smallest excess would be £58 million. That is in 2018, if I remember correctly.

Deputy S.M. Brée:

But you, Minister, are you perfectly satisfied that the excess accumulated returns on the Strategic Reserve Fund will be sufficient to service the bond and repay the capital at maturity?

The Minister for Treasury and Resources:

Well, certainly the prudent modelling that we have done suggests that that would be the case.

Deputy S.M. Brée:

I would ask for a yes or no answer, Minister. It is a very clear question. Are you, Minister, satisfied?

The Minister for Treasury and Resources:

I have no reason not to be satisfied based on the prudent assumptions that have been used.

Deputy S.M. Brée:

So can I assume that is a yes?

The Minister for Treasury and Resources:

Yes, you can.

Deputy S.M. Brée:

Thank you. We got there in the end. Now, if the actual construction costs and ancillary costs for the hospital project exceed the budgeted estimates, which can happen with any large project of this size, what additional funding will you have to seek?

The Minister for Treasury and Resources:

I think just a point to make clear here is that because we are at a relatively early stage - the site has only just been approved and the business case is yet to be developed further - as you are aware the Minister for Health will be bringing back that final case on the chosen site by, I think, July of next year, 2017. There is a larger contingency contained within the current budget of £466 million; there is £90 million of contingency in there at this stage. That will change over the period between now and July, which gives some additional flexibility.

Deputy S.M. Brée:

Right. The point I think I am trying to get to is on 17th January next year the States Assembly will debate and vote upon your proposition, which is to allocate up to £466 million for the building of the new hospital. That is on your projections at the moment. If later on in the year it transpires that the actual construction and ancillary costs exceed the original budgeted figures, where will you seek additional funding from to cover the additional costs? Because effectively you are asking the States Assembly to agree to allow you to allocate and fund a £466 million project without the States Assembly having sight of the detailed plans, which come later on in the year. Do you have any avenues or how will you achieve additional funding if the budgeted costs exceed £466 million?

The Minister for Treasury and Resources:

I am not expecting the budgeted costs to exceed £466 million. As I have said, there is substantial contingency built in, as you would expect at this early stage, but the figure has been set and I expect the project team to live inside that.

Deputy S.M. Brée:

Okay, right. That is the end for me on that matter. Sarah, do you have anything you wish to add on the hospital funding?

Senator S.C. Ferguson:

Yes, I just wonder how much extra provision you are going to have to make to make Patriotic Street fit into your plans considering that most of the time it is absolutely chock-a-block full.

The Minister for Treasury and Resources:

When you say “fit into the plans”, you are not talking from a financial point of view?

Senator S.C. Ferguson:

Well, earlier this morning you made a comment about the development at Patriotic Street, you think you will probably fund from the Car Park Trading Fund. Well, I do not know how much extra work you are going to do on Patriotic Street, but it is not big enough at the moment.

The Minister for Treasury and Resources:

No, 2 additional floors I think are part of the plans.

Deputy S.M. Brée:

Are those 2 additional floors on Patriotic Street included in the £466 million or is that on top of?

Treasurer of the States:

It is currently hoped that the £466 million will be sufficient for the Patriotic Street works. As we do not have the definitive figures yet, that is why we are caveating that.

Deputy S.M. Brée:

Okay.

Senator S.C. Ferguson:

Yes, because building control requirements have changed since Patriotic Street was built.

Deputy S.M. Brée:

Anyhow, Chris, do you have anything additional there?

The Connétable of St. John:

No.

Deputy S.M. Brée:

Kevin?

Deputy K.C. Lewis:

Just one brief one, talking of Patriotic Street car park, obviously it is widely known that the office accommodation in the area has increased dramatically. Would the additional floors be reserved for the hospital?

Treasurer of the States:

I am not aware of any decision as yet.

Assistant Minister for Treasury and Resources:

Can I be of assistance? Certainly, there have been discussions with the Minister for Infrastructure with regard to reserving the ends of Patriotic ... the northern end of those floors that connect directly into the hospital. That is further down the road. Also, picking up, Sarah, your point about building control has been changed, D.F.I. (Department for Infrastructure) have looked at the building control issues and they are confident that the substructure of Patriotic Street was built to take extra floors on top at some time in the future, so it does still fit within that. At the moment, it is in the minds of D.F.I. to restrict the northern end of those floors for hospital express use, as they do with the ground floor now, but add to that.

Deputy K.C. Lewis:

So we are talking about 2 additional floors?

Assistant Minister for Treasury and Resources:

On the top of the building, yes.

Deputy S.M. Brée:

Okay, right, if we now move on to the budget itself and looking at various issues within the budget, Sarah.

Senator S.C. Ferguson:

Yes. The increase to standard exemption thresholds in line with inflation has resulted in a saving of £2 million a year. Did you use that saving to fund the increase for the second earner's allowance by £500, which will cost £1.5 million a year?

The Minister for Treasury and Resources:

Well, you could argue that there is a cost and you are right, the figure that you have mentioned relates to the cost of the second earner's allowance. It is just a balancing process.

Senator S.C. Ferguson:

So, yes?

The Minister for Treasury and Resources:

Yes.

Senator S.C. Ferguson:

Right, thank you. You have said that work is still being undertaken to find a revenue-raising measure to replace the health charge. Is this going to be restricted to finding £15 million a year that the health charge was going to raise or are you going to take a broader look at the best way to fund healthcare?

The Minister for Treasury and Resources:

There is an officer working group that is looking at how we can replace, following the States decision, the £7.5 million in 2018. That is the first point that we need to address because that was the level of funding for the health charge in 2018 and then annually thereafter from 2019 the £15 million. That group are looking at a range of measures specifically focused on meeting that targeted expenditure, not at this stage more broadly, as I think you are alluding to.

Senator S.C. Ferguson:

Right, so at the moment you are not doing any work on long-term health funding? I mean long, long term.

The Minister for Treasury and Resources:

Well, it was a double question that you asked: how were we dealing with the loss of the health charge through the sustainable mechanism that had been proposed that the States voted down. The officer group is looking at measures for a sustainable process. We also have to find ways to fund 2018 and 2019.

Senator S.C. Ferguson:

Right, so are you considering point-of-service charges within the health system?

The Minister for Treasury and Resources:

As part of that solution, is that the question?

Senator S.C. Ferguson:

Well, yes.

The Minister for Treasury and Resources:

No. The short-term measures that the officer group are working on are fairly wide ranging. They do include areas like broadening of the corporate tax arrangements and I think, Senator, you will be

familiar with that because we have talked publicly about it before. Indeed, one of the measures that we have talked publicly about I think you have drafted into an amendment for the budget, I believe, with regard to what is dubbed the Tesco tax. So those are just some of the measures that we are looking at that could well be used to bridge the gap for this funding shortfall.

Senator S.C. Ferguson:

So your tax review will not be through in time to be able to look at this?

The Minister for Treasury and Resources:

If you are talking about the personal income tax review, that concludes, as I think you are aware, at the end of March, so that is the timescale that we are working to with that particular review.

Deputy S.M. Brée:

Any other questions or shall we move on? No, you are all right? Okay, if we can now move on again, still on the budget subject but looking at the impôts and duties side of things, Chris, would you like to ...?

The Connétable of St. John:

Yes. One of the submissions to this panel review on the budget has been that perhaps beer duty, as it was in the U.K. (United Kingdom), be reduced. The U.K. reduced in 2013 the duty on beer, which has resulted in economic benefits in the terms of job creation and investment in the hospitality industry. Is this something that you would consider here?

The Minister for Treasury and Resources:

Well, the hospitality industry is extremely important to the Island, that has always been recognised. I think we are very pleased to see that the tourism and hospitality industry seems to be performing reasonably well over the last year or 2. We have seen numbers rising, which is encouraging, and I think we have moved away as a destination from attracting visitors due to the low cost of alcohol and cigarettes. So I do not think there is a direct link necessarily there between this proposal and having any adverse effect on the hospitality and tourism sector. What we have focused on, though, is to look quite closely at broader government policies and that is around impacts of tobacco and alcohol on health in particular and the significant cost. It is estimated, using methodology from the U.K. and extrapolated to Jersey, that the cost in terms of alcohol harm in Jersey is around about £30 million per annum. We raise, based on 2015 figures, £17.2 million, so quite a shortfall in terms of the cost of dealing with alcohol, and that is a very important part of the argument. The reverse side of the argument I think you were trying to perhaps present, Connétable.

The Connétable of St. John:

Again, I would disagree with you because there is research in the U.K. which suggests that too high a price of alcohol results in people drinking at home instead of socially in cafés and bars. Because they go home, they foreload or they drink at home instead of social drinking and this also results in a poorer diet, which is obesity as well as alcohol problems. So this is a piece of work we are going to do next year and clearly you do not seem to have taken this into account in this budget.

The Minister for Treasury and Resources:

No, that is not true. In fact, we have taken that into consideration. Although I do not disagree in part to what you were saying, the concept of preloading I think it is - and that is particularly with young people - is down to cost, I agree, but it is not just cost that is driven purely by changes to duty rates but the overall cost. I think what is interesting is if you strip out taxes and duties a pint of - to give one example - bitter beer in Jersey is 60 per cent more expensive than in the U.K. So you strip out duty and you strip out tax, it is 60 per cent more expensive. So where is the problem here if you are talking about price being too high? The problem is there are margins that are unexplained. That is where we want to focus if you want to bring the price down. There are issues about regulated drinking. I do accept the industry's point about a regulated environment. I do accept your point about drinking at home, but let us get the facts right on this. That is where the big margins are.

The Connétable of St. John:

It sounds like you wish to nationalise all the pubs.

The Minister for Treasury and Resources:

Not in the slightest.

The Connétable of St. John:

Would you consider introducing a sliding scale for beer duty as they have in the U.K. rather than just one barrier at 5 per cent?

The Minister for Treasury and Resources:

Well, we have historically used a differential rate based on volume of alcohol. So, in other words, the higher the content of alcohol the higher the duty rate. We did not apply that based on advice from Health this year because evidence seems to suggest that it does not really make a huge amount of difference because you tend to find that people drink more of the lower strength. So it was deemed more sensible to have a flat rate across all alcohol, which is what we have sought to do based on advice.

[11:45]

The Connétable of St. John:

Another submission to this panel suggests a pre-set annual escalator on tobacco to bring some level of certainty to the industry. Is this something that you are considering?

The Minister for Treasury and Resources:

We have touched on escalators before. They are not that easy necessarily to operate or efficient. I do not know if you have any further views. There was some work I think on escalators historically.

Comptroller of Taxes:

Yes. The U.K. has historically had escalators on both tobacco and fuel and pursued active policies about duty rises on alcohol. They reduce the flexibility to adjust according to market and other circumstances, obviously, and I suppose the obvious example is that in recent years the Chancellor has usually won applause by not imposing his escalator.

The Connétable of St. John:

Okay, thank you. The duty increases which are detailed in table 22 of the budget only refer to an increase on unleaded petrol. Can you confirm that the duty increases will include diesel as well?

The Minister for Treasury and Resources:

Yes.

The Connétable of St. John:

Because this is not clear in the budget that it is fuel rather than unleaded petrol. Does above-inflation increases in fuel duty make economic sense, bearing in mind the additional pressures that will be put on small businesses and the factors of increased global oil prices, the falling sterling and all sorts of other things?

The Minister for Treasury and Resources:

Yes. To be fair, just on that point, we have seen - and there have been some fairly significant fluctuations in recent weeks and months, certainly following Brexit and also to a certain extent the U.S. elections - the oil price drop significantly from a few years ago. We did not see fuel prices drop by that same level. This is regardless of taxes and duties. This comes back to the point on alcohol. It is the same dynamic with regard to the fuel market where there are significant margins here in the Island compared to virtually anywhere else and certainly compared to the U.K. and that is of more relevance, I would suggest. But fuel prices, nevertheless, are lower today than they were a few years ago.

The Connétable of St. John:

Yes, that is because the oil prices have come down from north of \$120 a barrel to \$30 a barrel.

The Minister for Treasury and Resources:

Quite.

The Connétable of St. John:

But, again, you seem to be including in your calculations the margins that private businesses are making on this Island and it is not for you really to dictate to private businesses unless you are going to nationalise them. I am concerned that you are inferring that you can increase taxes, and private businesses can decrease their margins in order to keep the price stable to the consumer. Is that correct?

The Minister for Treasury and Resources:

What I am doing is making an observation about the functioning of the market. I would in no shape or form be suggesting that government would seek to nationalise, is I think you are phrasing it, I am just observing that there are significant margins. Now from a government perspective, this is a matter for the Regulator to make certain that markets are functioning and the Competition Authority to make certain that the markets are operating efficiently and effectively in the best interests of the people of Jersey. My view is, looking at the numbers we have got going through the budgetary process, we are not factoring those in to the decision-making. I am making a side observation that there are significant margins, whether it be in alcohol or whether it be in fuel, in this Island which is unexplained, still unexplained, and that is for others to deal with. It is not for us to deal with. The increases, for example, in fuel, we are talking about a 2 pence increase in fuel. That is the level that we have set the increased proposal in this budget. It is not as high as some places, as you will be aware, but we believe it is a reasonable increase, an acceptable increase.

The Connétable of St. John:

Overall, we are seeing the increase in duties on alcohol, tobacco and fuel increasing by more than double the rate of inflation. Is that not itself inflationary?

The Minister for Treasury and Resources:

We have seen increases; yes, there will be some impact, short-term impact, from an inflationary point of view in a very low inflationary environment that we are currently living in at the moment. We have historically low levels of inflation, so there are always impacts to increases in charges such as these in the short term but they work their way through the system.

The Connétable of St. John:

Thank you.

Deputy S.M. Brée:

Yes, a couple of questions on that section, if I may. Minister, you used as a justification for increasing duty on beer and tobacco to the costs to the health service in the Island. However, I believe I heard you say that the actual costs were merely extrapolated from U.K. studies and figures to cover Jersey's situation. Has your department not undertaken any detailed work in this area to take into account Jersey's particular costs? Because according to what you were saying you merely are extrapolating U.K. studies, is that correct?

Assistant Minister for Treasury and Resources:

Can I help you with this one?

The Minister for Treasury and Resources:

Yes, yes, do.

Assistant Minister for Treasury and Resources:

Yes, certainly if I can, Chairman. Certainly, this has been looked at. A U.K. model has been done within Health. At the moment there is not a clear mechanism to draw down the cost of an individual's treatment in one particular area. What we do know is that all the conditions which are caused by excess alcohol and excess tobacco usage is far higher in Jersey than any other place in the United Kingdom. So, if we are using the U.K. modelling, then that is going to give us a low projection of the overall cost and ours are likely to be considerably higher but I cannot give you that figure.

Deputy S.M. Brée:

No, it is just trying to establish the facts that part of the justification of increasing above-inflation duty on beer and tobacco and alcohol and tobacco and beer is the fact of the additional cost to our health service and yet no detailed work has been carried out on the actual costs to our health service other than merely basing extrapolated figures on a U.K. study. I am just trying to seek clarity here. I am not criticising, I am just trying to seek clarity. Is that correct?

Assistant Minister for Treasury and Resources:

Yes, I think the other thing that is quite useful to know, the downward trend in the use of alcohol and tobacco over the last 10 years is all downwards. One could argue that has been caused by increasing the cost of individual's cigarettes or alcohol. Over the last 10 years we have seen approximately a 10,000 increase in population in Jersey and yet consumption rates have gone down.

Deputy S.M. Brée:

No, no, that was not what I am talking about. I am merely trying to establish whether any independent local studies have been made to support the above inflationary increases in duty, that is all. So if you have not, that is fine. You are saying: "No, we have not carried out our own work, we are using a U.K. study and U.K. figures and extrapolating them to the Jersey situation."

The Minister for Treasury and Resources:

No. Well, there are 2 separate things. It is not, first of all, our assessment. It comes through Health Protection Unit. When considering policy with regard to duty, we listen to departments that have a stake, if I can put it that way. Health would be one and obviously the police would be another in terms of the level of crime that is associated to or linked to excess alcohol consumption and so on and so forth. There was quite a lot of data that they use which is on-Island data. I was quoting simply one of the pieces of information that they gave us that they had worked on looking at studies undertaken in the U.K. and using the methodology of those studies to the data they had in Jersey to assess what the cost was to the health service in Jersey. They obviously have underlying data as well looking at the numbers of admissions into hospital which they collect and collate which are aligned directly to alcohol. They also have data of a similar nature which is collated for tobacco as well: the numbers of deaths, the numbers of treatments and so on and so forth.

Deputy S.M. Brée:

Well if you use that as your justification for an above-inflation increase on alcohol, tobacco and beer duty, then are you willing to effectively ring-fence or hypothecate that increase and dedicate it to the Health budget rather than it going into general revenue?

The Minister for Treasury and Resources:

Well, there is a policy, a tax policy, and it is not unique to Jersey, that hypothecating is not the most efficient way necessarily to go about that. If we look simply at the budgeting on an annualised basis, the largest budget ...

Deputy S.M. Brée:

So the answer is no, you are not willing to do that?

The Minister for Treasury and Resources:

That has been the policy for some considerable time.

Deputy S.M. Brée:

Okay. So likewise with fuel duty, which most people accept when it was introduced there was already a duty on fuel, but the additional duty was by most people understood, perhaps incorrectly, to relate to maintenance of roads, you know, the more you drive the more wear you have on roads.

Once again, it is not this Island's policy to ring-fence or hypothecate duties that are raised on certain items even though the justification for it, for example, fuel duty, I understood that part of the justification was environmental, a very broad term, but there is nowhere within the budget that dedicates revenue raised from fuel duty to environmental projects or issues. Is that correct, there is no direct link?

The Minister for Treasury and Resources:

Taxes raised generally go towards paying for services and, of course, the biggest and most hungry services are the health service. That is the largest budget so the tax raised from general taxation and from duties, which is all part of the general revenue raising, goes to paying for those services but there is no direct hypothecation and no policy to so do.

Deputy S.M. Brée:

You have no policy or intention to introduce that even though you use that as your justification, ie because of increased pressure on the health service we have to increase duty?

The Minister for Treasury and Resources:

Well we are not currently but of course, Chairman, you will be aware that there was a proposal for a health charge which you could argue is of a similar nature where you are making a charge for a specific purpose that was largely to fund part of healthcare costs around P.82. So you might argue that indeed that was a proposal that was brought forward by the Council of Ministers which the States Assembly rejected.

Deputy S.M. Brée:

Now correct me, Minister, but was that health charge going to be 100 per cent hypothecated to the Health Department?

The Minister for Treasury and Resources:

Well it was effectively being hypothecated.

Assistant Minister for Treasury and Resources:

Effectively.

The Minister for Treasury and Resources:

Effectively it was, yes.

Assistant Minister for Treasury and Resources:

Because we get a 2 per cent uplift per annum over R.P.I. in Health.

Deputy S.M. Brée:

Effectively but not actually. Any others from you, Sarah? Any questions on this particular area?

Senator S.C. Ferguson:

Yes, just a quick one. We have just received a recent report about health and I seem to remember a graph in the middle of it which rather disproves these comments about the alcohol consumption being one of the highest in Europe, et cetera, et cetera, et cetera. I seem to remember that the north-east of England was higher, men were significantly higher than women, and Europe as a whole was a significant area of high alcohol consumption. So it seems to me that the figures we are starting to get out of the Health Department do not quite support your intention to keep putting the prices up significantly.

The Minister for Treasury and Resources:

You will always be able to pick, Senator, statistics from different regions ...

Senator S.C. Ferguson:

No, I was not picking them, they just came straight out of the blue from the Health Department.

Treasurer of the States:

Well that is the north-east of England.

Senator S.C. Ferguson:

So why were you not looking at them?

The Minister for Treasury and Resources:

The Treasurer can speak with some authority on this topic.

Treasurer of the States:

The north-east of England, much as I would like Yorkshire to be another country, is not another country. If you take, however, the average over the U.K. it will paint a different picture. You will always have hotspots within a country. My understanding or conclusion is that we are one of the highest levels that make up the alcohol consumption in Europe, so we have a high level of consumption.

Comptroller of Taxes:

That is certainly a survey I have read. I cannot remember which it was but it was featured quite heavily on the television news about this time last year.

Assistant Minister for Treasury and Resources:

The Medical Officer of Health produced that report and that is her very strong view.

Deputy S.M. Brée:

All right, let us move on, we have a bit ...

Senator S.C. Ferguson:

Yes, but I think there is an optimism bias.

Deputy S.M. Brée:

Sorry, go on, Kevin, you want to ask.

Deputy K.C. Lewis:

Yes, I have got a quick one regarding road fuel, diesel and petrol. Is not an increase on duty in itself inflationary? Everything we consume is brought to us by road fuel of some description.

[12:00]

I think you mentioned earlier that our taxes are lower than the U.K. in this respect. Are you saying that the fuel distributors and retailers are overcharging?

The Minister for Treasury and Resources:

The point I was making was that there is a much larger margin somewhere in the supply chain above and beyond what there is in the U.K., significantly higher to the tune of around about 60 per cent. It is less for diesel. I think it is around about 40 per cent for diesel but nevertheless that is a significant margin and it is in the supply chain somewhere. It is not identified exactly where it is but it is to the detriment of consumers and businesses in Jersey.

Deputy K.C. Lewis:

Is that being addressed?

The Minister for Treasury and Resources:

I think the point I made about it, it is as yet unidentified. I know the Competition Authority has looked at it and not come to a conclusion as to where that margin is. I am just commenting on the fact that a margin does exist when you strip out duties and taxes to the tune of 60 per cent for road fuel and 45 per cent, I think it is, for diesel. That is not in the interests of this Island, it is not in the interests

of businesses and it is not in the interests of consumers. It is regardless of what we do with duties and taxes that is stripping those out.

Deputy S.M. Brée:

Let us move on from the duty impôts area and look at the overall economic policy contained within the budget figures. Kevin?

Deputy K.C. Lewis:

In addition to the focus on promoting growth in the digital sector and finance industry, should government be doing more to recognise the importance of the tourism, hospitality and agricultural industries to promote growth?

The Minister for Treasury and Resources:

The answer is government does do a lot to support the economy in the Island. We have seen latest statistics coming out with economic growth returning in 2015, we have seen employment numbers up and we have seen real earnings up. I think the suite of statistics we have seen pre-Brexit have been very positive and suggest that government policies are working in supporting all sectors. Obviously, successes will be greater in some than others but nevertheless I think in a broad base, the Government policy has been supportive and should and will continue to be so.

Deputy K.C. Lewis:

What proactive measures is government taking at the moment?

The Minister for Treasury and Resources:

Well government invests quite significant amounts. Was the thrust of your question specifically around hospitality and agricultural or was it non-finance as opposed to finance-related or innovation?

Deputy K.C. Lewis:

Yes.

The Minister for Treasury and Resources:

In those areas there are very high levels of subsidies available within the agricultural sector which helps to support that industry. Within tourism, of course, there is significant support through the establishment of Visit Jersey. We have seen importantly that visitor numbers have been increasing last year and I understand that the figures to date for 2016 are also looking encouraging as well. Beyond that, within the Medium Term Financial Plan, you will be aware that we set up the economic growth and productivity drawdown provision with a sum of £15 million to be drawn down on the basis of £5 million per year to support the economy and productivity improvements.

Deputy K.C. Lewis:

Thank you.

Deputy S.M. Brée:

Do you want to raise anything at this point on that area? No?

The Connétable of St. John:

I will ignore the comment on agriculture.

Deputy S.M. Brée:

Yes. All right, if we can move on just quickly, a couple of questions on the strategic reserve. Kevin?

Deputy K.C. Lewis:

Minister, £20 million had previously been forecast to be received in 2017 and 2019 from the disposal of the assets relating to Jersey Telecom. These proceeds will now not be received which has had an impact on the amounts that you will be able to repay to the strategic reserve. What work is being undertaken to look at asset disposal in general?

The Minister for Treasury and Resources:

Well the Department for Infrastructure have an ongoing programme of looking at disposals of properties that are non-core to government and I think it is £1 million a year that is allocated for ...

Treasurer of the States:

There is £1 million per year between 2017 and 2019 allocated within the M.T.F.P. Addition. They have that those targets should continue over the period.

Deputy K.C. Lewis:

What specific assets are under consideration for disposal now?

Treasurer of the States:

It is in such small print I would struggle, unfortunately, to read it but we could provide you confidentially with a list of those assets that are under ...

Deputy K.C. Lewis:

Is there anything you can put in the public domain at the moment?

Treasurer of the States:

There probably are some that are in the public domain but I would not want to be the person who decided which ones of those should be.

The Minister for Treasury and Resources:

I think I summarised it by saying property assets that are non-core are being looked at and they go through an assessment process by the Department for Infrastructure. As we have said, they have got an estimate of £1 million per annum 2017 to 2019 of disposals of properties that fall under that broad heading of non-core. We have made the point I think previously that there are something like about 24 properties that government, for example, occupies and there is a move to consolidate down and reduce the number of government-occupied buildings which of course would free up some, therefore, for disposal.

Deputy K.C. Lewis:

If we could have that list it would be appreciated.

The Minister for Treasury and Resources:

But I think we are happy to share with you the detail of the latest. It is clearly an ongoing assessment.

Deputy K.C. Lewis:

Budget asset disposal. I might just read an extract here from the Minister for Treasury and Resources' statement on J.T. (Jersey Telecom): "Final work is progressing under the Assistant Chief Minister Senator Philip Ozouf to develop a telecommunications policy for the Island. Once this has been completed and only then will we consider in more detail whether it might be in the public's best interest to consider selling shares in J.T." I have a question, Minister, what progress has been made on the review of Jersey Telecom holding and the Telecom's policy?

The Minister for Treasury and Resources:

I think you would need to ask the Assistant Chief Minister that question. I would hope that we would have a finished response to that within a matter of months. I do not know if the Treasurer has got a ...

Treasurer of the States:

Well we would hope sometime this summer for completion of the Telecoms policy which would allow us to move on to the next stage.

The Connétable of St. John:

"This summer" being the one just past or the one yet to come?

The Minister for Treasury and Resources:

That, Constable, is a very good question. I think that in truth we would like to have that policy work completed a long time before next summer. I would be keen to see it completed by Easter at the very latest.

Deputy S.M. Brée:

Do you want to ask a question here?

The Connétable of St. John:

No, no I have finished.

Deputy S.M. Brée:

Okay, a quick question for me then. La Motte Street School and the surrounding areas, the States voted to remove a covenant on that to allow the building of an office block. How are you intending to fund the building of that new office accommodation for the States?

The Minister for Treasury and Resources:

We have not got a funding solution yet. Clarify: this is under the Office Modernisation Programme heading, we are yet to identify the funding source for that so that is work in progress.

Deputy S.M. Brée:

So, is the intention to fund that through the sale of assets?

The Minister for Treasury and Resources:

That would, of course, be one option and I think probably the most realistic option on the basis that as a Treasury we can only pull so many rabbits out of a hat at one time.

Deputy S.M. Brée:

Okay, thank you. I just needed clarification. Right, we are now going to move on to ... sorry, do you want to ...?

Senator S.C. Ferguson:

Yes, just a quick one. The office block at La Motte Street, how many workers do you expect to house within it?

The Minister for Treasury and Resources:

Oh, that is a good question. Can you remember?

Treasurer of the States:

I know what square footage we are after, roughly 90,000, but I cannot remember the number of people who fit into that.

Senator S.C. Ferguson:

Well if it is 90,000 square feet that is ...

The Connétable of St. John:

90,000 square feet is 9,000 employees.

Senator S.C. Ferguson:

Yes. Does that not seem a little excessive?

Treasurer of the States:

No, but that also includes customer service facilities as well just for office accommodation, the intention being to consolidate all customer service receptions in one place rather than across a multitude of departments.

The Minister for Treasury and Resources:

I think in effect it was reducing the total number of premises that the States occupy down from 23 to around about 6.

Senator S.C. Ferguson:

Yes, I am aware of that. I was just wondering if the reform programme was going to leave you with fewer people.

The Minister for Treasury and Resources:

Well we have seen a reduction, Senator, in the number of people and that is an ongoing programme. As you know, employment numbers are up as far as the private sector is concerned, increasing by 3.8 per cent and public sector employment fell by 3.1 per cent, so it does suggest that the voluntary redundancy and better management of staff is working.

Senator S.C. Ferguson:

Sorry, I did not mean to start a different hare running, I apologise. Thank you.

Deputy S.M. Brée:

All right, if we can now move on TO - still on the subject of budget - but looking at rates.

The Connétable of St. John:

Minister, what funding stream are you considering to fund payment of rates by the States?

The Minister for Treasury and Resources:

Well we have not arrived at a conclusion as to what the funding source is going to be for that yet, although the figure is £900,000, of course, as I think you are well aware; estimated.

The Connétable of St. John:

Yes, that is the figure that you have been using.

The Minister for Treasury and Resources:

Indeed.

The Connétable of St. John:

Why can States departments not pay their occupiers' rates to come out of each department's budget?

The Minister for Treasury and Resources:

Well, it would be possible, of course, for departments to have additional costs such as rates and such as, I may add, rent but certainly not in the short term. It would have significant impacts, as you might imagine, on budgeting. If you were going to go down that particular route of attributing all costs, then that would have to be done over a significant period of time to allow adjustment. I am not saying it is the wrong thing to do but it certainly is something that would take some time to achieve.

The Connétable of St. John:

Yes. Would you agree that by introducing rates to departments it would introduce a degree of rigour within department budgeting?

The Minister for Treasury and Resources:

Well I think that was the point I was effectively making that if you include all costs that you would typically see, for example, in a private sector business into government as well, then that would certainly focus attention on best utilisation of space and budgets and so on and so forth. The difficulty in the short term would be the transitioning from where we currently are to where we would need to go to.

The Connétable of St. John:

The only way to pull a nettle out is to grasp it firmly and pull.

The Minister for Treasury and Resources:

You have to consider, though, the unintended consequences of your actions and make certain that you are pulling out not just a nettle but that you are not pulling out something else as well that is more valuable. In all seriousness, though, any change of this magnitude needs to be done over a period of time and thought through very carefully. I am not saying it is the wrong thing, it does need serious consideration but it is not something you would do in the short term.

The Connétable of St. John:

Are you able to give us a starting point for this period of time and will you be able to give us progress reports as you progress towards ...

The Minister for Treasury and Resources:

I would not sit here to say that it has got a huge amount of traction at the moment. You asked me a question and I gave you an opinion.

The Connétable of St. John:

Yes. But with the Office Modernisation Programme and the proposal to build 90,000 square feet new offices which are going to cost probably in the region of £30 to £35 million, surely now is the time to be examining whether the building should be 80,000, 90,000 or 100,000 square feet.

The Minister for Treasury and Resources:

It is and those other points that you have raised as well. But the fact is, as I said a moment ago, we do not have a funding source for that particular project at this stage and until we do, that all comes into the overall consideration of the project but it needs a funding source.

[12:15]

The Connétable of St. John:

All right, we will leave it there, thank you.

Senator S.C. Ferguson:

This was suggested as a method of inducing a little rigour into budgeting in, I think, 2009 or 2010, why has it not been done?

The Minister for Treasury and Resources:

Sorry, Senator, which part are you talking about?

Senator S.C. Ferguson:

The question of each department paying a charge on the amount of space it occupied on the premise that if you have to pay for space you use it more economically. At the moment space is regarded as a free good which is no good at all.

The Minister for Treasury and Resources:

No, I agree with you on that.

Senator S.C. Ferguson:

So why are you still hesitating about it when the suggestion was made and accepted by the Council of Ministers at the time, of which I think you were an Assistant Minister, Minister, to say that this was a good idea, we must bring it in? So why are you still messing around with it?

The Minister for Treasury and Resources:

Senator, I think you were going to use an unparliamentary comment then.

Senator S.C. Ferguson:

Yes, you are absolutely right because ...

The Minister for Treasury and Resources:

I could see it on your lips.

Senator S.C. Ferguson:

... it was my Public Accounts Committee that came up with it so ...

The Minister for Treasury and Resources:

No, I think just to put this into context. You are right, and I have sat here today and agreed with the principle that that is exactly what we should be moving to. But you are also forgetting for a moment that there had been significant seismic changes globally that have impacted on the Island which have created many other pressures that have had to be addressed. I have just pointed out this morning that we do not have a funding source of the Office Modernisation Programme. We need to find one, it is an absolutely essential priority that we do, and we will work on that now that some of the other priorities have been dealt with particularly. We have made progress on the hospital, establishing a site and the funding programme yet to be debated but nevertheless ...

Senator S.C. Ferguson:

I am sorry, if you will excuse me, you are not answering the question. Why is it taking so long to agree to it? You are still saying: "Well we have not got a funding stream." Why the delay?

The Minister for Treasury and Resources:

Senator, I am answering the question. The answer to the question is there have been significant other priorities that have come forward due to the global crisis that we have had to deal with, the global financial crisis and other funding pressures that we faced that have had to be dealt with and have been of a greater priority. We cannot do it all at once, unfortunately, and so we have had to prioritise. It does not mean it is not important, it is. It does mean it needs to be progressed but we have to find a funding solution for this element. We have had to give way on this one to allow us the flexibility to deal with the other pressures that we have had to deal with.

Senator S.C. Ferguson:

Surely it is a part of the reform of government. But anyway, I am sorry, I will refer it back.

Deputy S.M. Brée:

It is all right, do not worry. So, Kevin, did you have anything on the rate side?

Deputy K.C. Lewis:

No.

Deputy S.M. Brée:

If we can move on, Minister, if we may, to the next area which we would like to ask questions on, which is the Jersey International Finance Centre. Building 5, following the announcement that Sanne Trust have signed up as tenants for building 5, can you advise us when the anticipated commencement date for construction is?

Assistant Minister for Treasury and Resources:

I believe it is February 2017. That is off the top of my head; that is what I believe it to be.

Deputy S.M. Brée:

So February 2017 at the moment is the projected commencement date for construction?

Assistant Minister for Treasury and Resources:

That is my belief, yes.

Deputy S.M. Brée:

Okay. Building 4 is due to be completed next year as well.

Assistant Minister for Treasury and Resources:

I am just stopping now because I think that is the projected date for building 4 to be completed, is February 2017.

Deputy S.M. Brée:

I was going to say, it did seem somewhat ambitious that you would ...

Assistant Minister for Treasury and Resources:

Yes, I apologise. I will have to say that I cannot tell you the date they are starting ...

Treasurer of the States:

The completion date for number 5 will be July 2018.

Deputy S.M. Brée:

Okay.

Treasurer of the States:

The completion date for number 4, February 2017.

Deputy S.M. Brée:

Is February, that is what I thought. But obviously, I was quite impressed by the fact that the Assistant Minister was hoping a ...

Assistant Minister for Treasury and Resources:

Sorry, for misleading you.

Deputy S.M. Brée:

Two months, including Christmas, we get a new building. So, building 4 is due to be completed by February 2017, can you advise us whether any additional tenants have been secured for the remaining space in building 4 as yet?

The Minister for Treasury and Resources:

Well 60 per cent is pre-let which I think you are familiar with.

Deputy S.M. Brée:

Yes.

The Minister for Treasury and Resources:

10 per cent is under offer, that is heads of terms have been signed, and there is a further 25 per cent which is currently under negotiation.

Deputy S.M. Brée:

Sorry, 60 per cent is already pre-let?

The Minister for Treasury and Resources:

Correct; 10 per cent is under offer, that is heads of ...

Deputy S.M. Brée:

10 per cent, that makes 70 per cent, and 25 per cent is ... so you are left with 5 per cent not accounted for?

The Minister for Treasury and Resources:

Currently, yes.

Deputy S.M. Brée:

All right, so at the moment the amount of space that is confirmed as having a pre-let agreement in place on building 4 is 60 per cent?

The Minister for Treasury and Resources:

You say the "only", that is the majority.

Deputy S.M. Brée:

Okay, the amount is 60 per cent?

The Minister for Treasury and Resources:

Correct.

Deputy S.M. Brée:

So there remains 40 per cent of building 4 yet to be confirmed as having a pre-let agreement on?

The Minister for Treasury and Resources:

Well there is a further 10 per cent, sorry, that is under offer, so it has heads of terms signed.

Deputy S.M. Brée:

But it is under offer, therefore, it may not go ahead/it may go ahead?

The Minister for Treasury and Resources:

Well with heads of terms ...

Deputy S.M. Brée:

It is either a pre-let agreement has been signed or it has not?

The Minister for Treasury and Resources:

Well, yes. No, it has not got a pre-let agreement signed but it has got heads of terms signed. That is the final step before ...

Deputy S.M. Brée:

Yes, but that is not a legally-binding document.

The Minister for Treasury and Resources:

No, I accept that.

Deputy S.M. Brée:

Only the pre-let agreement is a legally-binding document. As we all know, heads of terms can be walked away from, changed or otherwise not activated and turned into a ... so all we are trying to clarify is at this moment in time there is 60 per cent of building 4 under a legally-binding pre-let agreement?

The Minister for Treasury and Resources:

Correct.

Deputy S.M. Brée:

So 40 per cent remains not of that class and yet building 5 is going to start work hopefully next year.

Assistant Minister for Treasury and Resources:

I will give you 2017.

Deputy S.M. Brée:

Well one would hope, Assistant Minister, that you could be a little bit more exact but if you can come back to us on that, it would be appreciated.

Assistant Minister for Treasury and Resources:

Yes. Sure, I will do.

Deputy S.M. Brée:

Do you believe it is the right thing to be doing, to commence building on building 5 when you still have 40 per cent of building 4 as yet not covered by a legally-binding pre-let agreement?

The Minister for Treasury and Resources:

Well there is an increased amount of interest, as I have alluded to, that is why we have got heads of terms already signed up on a further 10 per cent.

Deputy S.M. Brée:

That was not the question I was asking, Minister.

The Minister for Treasury and Resources:

Well, I will finally say that there was a tenant who wanted to take a substantial space and they wanted building 5 because of the level of space and the orientation of the space that they had in mind, so that is 50 per cent. They have an option for a further 15 per cent on top of that and there are active negotiations, I believe, on a further 5 per cent of that building. What it is demonstrating is there is clear demand for grade A office space and this development, so I think that answers your question.

Deputy S.M. Brée:

Okay, working on your answer there, can you confirm, Minister, that you have undertaken measures to satisfy yourself absolutely and beyond doubt that the assumptions used, particularly in respect of the yield assumptions on building 5 are prudent, robust and as a minimum will be achieved?

The Minister for Treasury and Resources:

Yes, I will ask the Assistant Minister also who has looked very closely.

Assistant Minister for Treasury and Resources:

Yes, absolutely. All that work has been done in the background long before we signed up with the tenants.

Deputy S.M. Brée:

Okay. So you have satisfied yourself absolutely?

Assistant Minister for Treasury and Resources:

Yes. I am just trying to reflect back to our last meeting on this topic where I think the Chairman of the panel gave us a piece of paper regarding a different building across the road. That building is quite substandard in comparison and the yield on that was significant.

Deputy S.M. Brée:

No, I was merely asking whether you had satisfied yourself absolutely and completely.

Assistant Minister for Treasury and Resources:

Well based on that last meeting, Chairman, we did go back and check the figures and we are confident on our figures, thank you.

Deputy S.M. Brée:

Okay. So, both you, Minister, and yourself, Assistant Minister, you can confirm that you are satisfied, independently having reviewed it, that building 5 will be profitable?

The Minister for Treasury and Resources:

At this stage, all the data that we have been given suggests that that is the case.

Deputy S.M. Brée:

So have you independently sought to review the data provided to you or are you relying solely on the data provided to you by the States of Jersey Development Company?

Assistant Minister for Treasury and Resources:

Ernst and Young have updated those figures as well.

Deputy S.M. Brée:

Okay, fine. So you are perfectly satisfied? Good.

The Minister for Treasury and Resources:

Yes.

Deputy S.M. Brée:

Now, Sanne Trust as the recently-announced tenant for building 5 who require what you have explained, we note that the Chairman of the States of Jersey Development Company is also a Non-Executive Director of Sanne Trust. Both you, Minister, and you, Assistant Minister, are you perfectly satisfied and confident that there were full and proper arms-length negotiations and that there was no conflict of interest that occurred?

Assistant Minister for Treasury and Resources:

I can confirm that. Just to give you a flavour of how we were assured of that, is that, like we do in the States Chamber, if we believe there to be a conflict we will withdraw from the item under debate.

There are rules that are held within S.o.J.D.C. (States of Jersey Development Company) with regard to every member of the board that if any of them have a conflict, they shall withdraw from negotiation. In this particular case, the Chairman received no board minutes or notes regarding at all to the negotiations with Sanne Trust to ensure that that separation was kept. She had no involvement nor were any of the details of the deal exposed to her prior to being signed up.

Deputy S.M. Brée:

Thank you for confirming that. So, Assistant Minister, and indeed, Minister, are you totally satisfied that the tenant incentives offered to Sanne Trust are therefore consistent with market norms?

Assistant Minister for Treasury and Resources:

Yes, I am confident.

Deputy S.M. Brée:

You are? Minister, you are?

The Minister for Treasury and Resources:

Yes.

Deputy S.M. Brée:

Thank you. Are you satisfied that full and proper value for the taxpayer has been achieved with this negotiation with Sanne Trust?

Assistant Minister for Treasury and Resources:

That is a difficult one because to get the full and proper benefit to the taxpayer will not materialise until the building is completed and we then have a full building evaluation with the sitting tenants in there. If it is fully occupied at the time it comes to market, then the value is going to be much higher than it is today, so in that case, yes, I would be satisfied. But, in any event, even with the minimum amount required to cover the cost, yes, we are still getting a positive benefit from those buildings.

Deputy S.M. Brée:

Okay. All right, on this particular area, Sarah, do you have any further questions? Kevin?

Deputy K.C. Lewis:

Just one. Minister, in building 4 and building 5 there obviously are a number of local companies that will be relocating to the new finance centre. How many companies are off-Island coming into the new finance centre? Are there expressions of interest and do you have a percentage?

Assistant Minister for Treasury and Resources:

I do not have a percentage but, yes, I am aware there are companies from off-Island that are in negotiations. I am going back several weeks now, there were something like 23 different expressions of interest enquiries, particularly since building 4 has been seen to be there; there is physically a building. It has stimulated, particularly since after Brexit as well, the interest in the Jersey International Finance Centre but I cannot give you an actual percentage or figure because none have completed so far, as we were talking earlier, but there is positive interest from quite a number of companies and some of those are off-Island.

Deputy S.M. Brée:

All right, a final area of questioning, if we may, which results in an announcement that was made on Friday of last week which, Sarah, would you like to ...?

Senator S.C. Ferguson:

Yes, you will recall that we have had an announcement, a reply, to the complaint against the States Employment Board regarding the consultant ophthalmologist and we had the response of the Complaints Board to the States Employment Board's response to the original response into the Alwtry case. Now, would the Minister like to confirm that he does sit on the States Employment Board?

The Minister for Treasury and Resources:

He does.

Senator S.C. Ferguson:

Has the authority been delegated then? Because according to the States Assembly page, you sit on the States Employment Board.

The Minister for Treasury and Resources:

That is right.

Senator S.C. Ferguson:

Yes.

The Minister for Treasury and Resources:

Yes, I just said that.

[12:30]

Senator S.C. Ferguson:

Oh, right, sorry, I thought you said that the Connétable was.

The Minister for Treasury and Resources:

No, no.

Deputy S.M. Brée:

No, no. The Minister confirmed he was a member.

The Minister for Treasury and Resources:

I was confirming what you said: I do sit on the States Employment Board.

Senator S.C. Ferguson:

Yes, and obviously as a member of the States Employment Board, could you give us your opinion of what has been going on and how you concur with the comment that it is correct to use the expression “appallingly shabbily treated”?

The Minister for Treasury and Resources:

I am not prepared to comment. I would leave comments of that nature for the Chairman of the States Employment Board.

Senator S.C. Ferguson:

Who is ...?

The Minister for Treasury and Resources:

The Chief Minister.

Senator S.C. Ferguson:

Who was the Chairman of the States Employment Board, I think, when this original complaint occurred?

The Minister for Treasury and Resources:

I think that is correct.

Senator S.C. Ferguson:

Thank you. All right, I have no more.

Deputy S.M. Brée:

Minister, you will understand that this particular Scrutiny Panel looks at the actions of yourself, the decisions you make and the department you run. It does seem somewhat strange that you are not prepared to comment on decisions and actions that you have taken but defer to the Chief Minister in this. May I ask why?

The Minister for Treasury and Resources:

Because we are discussing the matters of the States Employment Board, not directly of Treasury. I happen to sit on the States Employment Board but you are scrutinising matters in relation to decisions that I take and that I am responsible for. This is a different body and I think it is appropriate that the Chair of that body makes any public commentary on the specific details of individual cases also if that is as such as the one that you are referring to the Senator raised.

Deputy S.M. Brée:

So effectively you are not prepared to answer any questions in this area then at this moment in time?

The Minister for Treasury and Resources:

Correct.

Senator S.C. Ferguson:

But if the question of compensation comes up, then that obviously concerns the Treasury Department.

The Minister for Treasury and Resources:

Indeed, it would involve and concern the Treasury Department and that would be a different matter.

Deputy S.M. Brée:

Okay. All right, are there any other questions we have at the moment for the Minister? No?

Deputy K.C. Lewis:

Minister, do you consider this case to be closed or ongoing?

The Minister for Treasury and Resources:

Sorry, which case are we talking about now?

Deputy S.M. Brée:

The Mr. Alwitary case.

The Minister for Treasury and Resources:

I think I have made it clear I am not prepared to make any comments about that case.

Senator S.C. Ferguson:

Which suggests the answer is ongoing.

Deputy S.M. Brée:

Exactly. Okay, well we will draw the public hearing to a close now. Thank you very much, Minister, Assistant Minister, Treasurer and members of the department for your time, and no doubt the next quarterly meeting we will have more questions for you, but thank you very much for your attendance.

The Minister for Treasury and Resources:

We look forward to the same thing.

Deputy S.M. Brée:

Goodbye.

Senator S.C. Ferguson:

We might even have some of the same ones again.

The Minister for Treasury and Resources:

Thank you.

Deputy S.M. Brée:

Thank you.

[12:33]