



Scrutiny Office

## Corporate Services Panel Quarterly Public Hearing

### MONDAY, 6th FEBRUARY 2017

#### Panel:

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

Deputy K.C. Lewis of St. Saviour:

Connétable C.H. Taylor of St. John

Senator S.C. Ferguson

#### Witnesses:

Minister for Treasury and Resources

Assistant Minister for Treasury and Resources

Treasurer of the States

Comptroller of Taxes

Director of Treasury Operations and Investments

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[14:00]

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

Welcome, Minister, gentlemen, members of the public and the press. This is a public hearing with the Minister for Treasury and Resources. Minister, I draw your attention to the note in front of you there relating to the conduct of such public hearings. Members of the public and the press, if I could ask you to remain quiet at all times. If you can ensure that any mobiles, portable devices are switched off or at least silent we would greatly appreciate it. As I said, welcome. For the benefit of the tape we will go round and introduce ourselves. My name is Deputy Simon Brée. I am the Vice Chairman of the Corporate Services Scrutiny Panel.

**Deputy K.C. Lewis of St. Saviour:**

Deputy Kevin Lewis, panel member.

**Connétable C.H. Taylor of St. John**

Constable Chris Taylor, panel member.

**Senator S.C. Ferguson:**

Senator Sarah Ferguson, panel member.

**Assistant Minister for Treasury and Resources:**

Constable John Refault, Assistant Minister for Treasury and Resources.

**Minister for Treasury and Resources:**

Senator Alan Maclean, Minister for Treasury and Resources.

**Treasurer of the States:**

Richard Bell, Treasurer.

**Director of Treasury Operations and Investments:**

Simon Hayward, Director of Treasury Operations.

**Comptroller of Taxes:**

Richard Summersgill, Comptroller of Taxes.

**Deputy S.M. Brée:**

Thank you very much. Now, Minister, we have got quite a number of areas and questions that we need to ask you. If we can ask you to answer them as succinctly as you can because we do have a lot we wish to cover. I am sure you are aware that in previous occasions, with some of your other

sort of colleagues on the Council of Ministers, we have had to ask them to speak ... how can I put it?

**Connétable C.H. Taylor of St. John**

Move on.

**Deputy S.M. Brée:**

Yes. Without appearing rude, I am sure you understand why. So if we move on. The first area of questioning, which is obviously very topical at the moment, is the future hospital funding. The figure of £466 million has been quoted as the projected costs for building the new hospital. How has that figure been arrived at?

**Minister for Treasury and Resources:**

Well, as you will be aware, Chairman, there is a lot of detailed work going on with regard to arriving at a final figure. We felt, from a Treasury perspective, that there needed to be a figure and a cap put in place, hence the £466 million, which was arrived at from provisional assessments that were undertaken by the project team and verified or overseen by Treasury. We feel that the £466 million represents a good estimate of the likely costs albeit, and this caveat is important, there is a fairly significant, as I think you are aware, contingency figure of around about £90 million included because it is at an early stage and there will be variations as the relevant work is completed for presentation, I believe, around about the summer of this year.

**Deputy S.M. Brée:**

So the £466 million is an independent figure that Treasury have come up with. Is that correct?

**Minister for Treasury and Resources:**

Treasury have not come up with the figure. The figure has been assessed by the team working on the project. Treasury clearly have seen the figures that have been produced and have been, therefore, involved in the process from that perspective.

**Deputy S.M. Brée:**

So has your department, Minister, undertaken any independent checks or verification of the amounts you have been advised it will cost?

**Treasurer of the States:**

Officers have been through the figures as a team and the way we looked at them in terms of delivery of the hospital is that Treasury plays a part in putting together, if you like, the plans for the hospital. We do not sit outside of the team as things stand. Officers have been through those numbers.

There is also within the project some assurance work that is undertaken through the use of a third party. So we are not sitting ourselves completely outside of the project and undertake a completely independent assurance, we are relying on some of the assurance that is taking place through, could I use the word, consultants being used on the project who are providing some Q. & A. (Quality and Assurance) on the financial aspects.

**Deputy S.M. Brée:**

Okay. So to move on, in the event that the States Assembly does approve the proposition relating to the hospital funding is it your intention, Minister, to immediately arrange for the issuance of a bond of £400 million?

**Minister for Treasury and Resources:**

Well, what we have said is up to £400 million and subject to an amendment that was approved at the time the debate started, which set a parameter between £300 million and £400 million. The idea is that we would need flexibility to be able to assess the circumstances at the time the decision is made but, yes, as we stand today, we would be seeking to secure funding for up to £400 million when the States made the decision.

**Deputy S.M. Brée:**

Is it going to be £300 million or is it going to be £400 million as we stand today?

**Minister for Treasury and Resources:**

Well, as we stand today it is possibly and likely to be very different from what it will be at the time of the decision so currently we have left it flexible, which was the intent, so that we could react to market conditions.

**Deputy S.M. Brée:**

Okay. Can you tell us...

**Minister for Treasury and Resources:**

Sorry, I was going to say by that I mean that there are a number of variables that, Chairman, you were more than aware of, which will influence the decision on exactly how much the size of the bond would be within the parameters of £300 million to £400 million, as I have indicated.

**Deputy S.M. Brée:**

So if you were to issue a bond of £300 million how would you finance the rest of the money required?

**Minister for Treasury and Resources:**

Well, that would be clearly more challenging. The balance we have said would be made up of existing figures that are within the reserves and supplemented by asset disposals in due course. So if it is going to be £300 million then that would be a much larger call on the reserves that will be available, particularly when you consider the parameters available for the use of such reserves.

**Deputy S.M. Brée:**

Basically what you are saying is you do not know at this moment in time how much you need to borrow through the bond markets to fund the building of the future hospital?

**Minister for Treasury and Resources:**

What I am saying is that there are a number of variables, including the cost of the money, which could, and has indeed in the last few days ... we have already seen an increase of 5 basis points so if it becomes more expensive, it could indeed go the other way of course, that will influence how much we are, (a) able to borrow, and (b) seek to borrow.

**Deputy S.M. Brée:**

Okay. Obviously you have done various work on looking at the cost of borrowing. Could you tell us what the total cost of borrowing and the ongoing servicing of the bond and the administrative costs will be should you borrow the maximum amount of £400 million?

**Minister for Treasury and Resources:**

I think taking into consideration the project cost, relocation cost, inflation, you would be looking at a cost out to 2025 of £948 million.

**Deputy S.M. Brée:**

Is the cost...

**Treasurer of the States:**

That is not including [Interruption] we have had this at previous hearings and I cannot recall the answer I gave you but at previous...

**Deputy S.M. Brée:**

I was talking about the cost of borrowing and the ongoing servicing of that borrowing ...

**Treasurer of the States:**

I have given an answer at a previous hearing and it has not changed...

**Deputy S.M. Brée:**

I am talking about what is included or excluded in the project figure of £466 million. I am merely asking, for the record, what is the cost of borrowing £400 million, including all fees, charges and commissions, over the period that you are looking to borrow.

**Treasurer of the States:**

I have not got the number off the top of my head. I am just trying to work it through again. It was a different question you asked me last time to which I gave an answer. So you want the total interest and total cost.

**Minister for Treasury and Resources:**

That will of course depend on what the financing costs are.

**Deputy S.M. Brée:**

That is the question I am asking. What is the cost of financing, borrowing and servicing a loan of £400 million in the bond market? At the moment you are saying you cannot tell me exactly what it would be.

**Minister for Treasury and Resources:**

Yes.

**Deputy S.M. Brée:**

Okay. Let us move on then. Now, with the last bond that the States of Jersey issued, effectively we know it as the Andium Bond even though it was issued by the States of Jersey, with the proposed new bond are you intending to issue it at a discount?

**Treasurer of the States:**

Well, my understanding of how that happened is that the bonds are issued in 0.25 per cent, 25 basis points, variable so if last time ... we would have been able to access it at 3.85, the bond was classed as a 3.75 and that is the difference. There is no intention to issue at a discount. That is the way that the auction, if you like, takes place.

**Deputy S.M. Brée:**

The bond was issued at a discount because in order to attract investors you had to offer them a higher yield and the coupon rate was on the face of the bond, so you issued at a discount.

**Treasurer of the States:**

They were offering 3.84, we issued at 3.75.

**Deputy S.M. Brée:**

Therefore, you had to offer at a discounted rate to investors. What is the indication that you are getting from your advisers at the moment as to whether or not you are going to have to issue a discounted rate bond again?

**Treasurer of the States:**

We have not got anything other than the indicative costing that we have provided to you.

**Deputy S.M. Brée:**

Okay. So really you are nowhere further down the line at the moment in the structure and the way in which it is going to be issued, is that correct?

**Treasurer of the States:**

We will update that as we get closer to issuance.

**Deputy S.M. Brée:**

Okay. Moving on. In the States sitting of the week of 16th January at several points, Minister, you referred to “hedging” as part of the strategy with regards to the issuance of a bond. How do you intend to hedge a bond?

**Minister for Treasury and Resources:**

I think, just to be correct, what I talked about was the option to hedge. What we were seeking with the States was to get agreement. I used flexibility as a term. We were seeking the option to be able to hedge if indeed the advice was that was the most appropriate way to go. The intention, if that was indeed to be the case, would be to hedge part of the exposure, therefore locking in the historically low rates that were available at the time until the issuance was in place. Clearly, as you will appreciate, Chairman, there is a cost associated with so doing so that is why the advice, at the time, that we were in a position to make that move, if we had been, which we are not, would have been taken forward.

**Deputy S.M. Brée:**

So at the time you made the statement how were you intending to hedge the bond?

**Treasurer of the States:**

Immediately before the States debate we would have intended to have probably gone for 50 per cent of the maximum, so we would have hedged £200 million, not all at that point in time. Our favoured approach would have been to do that through a giltlock i.e. locking in the current gilt yield, that is not what we will pay but with the gilt yield there is a spread which is covered into our own

bond. At the time of the debate that was the favoured approach. We have been talking with the Treasury Advisory Panel about that favoured approach and with Yvonne.

**Deputy S.M. Brée:**

Is that still the favoured approach?

**Treasurer of the States:**

We met immediately after the debate and at that point it was, as I understand it. It will be 18th April until we have the States debate. I have not had another meeting since then to realise the position. At this point in time, given where we are, I would see little to have changed that view.

**Deputy S.M. Brée:**

What were the predicted costs of the hedging at the time?

**Treasurer of the States:**

That would have been ... at the time probably around one basis point per £100 million, around £362,000 [interruption].

**Deputy S.M. Brée:**

£362,000 execution costs to lock in the hedge per £100,000,000.

**Director of Treasury Operations and Investments:**

Well, yes, but the Treasurer has said we would only probably hedge half of that.

**Deputy S.M. Brée:**

So you would have hedged half of that so it would have been somewhere in the region of say £700,000?

**Director of Treasury Operations and Investments:**

£700,000, yes, but that fee is built into the locked in price, you do not pay it as a month on cost.<sup>1</sup>

**Deputy S.M. Brée:**

No, but effectively your fee is calculated day by day?

**Director of Treasury Operations and Investments:**

Yes, and spread over the life of the bond.

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<sup>1</sup>The Director of Treasury Operations later clarified that he should have stated “you do not pay it as an upfront cost”.



**Deputy S.M. Brée:**

And spread over the life of the bond, yes, okay.

**Treasurer of the States:**

Probably at ... some of the quotes we have had have been considerably less than that.

**Deputy S.M. Brée:**

The proposition that you lodged, Minister, did not speak anywhere about hedging. Why was that?

**Minister for Treasury and Resources:**

Well, I think we have made clear what our strategy was and if you look through the detail of the report there was reference to hedging, as far as I recall.

[14:15]

**Deputy S.M. Brée:**

I was talking about the proposition. As you know, Minister, what the States vote on is the wording of the proposition, not the wording of the report. Why did you not put into the proposition the fact that you would be looking to hedge any bond issuance?

**Minister for Treasury and Resources:**

Well, we, as I have said, were looking at the options of hedging. What we were seeking was flexibility to ensure that we could protect the public position, the public purse, and that was some advice that came from our advisers, independent advisers. We made it plain. I certainly made it plain during the course of the opening debate that this was one of the options that would be considered if the States approved it. So it was very clear and it was in the public domain.

**Deputy S.M. Brée:**

But you will agree that that the concept of hedging was not included in the proposition itself. It was included in the report but not the proposition.

**Minister for Treasury and Resources:**

Well, if you look at the wording you can see that word is not particularly there but there was no wish to try to cover up the fact that that was an option that would have been considered.

**Deputy S.M. Brée:**

Okay. Moving on then to the budget of £466 million for the building of the future hospital. Can you please confirm once again for the record what is not included in that figure of £466 million?

**Minister for Treasury and Resources:**

I mean basically it is all the main works for the main hospital.

**Deputy S.M. Brée:**

So what is not included?

**Minister for Treasury and Resources:**

There are some other items like key worker accommodation which is not included. That is probably one of the main ones. Demolition or developing the remainder of the existing site; not included. Various other bits and pieces. It is all contained within the proposition.

**Deputy S.M. Brée:**

So what are the estimated costs of those excluded items?

**Minister for Treasury and Resources:**

Well, again, they are yet to be finalised but if you refer to the proposition itself, for example, Andium Homes is one of the solutions with regard to the affordable key worker accommodation.

**Deputy S.M. Brée:**

So at the moment you cannot quote us a figure as to the additional costs above and beyond the £466 million?

**Minister for Treasury and Resources:**

No. I can give you some indications and they are contained within the report that was presented to the States around the Andium Homes costs, properties are yet to be decided, but for planning purposes the estimate of around about £1 million was used.

**Deputy S.M. Brée:**

For all excluded items?

**Minister for Treasury and Resources:**

No, not all excluded items. That is referring to the key worker accommodation.

**Deputy S.M. Brée:**

So I suppose the question that we want really answered is, in order to deliver the Minister for Health's vision of a health campus on the existing general hospital site, which was one of the arguments

used at the time of the debate on the choice of the site, what is the total cost, including all excluded items, to deliver that vision of a cleared site?

**Minister for Treasury and Resources:**

Well, those final figures are yet to be complete but what we have said continuously is that the funding of the outstanding items not included within the £466 million, not included, therefore any items that I have briefly referred to, will be managed through a number of different ways but largely through the existing capital programme and through potential sales or disposals of assets in the future if necessary.

**Deputy S.M. Brée:**

So can you identify at the moment which assets you are looking to sell in order to deliver the Minister for Health's vision of this health campus?

**Minister for Treasury and Resources:**

Well, sales of assets if necessary. There are a number of assets, both properties and potentially parts of strategic assets which will be under consideration for sale should that be the necessity to go down that particular route. As I have said, the intention is to manage the additional costs through the existing allocations within the capital programme.

**Deputy S.M. Brée:**

So at the moment you cannot tell us what strategic assets have been identified as, if required, to be sold to fund the delivery of the vision of the health campus?

**Minister for Treasury and Resources:**

To be clear strategic assets are one option. The sale of some surplus properties within the States portfolio are the other. There are a list of options there which are there for consideration. I cannot give you an absolute detail on identifying individual properties or individual assets but that is one of the options which is available should that funding be required above and beyond the normal capital programme for dealing with any additional costs that we have referred to. To be clear the bulk of the funding of the hospital is contained within the £466 million and the other thing to be absolutely clear about is there is a substantial contingency of £90 million also included in that £466 million. Overall, the advice is therefore that this is a plan that works in all respects for both the construction of the hospital and also dealing with some of the incidental matters such as the key worker accommodation that I have touched on, the demolition of existing buildings and so on, clearing of the site and those other items that are not...

**Deputy S.M. Brée:**

So the demolition of the existing buildings will be undertaken after the new hospital has been built, commissioned and patients moved in, is that correct?

**Minister for Treasury and Resources:**

Yes.

**Assistant Minister for Treasury and Resources:**

I just wonder if I can assist the Minister here. There will be demolition going on ... has been taking place to provide the space for the new hospital, for example, the Gwyneth Huelin Wing. All of those costs are included in the £466 million that we are talking of. In P.130 the report at paragraphs 2 and 3 on page 7 spell out what is not going to be included. Anything that is not costed are things that are not included in the cost of building a new hospital. Some of the other areas which will need to be demolished post the hospital being built and commissioned have not been costed into this project. The team are working on those to look at ... if we can provide those for other uses rather than demolishing them or clear the site for other uses as part of the health campus or other uses may be within the future.

**Deputy S.M. Brée:**

But the demolition of the existing hospital building...

**Assistant Minister for Treasury and Resources:**

The Gwyneth Huelin Wing only and Peter Crill House; those 2 will be demolished to create the space...

**Deputy S.M. Brée:**

No, I am talking about the rest of the hospital. Was a key strategy in the delivery of the Minister for Health's vision of a health campus ... I am concerned, if you like, that at the moment you are not looking at that as a crucial costing in the whole hospital project. Am I correct in saying that at the moment you are concentrating purely on the building of the future hospital and what needs to be done to facilitate that and not ancillary matters such as? Is that correct?

**Assistant Minister for Treasury and Resources:**

Absolutely, Chairman.

**Deputy S.M. Brée:**

Okay. No, it is just to ensure that we know...

**Assistant Minister for Treasury and Resources:**

No, those are ancillary to the building of the hospital.

**Deputy S.M. Brée:**

Okay. As the hospital will be a phased built, there are certain things that have to happen before other things happen, how are you going to manage the funds raised through the issuance of a bond? Say, for example, you issued a bond for £400 million, you receive from investors £400 million or less because you may discount it, how are you going to, first of all, ring fence those funds and, secondly, then manage them to hopefully generate further income as you pay out over the phased period? What plans do you have in place?

**Minister for Treasury and Resources:**

Well, that is on a similar basis to the housing bond which, of course, we have the issue of the carry cost, carry risk, until the money can be deployed, as it has in this case, for refurbishing and building new houses. As you rightly point out, through the hospital build process over a number years that money will be, therefore, invested very safely in order to get some returns to pay for effectively the coupon cost of carrying it without putting at risk, in any shape or form, the capital until it is deployed.

**Deputy S.M. Brée:**

Because you are, I presume, going to have an investment strategy to protect the remaining capital against inflation risk. Am I correct?

**Treasurer of the States:**

Yes.

**Deputy S.M. Brée:**

Yes, good. Okay. Looking at the Strategic Reserve at the moment one of the main building blocks of your proposal is the fact the Strategic Reserve, its growth, additional income, will fund the servicing of the bond and the repayment of capital upon maturity. How is the capital value of the existing Strategic Reserve protected?

**Minister for Treasury and Resources:**

Protected as ... from a States decision of 2012 at £651 million...

**Deputy S.M. Brée:**

No, I am talking about the capital value being protected against sudden market movements. Is it hedged? How are you ensuring the capital value of the Strategic Reserve, irrespective of what the States agreed that we cannot use, the essential capital value, is it hedged against risk? How are you doing it?

**Treasurer of the States:**

Okay. So the investment strategies for the Strategic Reserve; it is public record. We use a balance of risk and reward there. So we are looking to diversify our holdings. Most notably we do not hold that all in 2 stocks. We have varieties which we will not exceed in terms of maximum holdings of stocks. We have a diversified portfolio in terms of holding so many equities, we have done very well out of historically, but that can mean you have good years and bad years especially if we adopt as a long-term strategy so you could have, by using the short term but over the long term it has been proven, accepting the fact that the future is not necessarily the principle in the past. It has had strong performance over the years. It is rare for us to use hedging in those strategies however with the depreciation of sterling recently we have, in respect of US dollars, deployed a hedging strategy against that. So largely through diversification of portfolios and asset allocation...

**Deputy S.M. Brée:**

So you are not, for example, using any form of currency hedging where you have a multi-currency portfolio. You are not using any form of currency hedging to insure against downside and sudden currency movements.

**Treasurer of the States:**

Generally we do but currently we are not.

**Deputy S.M. Brée:**

Okay. Do you see a move towards better protection or hedging, bearing in mind that you are looking to the Strategic Reserve to provide returns to service the bond? What is your plan for the future moving forward or are you happy with leaving it as it is and seeing what happens?

**Treasurer of the States:**

I would like to stress that we do not just leave it as it is and see what happens.

**Minister for Treasury and Resources:**

We are bit more intelligent than that.

**Treasurer of the States:**

We have advisers who help us to try and figure out what may happen so we have, over the period of time in discussions, been thinking about different strategies that we might implement if the States were to move but for the time being we are comfortable with the current strategy.

**Minister for Treasury and Resources:**

It is actively managed, as you would expect with T.A.P. (Treasury Advisory Panel) which was referred to by the Treasurer, the Treasury Advisory Panel, and active managers and clearly there are no guarantees with any investments as you will appreciate. It does seek to look at the long term and that is the basis for the strategy, funding the hospital over a 40-year term, accepting that short term fluctuations are highly likely, we have seen the benefits over the last year of very impressive returns. We have realised that looking at one year is not a very wise strategy...

**Deputy S.M. Brée:**

No. I mean the reason we are trying to clarify this area is the crux of your proposition is that the Strategic Reserve will provide adequate financing well above what is required to service the borrowing and repay the capital. We are trying to ascertain what work you have done to protect the strategy of the Strategic Reserve Fund against either currency risk, market risk, systemic risk and all different ... I cannot remember, I think there are 7 classes of risk but...

**Minister for Treasury and Resources:**

Yes, there are all sorts of risks as you rightly point out and nothing is certain. Part of what we have done, of course, is looking at and accepting that the past is no guarantee to the future but we have looked at some of the historic statistics going back to 1986 where we can see that the returns have averaged 4 per cent over R.P.I. (Retail Price Index). In fact in more recent years, between 2005 and 2011, it was around about a 7 per cent return above R.P.I. The strategy that we have put forward here is much more conservative. We are seeking over the next 40 years a return on the Strategic Reserve of 2 per cent above R.P.I. So historic returns give an indication...

[14:30]

**Deputy S.M. Brée:**

That does bring us on to our next area of questioning, as to why you are using the rate of inflation for investment return calculations. It does seem somewhat strange that you are not trying to benchmark the performance against anything other than inflation. Why is that?

**Treasurer of the States:**

Yes. Two different things that we obviously do benchmark against. We normally benchmark your investment return. However, what we were trying to understand here, given that the policy of the Strategic Reserve capital is to maintain that capital in accordance with R.P.I. was ... coming from the other end of the telescope we were looking to see if it was prudent to assume we could perform and service the debt rather than looking at it from the other perspective of saying, how would you normally benchmark your investments? So what we were looking to do to see whether we could

achieve the returns long term rather than that looking like the way we would normally look at investment performance. So it is for the purposes of modelling.

**Deputy S.M. Brée:**

So what happens to your modelling if inflation suddenly increases quite dramatically as some economic pundits are suggesting it will do?

**Treasurer of the States:**

So we come back to ... diagrammatically I do not know that many are saying up to 15 per cent again, back to historic maximums, but we take the view that this is a long-term strategy so we have looked backwards over the long term and we have looked going forward over the long term. We have taken what we assume and what we have not assumed, what we think, to be a prudent approach. We could have gone higher as a return but we trimmed off that return in the long run. So you are right, inflation is a risk there. It is the one that we are holding out that inflation could be a risk. We are not trying to run away from that. We are just saying over a 40-year period we are confident that we would outperform inflation.

**Deputy S.M. Brée:**

So what happens in the years that you do not outperform? How are you going to service the bond?

**Treasurer of the States:**

In the years that you do not you would still be servicing the bond from the Strategic returns. It is in the document but it depends when those years are. Given the way luck is working at the moment they will be in the initial years but that is not necessarily the case and the document acknowledges that if they are in the early years you may have to dip temporarily into the capital value to service the debt.

**Deputy S.M. Brée:**

But correct me if I am wrong that the amendments agreed at the time of the debate on the principles preclude you from doing that.

**Treasurer of the States:**

Not, it does not. It does based upon the last forecast as at November last year but it does not preclude it.

**Deputy S.M. Brée:**

Okay.



**Minister for Treasury and Resources:**

So the most likely risk in that scenario, as the Treasurer was saying, is in the early years.

**Deputy S.M. Brée:**

It is the early years which are going to be the most important in order to justify the cost of borrowing. Is there anybody who wants to ask any questions on this area in addition? Okay, if we can move on then please.

**The Connétable of St. John:**

If we could move on to hypothecated taxes. I think this is something that has muddled not only many people in the Assembly but also outside the Assembly. The first question is, why is the clause that limits public borrowing to one year's annual income included in the Public Finance Law?

**Minister for Treasury and Resources:**

I think the intention originally was to ensure that there was a degree of protection; that there would not be too much debt taken on board by the States at any particular point.

**The Connétable of St. John:**

When you say "take on too much debt" by that you mean debt which would be difficult to repay?

**Minister for Treasury and Resources:**

Yes. I mean you could indeed draw that conclusion.

**The Connétable of St. John:**

So looking at the long-term care charge, which is, by definition, a hypothecated tax, if there was difficulty in repaying the borrowing you could technically speaking use the long-term care charge to repay the borrowing.

**Minister for Treasury and Resources:**

Well, I think that particular charge has been ring fenced and the money that goes into the Long-Term Care Fund has been ring fenced so, no, it could not be used. It was a definition, as far as the law is concerned, that it can be included, and this is where we got into in the debate, that the definition was that it could be used for the calculation of that headroom that you are referring to but, no, it could not be used, the money in the Long-Term Care Fund, to fund any shortfalls in servicing a bond.

**The Connétable of St. John:**

While it may be the will of the Assembly to ring fence the money, is there the facility within the Public Finance Law to ring fence funds in that way?

**Treasurer of the States:**

It is a highly complex area. The Treasury did not look to include those numbers. The Treasury was just looking to ... sorry, rewinding. The Treasury was assuming that we would amend the clause in the finance law but we just asked to check on the numbers, the Long-Term Care Fund was included in those numbers and on the basis that it was being debated in 2017 that including long-term care charges, the way the advice came back, meant that we could live within the clause without changing it. In terms of ring fencing money, ring fencing can be achieved within the Public Finances Law but the majority of the legislation as it relates to the long-term care charge however sits outside the Public Finances Law in legislation and through Social Security legislation.

**The Connétable of St. John:**

The problem we have is trying to understand how in one category it is referred to as a charge, how in another category it is charged as a hypothecated tax. We have a problem in understanding the 2 different definitions. We also have problems in that under the Public Finances Law there is no legal way of binding or ring fencing because all taxes can be used, all monies can be used, if necessary and now you are saying it sits within the Social Security budget. Is that...

**Treasurer of the States:**

I will let the other Richard talk about legal definitions of tax but I would probably say this, and this has cropped up before with transfers out of the Health Insurance Fund, in that at the end of the day the States is paramount so the States can decide to make decisions that may run counter to its previous decision. There is nothing intentional with the long-term care charge, neither is it the intention of the Social Security charge contributions. I do not know if you have got some points...

**Comptroller of Taxes:**

Well, I mean the Solicitor General gave quite a lot of advice on this in the same way. I think he made it clear that a lot of his advice is based on English case law because there is not Jersey case law and obviously he was making a lot of parallels with national insurance contributions. There is Jersey case law that says that English case law is persuasive to the Royal Court in the absence of anything else. I think all of this advice is pretty much based on the English position. I mean I think the place to start is that it is utterly academic and the Solicitor General said that whether an imposition by the States Assembly, how it is described, there is a very narrow definition in English case law of what a social security contribution is, which establishes a very clear causal link between what you pay in and what you get out. The Solicitor General advised that as a matter of law the long-term care contribution and in the law it is a contribution. It is not described as a charge when

you look at the face of the legislation, is not as a matter of law a contribution. Therefore, because the Public Finance Law says it counts as income of the States it counts as income of the States. It is entirely open, I think, to Ministers and indeed the Assembly for it not to count as income of the States if you want to legislate along those lines. Hypothecation in a sense, I think from the Solicitor General's advice, does not matter either way. If you hypothecate a tax and it is a tax it still counts as income of the States. As far as the long-term care contribution goes, as the Treasurer said, it is written into the face of the Social Security Law that it is a contribution and that it is paid over to the Minister for Social Security and that it is under her control and direction. The Income Tax Law directs me to collect the long-term care contribution on her behalf and to pay it over to her directly. So, as I say, there is a very narrow legal definition of what a contribution is. It is very closely tied to the causal link between what you pay in and what you can get out, which is where the capping is quite pertinent, but everything else, the States Assembly choses to levy as an imposition. You can call it a tax, a charge, a levy, anything it likes, but fundamentally its legal nature is that it is an imposition. The States dips into people's pockets, takes money out and it spends it.

**Minister for Treasury and Resources:**

So Connétable, going back to your original point around what the Comptroller has just said, with regard to income, the long-term care charge or however you want to describe it, was included for the purposes of how much the States could borrow under Article 23(3) and, therefore, it showed that there was sufficient headroom in order to not contravene the Public Finances Law. If there had not been the headroom there then the option existed, which is what we were originally intending to do, would be to bring a proposal to the States to vary the Public Finances Law to change that position. So whether it was in or out, in many respects, was academic. It was compliant at the time of lodging and was compliant at the time of the debate.

**The Connétable of St. John:**

Okay. Accepting that do you therefore now agree that the long-term care is a tax not a charge?

**Minister for Treasury and Resources:**

I think we have heard the definition. There is a legal...

**The Connétable of St. John:**

Do you agree with the definition that it is a tax?

**Minister for Treasury and Resources:**

Well, it is not for me to question, necessarily, the view and advice of the Solicitor General but there is a legal definition for the purposes of the law and there is also, if you like, a political interpretation as to what we may seek to describe.

**Comptroller of Taxes:**

It is also just worth reiterating absolutely the Solicitor General's advice, which is that for the purposes of the Public Finance Law it counts as a tax but that beyond that it is a largely academic point.

**The Connétable of St. John:**

I think the issue I am getting at is probably political and perhaps we will move on. How does this definition of hypothecated taxes affect any future considerations you may have for raising money?

**Minister for Treasury and Resources:**

In relation to the funding of the hospital?

**The Connétable of St. John:**

Of generally the States but with particular, in mind, the health charge that we would have had had the States not voted it out, would have been another hypothecated tax.

**Minister for Treasury and Resources:**

I think the intention and the principle of taxation is that hypothecating is not the desired course to take. That is more of international practice with regard to taxation and I think that position would remain here. We can have a debate about the long-term care. Generally the principle is we do not seek to hypothecate it. It is very difficult to match by so doing and so it is much better to ensure that we have an efficient collection of taxation revenue and that there is an efficient use of that money that is collected in the areas of most need.

**The Connétable of St. John:**

So if it looks like a tax, it sounds like a tax, it feels like a tax; it is a tax.

**Minister for Treasury and Resources:**

If that is your opinion, Connétable.

**The Connétable of St. John:**

Thank you. Good, I am glad you agree with me.

**Minister for Treasury and Resources:**

I do not think I did.

**The Connétable of St. John:**

Now, can you update the panel please on any future plans you have for sustainable funding for health.

**Minister for Treasury and Resources:**

The long-term sustainable funding for health, we have made it clear, are areas that we are going to be dealing with and will fall into the next Medium Term Financial Plan. So there are a number of reviews under way at the moment which you will be familiar with. The outcome of those reviews will give options for other revenue raising. I will give some examples.

[14:45]

We have talked previously. I have talked previously about looking at a retail style tax similar to that which is or has been introduced in both the Isle of Man and Guernsey, that is one option that is under consideration, as if the broadening of the Zero/Ten tax base to see if there are some other businesses that do not currently fall under the definition but could indeed be taxed at a 10 per cent rate for example. So there are a number of reviews under way and, of course, there is the Personal Income Tax Review as well and we will consider all those in terms of putting together a package that will provide, or will be intended to provide, long-term sustainable funding for the area that you have just referred to in terms of health.

**The Connétable of St. John:**

That will be coming in with the next M.T.F.P. (Medium Term Financial Plan) in 2019?

**Minister for Treasury and Resources:**

The intention is to do exactly that. We have made it clear that those measures ... some will be brought forward. The retail option, if indeed that is pursued, would be part of the 2018 budget cycle.

**The Connétable of St. John:**

Thank you, Minister. I have no further questions on this section.

**Deputy S.M. Brée:**

I do have one. Minister, you spoke about having discussed the change in the Public Finances Law that may have been required. You say you discussed this within your department prior to the debate on the hospital funding. However, when you were asked the direct question during the debate as to whether or not this funding was allowed under the Public Finances Law you were unable to answer that question. The debate has to be adjourned for you to then come back with the figures that proved that you were within the bounds set by the Public Finances Law. So which came first; your

identification of the fact that you did not comply with the Public Finances Law without including the long-term care charge or now you are suddenly thinking: “Oh that was lucky”?

**Minister for Treasury and Resources:**

Let me be clear about what happened because I think this would be quite helpful. What I stood up and said was that I was comfortable that we were compliant with the Public Finances Law and that the proposition that was lodged before the States was therefore compliant for the purposes. I was asked specifically what the income figures were. Of course we were using estimates as indeed under the law we are able to do. We were using 2016 and at the time of lodging it was the third quarter, so September 2016. We had had a number of updates on the income position since then and, at my fingertips, I did not have available the latest figures or could confirm that figure. I did not want to mislead the States and that was the reason why there was a delay but I have made it absolutely clear that we were compliant and we had sought and received legal advice to that effect. Ultimately that was proven to be correct but I was confident that the advice we had had demonstrated that we were indeed compliant. Now, we had been considering, because we knew the numbers as of the estimates in September and prior to that, we knew the numbers were tight in order to be compliant with the Public Finances Law and so we had considered whether or not we needed to bring an amendment to allow us the necessary headroom. So that was quite simply the position. I was confident but, of course, the fact that I was confident was not satisfactory as far as the chair was concerned. He wanted to know the numbers and more importantly wanted to have the numbers verified by the Treasurer and hence there was a delay in order to try and satisfy the chair that that was the position. Ultimately that, of course, did happen. I might add, by the way, that since then the further updates that had been received and have now been brought to hand with regard to income have just seen an improving picture which means that the very tight position at the point at which we lodged is no longer tight. In fact there is so much headroom that now that the debate about long-term care, whether it is included or not, is largely academic because it does not have to be included and we would still be compliant because the income outturns have improved significantly.

**Deputy S.M. Brée:**

Yes, we will go on to talk about outturns in a minute. The other question I had is that I believe, Minister, you just said that the hypothecating of revenue; taxes, charges, was not a course you wished to take. Now, if you were to raise an additional health charge say to provide sustainable funding for the future, are you saying that that charge would be collected but would not be exclusively for the use of sustainable funding for health?

**Minister for Treasury and Resources:**

Well, I think, Chairman, you are familiar with the proposal that was originally presented, which was broadly...

**Deputy S.M. Brée:**

It is a very simple question, Minister, and it surely should have a simple answer.

**Minister for Treasury and Resources:**

It was broadly along those lines.

**Deputy S.M. Brée:**

If you raise a charge with a dedicated theme, we will say health, we will use that as an example even though we do not have one at the moment, are you saying that you would not look to hypothecate that charge, tax, whatever you want to call it, exclusively for the use of sustainable funding for health?

**Minister for Treasury and Resources:**

The preference is not to do that.

**Deputy S.M. Brée:**

Therefore, the health charge, were it to be brought in, could be used for anything that you feel that it is important to use it for not just health.

**Minister for Treasury and Resources:**

Well, we have seen the example with the long-term care charge which has been clearly ring fenced so we have a track record of having done something that could have been and could, for that matter, be repeated, for example, for a health charge in the future.

**Deputy S.M. Brée:**

But you have just said, Minister, you do not want to follow the course of hypothecation.

**Minister for Treasury and Resources:**

I said the preference would be not to do that and I think we have some other options as we look forward. You were asking me only a few moments ago about sustainable funding for health and I was talking about ways in which we could raise additional revenues from the measures that I talked about. I was not talking ring fencing those. That would be additional revenue which would allow us to be able to fund health. It would not be ring fenced for health because it would not be a health charge but it would be additional revenue raised from other areas.

**Deputy S.M. Brée:**

If you were to bring in a health charge would you agree that it should be hypothecated? A direct health charge on the population of this Island for sustainable funding of health, do you agree that that should be hypothecated?

**Minister for Treasury and Resources:**

With the greatest respect, Chairman, you are asking me the same questions in a number of different ways trying to get me to make a particular answer.

**Deputy S.M. Brée:**

I think it is a simple yes or no answer, Minister.

**Minister for Treasury and Resources:**

I have I hope made it clear that I do not favour hypothecated taxes. We need to find a way to fund health; that is one of our largest expenditures. So how we do that can be by looking at other ways to raise revenue and I have touched on what some of those might look like. That would not necessarily be ring fencing that revenue. That would go into the general revenue pot and be apportioned as income normally as for where the area of greatest need happens to be; in this case maybe health.

**Deputy S.M. Brée:**

Okay. So I will take your answer as no if I may. All right, we will move on now to Kevin if we can.

**Deputy K.C. Lewis:**

2016 outturns. Minister, would you update the panel as to how the 2016 outturns compare to the forecast?

**Minister for Treasury and Resources:**

Yes. At the moment, of course, we have not got the final audited figures but nevertheless I am pleased to say that, as I was mentioning earlier on, we have seen a fairly significant improvement in terms of the income position largely around the personal income tax area which means that the numbers are up compared to the forecasts that you were referring to a moment ago.

**Deputy K.C. Lewis:**

When will any carry forwards be published?

**Minister for Treasury and Resources:**



With regard to underspend those matters will be going before the Council of Ministers and will be into the public domain about March...

**Treasurer of the States:**

Yes, hopefully ahead of March.

**Minister for Treasury and Resources:**

March roughly is where we will be targeting.

**Deputy K.C. Lewis:**

When will they be made available to ourselves?

**Minister for Treasury and Resources:**

As is normal practice, as soon as the Council of Ministers have had the numbers and have approved them then of course it is available to the panel before it is publicly released obviously.

**Deputy K.C. Lewis:**

Anything else on that?

**Deputy S.M. Brée:**

Not at the moment, no.

**Deputy K.C. Lewis:**

Minister, we will move on to the Innovation Fund. Minister, what responsibility did you have in relation to the Innovation Fund?

**Minister for Treasury and Resources:**

I think you would need to put some sort of timeframe on that. Are you talking about...?

**Deputy S.M. Brée:**

In your capacity as Minister for Treasury and Resources.

**Minister for Treasury and Resources:**

All right, thank you. The Treasury Department has had an involvement originally because the Innovation Fund is a special fund, so the Minister for Treasury and Resources of the day had to bring the proposition to the States and from that point onwards in terms of monitoring that fund there is a representative, or was because of course the board does not exist any longer, there was a

Treasury representative on the board of the Innovation Fund. So in summary, general oversight of the performance of the fund.

**Deputy K.C. Lewis:**

Can you just affirm that up a bit? Did the Treasury Department simply act as a payment agent or was a department level scrutiny applied?

**Minister for Treasury and Resources:**

Payment agent? I am not sure what you mean. The fund itself has...

**Deputy K.C. Lewis:**

Are you just signing the cheques?

**Minister for Treasury and Resources:**

No. Well...

**Deputy K.C. Lewis:**

Or did you have high level scrutiny applied in your department?

**Minister for Treasury and Resources:**

The Innovation Fund was a special fund created for the purpose that was laid out and it had the sum of £5 million put into it. The management of the funds, in terms of allocation to applicants who went through a process, was managed between the board and the Economic Development Department.

**Deputy K.C. Lewis:**

Minister, I am sure you will admit that mistakes were made. Has Treasury done anything to ensure that these mistakes will not be repeated in the future with other similar funds such as the Tourism and Development Fund, Rural Economy Strategy and sports grants across the States?

**Minister for Treasury and Resources:**

Well, I think all of those are very different; that would be my first comment. Secondly, I would say that there are, as I think you are aware, a number of reviews under way with regard to the Innovation Fund and its performance and the individuals that have been involved in the various stages, both politically and at officer level, and I think until those reviews are complete it is difficult to identify exactly where there was an underperformance or other matters occurred that perhaps could have been managed in a better way. I have no doubt that when those reviews are complete the outcomes of those reviews will be taken and acted upon to ensure that any similar fund or any similar type of funding managed by the States is done so in an appropriate way.

**Deputy K.C. Lewis:**

Would you have a timetable as to when those reviews will be complete?

**Minister for Treasury and Resources:**

There is a timetable. I do not have it immediately to hand but they are relatively short, within 3 to 6 months across the level of 3 different reviews that are being undertaken and that is excluding others that may yet happen. I hear that the Public Accounts Committee may themselves be looking at doing a review but I am not sure that that has been undertaken. I do not know why I am looking at the Senator but she used to be part of that august group.

**Deputy S.M. Brée:**

Okay. I have one question, Minister. You mentioned or stated earlier on that a member of Treasury was on the Innovation Fund Board. What position did that member of Treasury have within the Treasury Department? Without naming names what position did they have? Was it yourself? Was it your Assistant Minister? Was it...

**Minister for Treasury and Resources:**

No, it was an officer not a politician that sat on the board of the Innovation Fund.

**Deputy S.M. Brée:**

Was it a junior officer or a senior officer?

**Minister for Treasury and Resources:**

Senior officer I think is the best way of describing. I do not want to go into very much detail as you will appreciate at this stage.

**Deputy S.M. Brée:**

No, it is just trying to ascertain sort of what involvement your department had with the operation or the workings of the board just to understand, and I am sure everybody wants to try and understand what happened, why did it happen and how can we prevent it happening again. The first question is what happened? So the reporting line of that individual was not to yourself?

**The Minister for Treasury and Resources:**

No.

**Deputy S.M. Brée:**

Was it to you, Treasurer?

[15:00]

**Treasurer of the States:**

In this respect, yes, you could say that, but there was another director as well involved. In terms of experience I would think that, of the people they had within Treasury, they were the most appropriately-experienced at that time for them to take the task.

**Deputy S.M. Brée:**

Okay, thank you. Is there anything else on that for the moment? Right, if we can move on.

**Senator S.C. Ferguson:**

Talking about the very good ideas for research into income tax, and the tax forecasting model which you have borrowed from me after the Medium Term Finance Plan, and bearing in mind your concept of efficient collection of tax, what progress has your department made on the reviews into the personal income tax and of the tax forecasting model?

**The Minister for Treasury and Resources:**

Well, the review of the personal income tax system, as you rightly say, Senator, was something that you had raised yourself. A group has been put together which includes 3 Ministers and 3 Back-Benchers working with an officer group, which is looking at this particular review. I might ask the Comptroller, who is co-ordinating that from an officer perspective, to give an update. We have had a meeting, another meeting is due very shortly, and the group is due to report as per the original timeline of the end of March. I do not know, Comptroller, if you want to give, or can give, any further update on that?

**Comptroller of Taxes:**

Yes. Within the review of personal income tax 4 work streams, as the Minister has mentioned, it is being overseen by a group consisting of various Ministers and other Members of the States Assembly, and then there is an officials group supporting it. The first work stream is around the distributional impact of all changes, including social security contributions changes since 2005 to date. It is also looking at the potential impact of the proposed waste charges and the distributional impact they might have. That is being led by the Chief Economist, who is drawing on external professional advisers to do some of the number-crunching. The second work stream, I think, is around reconciling various aspects of population data and taxes office data to see if there are any anomalies between the growth in the tax per population and the growth in the stats unit's understanding of population, which was a matter I think you had specifically raised. That is still ongoing. A paper is in draft and is before the ministerial group. Work Stream 3 is around profits

held in zero per cent companies, and again, a first paper has been produced and is before the group, which is an analysis of the extent to which it is possible to answer that question at the present time and, if it is not possible, what further measures need to be implemented in order to answer it better in the future. We are also, as part of that work stream, producing a paper which discusses, in a sense, the theoretical pros and cons of profit retention within companies; some jurisdictions view that as a good thing at various points, others view it as a bad thing at various points. So it is a bit of a curate's egg whether you think profit retention in corporates is a good or a bad thing, so we are producing a short paper on that. Most of that is in draft now and about to go to the ministerial group. The fourth work stream is about penalties and sanctions relating to tax avoidance and tax evasion. We have again put a paper in front of the ministerial group which is essentially a draft consultation document the taxes office is proposing to introduce later in the spring, which will be the first raft of proposed changes to modernise the taxes law, particularly with regard to moving to a more digital online tax environment over the next 3 or 4 years. So there is good progress being made with all 4 work streams and I think it would be safe to say we are definitely on track to get these presented to the States Assembly at the end of March.

**Senator S.C. Ferguson:**

Yes. I was not aware that "by March" was by the end of March. That is perhaps stretching the point.

**Comptroller of Taxes:**

Yes, it is. Some of these things have taken quite a while and it is quite difficult getting the ministerial group and States Assembly in one place to consider them at the same time. But it is progressing well, I would say.

**Senator S.C. Ferguson:**

Well, yes, as I say, it was something I thought could be done in 5 weeks. When you talk about the pros and cons of profit retention, which particular companies are you thinking of with regard to that?

**Comptroller of Taxes:**

I am not thinking of anything specifically, I am just conscious that if you look internationally, and at different time periods, different jurisdictions have incentivised profit retention in companies for R. and D. (research and development) purposes; for example, to bolster pension funds, that sort of thing. At other times it has been discouraged. I think one of the things the Assembly will need to take a view on is what sort of profit retention does it approve of or does it not approve of within corporates.

**Senator S.C. Ferguson:**

Well, as I recall, there were sort of standard parameters in most business school finance courses and you retain up to a certain percentage and then the rest can be distributed. I would not have thought that ... if you allow too high a distribution then you will, presumably, start hitting pension funds.

**Comptroller of Taxes:**

Well, it is fundamentally a political decision rather than a tax decision so, yes, I think we are basically just trying to articulate what current thinking is internationally for you but it is your decision.

**Senator S.C. Ferguson:**

When are you going to be able to give us, for instance, the profit being retained in zero per cent companies?

**Comptroller of Taxes:**

The papers are before the ministerial group and they have not yet met to consider them. I do not think it would be giving too much away to say that at this exact moment in time we do not have the full picture. We are beginning to gather quite a lot of data from the 2015 corporate tax returns on a small part of the population and, as you will recall, the States Assembly approved in the finance law 2017 additional powers which enable us to collect more information over the coming couple of years. With those additional powers we will certainly in the future be able to give you much greater clarity on these matters.

**Senator S.C. Ferguson:**

We will find out how many people are paying tax at 20 per cent. Have you conducted any further work, Minister, which has been mentioned before, regarding the link between increasing impôts and the reduction in alcohol and tobacco consumption?

**The Minister for Treasury and Resources:**

If I may, Senator, come back to that, because I think you asked 2 parts to your original question which the Comptroller dealt with. I do not think I answered your question about the income forecasting.

**Senator S.C. Ferguson:**

You did not, indeed. Absolutely.

**The Minister for Treasury and Resources:**

I thought that was remiss of me so, if I may, I will come back to it.

**Senator S.C. Ferguson:**

Is it not the Tax Department?

**The Minister for Treasury and Resources:**

What, the Income Forecasting Group?

**Senator S.C. Ferguson:**

Yes. Who is in the income ... no, we do know that, I am sorry; we have it. Yes.

**The Minister for Treasury and Resources:**

You have got the names of the members, including now ... well, we set up, first of all, a new Income Forecasting Group in 2015 and expanded its remit in terms of the terms of reference it operated under. Originally the Income Forecasting Group that existed prior to 2015, as an example, looked just at income tax. Now, of course, we look across the piece at G.S.T (Goods and Services Tax), impôts, stamp duty and also have sight of social security contributions, so a much broader picture of what is going in in terms of States revenues. We have introduced not one, but 2, external members of the group as well to broaden it.

**Senator S.C. Ferguson:**

Who are they?

**The Minister for Treasury and Resources:**

One is a senior tax partner of an independent tax firm and the other is described ... how have I described them?

**Treasurer of the States:**

He holds a number of non-executive positions but worked previously in investment funds.

**Senator S.C. Ferguson:**

Are we not allowed to know the names of these people?

**The Minister for Treasury and Resources:**

John Riva is one and Richard Urban is the name of the other gentleman.

**Senator S.C. Ferguson:**

Thank you.

**The Minister for Treasury and Resources:**

I was not sure if it was in the public domain or not, that was the reason I was not using the names, but there we go. The performance of the Income Forecasting Group has been questioned, I think, on a number of occasions about over-optimistic assumptions, but I think we have seen from 2015 that, in fact, the way in which they now operate and the broad base that they look at in terms of States income is demonstrating that, in fact, the outturns compared to forecast are much better, and therefore I think that they are fulfilling their role exceptionally well.

**Senator S.C. Ferguson:**

You will be producing a paper on this, I take it?

**The Minister for Treasury and Resources:**

A paper?

**Senator S.C. Ferguson:**

A report.

**The Minister for Treasury and Resources:**

Well, the report is in the outturn, is it not, versus forecast? That ultimately will give the performance.

**Senator S.C. Ferguson:**

I think it would be useful to know the work that has been done, a summary of it, and the comments that have been made.

**The Minister for Treasury and Resources:**

I see no reason why that cannot be the case, but to give you an example, in 2015 the outturn exceeded the forecast by £18 million, which is a very positive position. In terms of the timetable for 2017 of the particular group, we can give you those details as to when they...

**Senator S.C. Ferguson:**

No, I am sorry; I think you are missing the point. It has long been held that if it is going to be a good season for taxes then the forecasts are less optimistic and if it is going to be a bad season for taxes the forecasts are never too optimistic, if that makes sense. So what would be useful, I think, is for a short paper giving the assumptions that are implicit in the model and the comments made by your panel and the experts and the conclusions about it. Not just the results but some of the thought that has gone into their conclusions on the model.

**Treasurer of the States:**



I think we are possibly talking at cross-purposes. I think the Senator is talking about the piece of work we were committed to in terms of reviewing the model.

**Senator S.C. Ferguson:**

Yes.

**Treasurer of the States:**

Yes. Internal work is currently proceeding on the model; that will go to the Income Forecasting Group, and in particular the externals will have an input there in terms of deciding as to whether any further external advice would be required. But we will incorporate any findings that we come up with into the next income forecast paper, so you will learn of any conclusions that would be reached.

**Senator S.C. Ferguson:**

You will have a chunk of it that says: "We had a look at it, this is what we found. These are areas where we amended it"?

**Treasurer of the States:**

Yes.

**Senator S.C. Ferguson:**

All right. Very simple; it was only a simple question. You have given us a comment on the zero per cent companies and you have been a bit, sort of, coy about implementing the "Tesco Tax." Why?

**The Minister for Treasury and Resources:**

I think, Senator, that is your interpretation; there is no intention to be coy, other than we have laid out very clearly that, in order to be able to consider introducing a tax of that nature, we would need to, first of all, have the supporting data to ensure that we did not, in any shape or form, contravene the existing, and vitally important, Zero/Ten tax regime where we need to ensure that the majority of companies are taxed at zero per cent for them to remain compliant. The majority of tax is therefore falling under that criteria.

**Senator S.C. Ferguson:**

Any questions from anybody else on that?

**Deputy S.M. Brée:**

Not at the moment.

**Senator S.C. Ferguson:**

Kevin?

**Deputy K.C. Lewis:**

I have just got a brief one, Minister. I am not sure who mentioned it, but waste charge was mentioned.

[15:15]

Do we have a timetable for that as yet? Presumably that is sewerage charge, commercial waste disposal and domestic waste disposal. Do we have a timescale and a method of collection?

**The Minister for Treasury and Resources:**

I think you mentioned personal and commercial.

**Deputy K.C. Lewis:**

Commercial and domestic.

**The Minister for Treasury and Resources:**

I think it is intended to be focused on commercial, and that is a matter for the Department of Infrastructure, and I believe that their proposals will be coming before the States by the summer.

**Deputy K.C. Lewis:**

All right. Likewise, a sewerage charge?

**The Minister for Treasury and Resources:**

I am not sure that that is included in those particular proposals. You would need to ask them to update you.

**Assistant Minister for Treasury and Resources:**

I can update you slightly in that they presented their future plans to the Comité des Connétables this morning, which I was at. Certainly, the waste charge; as the Minister said, they are going to try and bring it in before the summer recess to do the waste charges. That is for commercial waste only at the moment. There are some issues to do with that in that some parishes collect both domestic and commercial in the same round, which is causing some issues about how to charge on those particular ones, but they are working through that. With regard to the liquid sewerage charges, those are currently predicated to be linked to consumption of water provided through the main system. That piece of work is further downstream ... sorry, no pun intended. It is a little bit further away in

their forecast. Possibly, they indicated, probably in the region of 2018 before they get that back to us.

**Deputy K.C. Lewis:**

Obviously, there are other factors, if somebody is on a borehole, et cetera.

**Assistant Minister for Treasury and Resources:**

Well, this was debated this morning where people were saying: "What about, I use a lot of water on my public gardens, and things like that?" Well, the easy answer is, as you say: "Well, get a borehole and then you will avoid the waste charges linked to your water consumption then." So these were all talked through this morning.

**Deputy K.C. Lewis:**

So a ballpark of 2018?

**Assistant Minister for Treasury and Resources:**

That is the sort of indicative that they were talking of this morning. They are still in flux with their plans; they are still working through all the issues that go along with them.

**Senator S.C. Ferguson:**

I think Parade Gardens are a borehole anyway, are they not? Sustainability of States finances. The amendment to the bond proposals is going to restrict use of the Strategic Reserve, in light of transfers in the last few years, to fund the Capital Programme. Will this restrict future capital programmes that have been planned?

**The Minister for Treasury and Resources:**

No, it is factored in certainly through the Medium Term Financial Plan that the allocation is there for the Capital Programme. Clearly, if there were any exceptional items that should come forward then a funding mechanism would need to be considered. Obviously, we have talked earlier today about the hospital; if there was anything of that type of language used, which is unlikely, then that would be outside of the scope of the existing Capital Programme.

**Senator S.C. Ferguson:**

So things like the Les Quennevais School project are going ahead, willy-nilly? Well, they are going ahead...

**The Minister for Treasury and Resources:**

I might not describe it as "willy-nilly" Senator, but, yes, it is progressing in funding and...

**Senator S.C. Ferguson:**

So we have a guarantee that will progress?

**The Minister for Treasury and Resources:**

It is already included within the calculations in the M.T.F.P.

**Assistant Minister for Treasury and Resources:**

Insofar as Treasury can guarantee it, would Planning have an issue as well?

**The Minister for Treasury and Resources:**

Of course, yes.

**Senator S.C. Ferguson:**

Is this going to impact on the feasibility of the bank depositor protection scheme?

**The Minister for Treasury and Resources:**

No.

**Senator S.C. Ferguson:**

Unless we do not meet the growth forecasts for the rump of the Strategic Reserve.

**The Minister for Treasury and Resources:**

Well, it would not impact on the Depositor Compensation Scheme, which is effectively underwriting guarantees from the Strategic Reserve, £100 million, with regard to that.

**Senator S.C. Ferguson:**

Yes. If you do not get the growth out of the Strategic Reserve that you are planning for, if that is reduced, then that is presumably going to force you back to a plan B with the whole Capital Programme and the hospital project.

**The Minister for Treasury and Resources:**

Well, if you are suggesting would it impact on the Depositor Compensation Scheme, the answer would be no, it would not, because it would not be able to, it would not be allowed to be able to do that, but there is some additional headroom there.

**Senator S.C. Ferguson:**

No, but it would impact on the capital projects and the hospital scheme.

**The Minister for Treasury and Resources:**

To an extent, but there is plenty of headroom in the Strategic Reserve anyway now due to performance over the last few years.

**Senator S.C. Ferguson:**

All right. Are we still going to achieve balanced budgets by 2019?

**The Minister for Treasury and Resources:**

Currently, we believe we will.

**Senator S.C. Ferguson:**

All right. Going back to my point, what contingency plans have you got if expenditure continues to exceed income at the rate it has been doing? What is plan B?

**The Minister for Treasury and Resources:**

Well, expenditure is coming out below forecast, below budget at the moment, and income is exceeding budget at the moment. So in terms of where the public finances are the current time, they are in a far better and healthier position than had been originally estimated, largely because we have taken a much more conservative and much more prudent approach.

**Senator S.C. Ferguson:**

But given the fact that when we have had cuts in expenditure before it has usually been at the expense of maintenance, and then we have had to spend a lot more on catch-up maintenance subsequently. Can you say that the same is not going to happen today?

**The Minister for Treasury and Resources:**

I would say that a lot of the issues that needed to be dealt with, with regard to key infrastructure have either got plans in place or plans are being developed to make certain that we do not get into a position that we have been in the past of having to try and find significant funding for maintenance that you are referring to. I believe therefore that the Capital Programme is adequate in order to manage those particular challenges.

**Senator S.C. Ferguson:**

Given that the unions have pulled out of workforce modernisation, and the effect this will have on public sector reform, how will the impact on the achievement of efficiencies set out in the M.T.F.P. be achieved?

**The Minister for Treasury and Resources:**

Well, it is very early days with regard to that particular point you have raised about the union and workforce modernisation. What I will say is that we have already delivered £37 million worth of savings and the reform programme is continuing to move forward as planned. So I not would suggest there is an issue at the moment but there is a great deal more work yet to be done in terms of the ongoing reform of the public sector.

**Senator S.C. Ferguson:**

Yes, because we have not even sorted out the 2015 pay round, have we?

**The Minister for Treasury and Resources:**

No, and that is a matter that is yet to be concluded, you are quite correct, but these things do take time, quite often.

**Senator S.C. Ferguson:**

Yes, well, I think there are 2 opinions on that. Following the announcement by the Chancellor of the Exchequer in the U.K. (United Kingdom) that the U.K. may consider reducing its levels of corporation tax, what effect is that going to have on Jersey's tax competitiveness?

**The Minister for Treasury and Resources:**

We live in a competitive world. I think, generally speaking, the strengths that Jersey has will be maintained. We have seen the financial services sector is an industry that is performing well at the moment and, looking to the future, one has to continue to ensure that the competitiveness in every aspect is maintained. We believe that is perfectly feasible.

**Senator S.C. Ferguson:**

Well, given the effect that it could have on the Strategic Reserve or possibly the bond repayment, what is plan B? Have you started working on a plan B?

**The Minister for Treasury and Resources:**

I was going to say, plan B is to make sure plan A works but, in reality, we do have quite a number of areas of flexibility, which is something I talk about a lot, to ensure that we are able to maintain our income levels where they are with the various strategies that have been introduced at various areas throughout the economy, and to ensure that we continue to carefully monitor and control expenditure, as we have done by putting the cap in place through the Medium Term Financial Plan. There are a whole number of strategies that come together to ensure we maintain our income and grow our income and grow our economy and improve productivity and, at the same time, that we control absolute cost, which is what the Medium Term Financial Plan did; it put a cap on expenditure

through the plan period. I think that type of financial prudence is absolutely right and will continue to ensure that our economy is supported so that it grows and generates the revenue that we need.

**Senator S.C. Ferguson:**

Of course, there are the financial services companies that are paying no tax at all at the moment that are located here and will no doubt come into the Taxation Review.

**The Minister for Treasury and Resources:**

The taxation review will, as I have stated, look at all areas where there are options to broaden the definitions, which is what you are talking about.

**Senator S.C. Ferguson:**

I am just saying there are a lot of companies here that are not paying tax that should do.

**The Minister for Treasury and Resources:**

There are a lot of companies that do not pay tax because that is what our tax system is: Zero/Ten, but what I think you are referring to is the fact that the definition of financial services, there are some within that definition that do not. But there are not a lot, there is a category that does not, and we will look at those providing it does not, in any shape or form, put at risk our Zero/Ten corporate tax structure, which is critical to the future of the Island and its competitiveness and its ability to be able to trade, for example, in the E.U. (European Union) and have access to E.U. markets.

**Senator S.C. Ferguson:**

I have nothing else.

**The Connétable of St. John:**

Vacancy management, Minister. Following the M.T.F.P. debate, you stated work would be: "Conducted to examine the high vacancy rate across the public sector." Could you provide us with an update of what work has been done to date?

**The Minister for Treasury and Resources:**

Well, first of all, I can give you the vacancy rate. There has been a change, I think, from the point at which the debate was undertaken, so the figures at the end of 2016, as at 31st December, was 10.1 per cent, and we continue to look at and actively manage vacancies to ensure that they operate as efficiently as possible. I accept that figure is higher than one would normally expect to see in the private sector but that is the nature of a public sector organisation as opposed to the private sector. So I just caution against drawing too much in terms of conclusions from the difference between public and private sectors in regards to those running rates.

**The Connétable of St. John:**

I have not double-checked the figures but, basically, the M.T.F.P. budgeted for 7,100 F.T.E.s (Full-Time Equivalent), or thereabouts whereas the 2015 accounts showed there were in the region of 6,200, thereabouts, F.T.E.s. So there were 900 additional wages voted in the M.T.F.P. for wages, amounting to some £45 million. If you are now saying that it has reduced from 12.9 to 10.1 per cent, in effect, you are employing more people above the 6,200, so additional staff have been taken on.

**The Minister for Treasury and Resources:**

No. This is the point between perhaps the way in which a private sector organisation may manage its headcount and its vacancy rates as opposed to a public sector organisation, in particular the States of Jersey. So departments have posts within their budget for the year; an intention to fill a post does not necessarily result in the post itself being filled. It does give some flexibility, I have to accept, to a department to manage their resources appropriately. They may well be restructuring at a time when reform is high on the agenda, as I was mentioning to the Senator, and some posts may ultimately not be filled and therefore be driven out. So it is important that one continues to focus on this issue and help the departments to manage their vacancy rates appropriately.

**The Connétable of St. John:**

It is certainly a very big issue because, if we are talking of £45 million being the value of the vacancy my biggest concern is, is it being spent on staff, be they agency staff or fill-in staff on a temporary basis? If that becomes a fulltime employee then it is a positive move, but if the States are managing to run perfectly smoothly without employing those 900 extra people, what is being done to reduce the head figure from 7,100 downwards?

**The Minister for Treasury and Resources:**

Well, first of all, we have seen numbers taken out of the workforce. We have seen the workforce reducing in size over the last 2 years, so there is...

**The Connétable of St. John:**

Only because we have taken out Harbours and Airports and Andium.

**The Minister for Treasury and Resources:**

No. Above and beyond that, you will still see that numbers are reducing, which is right. Some of the reasons why the number is as high as it is, of course, is that there are temporary staff being utilised, particularly in areas such as Health and Social Services, so you have got that factor to consider into the equation as well.



[15:30]

Do not forget, the other point is, this is not money that is being lost; it sounds very emotive when one talks about £45 million, as I am sure you are aware, but, at the end of the day, we will see underspends coming through each year. In fact, the underspend has been averaging at around about, off the top of my head, about £20 million a year. Part of that will be as a result of these posts that have not been filled, but departments do not just hang on to the money or spend it on projects and plans that they may have, that gets returned. We have seen the underspend numbers also reflecting the fact that not all these posts have been taken up, partly as each department, and the organisation as a whole, continues to reform itself and perhaps not need to fill posts that previously were occupied, because they have restructured the way in which they deliver their services.

**The Connétable of St. John:**

Would it not be more transparent if you were to include in your budgeting, rather than just a vacancy figure which assumes that there is nobody filling the post, a separate column in your accounts showing part-time and agency staff who are fulfilling these positions? So that we can then follow, through a scrutiny process, what savings are being made as opposed to just bulk figures without the necessary detail, for us to follow through where savings can be made and what savings are being made. May I make that as a suggestion?

**The Minister for Treasury and Resources:**

Yes. I am fully supportive of the concept of making this whole area more transparent and, indeed, we are more than happy to share, as indeed the relevant department would be, the information on vacancy management with you, or whichever Scrutiny panel wishes to look at it. I think improvements can be made in terms of reporting to make it easier for these numbers to be understood.

**The Connétable of St. John:**

Good. How is the new payroll system that was due to come into action, I believe at the beginning of this year, is that ready to roll?

**The Minister for Treasury and Resources:**

Richard, do you want to run with that?

**Treasurer of the States:**

It is rolling in the background, running parallel to the existing system. Rather, it ran 2 or 3 months to make sure there is nothing going wrong before we move to the new system.<sup>2</sup>

**The Connétable of St. John:**

Okay. Thank you.

**Deputy S.M. Brée:**

We will move on, if we may. Minister, the panel have noted that the States of Jersey Development Company has lodged plans for Building 6 of the Jersey International Finance Centre. Are you aware of the reasons for them doing so at this point in time?

**The Minister for Treasury and Resources:**

Chairman, I would ask, if I may, my Assistant Minister, who has direct responsibility for S.o.J.D.C. (States of Jersey Development Company) to give you an update and answer that question.

**Assistant Minister for Treasury and Resources:**

Yes. For Building 6, as you quite rightly said, the plans have gone in. The Minister for Planning made it clear that, notwithstanding the review for the Waterfront masterplan, he would still accept planning applications until the masterplan had been reviewed and there was an outcome from that. Building 6's planning had been put in because already Building 4 is significantly over 50 per cent completed, therefore the pre-let has funded the cost of the building. Building 5 is over 50 per cent pre-let, therefore funding the cost of that building. What we are seeing is, while we are seeing a number of smaller applications for areas within those 2 buildings, we are also being pursued by other companies with much larger corporate requirements. We cannot deliver that unless we have Building 6 potentially coming down the pipeline to enable those people to make some positive funding towards this down at the finance centre.

**Deputy S.M. Brée:**

Are there any tenants lined up for Building 6 at the moment?

**Assistant Minister for Treasury and Resources:**

Not as such. However, we have had 4 new enquiries since the turn of this year from people looking for large areas of space down on the International Finance Centre.

**Deputy S.M. Brée:**

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<sup>2</sup> The Treasurer later clarified that the payroll system is not yet running in parallel, but WILL run for 2 or 3 months in Parallel to make sure there is nothing wrong, before moving to the new system.

So do you think it prudent, given the current volatile economic circumstances we find ourselves in, that S.o.J.D.C. should be going to the expense of lodging plans at this moment in time?

**Assistant Minister for Treasury and Resources:**

Well, certainly, the activity that we are seeing from interested parties has increased even through this period of volatility so there are people out there who have great confidence in coming into Jersey and, even more so, businesses in Jersey having confidence in expanding and needing to have bigger premises to work out of.

**Deputy S.M. Brée:**

Have any new tenants been found to fill the remaining space in Buildings 4 and 5?

**Assistant Minister for Treasury and Resources:**

Building 4, I think, currently we are just waiting for one to sign up now, which will leave us less than 10,000 feet left in Building 5, which is part of the ground floor. Building 5 is over 50 per cent pre-let, with an option for another 10,000 feet on that one, and a couple of small enquiries on that. I cannot give you the details of those obviously because those are all under negotiation.

**The Minister for Treasury and Resources:**

It is about 5 per cent.

**Assistant Minister for Treasury and Resources:**

Oh, right, 5 per cent more; sorry, that is on Building 5. So certainly the take-up of enquiries has increased, the confidence is out there and therefore it is prudent to be prepared to do the building, subject to the costs of, as we said, the outlying planning permissions.

**Deputy S.M. Brée:**

How many of these potential new tenants, both of Buildings 4 and 5 and the proposed Building 6, are from off-Island?

**Assistant Minister for Treasury and Resources:**

Quite small in number, Chairman. The majority are local businesses seeking to expand to incorporate other businesses to improve their profitability overall. I know we have got one coming into 4 which is a new business completely from off-Island that is taking a fair slice of Building 4. More than that, I do not know at the moment.

**Deputy S.M. Brée:**

Would you say that the original concept that the Jersey International Finance Centre would attract inward investment in the form of new companies, new employees, et cetera, has been met or not?

**Assistant Minister for Treasury and Resources:**

I think if we reflect back when that initiative was first brought forward in 2007/2008, certainly it was hard-going in 2008, the world was in a different place, and at that time there was a lot of talk about consolidation out of the Isle of Man and looking towards coming into Jersey. I think that was the trigger when we got into bed with Harcourts, through W.E.B. (Waterfront Enterprise Board), as it was then, to try and capture some of those external people who were looking for a new home not too far away from the U.K. mainland. What we have seen more of late is the local businesses expanding exponentially and needing to take up the space that we would have hoped to have come from new companies relocating here.

**Deputy S.M. Brée:**

So the answer is basically no, we have not seen new inward investment; what we have seen is a growth in existing businesses on the Island which then require bigger offices to meet that expansion?

**Assistant Minister for Treasury and Resources:**

Yes. The Minister would like to add a couple of words there.

**The Minister for Treasury and Resources:**

I will just add a comment. I think with regard to inward investment there is no doubt that the International Finance Centre has played its part, but not necessarily directly at this stage, but I have no doubt that it will and I will explain what I mean by that. Quite simply, inward investors are businesses that make decisions on shorter-term horizons, so they decide they want to relocate here; of course, the buildings have only just started going up and they are not available to occupy, as you will be aware, Chairman, yet. Local businesses have a longer time horizon to plan, and they are the ones that are signing up for these buildings, but they are freeing up space where they currently exist, and we are seeing some inward investment businesses going into some of that space in the old space that exists. In time, once Building 4 is complete and once Building 5 has gone up, I have no doubt that there will also be inward investors who will want to go into the ready space that is there. I think you will see it as an emerging picture over time, but there is no question or doubt that this development is working, it is supporting the economy, it is allowing businesses to be more productive because they are moving out of, in many cases, a number of locations around town and consolidating into much more efficient top grade space, which helps them develop their businesses further.

**Deputy S.M. Brée:**

We have seen Building 4, we have seen Building 5, plans for Building 6 are now lodged. You are painting a very rosy picture of the future. Will you give your assurance that the public amenities and the public underground car park, as originally envisaged within the Jersey International Finance Centre, will be delivered?

**Assistant Minister for Treasury and Resources:**

Well, certainly with regard to Building 5. Part of the build programme for that building, the second building, is the public square, the same size as behind us here at the Royal Square, so that is an example of the public realm which is going on as part of the unfolding of the whole masterplan for the International Finance Centre. Now, I could be corrected, and hopefully the Minister might be able to clarify, with regard to the underground car park, that is not due to be completed until Building ... I think it is 3 is finished.

**The Minister for Treasury and Resources:**

Building 3.

**Assistant Minister for Treasury and Resources:**

Yes. We both agree 3. As part of building Building 3, that would also enable the underground car park to be done at that time as well. But I recall that...

**Deputy S.M. Brée:**

Sorry. So you are saying that the underground car park will only be delivered if Building 3 is delivered. Is that correct?

**Assistant Minister for Treasury and Resources:**

Well, you have got to recall that the funding for the underground car park will be done on the profits generated by the other buildings. The funds are going to be generated from the receipts of the buildings themselves; it is not new funds coming in to do the car park, it is going to be funded by the development itself. Therefore it needs the other buildings to fund the car park.

**Minister for Treasury and Resources:**

As envisaged.

**Deputy S.M. Brée:**

As far as you are concerned, there is still the full intention of delivering a public underground car park as part of the International Finance Centre?

**Assistant Minister for Treasury and Resources:**

That is the masterplan that we are working to. The only thing that would change that is a change in the masterplan, which would predicate against that. We do not envisage that.

**Deputy S.M. Brée:**

The masterplan that you are working to also requires the road to be sunk.

**The Minister for Treasury and Resources:**

Yes. We have also made it very clear that, in terms of delivering the Jersey International Finance Centre, it is being done on a phased basis, building by building. So that is the most sensible way of mitigating risk for the public, it was what was agreed would be the best way forward, that there has to be pre-lets and all the rest of it that was agreed to by the States Assembly, and we are continuing to roll out that plan. As the Assistant Minister has said, the level of demand and take-up to date has been very positive, and continues to be so, and what we are seeing is that the public space that will be developed shortly, the area a similar size to the Royal Square, these types of public amenities we would not see if it was done by a private developer. It is because it is the States of Jersey Development Company, and they are ploughing the profits back into regeneration and developing the area immediately around these particular buildings, that the public will see far greater benefit as opposed to that benefit going into the bottom line of a private developer. So those are some of the additional...

**Deputy S.M. Brée:**

But I go back to my question though; part of the masterplan is the sinking of the road and the provision of a public underground car park. Do you give your assurance that if the masterplan does not change you will deliver those 2 things?

**Assistant Minister for Treasury and Resources:**

I think there is a question on the sinking of the road. Certainly, there is no question whatsoever on the car park; I think it is...

**Deputy S.M. Brée:**

So you can give your assurance that will be delivered?

**Assistant Minister for Treasury and Resources:**

Provided that the revised masterplan does not change that, yes.

**Deputy S.M. Brée:**

As part of the International Finance Centre development.

**Assistant Minister for Treasury and Resources:**

S.o.J.D.C. are planning to do the underground car park as part of the current masterplan.

**Deputy S.M. Brée:**

Okay.

**The Minister for Treasury and Resources:**

The development continues on a phased basis, and that is the right approach.

**Deputy S.M. Brée:**

Sorry, Kevin?

**Deputy K.C. Lewis:**

Sorry, Assistant Minister, you I think mentioned that the funds from the buildings will pay for the car park. Is that rental funds or is that after the sale of the various building...

**Assistant Minister for Treasury and Resources:**

It is profits yielded from all the developments on the site.

**Deputy S.M. Brée:**

So once the building has effectively been sold the profit is taken out and then reinvested. That is the plan.

**Assistant Minister for Treasury and Resources:**

It is recycled back into the public realm, yes.

**Deputy S.M. Brée:**

Yes. Okay, thank you.

**Senator S.C. Ferguson:**

As I understand it, quite a lot of the funds for the car park were going to be taken from the Currency Fund. When did that change?

**Assistant Minister for Treasury and Resources:**

I am not aware...

**The Minister for Treasury and Resources:**

That was an original plan that was being considered but it is no longer the case.

**Deputy S.M. Brée:**

That has all changed, yes.

**Senator S.C. Ferguson:**

The other thing is that the whole of the project under the old masterplan depended very much ... well, there were great doubts about the profitability.

**The Minister for Treasury and Resources:**

Well, there were great doubts cast by some competing organisations.

**Senator S.C. Ferguson:**

No, no, no.

**The Minister for Treasury and Resources:**

Yes, yes, yes.

**Senator S.C. Ferguson:**

No, I am talking about the original masterplan. There were doubts about the profitability of it at the beginning and that was very much to do with putting the road underground.

**Assistant Minister for Treasury and Resources:**

That was the Harcourt masterplan, which was a different masterplan altogether.

**The Minister for Treasury and Resources:**

Yes, it was, and we have moved on from that. That is why, as I said a moment ago, the plan is to deliver the Jersey International Finance Centre in a phased way, building by building, assuming there are pre-lets in place, and the States of Jersey Development Company work their way around the buildings, the site, on that basis, mitigating the public risk. With the first building, Building 4, which is ultimately going to be renamed Building 1, just to confuse everybody, the intention is to look to dispose of buildings in due course.

[15:45]

It was always going to be 3 years after practical completion that that position would be reassessed. Of course, the panel will be aware that a review was undertaken by the panel, which is yet to be published, which has looked at the viability of that first building, Building 4, and how much profit it is likely to make, and we will see how that plays out over time. It is important this is a phased



development and therefore mitigating the risk to the public but at the same time supporting the economy in delivering the grade A office space that the Island clearly needs.

**Senator S.C. Ferguson:**

So do you still maintain, Minister, that at the end of the day, when everything is done, there will be £50 million to be given back to the States?

**The Minister for Treasury and Resources:**

What I maintain is, as I have been saying, that the project is being managed in a phased way...

**Senator S.C. Ferguson:**

No, I am down to figures. We have been told that the intention is that at the end of this there will be £50 million paid back to the States in order to do up the town.

**The Minister for Treasury and Resources:**

Well, for regeneration purposes, the development of the Finance Centre is going to generate some funds that will be deployed, and the Regeneration Steering Group is managing that.

**Senator S.C. Ferguson:**

It was £50 million. Where has the £50 million gone?

**The Minister for Treasury and Resources:**

It has not gone anywhere; that was an assessment that was made. All I am telling you is that, in order to manage it, it is being deployed in a phased approach. The target is still to deliver that level of profit at the end of it when completed but, of course, into the mix since then we have got the Minister for Planning, who has announced there is going to be a review of the masterplan. This is not unusual because masterplans around the world get reviewed on a regular basis; they are moving documents.

**Senator S.C. Ferguson:**

I am sorry to interrupt; I just want to get this clear in my own head. You are saying that the £50 million that was being spoken about is no longer £50 million?

**The Minister for Treasury and Resources:**

No, I am not saying that at all. What I am saying is that was an estimate originally. There was no reason to think that, or a figure similar to that, will not be delivered, on the assumption the project is rolled out to its final completion, as was envisaged at the time. But the point I am making is that it is an ever-evolving situation, the Minister for Planning has announced there is going to be a review

of the masterplan; there could be some changes from that that could impact on what that assessment is. At the moment we are on target, the development is performing well and we are heading towards what we have just referred to.

**Senator S.C. Ferguson:**

We are heading towards £50 million unless there are big changes in the masterplan.

**The Minister for Treasury and Resources:**

Yes, or other changes that may come about, but that was the estimate that was arrived at and that is what is being targeted.

**Senator S.C. Ferguson:**

All right. That was all I was asking.

**The Minister for Treasury and Resources:**

That is fine.

**Senator S.C. Ferguson:**

Well, we look forward to the £50 million.

**Assistant Minister for Treasury and Resources:**

Chairman, just one little fact for you that might be helpful.

**Deputy S.M. Brée:**

Yes.

**Assistant Minister for Treasury and Resources:**

We are looking forward to Building 4 being practically completed on 27th February, with people starting to move in in April. I have asked S.o.J.D.C. to invite you, the Corporate Services Scrutiny Panel, and other States Members to view the property before it is taken up by the tenants. I think it is worthwhile you seeing what has been done in our name, effectively, and hopefully that will be around about the end of this month.

**Deputy S.M. Brée:**

Thank you. Sorry, Kevin, do you want to ask one last question?

**Deputy K.C. Lewis:**

Just finally, yes. Route de la Liberation, or the sinking of the road, we have got 3-lane carriages going east and west. The original plan was to build a temporary 6-lane carriageway through what is now the Financial Centre to link up the roundabout as a temporary road, then sink the main road and then dig up the temporary road and build the offices there. Now that you have gone so far with building the office blocks, is it safe to assume that the sinking of the road is now not going to happen?

**Assistant Minister for Treasury and Resources:**

Under that plan, I think it is obvious that is not going to happen.

**The Minister for Treasury and Resources:**

Certainly not in that way, but in terms of how the rest of the site is going to be managed over time, there are a number of variables, the review of the masterplan being one of them, so we will just have to see, as I have said.

**Deputy K.C. Lewis:**

I am delighted the car park is going to be built but I cannot see any way that the road can be sunk now. Do you agree with that?

**The Minister for Treasury and Resources:**

Certainly not in the way that was intended, no; I think that is probably unlikely.

**Deputy K.C. Lewis:**

Are there other ways?

**The Minister for Treasury and Resources:**

Who knows?

**Senator S.C. Ferguson:**

Is it going to go down via the Écréhous?

**Deputy S.M. Brée:**

All right. We have run a little bit over time here. We are going to draw the hearing to a close now, if we may. Thank you very much, Minister, Assistant Minister, Treasurer, gentlemen, for coming in and giving us your time, and we hope to see you at the next quarterly public hearing. Thank you very much.

**Senator S.C. Ferguson:**

Thank you and we will look forward to all your reports. [15:50]