

STATES OF JERSEY

Economic Affairs Panel

Role and Funding of Jersey Finance Limited

MONDAY, 17th DECEMBER 2007

Panel:

Deputy G.P. Southern of St. Helier (Chairman)

Deputy J.A. Martin of St. Helier

Deputy K.C. Lewis of St. Saviour

Witnesses:

Senator P.F.C. Ozouf (The Minister for Economic Development)

Mr. M. De Forest-Brown

Deputy G.P. Southern of St. Helier (Chairman):

Welcome, Philip, to this session on Jersey Finance Limited. You are here with a long history of involvement with J.F.L. (Jersey Finance Limited) as a member of Finance and Economics in 2000, Industries Committee as well, a member of the Finance and Economics Committee in 2003 and now obviously as Minister for Economic Development you have had a great deal of involvement in the setting up and financing of J.F.L. So perhaps I can take you back to 2000 or thereabouts when Jersey Finance was being formed and perhaps you could start with how you saw Jersey Finance in its make up and in its financing.

Senator P.F.C. Ozouf (The Minister for Economic Development):

I reminded myself of some of the minutes of the committees between the then Industries Committee and the Finance and Economics Committee. The Industries Committee was started in 1999 and did not have any of the responsibilities of the financial services sector, that remained with F. and E. So as almost part of a learning experience for the new committee, which was very much starting out, we were involved in some discussions at a strategic level of where the Island was going and where financial services was going. So speaking just as a member of the former Industries Committee for a start, it was a fairly sort of low level of discussion at the time and I know that your panel's attention has been drawn to one particular minute

of July 2000 where there was a suggestion that in that minute you could potentially take the conclusion that Jersey Finance was going to be funded by purely subscription in the following years. I know the panel has focused on that. My recollection of that is that it was very clear that government had a responsibility and, indeed, an intention to fund promotion. At the time, going back to 1998, Edwards had effectively recommended that the J.F.S.C. (Jersey Financial Services Commission) no longer has within its remit the promotion responsibility of the financial services sector. I think that is absolutely right and that was accepted and the J.F.S.C. law was, of course, changed as a result of that. The question was posed: how are we going to promote? Clearly it is important to regulate but it is important to also promote. The discussions were -- I think it was the then Mr. Grime that offered services, retiring from Abacus as he did then, to put together some proposals to set up a body that would promote. The very innovative suggestion was that it would be funded in part by subscription but then also from the States.

Deputy G.P. Southern:

Certainly the minute of 12th July certainly indicates very clearly the Finance and Economics Committee had advised that the States would fund the initiative for the first year, then to be funded by subscription in subsequent years.

Senator P.F.C. Ozouf:

No, that is a minute of the Industries Committee.

Deputy G.P. Southern:

That is the Industries Committee?

Senator P.F.C. Ozouf:

Yes. There is a very important difference, Chairman, between the conclusions of the committee that was responsible for it and a committee that was really on the periphery of matters. I am not noted as being absent from that discussion and I do remember the paper that was discussed and I remember the discussion and it was always clear to me that there was a requirement for the States to fund on a continuing basis the work of promotion of the Jersey financial services sector.

Deputy G.P. Southern:

Okay, can I just take you to a meeting of --

Senator P.F.C. Ozouf:

So I would question just that stand alone 7-word sentence and would respectfully suggest that - or the second part of that sentence - that should not be interpreted as a government policy at the time, that it would be self funding because I was there and I was there on both of those committees. I was also on the Finance and Economics Committee.

Deputy G.P. Southern:

We have had this argument this morning with Maurice. He signed off the minute. The minute says that but I accept that your recollection is the context of the debate, the discussion around that, was different. I accept that.

Senator P.F.C. Ozouf:

So I would say, Chairman, it was never the intention for the States of Jersey to duck out of its responsibilities for promoting financial services. Everybody knew, all the time, for ever as far as I am concerned, that there would be a requirement for government to engage in promotion, for very good reasons which we will perhaps go on to discuss.

Deputy G.P. Southern:

Certainly. If I could just take you to the subsequent meeting of the Industries Committee where it says: "Initial funding would be provided through the Financial Services Commission."

Senator P.F.C. Ozouf:

Are you talking about the minute of 13th November?

Deputy G.P. Southern:

No, I am talking about Industries Committee, 26th July, second paragraph: "Initial funding would be provided through the Financial Services Commission." Now there has been some debate today over whether the initial funding for Jersey Finance was in

the form of a grant or whether it was seen as compensation for charges made through the J.F.S.C. or promotional activities, as soon as Edwards said you should not be promoting and regulating, transference of that to a new body, J.F.L., and whether it is seen as a recompense, if you like, a refund on fees paid. How do you view that? Do you have a view on that?

Senator P.F.C. Ozouf:

I think the industry regarded the J.F.S.C. was set up with a promotion responsibility and so I think I quite understand if industry people would say: “Some proportion of our fees is going into the promotion element of it.” So I think industry was perfectly right to represent that they expected that if the J.S.F.C. was not going to promote any more then by some means the Island would be promoting finance in an alternative way. I think it is somewhat academic to go through the issues of what is moving from J.F.S.C. to Finance and Economics by way of grant, et cetera.

Deputy G.P. Southern:

But whereas the industry might represent it that way was that the view of the Finance and Economics Committee at the time? Was that your view?

Senator P.F.C. Ozouf:

My view has always been that if we are to maintain Jersey’s financial services sector we need to promote it and we need to make an investment in order to ensure that that happens. I have to say I am very proud of the fact that in Jersey we also, unlike other jurisdictions, match some of that funding with industry. Many other jurisdictions do not do that and I think our model is a model which had been held up, and is being held up, by other places.

Deputy G.P. Southern:

Nonetheless, were you aware that the initial funding was a grant or was it a repayment of fees?

Senator P.F.C. Ozouf:

When you say “grant”, a grant to me means a one-off funding. Are you talking about an annual grant?

Deputy G.P. Southern:

We are talking about funding for the initial set up. Until J.F.L. was up and running it could not have subscriptions, this was funding towards the initial set up of J.F.L.

Senator P.F.C. Ozouf:

Seed corn funding.

Deputy G.P. Southern:

Initial funding, seed corn funding, if you like, yes. Did you see that as a grant?

Senator P.F.C. Ozouf:

The government was putting money into it in order to set up a promotion vehicle. Finance and Economics was putting money in to help set up the promotion vehicle and, in my view, with an ongoing expectation that funding would need to continue. But one has to almost go back to where we were in the Island in 2000, we were in a very different political climate, we were in a climate where committees were trying to cut back on expenditure and it was very difficult to get money for anything. There was a view, which I had and still have, that it is absolutely important that one does make an investment to secure the tax receipts for the financial services industry which goes to pay for running the Island's services. It was important, and still is important, that investment is made to secure and help secure the Jersey Financial Services sector. I would have put more money in if it would have been available at the time.

Deputy G.P. Southern:

Okay. The original funding as agreed by the Finance and Economics Committee on 13th November 2000 was for £150,000 and £500,000 respectively for the years 2000 and 2001. Thence ongoing funding - that was the initial set up, initial grant - 50/50 arrangement presently limited to an annual amount of £250,000 ongoing. Yes?

Senator P.F.C. Ozouf:

Yes. As I recall that funding came out of the general reserve, if I am right.

Deputy G.P. Southern:

I would imagine it did. It is not clear from the minutes: "Authorised the Treasurer of the States to write to the Director General in regard to unlocking those funds." I presume that is unlocking them from the general reserve.

Senator P.F.C. Ozouf:

So the general reserve was the only source of funds available to F. and E. to effectively fund this vehicle. The background to this is that the -- I will not say the storm clouds were gathering but this was at the beginning of quite a ... we knew that we were going to be going through a difficult period of time for the financial services industry. All sorts of pressures bubbling up, whether they be O.E.C.D. (Organisation for Economic Co-operation and Development) blacklists, E.U. (European Union), whether they be competitive pressures. We went on, of course, to see in the period of 2001 and 2002, 1,000 jobs being lost in finance. Some of this was expected.

Deputy G.P. Southern:

Right, the point being that funding was made available at the time without any partnership agreement or service level agreements with J.F.L. in place at that time?

Senator P.F.C. Ozouf:

It was clear what the money was going to achieve and there is a very clear understanding among the committees, both F. and E., P. and R. (Policy and Resources) and Industries where the money was going. Codes of Directions have been tightened, Code of Direction 27 - I think I am right in saying - was ushered in with the new system of ministerial government and the new finance law. So there has been a tightening of the procedures for all grant funding, not least of which of course recently with the lessons learnt with the Battles of Flowers, et cetera. So we now live, quite rightly so, in a much tighter world.

Deputy G.P. Southern:

I think you are referring to Code of Direction 26.

Senator P.F.C. Ozouf:

Sorry, yes.

Deputy G.P. Southern:

You are saying that was not in place at the time. We have tightened it up?

Senator P.F.C. Ozouf:

You would know when Code of Direction 26 came in. I cannot remember.

Deputy G.P. Southern:

I am afraid you assume a step too far. I do not know when it came in but your recollection is that that was not in place at the time?

Senator P.F.C. Ozouf:

Also this was obviously the early days of J.F.L. and we were in some ways finding our feet and establishing that we needed to find a solution to promotion. So some of these things were policy very much under development.

Deputy G.P. Southern:

Well, the money was not in development, the money was granted.

Senator P.F.C. Ozouf:

Yes, but on a very clear understanding of where that money was going. What was done, there was a constitution, there was a board, there was a trust that was set up that owned it, there was a board which had a political representative on it. Deputy Voisin was there.

Deputy G.P. Southern:

Nonetheless, when it came to 2003 and there was an internal audit run on the accountability of J.F.L. to then E.D.C. and the audit scored on a scale from one to 5, with one being poor, a score of 2 for accountability. Did that come as a surprise in 2003?

Senator P.F.C. Ozouf:

Chairman, you may recall that I was responsible for the Audit Department under Finance and Economics and I saw all audit reports and sat on the Audit Commission, so it was not a surprise to see, and the E.D.C. Committee at the time did absolutely

the right thing. As I recall, they invited the Audit Department to review the organisation and review the arrangements. I live in a world of an understanding of the need to constantly improve and constantly improve controls. You never stop. So it was absolutely right that 2 or 3 years after the creation of J.F.L., which had done a very successful job in that period, they had received more money, they were going to receive more money, that there should be an audit report called by the committee to ensure that best practice was being followed. I did not see that as a particular criticism. I have seen dozens of audit reports with recommendations, that is why you call auditors in.

Deputy G.P. Southern:

A score of 2 on a one to 5 scale is a criticism, surely?

Senator P.F.C. Ozouf:

The organisation was a new organisation and it was then up and running, it had a permanency about it.

Deputy G.P. Southern:

It is not for the J.F.L. to take that blame, it is surely for the Industries Committee of the day.

Senator P.F.C. Ozouf:

Economic Development Committee.

Deputy G.P. Southern:

Or Economic Development Committee as it turned into, once it had got responsibility back and it was for F. and E., in granting those initial grants, to have set up a system which would have resulted in a score greater than 2 surely, at the time?

Senator P.F.C. Ozouf:

But the communication between J.F.L. and the then Economic Development Committee was a good one and States Members have opportunities to understand what J.F.L. was doing. J.F.L. regularly invited States Members to briefings to understand what they were doing. There was absolute clarity. Is it good practice and

now a prerequisite that there should be service level agreements in place clearly documenting out responsibilities? Absolutely.

Deputy G.P. Southern:

But there was limited accountability as revealed by that score at the time?

Senator P.F.C. Ozouf:

So identified and corrective action taken.

Deputy G.P. Southern:

Eventually, yes. Right, I would just like to take you on to when Promoco was being debated, the precursor of what became Jersey Finance Limited. Certainly Mr. Dubras today was telling us it was initially envisaged rather broader than just Jersey Finance, it was promoting Jersey as a brand and could have incorporated tourism, could have incorporated agriculture. Did you see it that way at all? Did you see a broader remit for it or was it strictly Jersey Finance?

Senator P.F.C. Ozouf:

These are very much emerging ideas. We often have discussions on lots of things, like blue sky thinking. I would suggest that was blue sky thinking that it did not represent committee policy of the day but it was interesting committee thinking and indeed, looking back, reflecting on the fact now that we all agree that the Island should have a unified brand as a destination and the fact that we are now looking to use the good experience that we have had from with Jersey Finance to learn lessons and put a similar body in for Jersey Tourism. It could be described that that thinking was ahead of its time. But it certainly would not have been possible at that stage to create that sort of umbrella at that time. There is a separation. While we have a common brand, there are different skills required to developing Jersey's visitor economy with financial services. I do not know what your point is.

Deputy G.P. Southern:

My point was how was it conceived? What was envisaged for the scope of the promotion body because I want to explore what its scope is?

Senator P.F.C. Ozouf:

Promoco was blue sky thinking, nothing more than that.

Deputy G.P. Southern:

Jersey Finance then, can you tell me what you see as its role in promoting Jersey as a finance centre, is that it? Does it stop there?

Senator P.F.C. Ozouf:

Today or then?

Deputy G.P. Southern:

Today and then. Well, how did you see it when you were setting it up on industries and F. and E., what did you think you were setting up and what has it become now that you are responsible for it?

Senator P.F.C. Ozouf:

Are you asking me questions, by the way, as to today or from the historical aspect? Presumably you are going to invite me back about today.

Deputy G.P. Southern:

When you were setting it up what did you think you were setting up? What was the scope of its remit and, if it is appropriate, how has it developed until today when you are responsible for it?

Senator P.F.C. Ozouf:

It has obviously developed and is developing -- has developed quite substantially. There was a requirement to raise awareness of Jersey, raise awareness of the standards of regulation that happened in Jersey, the quality of the Financial Services Commission and their work, the quality of our laws, the quality of the judicial arrangements for disputes, et cetera, and there is a requirement initially to go and do some flag waving of Jersey in new jurisdictions. We have always wanted to extend the geographic reach of Jersey Finance and also the different constituent parts of Jersey Finance. The industry itself, some people describe it as sort of a one egg basket, it is anything but that. It is a whole series of different sectors. The

requirement for the banking sector can be quite different from trust and fiduciary or the funds area and we are constantly trying to stretch the geographic and product reach of the finance industry. Also Jersey Finance then obviously merged with F.I.A.C.(?) and have done and do excellent work in relation to responding to consultation that government is putting out for laws and also obviously the regulatory regime, et cetera. So it is a very broad set of responsibilities and is evolving to this day.

Deputy G.P. Southern:

The J.F.I.A. (Jersey Finance Industry Association) was originally set up as a broad trade group to represent the interests of its members and that has also been subsumed in J.F.L.

Senator P.F.C. Ozouf:

Very successfully.

Deputy G.P. Southern:

There you have a new area of responsibility acting in the interests of its members, do you not see that in terms of accountability, in terms of financing that particular activity, that there is a degree of overlap between a body which is responsible (a) to its members and (b) to the government for its financing, is there not a case there of serving 2 masters?

Senator P.F.C. Ozouf:

Not really because we are all trying to achieve the same aims. We are achieving the same aims of growing the economic contribution of the financial services industry in Jersey, protecting jobs, protecting tax revenues, creating economic wealth for the Island community. At the end of the day that is our common goal.

Deputy G.P. Southern:

There is no role for, if you like, lobbying government within that representative body?

Senator P.F.C. Ozouf:

I regard Jersey Finance as having -- they are a very useful sounding board and there is a lot of 2 way communication between the new department, Economic Development, and the Chief Minister's Department, et cetera, and the industry. It is a way of ensuring that we are well informed of trends of what is going on, what the requirements are, what the challenges are, what the regulatory issues are, what the competition is up to. The fact that we have got a board ... I have, of course, increased the board composition. Previously there was just a politician from the formal committees on there, since having agreed additional funding for Jersey Finance I have decided to put an additional representative on the board, namely formerly John Harris and then for a brief time Mike King and now Martin De Forest-Brown. It ensures that we are extremely joined up in the way in which we are promoting Jersey overseas, and indeed the Island. There is a responsibility for Jersey Finance developing the businesses of existing financial players but also seeking out new players. Jersey Finance have been extremely successful in the work that they have been doing in developing and identifying new players in the funds industry particularly, where they could sight a number of firms, a number of organisations, very valuable organisations that had been attracted to Jersey because of their own work.

Mr. M. De Forest-Brown:

Just one thing to add because it has not come up today and it might be useful for the committee to understand, is that after J.F.I.A. was subsumed within J.F.L. - your words - there is a separate body called F.I.A.C. that was established and continues, which is formed of a representative of each of the trade bodies. So there is one from the lawyers, one from the accountants, one from the bankers and so on. So a lot of what was transferred from J.F.I.A. to J.F.L. was the work, and particularly the consultation work, where the government or regulator was seeking input from industry which required a full time executive because it was so time consuming. To an extent the independence of the trade bodies is still preserved with the existence of F.I.A.C. and they meet monthly with the Chief Executive to make any particular points to J.F.L. that they feel may not be being considered at the current time. So a lot of the thinking time is still done without J.F.L., inside J.A.T.C.O. (Jersey Association of Trust Companies), J.B.A. (Jersey Bankers' Association) individual trade bodies

and then those thoughts are either brought together through F.I.A.C. or directly to J.F.L.

Deputy G.P. Southern:

So you are saying that the thinking goes on outside J.F.L., it is brought to J.F.L. and J.F.L. may or may not bring that to the attention of the next level, to government or to the regulator?

Senator P.F.C. Ozouf:

Yes, and we have got relations with -- I attend the Jersey Bankers' Association from time to time. I have meetings with J.A.T.C.O. from time to time, and the individual trade bodies, there is a sort of matrix of relationships. They have a relationship with government and the regulator too.

Deputy G.P. Southern:

Can I take you on to the current situation and building forward? We had the internal audit and the consequence of that was to devise - it took quite a while - a partnership agreement which satisfied the requirements for giving a grant to this body and for it to be properly accountable. We are undergoing a review at the moment, an internal review I believe, of Jersey Finance Limited. What would you see as the way forward? Are you happy that you have got the level of accountability and everything is working smoothly at the moment, or are there further requirements to make? How do you see it?

Senator P.F.C. Ozouf:

The world never stands still and so the partnership agreement that was signed in 2005 that is being reviewed and we have done quite a lot to review, effectively to further change the relationship between J.F.L. and E.D. I mentioned the additional person on the board, the way in which we go through our business planning process now, I think with the additional resources that J.F.L. have, requires another step up in terms of business planning. I have had a series of meetings with J.F.L. concerning their business plan for 2008. That will be signed off within the next couple of weeks with a very clear business plan of what activities J.F.L. will be doing, a very healthy debate between myself, my board representatives and the board itself regularly with the

Chief Executive, very clear accountabilities and very clear attempt to be able to -- this is very difficult but in order to measure the performance of J.F.L. in a much more meaningful way. So it is constantly changing and we are constantly raising the bar with J.F.L. and that is something that you would expect.

Deputy G.P. Southern:

Indeed, finding a way of measuring how effective promotion is is probably as long as a piece of string, it is one of those ...

Senator P.F.C. Ozouf:

It is but there are a number of measures that we can use. You can use the simple ones of funds under administration in Jersey, bank deposits, numbers of jobs being created, new lines of business, new arrivals in Jersey. I am seeing the sharp end of what goes on very much in the Regulations of Undertakings duties that I have. So I get a very good sense of whether or not J.F.L. is doing a good job just from a number of different measures. But there also needs to be a very clear reporting of those measurement results to the board and the board, I know, is undergone recently a review of the corporate governance arrangements and putting in place at the moment the business plan for 2008.

Deputy G.P. Southern:

If those measures are to be effective at all they must, I would have thought, been comparative. When the world market is going up, yes, jobs and funds are going up in Jersey. You must compare with rivals, if rivals are going down then that is a clear sign that what we are doing is right.

Senator P.F.C. Ozouf:

What is clear is that there are -- I think there were some important lessons that we learnt in the difficult period of 2001/2002/2003 when Jersey lost jobs, lost business and we saw difficult market conditions. When the markets are buoyant you cannot just sit and do nothing you have got to position the Island in terms of laws, in terms of tax arrangements and in terms of promotion in order to take as much of that upswing as possible and you will do a different strategy in a more challenging market.

Deputy G.P. Southern:

But, nonetheless, it seems almost inevitable that in terms of promotion and marketing that this band goes up whether the market is going up or the market is going down.

Senator P.F.C. Ozouf:

I would imagine if I had more, if I could argue for more resources around the Council of Ministers' table for promotion of financial services then I would spend more money on promoting because the more you promote the bigger the opportunities there are and, at the moment, there are a number of key -- the competition is getting ferocious, more ferocious than ever, and there are a number of key opportunities for Jersey. There is the emerging economies of India and China which require attention and require an investment by the Island in order to secure a position, certainly as far as new players are concerned. Hence you will see over the next 12 months a step up in activity in terms of promotion in other places, particularly India and China. Also Jersey Finance had almost done a job which really, frankly, I think we should have done in the States and that is to also do work to encourage young people of the opportunities that exist for jobs in finance. Some of those responsibilities are going to come back now to the States in terms of employment and careers, et cetera, with the setting up of the skills executive.

Deputy G.P. Southern:

That is the subject of a different issue. We will no doubt come back to that, as indeed we will in the New Year when we will be talking about the wider aspects and the future of J.F.L. with J.F.L. and possibly yourself.

Senator P.F.C. Ozouf:

Just so I understand, you are really scrutinising the political decision to continue to fund and to increase more funding. You are scrutinising me really on my decisions to increase the funding for J.F.L. and how I hold them to account and how that is measured?

Deputy G.P. Southern:

Indeed. Indeed.

Senator P.F.C. Ozouf:

So presumably I am going to need to come back to explain to what I have been doing?

Deputy G.P. Southern:

I would hope so, yes. When we have spoken to J.F.L. themselves as to how they see themselves developing. Judy?

Deputy J.A. Martin:

No, we are running out of time.

Deputy G.P. Southern:

Kevin?

Deputy K.C. Lewis:

No, I am fine.

Deputy G.P. Southern:

I am very aware of the time and I think probably we have exhausted this one, certainly from this morning, you are the fifth one in on this.

Senator P.F.C. Ozouf:

I know that Mr. Dubras asked for a chronology. I think that is because we all needed to be kind of reminded of the history and I think we have got some documents which we have done in terms of our preparation for you that you might be able to find useful, which we will submit in written form shortly.

Deputy G.P. Southern:

Thank you, we are done on that. Is Mike King coming in, did you say?

Senator P.F.C. Ozouf:

Yes.

Deputy G.P. Southern:

Would you like to give us a few minutes just to compose ourselves. Thank you.

