



## Corporate Services Scrutiny Panel

**MONDAY, 8th JUNE 2015**

**Panel:**

Deputy J.A.N. Le Fondré of St. Lawrence (Chairman)

Deputy S.M. Bree of St. Clement

Deputy K.C. Lewis of St. Saviour

Connétable C.H. Taylor of St. John

**Witnesses:**

Chairman, States of Jersey Development Company

Managing Director, States of Jersey Development Company

Finance Director, States of Jersey Development Company

Mr. R. Lewis, non-executive director, States of Jersey Development Company

Mr. P. Masterton, non-executive director, States of Jersey Development Company

Ms. A. Santry, non-executive director, States of Jersey Development Company

[14:31]

**Deputy J.A.N. Le Fondré of St. Lawrence (Chairman):**

Well, good afternoon. Thank you very much for coming here. We have a few points we just need to run through procedurally wise, et cetera. So, very quickly, are you strictly tied to the hour or if we overrun fractionally is that a problem if we need to.....?

**Chairman:**

We are okay until 4.00 p.m. on our side.

**Deputy J.A.N. Le Fondré:**

Okay, that is great. Thanks. Right, the public hearing was put in place before recent announcements. As you are aware, we try to operate in a public manner where possible but, as you are also aware, we do accept information on a confidential basis and we are sensitive to that and will continue to be so. So, as a public hearing we will expect transparency from you, but while you operate in a commercial environment I am sure you all fully understand your company's structure places responsibilities on you in this regard beyond those of privately owned businesses. However, the expectation of transparency and cooperation does not mean that we expect you to disclose particularly sensitive commercial information to us in a public forum. Should the need arise, we will allow you to provide that information to us separately but, please, expeditiously. All such information received will be handled by us in confidence in accordance with the procedures that all Scrutiny Panels are expected to adhere to and the undertakings we agreed with the Minister for Treasury and Resources as regards the receipt of the BNP Paribas real estate valuation of the J.I.F.C. (Jersey International Finance Centre) development. We will address our questions to you, Chairman, and possibly to Lee Henry and on that basis we will assume that you speak for the rest of the board in the answers that you give us. Right, so that is the main formal aspect, so to other bits and pieces. What I would just like to draw your attention to, Mr. Boleat and Mr. Henry, is the notice that is sitting between you, which I will just read out: "Scrutiny Panels. The proceedings of the panel are covered by parliamentary privilege through Article 34 of the States of Jersey Law 2005 and the States of Jersey (Powers, Privileges and Immunities) (Scrutiny Panels, Public Accounts Committee and Privileges and Procedures Committee) (Jersey) Regulations 2006 and witnesses are protected from being sued or prosecuted for anything said during hearings unless they say something they know to be untrue. This protection is given to witnesses to ensure they can speak freely and openly to the panel when giving evidence without fear of legal action, although the immunity should obviously not be abused by making unsubstantiated statements about third parties who have no right of reply. The panel would like you to bear this in mind when answering questions." There is also a notice I also draw members of the public to which is around the room, which is obviously that we do expect members of the public and the media in the public seating to remain quiet at all times while the hearing carries on. So, that is mainly the formal matters. We have quite a lot to go through today. We may stop you if we feel you have answered the questions sufficiently because we need to try and be as concise as possible. For the benefit of the tapes, if we can go round stating our name and position, I shall start. It is Deputy John Le Fondré, Chairman of the Corporate Services Scrutiny Panel.

**Deputy J.A.N. Le Fondré:**

Right, thank you very much. Welcome to the hearing. We have done the formalities. I shall now pass over to Simon to start the questions.

**Deputy S.M. Bree:**

First of all, thank you very much, ladies and gentlemen, for turning up this afternoon. The questions I am going to ask you hopefully will only require a yes or no answer to start with, so fairly easy ones to ease into it. Is it the board's intention to deliver the full master plan for the Esplanade Quarter?

**Chairman:**

It does not lend itself to a yes/no answer. The answer we are doing is operating entirely in accordance with the master plan. Any changes to the master plan are a matter for the States, so if the States change it we will operate in accordance with the master plan as changed by the States. But we are currently operating in accordance with the master plan.

**Deputy S.M. Bree:**

So your answer there is effectively neither yes nor no?

**Chairman:**

You said deliver the master plan. A master plan is not something that is delivered in that sense. It is a framework. Are we committed at this moment to building everything that was in the master plan? No, because one would only build if one is certain that it is sensible and viable to do so. But what I would say, again repeat, we are committed to operating entirely in accordance with the master plan, which of course we have to do anyway. Lee, if I can ask you to ...

**Managing Director:**

I think by phasing the delivery it became very clear that the previous developer could not deliver the scheme in one entire go. There just simply is not the demand for that volume of space, construction capacity, et cetera. So we revisited the scheme and assessed how it could be phased in compliance with the master plan in terms of where all the various uses are on the site. The car park area was identified as office use, purely office use, in the master plan and that was the first phase that we are bringing forward to deliver the scheme. As you may be aware, the neighbouring site where the majority of the area was to be residential in the second phase of the master plan is where the temporary car park is going to be relocated, so there will not be any loss of parking during the construction of the scheme. Again, that is a condition that has been put upon the company to ensure that there is no loss of parking.

**Deputy S.M. Bree:**

It was not actually the question I asked. I do wish to stop you there. We are trying to establish the board's intention in various areas, so if we can move on to the next question: one of the areas

within the master plan for the Esplanade Quarter is the winter gardens. Is it your intention to deliver those in accordance with the master plan?

**Managing Director:**

There was one winter garden within the master plan and that was on the western side of the site surrounded by residential development. Once the car park has been provided for within the finance centre scheme, that site is then available for residential development. That is our intention. However, you will be aware that that site is also at the moment being the subject of a review for a potential location for the hospital. So, therefore, while it may be our position - I think this is where Mark was coming from - that we would provide for residential use on that site, if the States has another proposal for that area ...

**Deputy S.M. Bree:**

So as it stands at the moment the answer to that is yes, effectively?

**Managing Director:**

Yes.

**Deputy S.M. Bree:**

Okay.

**Deputy J.A.N. Le Fondré:**

Can I just ask, sorry, almost to go back to the earlier question, is the caveat that was in place if the States decide to put the hospital there?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

If we take as of now, in other words there has not been any decisions that have changed the master plan, if we take as of now it is the board's intention to deliver the full master plan?

**Chairman:**

The master plan is something that would take 20 years to deliver, something like that. That is what master plans are. We are looking at the first phase of it and we are working in such a way that we are then able to deliver the rest of the master plan. However, we are very conscious that the States at any time may choose to review the master plan in the light of the experience with phase 1 and other pressures that the Island has to cope with.

**Deputy S.M. Bree:**

Okay.

**Deputy J.A.N. Le Fondré:**

Okay, no, that is helpful.

**Deputy S.M. Bree:**

So will you please confirm that as part of delivery of the master plan this will include the sinking of La Route de la Liberation in conjunction with phase 1 of the master plan for the Esplanade Quarter?

**Chairman:**

Phase 1 is the car park, the current car park site, on which we will deliver offices. That is a standalone phase that can be done. That will generate significant financial return to the Island and then at the moment the master plan requires the delivering of the road, but that is a matter for the States as to whether it wishes to use the return from phase 1 for that purpose. We are always a creature of the States. We are doing what the States set us up to do.

**Deputy S.M. Bree:**

Okay, let us move on then, if we may. Will you please confirm that it is the board's intention to deliver - "develop" if you want to call it - the full International Finance Centre as laid out in the master plan, ie all 6 buildings plus the underground car park?

**Managing Director:**

Subject to there being the necessary demand.

**Chairman:**

Yes.

**Deputy S.M. Bree:**

Okay. There also within the master plan is an area of public park within the area that is now known as the International Finance Centre. Will you confirm that as part of that development you will be delivering the public park area?

**Managing Director:**

Yes.

**Chairman:**

Yes.

**Deputy S.M. Bree:**

Okay, thank you. Will you also please confirm that that will include delivering the landscaping of the esplanade area that is included in that?

**Managing Director:**

Yes.

**Chairman:**

Yes.

**Deputy S.M. Bree:**

Okay. With regards to the sinking of the road, if I may just go back to it, obviously part of the overall master plan as envisaged by the States was the sinking of the road, which is obviously a fairly fundamental part of the overall master plan as opposed to individual phases of it. You mentioned that there is some question over whether or not you will be sinking the road, ie if it is the States' wishes. The States' wishes are detailed in the master plan, which includes sinking of the road. So you are intending to sink the road at the moment in accordance with States wishes?

**Chairman:**

We will do everything in accordance with States wishes, but States wishes tend to change from time to time.

**Deputy S.M. Bree:**

At the moment States wishes have not changed. The master plan still exists.

**Chairman:**

Yes, and as I said, to say we intend to, that would be putting it too far. We are able to deliver that and we are acting entirely in accordance with the master plan to do that. But to say we intend, at the moment we are looking forward 5 years to delivering the first phase on the car park. The board has spent no time looking at this because it has had no need to look at this. This is something for some years to come. The master plan is not a matter for us, it is a matter for the States, and if the States choose to review it we will obviously have some input into that in the light of the experience that we have had. But it is not a matter at the moment for us to consider because we are years away from being in any position to consider doing that. We will want to

complete phase 1 of the 6 office buildings, the public open space, which is about half the total area, and the underground car park.

**Deputy J.A.N. Le Fondré:**

So at this stage are you suggesting there is doubt as to whether you would bury the road or not?

**Chairman:**

I am saying it is not a matter for us. We have spent longer discussing this now than we have spent at the board since I have been on it because it is not a matter for us in the short term. The master plan I keep saying is for the States. It is not for us.

**Deputy J.A.N. Le Fondré:**

But the States have said ... as people have said, there have been various debates, et cetera, thus far about the thing, but having looked at the various propositions that have gone through, which is one of the jobs we have done, there is in terms of the master plan very little change. So the road in the master plan is still being buried according to the States' decisions. So on that basis ...

**Chairman:**

If that remains the intention of the States, then that is what we will do.

**Deputy J.A.N. Le Fondré:**

Right, and at the moment you are satisfied that the viability of the scheme is such that it will produce the funding to bury the road? Mr. Henry is nodding there.

**Managing Director:**

We have said that in our submissions to planning and possibly in some submissions to yourselves.

**Deputy J.A.N. Le Fondré:**

You stand by that still?

**Managing Director:**

Absolutely. By phasing the scheme, we are not preventing the lowering of the road. We can facilitate it at a future point in time. It would require, however, all 6 office buildings to have been delivered on the car park site in order for us to have the net receipt that we are estimating, projecting at £50 million. Where those buildings have been located does not prevent physically the future lowering of the road. It is then a decision ultimately for Government if it sought those finances for other things at that point in time.

**Deputy J.A.N. Le Fondré:**

Can I just pick up ... I think we are getting to the end of this particular section, but you made a comment earlier about subject to sufficient demand of the J.I.F.C. to deliver the 6 buildings.

[14:45]

At present, do you have sufficient indication that you will be completing the J.I.F.C. and that there is sufficient demand?

**Managing Director:**

We have put within our submission that we are in discussions with 13 on-Island businesses that collectively have requirements for 330,000 square feet over the next 5 years. The first phase is ... we are predicting it being a 10-year project so, all things being equal, we would envisage there to be that level of demand over that 10-year period and I think that is matched by a submission that you received from CBRE. So we do envisage there being that level of demand over that 10-year period for those buildings.

**Deputy J.A.N. Le Fondré:**

Okay, thank you.

**Deputy S.M. Bree:**

Sorry, if I may just pick up one comment you made there, you said you had - or you are in discussions, certainly - interest from 13 additional businesses, but you mentioned they were on-Island businesses.

**Managing Director:**

Existing, operating on Jersey.

**Deputy S.M. Bree:**

Okay. How much interest have you received from new business that would come into the Island should the finance centre be built?

**Managing Director:**

At this point the business that we were discussing with is now on-Island, but businesses that are looking to relocate to Jersey will be looking to do so within the next 6 months and they are only, therefore, going to look at propositions that are delivered within that timeframe and that is ...

**Deputy S.M. Bree:**

So of the 13 businesses, they are all on-Island, just to clarify that point?

**Managing Director:**

Yes.

**Deputy S.M. Bree:**

Thank you.

**Deputy J.A.N. Le Fondré:**

Right, Kevin, anything at the moment?

**Deputy K.C. Lewis:**

I would just like to ask about ... just going back to burying of the road very briefly, should the master plan not change, when would you envisage the road being buried: 10 years' time, 20, 30?

**Managing Director:**

Starting in 10 years' time. We have said that would be the start of the second phase.

**Deputy K.C. Lewis:**

Start of second phase, thank you.

**Deputy J.A.N. Le Fondré:**

Simon, anything else on that? Right, okay. You have publicly stated that the J.I.F.C. should deliver an estimated profit of ... I have £55 million down here but let us say plus or minus 10 per cent. Do you stand by that figure?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Good, okay. I think you have confirmed it: the projected completion date for the J.I.F.C. according to your data is about 10 years from now, just for the ...?

**Managing Director:**

Sorry, yes.

**Deputy J.A.N. Le Fondré:**

The microphones cannot see you nodding, I am afraid. Right. Other than the BNP Paribas real estate appraisal on which that figure is based, I presume, what other independent valuations or appraisals have you commissioned?

**Managing Director:**

All of our data is real live data, so we know what we are in discussions with tenants on from the rental perspective and we know what the build costs are from the negotiations we are having with contractors.

**Deputy J.A.N. Le Fondré:**

So, if you like, the foundation is you have the independent appraisal from your perspective of BNP and, if you like, you have built that up and are updating that on a modelling basis going forward, is that fair comment? Okay.

**Chairman:**

I would just add that we do have a board with some experience of property matters, particularly Roger and Ann, and it is not as if we simply wait to see what the experts say. We subject this to our own scrutiny. The last thing we would ever want to do as a board is to do something that does not make sense financially, so even if the valuation said something that was wonderful and everything else, if we did not believe it was doable we would not do it. I think, Roger, that is ...

**Mr. R. Lewis:**

Yes.

**Chairman:**

As you are the one who is the most ... **[Laughter]**

**Deputy J.A.N. Le Fondré:**

Okay. No, thank you for that. Again, this is just for the record: will you confirm that the BNP Paribas appraisal does not amount to a valuation undertaken in accordance with the RICS valuation standard, also known as the Red Book?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Thank you. Will you confirm that you are working on the principle that all cash receipts are used to fund subsequent constructions?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

On that basis, when is the States of Jersey to expect receipt of the projected profit figure of £55 million?

**Managing Director:**

Again, that depends on whether the States of Jersey wants to see the road lowered because that receipt will be used to fund the lowering of the road.

**Deputy J.A.N. Le Fondré:**

So if the ... right, so if the road is not to be buried, it would be in 10 years' time?

**Managing Director:**

No. You could have it ... the States of Jersey could have it sooner in phases as and when the buildings are sold.

**Chairman:**

Could I add that I think our accounts are consolidated still with the States so the money is in the States one way or another, however you look at it.

**Deputy J.A.N. Le Fondré:**

Well ...

**Chairman:**

No, well, it is not cash in the States but it is consolidated, you know.

**Deputy J.A.N. Le Fondré:**

I know from an accountancy point of view they are consolidated into the States, but yes.

**Chairman:**

Well, it is not just that. You know, the people of Jersey own the company, so whether the £50 million - assuming it is £50 million - in X years' time sits in our books or in the books of the States of Jersey, it is the same beneficial ownership.

**Deputy J.A.N. Le Fondré:**

I think the point is that if it is in Treasury's bank account now, the Minister for Treasury and Resources can write a cheque tomorrow, if you like, and spend it in theory. If it is in your books, in your accounts, at the moment you also have to declare a dividend. You also have to possibly change plans if you were banking on using that money for something else.

**Chairman:**

Yes, fair point.

**Deputy J.A.N. Le Fondré:**

Okay. So just to go back to the point, when according to your phasing plan, if you do not bury the road, could the States first receive some money from the scheme?

**Managing Director:**

Five years' time.

**Deputy J.A.N. Le Fondré:**

Okay. That leaves you sufficient money to fund the underground car parking and any of the public realm?

**Managing Director:**

I mean, we could ... yes. We would not be able to pass over all of the receipts from those first buildings, but we would be able to pass over some.

**Deputy J.A.N. Le Fondré:**

Is that more than half, more than a quarter? I am trying not to get too specific because I appreciate the sensitivities but I am trying to get a magnitude.

**Managing Director:**

I would say about half.

**Deputy J.A.N. Le Fondré:**

Right, okay. Just to return to the £55 million, is that at today's value or is it the actual figure that will be received at the time of future receipt?

**Managing Director:**

That is at time of future receipt.

**Deputy J.A.N. Le Fondré:**

Right, okay. So, if you like, it is £55 million in 5 years' time would be the cash figure?

**Managing Director:**

Mm.

**Deputy J.A.N. Le Fondré:**

Okay. Is the projected profit solely cash or is there non-cash value included?

**Managing Director:**

There is some non-cash value included ...

**Deputy J.A.N. Le Fondré:**

Okay, could you identify ...?

**Managing Director:**

... because you have the value of the public car park.

**Deputy J.A.N. Le Fondré:**

Is that the main or sole or the only other non-cash value item included in that?

**Managing Director:**

No, that is the only non-cash item.

**Deputy J.A.N. Le Fondré:**

Okay, and what value are you attributing to that?

**Managing Director:**

£10 million.

**Deputy J.A.N. Le Fondré:**

Okay. So, just to confirm, of the £55 million, 44 or 45 is cash, and this is obviously ... there will be variations in there, and the balance, the £10 million-ish, is the value of the car park?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Okay. Now, I think you have possibly covered this. You have confirmed the costs to bury the road, and this is on the assumption that nothing changes, so the plans that the States are setting down, which is possibly what one of the discussions is, is what was decided in 2008 and what was held out at the time.?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Where we are going on that to bury the road will be funded from the profits from phase 1, so the £55 million will go into the funding of the burying of the road. Now, sorry, I am just trying to ... does that cover all your costs or projection for burying the road? I presume you have some indication of what that might be?

**Managing Director:**

Well, no, we think it will be more than that. So there is then the development plots that are created above the road that is lowered that are, in effect, not existing today and those development plots will also aid that funding.

**Deputy J.A.N. Le Fondré:**

Okay. On the assumption that the road will be buried, presumably then there would not be any cash receipts coming to the States at the very least if the road was buried.

**Managing Director:**

Correct.

**Deputy J.A.N. Le Fondré:**

Presumably, you then have funding coming out of developments from phase 2, which will no doubt have to mitigate the extra costs of the road.

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

So then you are looking at a return out of phase 2 to come to the States?

**Managing Director:**

Correct.

**Deputy J.A.N. Le Fondré:**

Which potentially, to use Mr. Boleat's terminology, is going to be in about 20 years' time-ish?

**Managing Director:**

Yes.

**Chairman:**

Yes. We have not looked in detail at all, because there was no need for us to do so, to look at the cost of lowering the road. There would clearly be a very big decision. You would need a substantial return from what you could build on the bit of the road you have lowered and the rest of it. That is something that would need to be thoroughly looked at nearer the time.

**Deputy J.A.N. Le Fondré:**

Okay. I think I know the answer but I will just ask it for the record: have you commissioned any valuations for the wider master plan or Esplanade Quarter? No?

**Chairman:**

You are correct in your answer.

**Deputy J.A.N. Le Fondré:**

In my assumption. Okay. I am relatively happy. Kevin, do you have anything at this stage?

**Deputy K.C. Lewis:**

No.

**Deputy J.A.N. Le Fondré:**

Chris?

**The Connétable of St. John:**

No, no further questions other than ...

**Deputy J.A.N. Le Fondré:**

Simon?

**Deputy S.M. Bree:**

No, not at the moment.

**Deputy J.A.N. Le Fondré:**

Okay, on to Chris.

**The Connétable of St. John:**

Right, if we could move on to recent announcements of the pre-let agreements for building No. 4, on what date did you sign with UBS the heads of terms?

**Managing Director:**

The heads of terms were signed mid March. Sorry, I do not have a precise date. We can provide that to you subsequently.

**The Connétable of St. John:**

If you could, yes, thank you very much. Could you confirm on what date the binding pre-let agreement was signed with UBS?

**Managing Director:**

22nd May.

**The Connétable of St. John:**

Can you confirm the precise floor area that they are taking?

**Managing Director:**

16,350 square feet.

**The Connétable of St. John:**

Could you provide the panel with a copy of the legally binding pre-let agreement?

**Managing Director:**

No, sorry. I am sorry, we cannot do that. We are in a non-disclosure agreement under that legal agreement.

**The Connétable of St. John:**

So that is something we cannot scrutinise then?

**Managing Director:**

No.

**The Connétable of St. John:**

Can you confirm you have signed heads of terms with another potential tenant?

**Managing Director:**

Yes.

**The Connétable of St. John:**

Are you able to say roughly what square footage this might involve?

**Managing Director:**

5,000.

**Deputy J.A.N. Le Fondré:**

Could you just confirm what date you signed the heads of terms?

**Managing Director:**

I will need to get back to you with that.

**Deputy J.A.N. Le Fondré:**

Roughly?

**Managing Director:**

October last year.

**Deputy J.A.N. Le Fondré:**

Okay. Can I just ask on any of the heads of terms as opposed to the binding pre-lets did the heads of terms have any enforceable commitments contained within them?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Can you indicate the nature of those commitments?

**Managing Director:**

I mean, ultimately we have non-disclosure commitments in all of these documents which present us with difficulty in revealing any detail of their content.

**Deputy J.A.N. Le Fondré:**

Would they be commitments as to timing of agreements or would they be commitments to spend money?

**Managing Director:**

On the heads of terms there are commitments in terms of timing but those documents themselves ...on the first heads of terms they are not legally enforceable.

**Deputy J.A.N. Le Fondré:**

No, that is okay, that is what I was expecting. Sorry, there was a comment on the media from the Minister for Treasury and Resources which I just wanted to get some clarification on. Right. Do you have anything else there?

**The Connétable of St. John:**

No, I think that covers that.

**Deputy J.A.N. Le Fondré:**

Simon?

**Deputy S.M. Bree:**

Yes, I would just like to pick up, if I may, on the question of the board providing this panel with a copy of the legally binding pre-let agreement that you have signed with UBS and question a bit deeper on the reasons behind your refusal to provide it to us even under a confidentiality agreement, as is standard with Scrutiny Panel work. You are saying that you signed a pre-let agreement which included a non-disclosure agreement in it that you could not release a copy of that document to the shareholder of your company, is that correct?

**Managing Director:**

No, it is that we cannot release the detail of the document without their approval so ...

**Deputy S.M. Bree:**

Therefore, will you please then seek their approval to release a copy of that document to this Scrutiny Panel under a confidentiality agreement similar to the one that we received the BNP Paribas valuation?

**Managing Director:**

We can ask.

**Deputy S.M. Bree:**

So you are committing now publicly ...

**Managing Director:**

Yes.

**Deputy S.M. Bree:**

... to asking UBS for their permission to provide us with a copy as the shareholder of the States of Jersey Development Company?

**Managing Director:**

Well, with respect, you are not the shareholder of Jersey Development Company.

**Deputy S.M. Bree:**

Well, with respect, sir, the public of the Island of Jersey is the shareholder. The shareholder representative is the Minister for Treasury and Resources. Just to clarify that point, the public are the shareholder.

**Managing Director:**

But for governance purposes, all of our lines of communication, all of our obligations and protocols are through the Minister for Treasury and Resources.

[15:00]

**Deputy S.M. Bree:**

As the shareholder representative.

**Chairman:**

I think from our point of view we can only take on the legal documents in front of us. As far as we are concerned, the shareholder is the Minister for Treasury and Resources but that ...

**Deputy S.M. Bree:**

No, legally speaking, that is not correct.

**Chairman:**

Well, that is ...

**Deputy S.M. Bree:**

I think it is vitally important that that point is borne out in this public hearing that he is the shareholder representative. The shareholder is actually the public of the Island of Jersey and we as the Scrutiny Panel are requesting formally that you request UBS to provide us with their agreement for you to release that document, under confidentiality as normal scrutiny works, to us and we shall await your response on that. But obviously I believe it is vitally important for this panel to undertake its work correctly and that is a vital document for us to look at, so if we could ask you to do that as soon as practically possible. Thank you.

**Deputy J.A.N. Le Fondré:**

Okay. Simon?

**Deputy S.M. Bree:**

Other than that, no.

**Deputy J.A.N. Le Fondré:**

Kevin, over to you.

**Deputy K.C. Lewis:**

Okay. Construction of building 4, ie the first building, when is construction work to begin on building 4?

**Managing Director:**

The site is being handed over to the contractor on 22nd June.

**Deputy K.C. Lewis:**

22nd June. How long will it be until the building is ready to be occupied?

**Managing Director:**

The building will be occupiable by the end of February 2017.

**Deputy K.C. Lewis:**

2017. For the record, please, could you confirm the main contractor?

**Managing Director:**

Camerons.

**Deputy K.C. Lewis:**

When was the construction agreement signed with that contractor?

**Managing Director:**

29th.

**Deputy K.C. Lewis:**

29th?

**Managing Director:**

Of May.

**Deputy K.C. Lewis:**

Of May, thank you.

**Deputy S.M. Bree:**

That is this year?

**Managing Director:**

Yes.

**Deputy K.C. Lewis:**

2015. Can you confirm that you will provide us with a copy of that agreement?

**Managing Director:**

Again, that is a commercially sensitive document that we would need to seek Camerons' approval to.

**Deputy K.C. Lewis:**

You will undertake to do that as previously?

**Managing Director:**

Yes.

**Deputy S.M. Bree:**

So you are saying within the agreement that you have signed with the main contractor there is a non-disclosure clause?

**Managing Director:**

I need to check. There is a confidentiality clause.

**Deputy K.C. Lewis:**

Thank you. Prior to the signing of this agreement, had you entered into any agreement of any nature with this or any other contractor in relation to this site?

**Managing Director:**

Only for pre-enabling works.

**Deputy J.A.N. Le Fondré:**

Can you just establish who that contractor was and when it was signed up to?

**Managing Director:**

The main works were informing the temporary car park and that was with A1 Landscaping. That was end of last autumn.

**Deputy J.A.N. Le Fondré:**

Sorry, you signed the contract in autumn of last year?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

September/October time?

**Managing Director:**

Yes, I would need to check.

**Deputy J.A.N. Le Fondré:**

Can you? If you could send us the exact date, that would be helpful. That was the works that ... okay, so that was the temporary car park, okay. I have nothing particularly there. Chris, are you happy?

**The Connétable of St. John:**

No, I am ...

**Deputy J.A.N. Le Fondré:**

Kevin, you are happy? Simon? Right.

**Deputy S.M. Bree:**

We would like to ask you a few questions with regards to the financing of the construction of the first building to be built on this site. Purely for the record, can you confirm the identity of the lender for the construction of building 4, as it is?

**Managing Director:**

HSBC.

**Deputy S.M. Bree:**

What security is the lender requesting against providing such a facility to the States of Jersey Development Company?

**Managing Director:**

We have put in the plot of the building.

**Deputy S.M. Bree:**

So it is the only security they are requiring and you are providing is the plot on which building 4 will be built?

**Managing Director:**

For the construction of building 4, it is that plot together with our pre-development expense.

**Deputy S.M. Bree:**

Could you expand on that a little bit?

**Managing Director:**

So we have undertaken design work, planning application fees and the like for that particular site.

**Deputy S.M. Bree:**

How can your costs be given as security?

**Managing Director:**

It is part of our ... sorry, part of our equity contribution to the loan package.

**Deputy S.M. Bree:**

Okay. So just to clarify, it is that one single plot that is being provided as security?

**Managing Director:**

For the main build.

**Deputy S.M. Bree:**

For that building 4?

**Managing Director:**

For the main build. There are other aspects that are being provided for via another facility. So, for example, all of the landscaping that needs to be provided around the building, various incentives for the occupiers, and just in terms of the company's operations we have another facility that is going to be put in place.

**Deputy S.M. Bree:**

What security is being provided against that facility?

**Managing Director:**

I think we ... I think we would prefer to be disclosing those sorts of details to you in a more confidential manner.

**Deputy S.M. Bree:**

Okay. Well then, may we request that you do so under the, as we have stated, previous confidentiality agreement that we have agreed to with regards to the BNP Paribas real estate valuation? With regards to the security, can you confirm that it is a standard mortgage-type security charge they are taking, ie failure of the company to service the loan will result in the asset being seized by the lender?

**Managing Director:**

Yes.

**Deputy S.M. Bree:**

Now, could you please confirm also that the lender has undertaken its own Red Book valuation of building 4 to support the lending?

**Managing Director:**

Yes.

**Deputy S.M. Bree:**

Have you seen a copy of that valuation undertaken by HSBC?

**Managing Director:**

We have received a draft to date.

**Deputy S.M. Bree:**

So you have not seen a final version on which they have based their lending?

**Managing Director:**

Not at this exact moment in time, but we are expecting it this week.

**Deputy S.M. Bree:**

Are you expecting to? Okay. Can you confirm that, certainly the draft you have seen so far, that valuation is based solely on one tenant occupying building 4?

**Managing Director:**

Yes.

**Deputy S.M. Bree:**

Okay. When you receive that document, we would request once again sight of that under confidentiality agreement and we would be grateful if you would kindly provide it to us.

**Managing Director:**

We will need to clear that with HSBC.

**Deputy S.M. Bree:**

Yes, no, certainly, I understand that. You need to obviously speak to HSBC but I can see no reason why HSBC should refuse to allow us access to it. I would also ask: will you provide us with a copy of the facility letter or loan agreement entered into with HSBC giving full details of the terms of the facility arrangements and any and all security required? Will you provide us a copy of that?

**Managing Director:**

Subject to HSBC being comfortable with that arrangement.

**Deputy S.M. Bree:**

Once again, I can see absolutely no reason why HSBC should feel uncomfortable with that. With regards to the borrowing itself, just to understand a little bit more - and obviously I do appreciate that we are not going to ask you about interest rates or anything else; it is to understand the structure of the borrowing - what is the debt to value ratio that the bank is working on?

**Managing Director:**

Again, we would prefer to disclose that to you under any confidential session.

**Deputy S.M. Bree:**

Okay, fine, yes, if you can do. Perhaps then a more broader question: the borrowing that you are being provided by HSBC, does that borrowing equate to the full construction costs of building 4?

**Managing Director:**

It provides sufficient funding for delivering the building to the pre-lets required and, as I mentioned earlier, it excludes the external landscaping areas that we are funding through another source.

**Deputy S.M. Bree:**

No, the question I asked was: does the borrowing cover the full construction costs, ie if, say, the building were to cost £20 million, have you borrowed £20 million or are you funding part of it, ie providing a certain amount of equity upfront?

**Managing Director:**

The building will be built to a Category A fit-out on the pre-let floors and shell and core on the balance for the loan that we are taking out against the building.

**Deputy S.M. Bree:**

So your intention is not to fit out any of the floors that are not being covered by the pre-let agreement?

**Managing Director:**

Which is a standard position to ...

**Deputy S.M. Bree:**

No, merely to clarify in our own minds.

**Chairman:**

Obviously, when there are further pre-lets then you fit them out. What we are saying at present is that the financing covers what we are committed contractually to do with Camerons.

**Deputy J.A.N. Le Fondré:**

So, to clarify, the main loan that you are taking out on HSBC is a net loan, if you like? It is after allocation of cash that you presumably have in your bank account, which will cover some of the funding, and the balance of that loan is for what you have just described as the shell and core for building 4 and the Cat A fit-out on the one and a half floors or the 2 floors - I presume it is both floors - for UBS?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Can I just ask - I am interrupting Simon slightly - the Red Book valuation that was referred to earlier that you said has been done on building 4, does that cover just building 4 or does it cover the other facility?

**Managing Director:**

No, there were other valuations carried out on the other ... some other plots.

**Deputy J.A.N. Le Fondré:**

Right. Let us just stand back. Okay, in your phasing plans, phase 1A - and this is both the 2013 one and the 2015 one - is described as building 4, the car parking and the public realm. I will just refer to something if I can find the right bit. The public realm, which is the public space around the building and to the north, has been described as something that will set the precedent for the character and quality of development to be undertaken on the rest of the Esplanade. In other words, it is not just a couple of shrubs and planters, I would guess. Could you just describe to me or confirm to me that phase 1A in your terminology includes a 6-storey office building, including one level of basement parking and ramp access to Castle Street ... to confirm it you have to say "yes", I am afraid, because the microphones will not pick it up.

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Public space to the north described as I have just described it?

**Managing Director:**

That is funded out of the other facility, but yes.

**Deputy J.A.N. Le Fondré:**

That is phase 1A?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

The temporary car park to the southwest of La Route de la Liberation?

**Managing Director:**

That is being funded out of ...

**Deputy J.A.N. Le Fondré:**

Could you just confirm that is phase 1A?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

So the elements are the building, the basement parking, ramp access to Castle Street, public space to the north, temporary car park to the southwest?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

That is phase 1A?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

So the facility you have referred to in terms of the costs of construction does not cover all of phase 1A?

**Managing Director:**

No. So it does not cover the public car park, the temporary public car park, because we are able to fund public infrastructure out of cash reserves, and it does not cover the new areas of public realm that is being delivered as part of this building because, again, that is public infrastructure and that can be funded from other sources.

**Deputy J.A.N. Le Fondré:**

Okay. That is okay for the moment. Do you want to just go back? Have you got anything else at the moment? I want to just digest that for a moment.

**Deputy S.M. Bree:**

You say certain areas can be funded out of other sources, so other than borrowing, other than cash reserves, what are the other sources?

**Managing Director:**

Well, those are the 2 sources but what I am meaning is it is not subject to the pre-let requirement because it is public infrastructure. P.73 sets out public infrastructure as a separate line item over and above commercial development or residential development.

[15:15]

**Deputy J.A.N. Le Fondré:**

P.73 says the costs of construction of the first phase. You have just said that the first phase is phase 1A, which is included in the stuff I have just read out to you.

**Managing Director:**

We can split hairs but ...

**Deputy J.A.N. Le Fondré:**

Well, I was trying not to.

**Managing Director:**

P.73 that unfortunately I do not have in front of me today lists out, in terms of how development gets delivered, public infrastructure as something different to commercial development and, therefore, you can pick any sort of phase and there will be a ... as part of this scheme there is public infrastructure elements on every phase. It would not be appropriate to levy additional requirements when that goes over and above what P.73 set out.

**Deputy J.A.N. Le Fondré:**

I have not looked at infrastructure works, I will say that. The only bit I can see is that it says: "No infrastructure works will be procured until detailed planning permission has been received on vacated development sites and detailed financial appraisals support the development of the scheme. The S.o.J.D.C. (States of Jersey Development Company) will commission to procure the provision of the infrastructure in accordance with the S.o.J. (States of Jersey) Capital Project Procurement and Delivery procedures" but it does not necessarily ... I would be very interested to know if you can point me in the direction, not necessarily now, of page and paragraph as to where infrastructure costs can be split out from a phase on the basis they are all linked into a commercial development. I think the other point is, is that the temporary car park that you have constructed is surely a condition that the car park must at all times have a minimum of 500 or 520 spaces - I think it is, I cannot remember the exact numbers - and therefore you are obliged, as a result of the building you are constructing, to have a temporary car park to replace the spaces that you are losing when you build on that site. Perhaps you would like to come back to us when you consider that.

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

I think the other thing I would like to just establish is that you made reference to cat A fit-out. I can understand from a lender's perspective that if you reduce your costs to what it is practical at the moment and that is fine from a lending perspective, but from the rules that the States of Jersey laid down as a landowner before to mitigate risk it just makes reference to the costs of construction. So why is it appropriate in assessing the pre-let condition to exclude 4 floors of Cat A fit-out from your cost calculations?

**Managing Director:**

They are not excluded from our costs, they are physically delivered. What is not delivered is the floor, the ceiling within those units, because tenants coming along in the future may have certain requirements in terms of layout and the last thing they want to then incur is abortive costs having to move out, move around air conditioning units and lighting. So you work with tenants when they come on board. For example, you know, we are looking at delivering a turnkey provision for the first tenant to minimise the abortive cost that otherwise tenants incur when they take on space that has already been fitted out to Cat A.

**Deputy J.A.N. Le Fondré:**

Okay, I understand that but in your calculation of what construction costs are, have you included all the Cat A fit-out, even if it is not happening now, or have you only included 2 floors worth?

**Managing Director:**

Well, for our ...

**Deputy J.A.N. Le Fondré:**

Not for the lender, for meeting the rules that the States have laid down.

**Managing Director:**

Well, we have set out in our submission to the panel what we consider to be a sufficient legally binding pre-let. There is a letter in tonight's paper suggesting that because only 16,500 square feet has been let, the value is only attributable to that space that has been let. Unlet space has a value, it just has a different yield applied to it, and to suggest that unlet space has no value does not work.

**Deputy J.A.N. Le Fondré:**

Okay, what I will suggest, we have got another area ... I want to come back to that in a sec, but I think we will just finish the section we do want to finish off on, just to make sure we do not go off on a major tangent - when I say a major tangent, an important route. Simon, on the lending side, have you got anything else at the moment?

**Deputy S.M. Bree:**

Not at the moment, no.

**Deputy J.A.N. Le Fondré:**

Okay, Chris?

**The Connétable of St. John:**

No, not at the moment.

**Deputy J.A.N. Le Fondré:**

Kevin? Right, shall we go on to the next section then?

**Deputy S.M. Bree:**

I would like to move on to just talk about a couple of areas to do with shareholder instructions and political accountability. The then Minister for Treasury and Resources advised the States

Assembly that at a board meeting of the States of Jersey Development Company held on 3rd February 2014 at which he was present it was agreed that the development of the Jersey International Finance Centre buildings would only progress on a fully let basis. Will you confirm this meeting took place?

**Chairman:**

It would have been helpful to have had notice of that.

**Managing Director:**

We need to check dates. We have regular meetings with the shareholders. There could have been a meeting on that date. We would just need to check our diaries.

**Deputy S.M. Bree:**

I would have felt that the agreement that it would progress only on a fully let basis was something that might have stuck in your memory. But if you can, please confirm that that meeting did take place? Also I would ask you to confirm that the Minister's statement to the States Assembly on the following day, namely 4th February 2014, that - and I quote from Hansard - "I am absolutely clear with S.o.J.D.C., who I had a board meeting with my Assistant Minister and the Treasurer of the States yesterday, is that their buildings are to be progressed on a fully let basis in order to reduce the risk." My question to you is: was that statement a true and correct reflection of what was discussed at the meeting?

**Chairman:**

Again, you are asking us a matter that is properly asked to the Minister.

**Deputy S.M. Bree:**

No, gentlemen, you were present at the meeting as the board, I presume.

**Chairman:**

Again, if you had given us notice of that question we would have obviously looked at the board minutes and so on. We had no notice of the question. You can then argue what you mean by the words "fully let". It is clearly our intention that the buildings are fully let.

**Deputy S.M. Bree:**

That was not actually the question I asked. So allow me to move on. At the time what direction were you working towards with regards to the question of partially let, fully let, just to get a bit of an understanding of your views on how things were working at that time? Did you believe that the buildings were required to be fully let prior to construction?

**Managing Director:**

No, we believed that there needed to be a sufficient level of legally binding pre-let in accordance with P.73. At that time, however, we were in discussion with one particular tenant who was looking at taking an entire building. We were equally in discussions with a second tenant at that time that was only looking for a small part of building, both of which would have enabled those buildings to commence under the P.73 proposition that has been adopted by the States.

**Deputy S.M. Bree:**

With regards to the question of significant pre-lets to fund the construction, may I ask how you calculated funding of construction, because effectively are you talking about a facility where it is only an interest only repayment required or are you talking about facilities where there is both interest and capital to be repaid?

**Managing Director:**

In our letter of 27th February - and again this is a point that is not defined within P.73 - we said that we believe a sufficient level of legally binding pre-let will need to be (1) sufficient to secure that third party private finance for the construction of the building using only the pre-let and the land of that building and our pre-expended development costs as equity; (2) to cover the interest costs for that financing on practical completion and expiry of rent-free period; and (3) be sufficient so that if that building needed to be sold on practical completion with only that initial pre-let in place, that disposal value would exceed the debt taken out against that project, against that phase. So we were only looking at servicing the loan on an interest only basis.

**Deputy S.M. Bree:**

On an interest-only basis.

**Managing Director:**

Because our loans are only short term. So where we looking to hold this asset over a 15 or 20-year period then we would look for a different arrangement.

**Deputy S.M. Bree:**

So going back to my original question then, you can neither confirm nor deny that that meeting took place and you are willing to neither confirm nor deny that that statement was made at that meeting at this present point in time, is that correct?

**Managing Director:**

Yes.

**Deputy S.M. Bree:**

Can you, therefore, then please confirm in writing to this panel, as soon as practically possible, that that meeting took place, provide us copies of minutes of it and confirm that the statement made by the Minister to you and then reported to the States Assembly was correct?

**Chairman:**

First of all, I am not certain it was ... the Minister meets the board and sometimes the Minister is at the board and we will need to look at which it was. I very much doubt that we would have attempted to record verbatim what the Minister has said. I think that question has to be put to him. So I cannot undertake to provide you with something if it is not in the minutes.

**Deputy S.M. Bree:**

I would have felt that such a statement by the Minister was a very clear direction to the board as to what he expected of the board and what indeed the shareholders expect of the board, is to mitigate risk through a fully let basis. That is a fairly fundamental direction. I am highly surprised that you are saying you feel that is a question for us to put to the Minister.

**Chairman:**

I am sure a direction by the Minister would be put in writing to us.

**Deputy S.M. Bree:**

Then can you please confirm to us whether such direction was made, when it was made and provide us with a copy of it, please?

**Chairman:**

We will look at exactly what happened at that meeting. If you had given us notice this morning we would have been able to answer a bit more fully.

**Deputy S.M. Bree:**

I think that is all there is on that section.

**Deputy J.A.N. Le Fondré:**

All right, Chris. Sorry, having said all that, do you have any questions? Okay, so do you want to go on to ...?

**The Connétable of St. John:**

Yes, that is fine. If we just move on to a few issues that need clarification. Could you confirm that your accounts, last year's accounts, state that Harcourt have filed an action against the company?

**Managing Director:**

Yes.

**The Connétable of St. John:**

Yes, and this is still a live action?

**Managing Director:**

Yes, it has been ongoing for some time, since, I think, 2011.

**The Connétable of St. John:**

Could you also confirm that the architects, Hopkins, have an action against your company as well?

**Managing Director:**

Yes.

**The Connétable of St. John:**

Could you confirm the date of that, because it is not in last year's accounts?

**Managing Director:**

1st April that came through.

**Deputy J.A.N. Le Fondré:**

Of this year?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Okay.

**The Connétable of St. John:**

Are you able to confirm the amount that that claim is for from Hopkins Architects?

**Managing Director:**

It is in the public domain, the claim, and as is our answer to it.

**The Connétable of St. John:**

Yes, I think that covers that particular question.

**Deputy J.A.N. Le Fondré:**

Okay. Kevin?

**Deputy K.C. Lewis:**

Yes. Can you confirm that the buildings will be built to BREEAM (Building Research Establishment Environmental Assessment Methodology) Excellence standards?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Okay. Right, I would like to come back to the construction costs and the pre-lets issues essentially of the argument. So we have previously defined what you define as phase 1 and presumably you would confirm that that was therefore in your terminology the first phase of construction?

**Managing Director:**

Yes, accepting that that phase has needed to have some other elements to it. So it is not just ... you know, we had to deliver the public car parking in order to reduce the ... when the contract is signed to minimise the period for the overall construction of the building.

[15:30]

**Deputy J.A.N. Le Fondré:**

I have not looked up the definition of infrastructure for a while, I have to say, but I would have thought infrastructure works were a permanent undertaking whereas obviously this is notionally a temporary car park required as a result of a planning obligation effectively in relation to a commercial building that you are building. So have you had advice that actually splitting out and redefining the temporary car park as an infrastructure is appropriate? That has been agreed by Treasury, has it?

**Managing Director:**

Treasury were aware that we were undertaking the temporary car park as advance works as were the Regeneration Steering Group.

**Deputy J.A.N. Le Fondré:**

Okay, and they were aware that on that basis it is not being declared in your calculations relating to construction costs?

**Managing Director:**

Well, they were aware that those works were being undertaken before any pre-let was entered into.

**Deputy J.A.N. Le Fondré:**

They endorsed it?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Okay, does that mean the Regeneration Steering Group or the Minister for Treasury and Resources, or both?

**Managing Director:**

Certainly the Regeneration Steering Group knew that those works were taking place in advance.

**Deputy J.A.N. Le Fondré:**

When was that communicated to them?

**Managing Director:**

Again, I will need to check the minutes of those ...

**Deputy J.A.N. Le Fondré:**

I mean, this year or last year roughly?

**Managing Director:**

No, no, it would have been last autumn.

**Deputy J.A.N. Le Fondré:**

Okay, and ...

**Managing Director:**

Before the works were undertaken.

**Deputy J.A.N. Le Fondré:**

So that would have been the previous Minister for Treasury and Resources and the previous incumbents on the Regeneration Steering Group I presume?

**Managing Director:**

Probably. I will check the minutes and confirm that.

**Deputy J.A.N. Le Fondré:**

Okay. Perhaps again if you could check and perhaps you could send us the relevant documentation through. Okay, I am going to ask the question anyway because I think I need to get some clarity here. Can you confirm that the value of the pre-let in respect of UBS, which is for I believe 16,350 square feet, is equal to the costs of construction for the whole of the building and any public realm landscaping associated with that building, and I was going to say including that temporary car park because that is all defined as phase 1A? I am just bringing that together as ...

**Managing Director:**

Yes, and the balance of the building. The unlet space as well. The value of the unlet space and the let space.

**Deputy J.A.N. Le Fondré:**

Okay, we will come to that in a sec. But we are also talking about that the rent is effectively being used to cover the interest cost on the loan, is that correct, or is it covering the capital cost of the construction?

**Managing Director:**

No, covering the interest cost of the loan but post expiry of any incentives.

**Deputy J.A.N. Le Fondré:**

Any rent-free periods. Okay, from my perspective, and I will lay this out, I just want to again understand, we have got an equation, if you like, which the States set out which says the value of the pre-lets basically must equal or exceed the costs of construction of the first phase, do you accept that? Depending which page you are on, I am on page 14 and that is the proposition rather than the M.o.U. (Memorandum of Understanding) but the wording is the same.

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Okay, so on one side of that equation are the construction costs?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Okay, so let us break this down, you are confirming that they will include the cost of the ramp access, the basement marking and the main cost of the building?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

What you are saying is that those costs do not include the full Cat A fit-out of the building?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

So they do not include. So those costs include the Cat A costs for the first 2 floors? I presume it is not one and a half floors?

**Managing Director:**

I would need to check our figures, but I think it ...

**Deputy J.A.N. Le Fondré:**

Okay, if you could send that to us that would be helpful.

**Managing Director:**

Yes, assume it is 2 floors for the purpose of this inquiry.

**Deputy J.A.N. Le Fondré:**

Does it include professional fees?

**Managing Director:**

No, because we are not borrowing for those professional fees. Sorry, there is an element of professional fees, those that we have not spent yet seeing through the completion of the construction. I think about two-thirds of our professional fees have now been expended pre-development.

**Deputy J.A.N. Le Fondré:**

So the fact that you have spent them, if they relate to the construction, you are not including them in the costs of construction?

**Managing Director:**

Correct.

**Deputy J.A.N. Le Fondré:**

If you had agreed, and I am not asking you to say whether you have or not, to make any offer to contribute to Cat B fit-out, would that be included in the costs of the construction?

**Managing Director:**

I need to double check that. We can provide that to you separately.

**Deputy J.A.N. Le Fondré:**

Okay, that would be appreciated. To be clear, it is not including the costs of the temporary car parking and the public realm?

**Managing Director:**

Correct.

**Deputy J.A.N. Le Fondré:**

Okay. Now, on the other side of the equation is the value of the pre-let and it is my understanding the way the value of the pre-let would normally be calculated is the square footage of the lease times the rent per square foot, divided by yield, possibly adjusted for rent-free if there is any. We do not need to go into the rent-free side at the moment. Do you agree on that?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Right, so there is no figure included in the calculation of the value of the pre-let, for example, on that?

**Managing Director:**

Sorry, I do not follow your question.

**Deputy J.A.N. Le Fondré:**

We have got a 2-sided thing, we have got the cost of construction on one side and we have the value of the pre-let on the other side of the equation. Those 2 things have to be equal for you to proceed under the rules that the States have established. You said what is or is not in the costs of construction, that is that side for me - that side of the equation - and the other side of the equation is the value of the pre-let. You have just agreed that the value of the pre-let and how it is calculated is square footage times rent per square foot divided by yield, yes?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

There is nothing else in that calculation, for example you have not got any attribution of value for the land or anything along those lines?

**Managing Director:**

No, that is in the value of the building. It is already within that first calculation ...

**Deputy J.A.N. Le Fondré:**

That is in the value of the pre-let?

**Managing Director:**

Of the pre-let, yes.

**Deputy J.A.N. Le Fondré:**

Okay, is that the full value of the land or a proportion attributable to the pre-let?

**Managing Director:**

It would be a proportion for that pre-let if that is the way that ... we do not calculate it in that way. Basically you have got your value of your loan and the bank ...

**Deputy J.A.N. Le Fondré:**

Can I just make the distinction, sorry, we are not talking about the loan, we are talking about the rules that the States set down that construction cannot commence until ... so it is the pre-let to fund the costs of constructing the first phase of the scheme. So it is the costs of construction on the one side and the value of the pre-let is the rule that the States established. What the bank have agreed to lend you is different to what the landowner has set as a rule.

**Managing Director:**

Okay, so you have the costs of construction on the one side and you have the value of the building ...

**Deputy J.A.N. Le Fondré:**

Of the pre-let.

**Managing Director:**

... with that pre-let in it on the other side.

**Deputy J.A.N. Le Fondré:**

No, it says here: "The value of the pre-let to fund the costs of construction."

**Managing Director:**

Right.

**Deputy J.A.N. Le Fondré:**

So is the value of the pre-let, the 16,500 of UBS, at a certain rent divided by yield or is there some attribution for land in there as well?

**Managing Director:**

There is the value of the unlet space. We are trying to cover our risk here and this ...

**Deputy J.A.N. Le Fondré:**

No, what I am trying to focus on is the rule that the States led down is the value of the pre-let. If it is unlet there cannot be a pre-let attached to it so therefore that cannot be brought into the value surely?

**Managing Director:**

But there is value attached to that space?

**Deputy J.A.N. Le Fondré:**

No, but the value of the pre-let is what the rule is. If you have not got the space let out there is no pre-let attached to it surely?

**Managing Director:**

There is value still on that space.

**Deputy J.A.N. Le Fondré:**

But that is not what the rule says.

**Managing Director:**

That is what the Red Book valuation for the lender has confirmed.

**Deputy J.A.N. Le Fondré:**

But the owner has said it is the value of the pre-let.

**Chairman:**

The Minister has signed this off. We are getting into very technical things which is why the non-execs are looking ...

**Deputy J.A.N. Le Fondré:**

Well, they have gone a bit quiet.

**Chairman:**

Well, I think it is an important point.

**Deputy J.A.N. Le Fondré:**

It is a very important point.

**Chairman:**

You know we are concerned as the board collectively to deliver what the States has set us up to do and that will deliver a substantial return to the people of Jersey, not only the £50 million we have talked about but also a much better car park and significant amount of public realm. In doing that we are not as a board going to do anything that is not viable. Why should we individually? We have no wish to take any undue risks. So we do all the things a developer would do, something that Roger and Ann in the course of their business would do, and I have been on the board of a property company. Then you have got the bank which normally is going to be far tougher and the fact that the bank is prepared to lend at all is helpful. You then have imposed on us uniquely another set of requirements in the legislation and in the memorandum of understanding.

**Deputy J.A.N. Le Fondré:**

That is obviously what we are looking at.

**Chairman:**

Understandably that. All of which are designed to mitigate risk but actually the effect of them might not be to mitigate risk in the longer term but nevertheless we comply with them. We have absolutely no choice but to do so, even if we think some of them were a bit unhelpful in the longer term. We have done that. We take the necessary professional advice where we need to and the Minister has signed it off. Obviously there is scope to argue about whether within the strict letter it means this or that, we are satisfied that what we have done is entirely in accordance with the requirements on us. The Minister ...

**Deputy J.A.N. Le Fondré:**

Can I just clarify, sorry ...

**Chairman:**

Sorry.

**Deputy J.A.N. Le Fondré:**

That is okay. Which Minister signed it off?

**Chairman:**

The Minister for Treasury and Resources.

**Deputy J.A.N. Le Fondré:**

I gather that but ...

**Chairman:**

It is the Minister, the name is irrelevant to us, it is the Minister.

**Deputy J.A.N. Le Fondré:**

I accept the point. When was it signed off?

**Chairman:**

Earlier this year?

**Managing Director:**

October last year.

**Deputy J.A.N. Le Fondré:**

October last year. Is this tied into a decision that is dated, I think, 14th October 2014? There is a ministerial decision on site that confirms the funding for building 4 and so the terms and conditions will be laid out in that and that is what you are taking as the acceptance and the approval under the, if you like, sign off by the Minister?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Right, okay. So, in other words ... from your perspective that is fine, you said you have Treasury sign off. Well, we are just trying to establish as I said from the landowner's perspective how those sign offs have been applied.

**Chairman:**

Yes, understand.

**Deputy S.M. Bree:**

Sorry, if I can just ask a question here, just again for clarity's sake, with regards to any further building and looking at the pre-let agreement clause if you want to call it that, what is the current Minister's instructions to you on that?

**Chairman:**

As in the memorandum of understanding I would say.

**Deputy S.M. Bree:**

So to clarify, what are those instructions?

**Chairman:**

Well, the Minister has not issued instructions on what is a theoretical subject. Obviously we would like to let the rest of building 4 and we are looking at prospective tenants that will enable us to start other buildings and we would go through the same process again. We would have to for each building have the necessary level of pre-lets.

**Deputy S.M. Bree:**

To cover the costs of funding?

**Chairman:**

Exactly the same as we have done for this and we would go through the same process and we would need the same ministerial approval.

**Deputy S.M. Bree:**

So as far as you are concerned the shareholder instructions to the board are you merely have to get pre-lets in place to cover the cost of the funding of construction?

**Chairman:**

We refer to shareholder instructions; it is the memorandum of understanding that governs what we do. We would go to the Minister and say: "This is what we have done, this complies with the memorandum of understanding." The Minister obviously would look at it. He needs to satisfy himself that this is correct and we would give the approval. If he has any queries he would raise them with us.

**Deputy S.M. Bree:**

Okay.

**Deputy J.A.N. Le Fondré:**

Okay, hopefully an easy question.

**Chairman:**

Good. Well, they have not been too bad.

**Deputy J.A.N. Le Fondré:**

P.73 requires S.o.J.D.C. to provide funds for ongoing maintenance to the public realm. Does this get included in your appraisal of the scheme overall?

**Managing Director:**

Within the finance centre itself it is going to be the occupiers of those buildings that will be contributing towards that open space.

**Deputy J.A.N. Le Fondré:**

So there will be a service charge?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

That will cover maintenance of the park?

**Managing Director:**

Yes.

**Deputy J.A.N. Le Fondré:**

Also the underground car parking?

**Managing Director:**

Not the public underground car parking, but that is taken into account in that £10 million value.

**Deputy J.A.N. Le Fondré:**

Right, okay. Another question directed at you, Managing Director. I just want to get my head around the aspects of rent-free. It is my recollection - and maybe you can correct me one way or the other - that you have confirmed that the buildings would only be disposed of after any rent-free - I think you alluded to that earlier on this afternoon - and on that basis that any such incentives are, therefore, not relevant to any valuation that gets produced in terms of identifying the disposal value of the building. Is that correct?

**Managing Director:**

Well, I think the building will be valued at various points in time. So in our view, in order to maximise the returns for the public, we are recommending they get held until first review, which will be after the expiries of any rent-frees and the first reviews will be in place and it is at that point that we would look to dispose of those building.

**Deputy J.A.N. Le Fondré:**

So does that mean from your point of view that rent-free will not have an impact on the valuation of the building?

**Managing Director:**

It will have an impact on the Red Book valuation as at today because the bank will want to satisfy itself that, you know, if there was an exit needed immediately on completion of the building that they are going to have all of their costs recovered.

**Deputy J.A.N. Le Fondré:**

Will you have taken account of any rent-free periods in your calculation of the value of the pre-let?

**Managing Director:**

Yes.

[15:45]

**Deputy J.A.N. Le Fondré:**

All right. We are pretty much done, I think. Do you have anything?

**The Connétable of St. John:**

Yes, just one random question which I think we missed out earlier: can you confirm whether UBS has any options for additional space?

**Managing Director:**

Yes, I think we have done that, Connétable. Yes, they do have an option.

**The Connétable of St. John:**

They do have one. Are you able to tell us what the square footage is approximately?

**Managing Director:**

I think it is approximately 7,000 square feet.

**Deputy J.A.N. Le Fondré:**

But that is not confirmed as yet, it is an option?

**Managing Director:**

It is an option.

**Deputy J.A.N. Le Fondré:**

Yes. Kevin, have you got anything?

**Deputy K.C. Lewis:**

No, I am good.

**Deputy S.M. Bree:**

Just one question, and again it is probably my lack of knowledge of how these things work. During any rent-free period with the first tenant how are you intending to service the funding for construction?

**Managing Director:**

That is from our additional facility that we have spoken about, that we will provide you with further details on.

**Deputy S.M. Bree:**

Sorry, so you are borrowing money to pay back the interest on other money that you have borrowed?

**Managing Director:**

In essence, yes.

**Deputy S.M. Bree:**

So are both facilities from the same lender?

**Managing Director:**

Yes.

**Deputy S.M. Bree:**

What security is being offered on the second facility?

**Managing Director:**

I think we mentioned earlier that we will provide you that in a confidential briefing.

**Deputy S.M. Bree:**

So until the rent-free periods end you are borrowing money to pay interest on money you are borrowing? Just to get it straight in my head.

**Managing Director:**

Yes.

**Deputy S.M. Bree:**

Okay. An interesting way of doing business but there we go.

**Deputy J.A.N. Le Fondré:**

Right, are you nearly done?

**Deputy S.M. Bree:**

Yes, I am done.

**Deputy J.A.N. Le Fondré:**

Well, we have overrun by 15 minutes but that is not bad. I am going to call the hearing to a halt at that point and I will say thank you very much for coming to us. I appreciate there has been all sorts of media comments, et cetera, and there has been all sorts of delays for all sorts of reasons, but we are trying to do this relatively forensically and just understand and bring clarity to the process. So thank you very much for your time today and we obviously look forward to receiving the information we seek from you, hopefully with the permission of the various people you need to get permission from. We obviously may need you to come in front of us again, almost certainly once we have gone through some detail, but we will come back to you on that. We are trying now to move things forward as swiftly as we can. Thank you very much for your time.

**Deputy S.M. Bree:**

Thank you for your time.

**Chairman:**

Thank you for the way you have conducted this and we, as always, are very happy to meet you at any time and to co-operate in any way we can.

**Deputy J.A.N. Le Fondré:**

Thank you very much.

[15:47]