

STATES OF JERSEY



FUTURE HOSPITAL FUNDING STRATEGY (P.130/2016): THIRD AMENDMENT (P.130/2016 Amd.(3)) – ADDENDUM

**Presented to the States on 13th April 2017
by the Corporate Services Scrutiny Panel**

STATES GREFFE

ADDENDUM TO P.130/2016 Amd.(3)

Background

We lodged an Amendment ([P.130/2016 Amd.\(3\)](#)) on 4th April, setting out an alternative option for the funding of the Future Hospital other than that outlined in the original Proposition. This Addendum builds on that Amendment, following the provision of calculations by the Treasury Department and our wish to explain more fully the changes we propose to the original Proposition.

We have set out at the end of this Addendum a brief explanation as to the changes we propose within our Amendment. These largely focus on the removal of references to borrowing. We also decided that we could not at this time recommend the Annex to the Proposition, which sets out the details for the formation and use of the Hospital Construction Fund. Given our concerns regarding the control of contingencies, and that references to reporting requirements have been dropped in Treasury's most recent Amendment, we felt that this warrants greater consideration before being approved by the Assembly.

Whilst we originally lodged our Amendment containing our own estimated figures of £5–£7 million being needed to recapitalise the Strategic Reserve, we have since received a confirmed figure from the States Treasury, based on accurate calculations. These state that in fact only £4.2 million would be needed to be paid in annually.¹

Update

We have reviewed the funding mechanism proposed by the Minister for Treasury and Resources, namely a maximum expenditure of £466 million to be funded through the issue of a Bond of up to £400 million, and the repayment costs to be met from the Strategic Reserve Fund.

This review has found that, whilst the method proposed by the Minister is sound in structure, there were concerns surrounding the control of contingency and the possibility of the total £466 million becoming the targeted spending limit.

Following the discussion of these points with the Minister for Treasury and Resources, amendments were duly lodged by him which addressed some of these concerns. These are welcomed by the Panel.

We lodged our Amendment on 4th April due to concerns regarding the sensitivity of the funding model. In particular, these surround the ability to repay the Bond interest and the capital repayment, which relies on the investment returns on the Strategic Reserve. The review found that in the event of even a relatively minor change to the Island's finances (for example as a result of Brexit), the ability to repay could be put under great stress.

We highlight that the estimated returns on the Strategic Reserve used to budget for the Bond funding mechanism are based on historical returns. Caution must be taken when using historical figures in forecasting the financial outlook over the next 40 years and any associated fluctuations that could occur.

¹ These were received by the Panel in an e-mail dated 3rd April 2017.

Whilst the Treasury Department did model the use of the Strategic Reserve, we are not aware this included a repayment mechanism (in order to recapitalise the Reserve).

We propose the use of the Strategic Reserve to fund the hospital construction, and a mechanism to recapitalise the Fund. At its present value, calculations indicate that this method would require slightly more than a third of the available capital in the Reserve to be used, but without the need to enter into debt or to service that debt annually, for the next 40 years.

Following calculations performed at the behest of the Panel by the Treasury, it was identified that **£4.2 million**² would be required to be paid in to the Reserve annually, to bring it up to the same level as under the Minister's proposition (by the end of the Bond repayment period in 2060).

Our reason for this Amendment is to give States Members a choice between 2 funding mechanisms. One mechanism relies on borrowing externally, whilst the other utilises existing assets and commits to replenishing them. Both mechanisms would result in the same financial outlook by 2060, with the difference being in risk.

We agree that if borrowing is deemed the most suitable way to pay for the new hospital, then the Minister's proposal seems best-suited. However, we believe that borrowing at a time of great uncertainty is not in the Island's best interests.

Given that only minor downturns in the Island's financial income would make repayment of a Bond exceedingly difficult or impossible, as we are at the most uncertain period financially in over 70 years, there is an inevitable risk to borrowing externally. We feel that utilising the existing Reserve and then recapitalising is a more risk-averse approach.

NOTE:

The Panel note the comments released to States Members by the Minister for Treasury and Resources on the evening of 11th April and will address them, where appropriate, in due course.

² We note that this figure has marginally changed, following updated estimates provided to the Panel on 11th April, via e-mail. We are seeking clarification for the change, but do not deem it significant enough to affect the principles of our amendment.

EXPLANATION OF CHANGES MADE WITHIN 4TH APRIL AMENDMENT

1. PAGE 1, PARAGRAPH (b) –

This Amendment removes references to the existing Appendix, which sets out the terms of reference of the Hospital Construction Fund. In its place, it is proposed that this should be decided at a later date, after details of the proposed funding strategy are agreed.

2. PAGE 1, PARAGRAPH (c) –

This Amendment removes paragraph (c), which is the part of the proposition which gives approval to borrowing up to £400 million, which naturally would no longer be required under the panel's proposed funding strategy.

3. PAGE 1, PARAGRAPH (d)(i) –

This Amendment gives effect to the Proposal to use the Strategic Reserve to fund the hospital project and introduce a mechanism to recapitalise the Strategic Reserve.

4. PAGE 1, PARAGRAPH (d)(i) –

This is a consequential amendment which removes the reference to borrowing, whilst protecting the Strategic Reserve from further use.

5. PAGE 1, PARAGRAPH (d)(ii) –

This is a consequential amendment to remove paragraphs (d)(iii) and (d)(iv) which refer to borrowing.