STATES OF JERSEY

UPDATED DEBT FRAMEWORK

Presented to the States on 12th June 2023
by the Minister for Treasury and Resources

STATES GREFFE

Debt Framework - incorporating the Policy of the Council of Ministers on obtaining financing and the Debt Strategy of the Minister for Treasury and Resources

Financing Policy

Introduction

In compliance with Article 30(3) of the Public Finances (Jersey) Law 2019 ("the Law") the Minister for Treasury and Resources (the 'Minister') must present to the States a written statement of the policy of the Council of Ministers on obtaining financing (the 'Debt Policy').

As required by the Law this includes policy regarding the type and value of financing that might be included in a Government Plan without compromising sound fiscal and financial management principles; and the process by which the risks of such financing are assessed.

A notice of any amendments to the Debt Policy is required to be presented to the States as soon as practicable after they are made.

The Council of Ministers ('Council') recognises that financing may provide a valuable source of funding to assist the public administration in meeting its objectives. When considering financing, Council will ensure that all funding alternatives are fully considered.

For the purposes of this policy, financing is considered to be:

- Loans from external institutions
- The issuance of bonds
- Finance leases (not operating leases)
- Assignment of debt from a third party
- Sale and leaseback transactions

The Debt Policy applies to debt put forward for approval by the States Assembly. It is not designed to limit the Minister's ability to operate transitional debt arrangements (such as bank overdraft facilities and smaller short-term debt arrangements) as outlined in Article 26 of the Public Finances (Jersey) Law 2019. These transitional debt arrangements are designed to allow for the efficient management of the liquidity requirements of the States and not as a long-term funding solution.

Governance arrangements

To support the Debt Policy the Minister has published herein and will maintain a Debt Strategy. The Debt Policy and underlying Debt Strategy in combination form the Debt Framework governing how the States will manage debt issuance and monitor and oversee the total debt portfolio.

As a principles-based document, the Debt Policy is not expected to be re-issued annually but will be reviewed periodically to ensure it remains appropriate and up to date.

The Debt Strategy is expected to be reactive to changes to the States' economic position or outlook and the Minister will be required to review the content and present a revised document to the States at least annually.

Overarching Objectives

The objectives of the Debt Framework of the States are:

- to ensure the States' financing (borrowing) needs are met in a timely and cost-effective manner; and
- to minimise borrowing costs subject to a prudent degree of risk; and
- to ensure the States of Jersey's finances are sustainable in the long term.

All documents within the Debt Framework will seek to meet these objectives.

The Council of Ministers will generally seek to minimise borrowing levels but similarly does not endorse the view that an arbitrary maximum borrowing level should be set. In considering whether to propose borrowing, Council will consider the following principles:

a) **Strategic objective –** the purpose for which borrowing is to be used will be of strategic significance (see below).

b) **Amount** - the amount of borrowing will be limited to the maximum sum required.

c) **Need** - borrowing will be considered in the context of the States' ongoing financial sustainability, i.e. current and forecast revenues and investment levels and the ability to make repayments as and when due.

d) **Security** – borrowing will generally be undertaken on an unsecured basis.

e) **Covenants** – borrowing must not include covenants which impair or restrict the States' ability to function effectively or restricts access to assets or revenue.

f) **Term** – the period over which money is borrowed will be an approximate match to the purpose for which the money is borrowed or repayment can be achieved.

The Council of Ministers is committed to making the right decisions for the long-term sustainability of Jersey's public finances. Following these objectives will ensure prudent financial management and a fiscal policy which is fair across generations.

Financing included in a Government Plan

Financing (borrowing) is to be approved by Proposition of the States Assembly (currently a Government Plan). The Proposition will establish the maximum level of financing the Minister is authorised to draw down/issue. Included in the proposition for any new financing will be the purpose of the debt to be issued and the intended mechanism for servicing of costs and ultimate repayment.

Unless specifically identified within the Proposition the purpose of borrowing should be limited to the following:

- Capital Investment in public sector assets for a non-financial return, but which provide public services (e.g. a hospital)
- Capital Investment in public sector assets for a financial return (e.g. housing or office space), where an income stream is generated

- Temporary costs of the economic cycle, and in times of economic duress, through lower revenues and higher spending (e.g. passive fiscal stimulus through use of “automatic stabilisers” and exceptional costs associated with COVID-19)
- Active fiscal stimulus – Short-term, targeted, and timely, (e.g. financing the Fiscal Stimulus Fund)
- Deferral of income and cashflow, although potential losses and financing costs need to be identified

Responsibility for the issuance of the debt rests with the Minister and will be undertaken in compliance with the Debt Strategy.

The exact terms and type of debt issued to meet the approved financing will depend on market conditions at the date of issuance alongside independent advice received by the Minister. The precise debt structure/type cannot therefore be determined in advance with absolute certainty.

To ensure full transparency, once debt has been issued the Minister will update the Debt Strategy, including the structure of the newly issued debt and the repayment strategy.

Assessment of risk

There are a number of risks which must be assessed and monitored as part of the Debt Framework. The Debt Strategy includes an assessment of the key risks associated with the debt portfolio and determines the key monitoring metrics.

In managing and monitoring these risks, the Debt Strategy will include an assessment of key criteria against which the States financial position is being monitored.

The monitoring criteria should seek to capture both the strength of the current balance sheet, but also seek to identify trends which could indicate a need to reassess the long-term repayment plans for any debt issued.

The key objective of the risk assessment and monitoring processes is to identify whether remedial action is required for the States of Jersey to remain in a sound, sustainable and economically positive long-term position in compliance with the third of the stated Objectives.

Debt Strategy of the Minister for Treasury and Resources

Contents

1. Background

In considering the level of debt issuance and in line with many sovereign nations, the published Debt Strategy serves to ensure that both the level and rate of growth in public debt are on a sustainable path and that the debt can be serviced under a wide range of circumstances, including economic and financial stress, whilst meeting cost and risk objectives.

Sound risk management is essential given that public debt has the potential to generate risk to a nation's balance sheet and overall financial stability. The World Bank and International Monetary Fund have combined to produce well established guidelines for the creation of Debt Strategies and those guidelines form the basis of this document.

The approved Government Plan 2023-26 ('2023-26 GP') lays out the Council of Ministers approved borrowing. Debt is approved for three objectives, the funding of the Healthcare Facilities, the refinancing of pension liabilities and for construction of social housing.

In line with these approved objectives, two bonds have been issued: £250m in 2014, due for repayment in 2054; £500 million in 2022, due for repayment in 2052. A £500 million revolving credit facility was put into place in 2020 The facility is due to expire in 2023 and is being replaced.

Over the course of 2022, of the £500 million bond issued, £477 million was applied to fully repay two existing pension liabilities – one to the Public Employees Contributory Retirement Scheme (PECRS) and a second to the Jersey Teachers Superannuation Fund (JTSF). The refinancing exchanged one liability for another and achieved substantial saving to taxpayers in the long-term. The remaining £23 million was applied to fund expenditure on Healthcare Facilities.

Following the refinancing of the pre-existing past-service pension liabilities, a separate head of expenditure to meet the interest cost of the bond issued has been created, with the budgets previously used to service the liabilities transferred from Children, Young People, Education and Skills (CYPES) and Treasury and Exchequer (T&E). In addition, transfers to the Strategic Reserve to form a sinking fund for the eventual repayment of the bond were approved in the 2023-26 GP.

These budgets will be re-allocated and be used to service the borrowing, including paying the coupon (interest) and making transfers into the Strategic Reserve as part of a sinking fund mechanism. These contributions, combined with investment returns are intended to build sufficient funds to repay the issued debt at maturity.

The £250 million bond issued in 2014 was paid into the Housing Development Fund and loaned to Social Housing providers for the purpose of construction and renovation of social housing. The interest from these loans services the bond coupon, and capital repayments, currently recycled into new projects, are planned at the repayment stage of the program in order to to repay the debt.

In 2020, the Minister for Treasury and Resources put in place a Revolving Credit Facility (RCF) of up to £500 million to cover the costs of the COVID-19 pandemic. COVID related financing was fully repaid at the end of 2022.

2. Introduction

This strategy document is presented by the Minister for Treasury and Resources (the 'Minister') and outlines how the debt programme of the States of Jersey ('States', 'GoJ', 'Government') is to be managed.

The States currently has long-term fixed-rate debt in place to fund its Social Housing programme and to fund the refinancing of Pension Liabilties. Short-term facilities are in place to fund expenditure on healthcare facilities.

This document summarises the strategies to enact, control and monitor the GoJ debt programme and provides the framework within which the debt management programme will be operated. The framework is intended to include the ongoing issuance programme, arrangements for the servicing of debt, monitoring of the overall debt position and the long-term strategy for repayment of GoJ debt.

The strategy reflects the long-term plans for managing the GoJ debt programme, but also provides the flexibility to transparently adapt plans in reaction to market conditions and the financial position of the GoJ.

The Debt Strategy applies to debt as approved by the States Assembly. It is not designed to limit the Minister's ability to operate transitional debt arrangements (bank overdraft facilities and minor borrowings) as outlined in Article 26 of the Public Finances (Jersey) Law 2019. These powers are intended to facilitate efficient management of the GoJ balance sheet rather than provide a source of long-term funding.

This document also outlines the relationship with the Government's Investment Strategy document, already published annually by the Minister. Debt issued can result in significant cash injections into the investment portfolio which will need to be effectively managed, until utilised for the purposes for which the debt was issued. Where long-term investment returns are intended to be used to meet debt repayments it is intended that the Debt Strategy will define the source of capital allocated to this purpose and the long-term return objective required to meet repayment requirements; while the Investment Strategy will define the investment strategy and asset mix designed to meet the defined requirements. Where alternative funding arrangements have been identified for either the payment of debt servicing costs or capital repayment, these should be defined in the Debt Strategy or the Proposition approving the borrowing.

The main reason for separating the Debt and Investment Strategies is to allow the investment strategy to react to short-term market conditions and effectively manage the portfolio which is expected to be subject to market shocks or opportunities, while the Debt Strategy will focus on initial issuance, funding sources and delivery of the long-term 'glide path' to repayment.

Each of the following sections provides an overview of the more detailed content included in the corresponding appendices.

This update to the Framework reflects the financing approvals contained within the Government Plan 2023-26, the latest economic data releases and assumptions.

3. Economic Assumptions

The Debt Strategy document seeks to define the States' approach to debt management which is designed to operate over a long-term (40-year) time horizon.

In combination the Debt and Investment Strategies seek to deliver a sustainable capital structure to meet the Island's needs whilst minimising the total funding costs over the medium to long-term, consistent with a prudent degree of risk, but at the same time retaining flexibility to react to unknown future events.

The long-term time horizon of the Debt Strategy, the issuance of debt and preservation of reserves maintains GoJ's ability to react to short-term economic shocks. Furthermore, diversification between funding sources can have beneficial consequences for the GoJ total portfolio (for example higher levels of inflation might be detrimental to certain investment assets but may also erode the real value of debt).

This update to the Debt Strategy includes updates for long-term debt issued in 2022 applied primarily to refinancing existing past service pension liabilities and ongoing work on the development of the financing strategy for future healthcare facilities

Capital markets have experienced increased levels of volatility over 2022 stemming from increased inflation expectations and central bank action, geopolitical events, namely the war in Ukraine, and disruption to the UK Government Bond market following the "mini" Budget from the Truss Government. This volatility continues to be felt in 2023.

Future debt issuance is subject to greater than normal levels of uncertainty reflecting these market conditions. The attractiveness of issuances is dependent on factors such as the credit rating of Jersey and the appetite of investors, but also on expectations of long term inflation and interest rates.

Any issuance of debt is likely to put downward pressure on credit ratings, though this is dependent on a wide number of factors including economic outlook and the net asset position of the States of Jersey as assessed by rating agencies and independently by potential investors. The purpose of debt issuance is also a relevant factor and may be seen positively by the market if for example it reduces anticipated future costs.

Fiscal Policy Panel (FPP) Updated assumptions:

The most recent Fiscal Policy Panel assumptions were provided in March 2023, their full report is published online.

FPP noted the global outlook may have improved slightly since their 2022 Annual Report, but that global growth remained weak. The Panel remained cognisant of the ensuing uncertainty around the global economy and the challenges this might bring in forecasting Jersey's economic path in the near term.

They also highlighted that Jersey's economy was currently operating above capacity with data suggesting a growing economy but a tight labour market.

Key economic indicators included:

• House prices rose by 11% in 2022 (compared to 2021). This meant the price of a median house increased by £100,000. The number of transactions fell by 13% from a record high in 2021.

• Registered unemployment remains low at 670 in December 2022, with a majority of sectors reporting vacancies or difficulties in filling vacancies.

• Average earnings were 6.2% higher in June 2022 than the year before.

• The Business Tendency Survey indicated overall positive current and future business activity for the economy throughout 2022; in particular, strong profitability was shown for the financial services sector, with future business activity and employment also optimistic. However, the disaggregated results for the non-finance economy are less positive, with weakened current and future business activity noted in December 2022. Input costs remained high throughout the economy – a sign of the inflationary pressures experienced in 2022.

Growth is expected to continue in 2023 with some pressures on non-finance sectors.

The Minister requested FPP consider the extent to which borrowing should be reduced or minimised, as an alternative to rebuilding the Stabilisation Fund or Strategic Reserve.

Short-term borrowing can result in refinancing pressures at times when the economy is weak, exacerbating pressure on the economy (it can be a ‘pro-cyclical’ force). The Panel recommended surpluses are used to reduce outstanding short-term borrowing.

When considering long-term borrowing the key factors FPP recommended be considered inlcuded the likely cost of new borrowing, as compared with the projected returns on Jersey’s investments. The latter are of course highly uncertain in the short-term – but may be somewhat more predictable over longer periods. In addition, FPP noted having outstanding debt offers Jersey optionality, and contacts with market participants. For this reason, FPP noted it was not clear that the priority use for surpluses should be reducing long-term debt, rather than building up the reserves. Nor did they note any inconsistency between having outstanding debt at the same time as Jersey holds various reserve accounts.

Future updates to the Debt Strategy will incorporate the most recent views of the FPP and other sources of expert advice, this will be vital in ensuring our long-term plans remain valid or highlight the need for mitigating action.

4. Overarching Policies

Several overarching policies will apply to the Government’s debt programme, if not superseded by specific arrangements or legislation. These identify the governance arrangements and responsibilities for oversight of the debt and define the high-level principles which are to be applied.

4.1. Governance Arrangements

The Minister is responsible for the development of a Debt Strategy, including a written statement of the policy of the Council of Ministers, written in compliance with Article 30 (3) of the Public Finances (Jersey) Law 2019, outlining how the States will issue and manage debt within limits approved by the States Assembly. The Minister will review the Debt Strategy at least annually.

The Debt Strategy applies to long-term debt as approved by the States Assembly. It is not designed to limit the Minister’s ability to operate transitional debt arrangements as outlined in Article 26 of the Public Finances (Jersey) Law 2019. These transitional debt arrangements are designed to allow for the efficient management of the liquidity requirements of the GoJ and not as a long-term funding solution.

The Treasurer of the States (the 'Treasurer') is responsible for ensuring that the issuance of any debt is properly managed, controlled and accounted for in accordance with the Debt Strategy and the Public Finances Manual.

Decisions on the debt management policy are taken in advance to achieve the debt management objectives. The Treasurer will seek appropriate advice to assess the costs and risks associated with different possible patterns of debt issuance, considering the most up-to-date information on market conditions, including demand for debt.

The Minister and Treasurer have a range of powers and responsibilities provided for through the Public Finances (Jersey) Law 2019. The Treasury Advisory Panel ('TAP') is established by the Minister to provide advice on discharging these responsibilities and exercising relevant powers.

The full duties and responsibilities of the TAP are detailed within their Terms of Reference which are available online.

4.2. Political approval for debt

The incurrence of debt is approved by the States Assembly. The Proposition will establish the maximum level of financing that may be drawn down/ issued, the purpose of the financing as well as the intended mechanism for servicing of costs and ultimate repayment.

Unless specifically identified within the proposition the purpose of borrowing should be limited to the following purposes, as determined in the Debt Policy:

- Capital Investment in public sector assets for a non-financial return, but which provide public services (e.g. a hospital or school)
- Capital Investment in public sector assets for a financial return (e.g. housing or office space), where an income stream is generated
- Temporary costs of the economic cycle, and in times of economic duress, through lower revenues and higher spending (e.g. passive fiscal stimulus through use of "automatic stabilisers" and exceptional costs associated with COVID-19)
- Active fiscal stimulus – Short-term, targeted, and timely, (e.g. financing the Fiscal Stimulus Fund)
- Deferral of income and cashflow, although potential losses and financing costs need to be identified, Alternatively overdraft facilities can be used.

Any Proposition to issue new debt will prompt an update of the Debt Strategy to ensure full transparency and for the impact of the new issuance to be considered in the context of the debt programme as whole. When considering the issuance of debt, the costs and risks associated with different possible patterns of debt issuance, need to be considered along with the most up-to-date information on market conditions and demand for debt instruments.

Guidance about the likely term and structure of debt issuance will support any Proposition to approve such debt. In determining the overall structure of financing the

Government assesses the costs and risks of debt issuance by maturity and type of instrument. Decisions on the composition of debt issuance are also informed by an assessment of investor demand for debt instruments by maturity and type as reported by stakeholders as well as the principles contained in the Council of Ministers' policy on financing. Alongside these considerations, the Government will consider the practical implications of issuance.

The objective of the Debt Strategy is to manage the GoJ debt programme to raise the approved amount of funding at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk. Minimising cost, while ignoring risk, is not an objective. Transactions that appear to lower debt servicing costs may embody significant risks for Government. Managing cost and risk therefore involves a trade-off. Judgments will have to be made based on the risk tolerance of the government, keeping in view other policy objectives. For example, it may be economically prudent to arrange a facility that meets GoJ's anticipated borrowing needs over several years as opposed to arranging new facilities on an annual basis, notwithstanding that some or all of the facility may remain unused where the facility amount exceeds the relevant current financing approval.

Any debt issuance programme will face a trade-off between short-term and long-term costs that should be managed prudently. For example, excessive reliance on short-term or floating rate debt to take advantage of lower short-term interest rates may leave GoJ vulnerable to volatile and possibly increasing debt service costs if interest rates increase, and even the risk of default in the event that a government cannot refinance its debts at any cost.

In issuing debt, the responsibility for ensuring procedures within the Public Finances Manual are adhered to rests with the Treasury & Exchequer.

4.3. Debt principles

The objective of the Debt Strategy is to manage the GoJ debt programme to raise the approved amount of funding at the lowest possible cost over the medium to long-term, consistent with a prudent degree of risk. At a minimum risk should be considered in terms of maturity, currency, or interest rate composition and assessed in relation to the overall GoJ balance sheet. Risk is assessed more fully in the risk section of this document.

The risks inherent in the Government's debt structure will be carefully monitored and evaluated. These risks should be mitigated to the extent feasible, considering the cost of doing so and Government's appetite for risk.

The Debt Strategy seeks to ensure that the level of public debt is on a sustainable path and that the debt can be serviced under a wide range of circumstances, including economic and financial market stress, while meeting cost and risk objectives. The Debt Strategy aims to be flexible in the face of a wide range of risks.

The debt strategy is split into three sections:

- Issuance - the process for issuing debt
- Operation - the strategy for meeting the ongoing cost of debt and the repayment of debt
- Monitoring - the process for monitoring the net asset position of GoJ.

Debt should be considered relative to current asset positions with a view to ensuring a minimum coverage ratio of assets to liabilities is maintained.

It is necessary to consider the net asset position of the GoJ in the current economic environment but also on a forward-looking basis to support the identification of long term trends with sufficient notice so that any necessary corrective action can be taken over an appropriate timescale. Regular modelling will be conducted using a range of possible economic scenarios to identify potential risks over a long-term time horizon.

The fixed value of debt (in nominal terms) and variable value of investment assets increases the importance of careful stress testing of the net asset position of GoJ to ensure that the balance sheet is robust enough to provide flexibility of policy choices in the event of short-term economic shocks.

Debt should be structured so to spread maturity dates over an appropriate timescale. This ensures significant cash flows do not coincide with unanticipated periods of market stress, ensures refinancing risk is mitigated, should GoJ seek to refinance borrowing and improves investor appetite.

GoJ will remain cognisant of any debt issued by States-owned entities, but these are outside the scope of the GoJ Debt Strategy, unless that debt is directly guaranteed by GoJ. At the present time no debt procured by States-owned entities is guaranteed by Government.

5. Risks associated with debt

The main risks impacting the GoJ Debt Strategy relate to market risk, which includes interest rate risk and exchange rate risk, refinancing risk, liquidity risk, credit risk, and operational risk.

The risk exposures are determined by the composition of the debt portfolio, including the share of short-term debt versus longer-term debt, the variable interest rate debt relative to fixed rate debt, and debt denominated in foreign currency.

The degree to which the GoJ is exposed to risk may vary from time to time depending on the size of the debt portfolio relative to GoJ's assets and Jersey's vulnerability to economic shocks. In general, the larger the debt portfolio the higher the vulnerability to economic shock which will place a greater emphasis on reducing risks rather than costs.

RISK	DESCRIPTION	MITIGATION
Market risk	The risk of increases in the cost of the debt arising from changes in market variables, such as interest rates and exchange rates.	The impact of changes in interest rates can be mitigated by implementing hedging arrangements if considered appropriate
Execution risk	The risk that the government is not able to issue the offered amount of debt or must sell it at a large discount to the market price.	This is a risk at issuance which is managed through close monitoring of market conditions at execution and use of professional bookrunners to reduce risk as far as is possible

Interest rate risk (pre-debt issuance)	The risk of increases in the cost of debt arising from changes in interest rates before debt is issued.	Regular market monitoring by GoJ and debt advisors and the setting of an acceptable cost ceiling prior to debt issuance. Once approval is obtained consideration could be given to the use of hedging instruments to further manage this risk. See statement on hedging beneath this table.
Interest rate risk (post-debt issuance)	The risk of increases in the cost of debt arising from changes in interest rates. Changes in interest rates can affect debt servicing costs and is particularly relevant to floating-rate debt which would see costs rise in an increasing rate environment.	Debt issuance will be on a fixed rate basis wherever possible, this provides a fixed cost over the full term of the borrowing. Once approval is obtained consideration could be given to the use of hedging instruments to further manage this risk. See statement on hedging beneath this table.
Exchange rate risk	The risk of increases in the cost of foreign denominated debt arising from changes in exchange rates.	The GoJ's main income and expenditure streams are denominated in Sterling and debt will also be denominated in Sterling, thus negating this risk
Refinancing risk	The risk that debt will be refinanced at an unusually high cost, or in extreme cases, cannot be refinanced at all.	All debt is issued alongside a repayment mechanism designed to repay outstanding debt at maturity which negates the need to address refinancing risk. The annual review of the debt strategy will include assessment that repayment strategies remain achievable. Debt issuances are to be appropriately staggered to mitigate any remaining refinancing risk.
Liquidity risk	The risk that liquid assets are exhausted quickly due to unanticipated cash flow and the subsequent difficulty in raising cash through borrowing in a short period of time.	Even in some of the most historic stressed market conditions, the public bond markets and short-term bank lending have been available In the unlikely event that such markets are closed, the GoJ might need to consider sales of investment assets in the short-term. Liquidity across the combined GoJ portfolio in a

		downturn environment is considered by the Treasury Advisory Panel in formulating strategy. Sufficient liquidity is maintained to ensure expected short-term requirements can be met whilst a methodical liquidation of other assets can be achieved.
Operational risk	A range of different types of risk including transaction errors, failures in internal controls, reputational risk, legal risk, or other factors which affect GoJ's ability to meet its debt management objectives.	Government departments have well-established risk monitoring and escalation procedures which can manage these events
Cost of carry risk	The potential costs associated with holding debt raised in the investment portfolio prior to expenditure falling due.	Clear cash flow forecasting combined with extending the duration of the investment of funds through the Strategic Reserve's investment strategy
Investment risk	The risk that long-term investment returns are insufficient to meet target debt repayments over time.	Long term returns of the States portfolio are dealt with in more detail in the Investment Strategy Document. Assets are widely diversified across geographies, sectors, and asset classes, with a wide range of return drivers. Investment strategies are carefully monitored and reviewed over time to ensure they achieve their aims. The review of the Debt Strategy is expected to highlight if a funding strategy becomes unviable, at which point several other policy options remain available to GoJ. The likelihood of such actions being required are deemed remote.

To assess risk, Treasury & Exchequer will regularly conduct stress tests of the debt and investment portfolios against the economic and financial shocks to which the Government and the Island are most potentially exposed.

Statement on hedging

Irrespective of whether financing is linked to floating or fixed interest rates the Minister will take advice as to whether to implement a hedging programme. This advice will evaluate the risks associated with potential solutions and the short, medium and long-term implications

Hedging may be considered to:

- Reduce exposure to changes in interest rates on a particular final transaction or in the context of management of the States' overall interest rate risk
- Achieve a lower expected net cost of financing
- Manage variable interest rate exporsure consistent with prudent debt management
- Manage exposure to changing market conditions in advance of an anticipated issuance, particulary with public bonds
- Achieve more flexibility in meeting overall financial objectives that cannot be achieved in convential markets.

Hedging will not be considered if it:

- Is speculative and creates leverage
- Lacks adequate liquidity to terminate without incurring significant costs
- Provides insufficient price transparency

6. Summary of planned and approved debt

Issued debt (See appendix A for details)
This table summarises the States approved debt and its maturity profile.

Debt Issuance	Value of debt	Debt Maturity	Fund holding debt	Coupon
Public Rated Sterling Bond issued for Social Housing	£250m	2054	Housing Development Fund	3.75% Fixed
Public Rated Sterling Bond issued for general government purposes	£500m	2052	Strategic Reserve	2.875% Fixed

Debt approved but not yet issued (See appendix B for details)
This table summarises the financing approved by the States, but not yet issued.

The conditions outlined reflect the expected characteristics of the debt based on current market conditions at the time of the Debt Strategy update. Until debt is issued the exact terms will remain uncertain.

Debt Issuance	Value of debt	Debt Maturity	Repayment mechanism	Expected Coupon
Revolving Credit Facility	Up to £300m +£200m 'accordion'. (Drawdown approved for 2023 up to £90,071,000.)	2028 (expires unless extended)	To be determined*	Variable

*There are several options for the repayment of the RCF, however the most likely method will be the issuance of further long-term debt, alternatively investment reserves from the Strategic Reserve could be applied if appropriately approved.

Potential future debt issuance (See appendix C for details)
There are currently no new projects for which debt is being considered as a funding solution.

7. Debt Monitoring

Risk management is essential and sound debt structures will allow GoJ to reduce their exposure to interest rate, currency, refinancing and other risks. To support these processes targets and ranges for key risk indicators will assist GoJ in overseeing their borrowing activities and minimising the vulnerability of the debt portfolio to economic and financial shocks.

Efficient management of the public debt portfolio, lower hedging costs, and greater ability to absorb external shocks could be facilitated by debt management practices that consider the Government's overall balance sheet structure.

7.1. Key reporting metrics

Key reporting metrics are detailed below alongside expected limits which would prompt corrective action and re-assessment of the Government's strategic positioning.

Debt-to-GDP

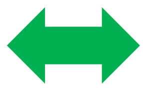
A debt-to-GDP ratio is a commonly accepted method for assessing the significance of a nation's debt. As debt as a proportion of GDP rises, the cost of servicing debt is expected to increase, and at higher levels may prompt a negative re-rating of a nation's external credit rating, making it more difficult to access funding. The debt-to-GDP ratio is expected to evolve over time based on the growth of GDP, inflation, interest rates and the cumulative value of debt issuances. Short term shocks to GDP may however result in temporary rises in the ratio.

Long-term trends in GDP will be monitored to inform decisions should they indicate increased future stress against prescribed limits.

Short term shocks may also have more temporary impacts on the ratio but are less likely to increase borrowing costs if asset levels remain supportive and forward projections indicate recovery.

Aim: Jersey will aim to achieve a medium-term debt-to-GDP ratio in a range of between 30% and 40%. Independent advice indicates that maintaining this range (or lower) reduces the potential for negative adjustments to the credit rating.

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Debt/GDP	5.8	5.5	5.1	5.6	6.6	13.4	15.9	18.7	22.1	21.4



Source: S&P Global Ratings and GoJ. Figures are based on updated S&P calculations as published, to ensure consistency.

The green arrow indicates no major change in the forecast for this statistic. The increasing ratio reflects the issuance of the 2022 £500m bond, but doesn't reflect the reduced level of the proposed RCF in 2023. The statistic still indicates a debt-to-GDP ratio that is below the planned range in the medium-term.

Liquid assets to GDP

The States' liquid assets (fiscal reserves directly on the States' balance sheet; social security reserves and the assets of the public sector pension schemes) play a key part in underpinning the strength of the Island's economy. This ratio supports the ability of the States to meet their obligations, including servicing debt, as it falls due. In times of economic stress higher liquid asset ratios may reduce the requirement to generate liquidity from the sale of illiquid assets, which would likely be more costly.

The trade-off between depleting liquid assets and/or raising debt has historically been faced by many countries. An analysis of S&P's assessment of this trade off supports the view that raising debt whilst retaining the liquid asset buffer above 100% has limited impact on credit ratings. Maintaining this measure will mean a very limited approach to alternative uses for the Government's investment portfolio in future years.

Aim: Jersey will aim to achieve a liquid asset to GDP buffer in excess of 100%. This is intended to provide sufficient scope to meet liabilities as they fall due and allow sufficient headroom to manage the GoJ asset portfolio in the event of a prolonged downturn.

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Liquid assets/GDP	137.4	123.5	126.2	145.3	135.0	117.9	109.6	109.5	113.0	111.8

Source: S&P Global Ratings and GoJ. Figures are based on updated S&P calculations as published, to ensure consistency.

Note, the amber arrow indicates a planned deterioration in this statistic, reflecting the issuance of the 2022 £500m bond and a short-term reduction in asset values as a result of recent financial market volatility. The statistic still indicates a liquid asset to GDP ratio within planned ranges and S&P expect this to stay above 100% of GDP throughout the forecast period.

Repayments to income

This metric tracks the income receipts as a multiple of debt financing costs, a measure of affordability. GoJ generates income primarily through a combination of tax receipts but also receipts and dividends from the investment portfolio.

Monitoring of the level of coverage achieved provides lenders comfort that GoJ's debt costs remain affordable and ensures liabilities remain manageable. The source of income for funding debt servicing costs may differ for each debt issuance and will be detailed in the business case. This leads to two separate affordability metrics, both relevant to the source of income being utilised.

Aim: Jersey will aim to maintain a medium-term coverage ratio of at least 1.0 for financing costs that are met from reserves, meaning that investment returns are greater than financing costs. For financing costs met from general revenues we will aim to ensure that those costs are less than 5% of total revenues.

Using the 2022 Annual Report and Accounts as a measurement the medium-term coverage ratio is 14.18 and financing costs met from general revenues represent approximately 0.72% of total revenues.

Credit rating

In their most recent research update on 13th January 2023, S&P Global Ratings affirmed the States of Jersey's long-term rating at "AA-" with a "Stable" outlook.

S&P noted Jersey's fiscal deficits are likely to remain elevated because government spending is set to increase, owing principally due to the construction of a new hospital. Nonetheless, assets and asset returns remain very substantial and materially offset the growing debt burden. The outlook reflects balanced risks to Jersey's creditworthiness.

The credit rating will be influenced by a range of factors including the rating of the UK Government, prevailing market conditions and the specific outlook of Jersey.

Aim: In line with P18.2022, except in periods of emergency, the Council of Ministers should endeavour to ensure that the States of Jersey's long-term credit rating should be maintained at a level of BBB or above (Standard & Poors) or the equivalent for other ratings agencies. The maintenance of such an investment grade credit rating serves to support the ability of GoJ to issue debt or to access short-term facilities if warranted by the prevailing environment.

7.2. Monitoring process

These metrics are predominantly standard measures used by risk managers, investors and credit rating agencies to help them understand the risks and costs contained within a debt portfolio and how future events or changes to strategy might impact on the ability of GoJ to service the ongoing financing costs and the ultimate repayment of debt.

Monitoring by GoJ is an ongoing process, and not limited to the KPIs detailed above. External monitoring of the above KPIs will be reported and published at least annually including to TAP, who advise the Treasurer and Minister about both debt and investment strategies.

In their role as advisor to the Treasurer and Minister, TAP is expected to conduct stress tests at least triennially on the net portfolio of GoJ to inform policy and strategic decisions in light of potential market environments Government might be expected to experience over an appropriately long time horizon.

Appendix A. Existing external Debt portfolio

The outstanding debt of the GoJ includes the following issuances:

Social Housing Bond: £250m.

Issued debt

Date of issuance	Value of debt (£m)	Maturity date	Maturity type	Issue type	Coupon
9 June 2014	£250	9 June 2054	Bullet maturity	Unsecured Public Bond	3.75%

Formal approvals
The debt issuance was approved in Budget 2013.

Purpose of debt
Capital Investment in public sector assets for a financial return. The net proceeds of the issue of the Notes have been used to fund investment programmes in Jersey's social housing.

Funding strategy

Issuance proceeds were paid into the Housing Development Fund.

Funds are to be issued as loans to providers of social housing for the purpose of construction or renovation of social housing stock.

Coupon payments are to be met through interest payments from loans issued to providers of social housing via the HDF.

Repayment programme

The Housing Development Fund held a liquid lower risk portfolio during the drawdown stage of the strategy. During this stage commitment to housing construction programmes were drawn and a portfolio of loans was built. During this stage coupon payments exceeded receipts and the Fund fell in value.

The portfolio is currently in its growth stage, interest receipts exceed coupon payments and the Fund will grow over time recycling excess receipts back to social housing providers for the purpose of funding further renovation/construction.

Over time the strategy will transition to a repayment phase when loans are recovered to repay the bond due in 2054. Consideration of rotation to the repayment phase is projected to begin in 2034.

General Government Purposes Bond: £500m.

Issued debt

Date of issuance	Value of debt (£m)	Maturity date	Maturity type	Issue type	Coupon
6th May 2022	£500m	6th May 2052	Bullet maturity	Unsecured Public Bond	2.875%

Formal approvals
The debt issuance was approved in Government Plan 2022-25.

Purpose of debt
The stated purpose of the debt is general government purposes, which allows flexibility should the debt balance be repurposed over time, however proceeds have been applied as follows:

£477m – Refinancing of past-service liabilities

£23m - Borrowing for Healthcare Facilities

Funding strategy

Issuance proceeds were initially paid into the Strategic Reservce

Following the refinancing of the pre-existing past-service pension liabilities in 2022, a separate head of expenditure to meet the interest cost of the bond issued has been created, with the budgets previously used to service the liabilities transferred from Children, Young People, Education and Skills and Treasury & Exchequer.

Repayment programme

Transfers from the Consolidated Fund to the Strategic Reserve will serve to build a sinking fund, with returns reinvested to build sufficient capital over time for the eventual repayment of the bond.

Appendix B. Debt approved but not yet issued

The following section summarises debt approved by the States Assembly and not yet issued.

Values are based on market predictions at time of issue of this Debt Strategy.

Revolving Credit Facility

Planned debt characteristics

Date of issuance	Planned value of debt (£m)	Expected Maturity profile	Expected Maturity type	Likely Issue type	Expected Coupon
2023	£300m +£200m 'accordion'. (Drawdown approved for 2023 up to £90,071,000)	2028 (facilties expire unless extended)	Bullet maturity on expiration	Revolving Credit Facility with accordion	Variable

Purpose of debt

To fund expenditure on Healthcare Facilities over the short to medium term.

Funding strategy

The annual financing costs are to be met from the Strategic Reserve

Repayment programme

The RCF will serve as a flexible drawdawn facility to fund expected expenditure on Healthcare Facilities. The facility will allow GoJ to more closely align the value of drawn debt with the cash flow requirements of the project, as debt will only be drawn when required.

There are several options for the repayment of the RCF, however the most likely method will be through the issuance of long-term debt. The flexibility of the Revolving Credit Facility will allow GoJ to opportunistically enter the debt market when conditions are favourable.

Alternative options such as the use of investment reserves from the Strategic Reserve could be applied if appropriately approved.

Appendix C. Potential future debt issuance

As detailed in appendix B. Long term debt might be issued to refinance drawings from the RCF incurred to fund expenduture on Healthcare Facilities but no approval currently exists.