BY EMAIL
24 November 2022

19-21 Broad Street
St Helier
Jersey JE2 3RR

For the attention of Deputy Steve Luce, Chair of the Environment, Housing and Infrastructure Scrutiny Panel

Dear Deputy Luce,

Government Plan 2023 -26 Review – Follow-up / additional questions

May I begin by thanking the panel for their time at last week's evidence gathering session, and the subsequent questions presented by the Panel last week.

Prior to responding to the questions raised by the Panel, I would like to address the matter of the Office Modernisation Project, and specifically some of the responses provided during the evidence in-public session.

The project and its contractual framework are – as you will appreciate – very complex and I am still learning more about them. I would therefore like to take the time, in writing, to present further context and background, as well as report to you on the present status of the project.

[Certain conditions contained in the development agreement prevent the Government and Ministers from publishing information which, if shared publicly, may compromise the commercial interests of the developer.

This is normal in agreements such as the development agreement, and especially when a developer operates in a competitive environment such as the development of commercial office buildings. My officers are, therefore, happy to meet with members of the Panel to take evidence in-private, if this would be helpful.]

Office Modernisation Project

Various iterations of the project have been discussed in the States Assembly for almost 20 years, since consolidation of the Government's office estate was first envisioned, when the Property Holdings Department was established by the States of Jersey in 2005.

Since this date, successive Assemblies have been urged by various bodies – most notably the Public Accounts Committee in 2007 (when endorsing the Property Holdings Department's first Property Strategy), and the Comptroller and Auditor General, when reviewing the Medium-Term Financial Plan in 2013 – to rationalise and modernise the Government's estate.

You may also recall from your time as a member of the Council of Ministers in 2015, the decision of the then Council of Ministers to progress a scheme to establish the first 'central administration building' which was proposed on the site of Philip Le Fevre House.

It wasn't until 2019, however, when the States Assembly approved the strategy for modernising the Government and delivering a streamlined civil service, did this specific project receive the full support of the Assembly. The strategic outline case for the project, which was accepted by the Council of Ministers in November 2019, proposed the establishment of a single facility, delivered in a new building on a third-party site by a developer, that would deliver the most economically advantageous outcome.

The proposal would vacate sites with a land value of £22.7 million and generate revenue savings more than £6.0 million per annum. The proposal would also deliver savings of £30.0 million against the costs of the 'do nothing' option.

This proposal was approved by the States Assembly as part of the 2020 Government plan, following discussions with colleagues in Scrutiny and the Public Accounts Committee.

In April 2021, following:

a) a competitive procurement exercise that was promoted to developers both locally and off-Island and involved three of the Island's leading commercial property developers;

b) the rejection by the States Assembly on 24 March 2021 of Proposition P.18/2021[1] which was presented by the Scrutiny Liaison Committee and which asked the States Assembly to agree to the Minister for Infrastructure deferring the proposed Ministerial Decision and the entering into of the agreement with the developer (the Development Agreement), and instead commission a further Scrutiny report and then debating a further proposition to be lodged by the Minister in response to the Scrutiny report (note: the impact if Proposition P.18/2021 had been accepted by the Assembly would have been to annul the outcome of the competitive procurement exercise, wasting bidders and the Governments costs incurred, impacting on future bidder appetite, and effectively delaying progress – and the start of generating the revenue savings and other efficiencies – again, by at least a further six months, and probably substantially); and

c) the approval by the Council of Ministers of the full business case for the present scheme;

the Government entered into the Development Agreement with the developer for them to design, plan, build, complete, commission and finance the delivery of the new office headquarters building on the site of the former Cyril Le Marquand House within three years of the date of the Development Agreement. To ensure the outcome would be realised in the timescales required and protect the revenue savings that would start to be realised as soon as the project was delivered, the Development Agreement included within the necessary key requirements that the Government needed (in effect, the opportunities for delay to the delivery of the project by the developer were minimised).

Since being appointed in April 2021, the developer has obtained an implementable planning consent, obtained Building Bye-law permissions, demolished the former building, constructed the foundations and (last week) started the erection of the structural steel frame for the new building.

The Government and the developer have also concluded the detailed design of the floor layouts, in the time required under the development agreement to enable the developer to conclude purchasing of fit-out items (such as tables, desks, furniture, etc.). All permissions and third-party agreements required by the developer have been concluded and achieved. The developer is

1 https://statesassembly.gov.je/assemblyminutes/2021/2021.03.24%20states%20minutes%20(pages%20113%20to%20116).pdf

therefore on schedule to hand over the new office building to the Government in the summer 2024. As a part of the conditions of the development agreement, the developer will deliver over £3.1 million of social value impact and £39.6 million of net present social value.

Following the handover by the developer of the new building there will be a short period of 'activating' the building by the Government (i.e., getting the building ready for occupation and migrating colleagues from their existing buildings to the new building). The Government's new office building remains on schedule to open to colleagues and Islanders in Autumn 2024.

The building will accommodate up to 2,000 colleagues from all 11 Directorates and over 50 sub-departments, working in an energy-efficient, modern, fit-for-purpose, flexible office premises. The new building will consume 60% less energy than buildings in the existing estate and will thus provide a significant contribution towards both modernising the public service and reducing the carbon footprint of the Government. In total, the Government's estate will be consolidated from a present 385,000 ft^2 to a forecast 215,000 ft^2 (a 44% reduction).

On completion of the building, it is presently proposed that the Government will occupy the building on a license for up to three years, paying the equivalent of rent (the prices for which are agreed in the Development Agreement). During this license period, the Government may elect to purchase the building, for a fixed price (again, this is agreed in the Development Agreement). The fixing of the prices for these items in the Development Agreement has protected the Government from market price fluctuations in:

- construction costs (presently circa 5 – 6% per year, and more in certain sectors);
- energy costs (impacting wage inflation and materials prices);
- funding costs (the Bank of England's 'Base Rate' was 0.10% when the prices were fixed and is expected to rise to potentially 4.00%).

These risks are all managed by the developer, meaning the purchase price agreed by the Government in April 2021 will be capable of acceptance up until July 2027, with the only adjustment to the purchase price being for accepted variations to the Government's key requirements. Also, if the Government purchases the building during this period, at present market rates the purchase price would represent something of a circa £20.0 million discount on the forecast 'book' value of the built and tenanted building, representing an excellent return on the Government's investment.

If, however, the Government does not choose to buy the building within the three-year license period, the Government will automatically enter into, with the developer: a) a 99-year lease on the land on which the building is constructed, and: b) a 22-year lease of the building from the developer, at a fixed rate adjusted for inflation (with an upper and lower thresholds of 5% and 2% per year).

This commitment was shared with the States Assembly in early 2021, when presenting the Ministerial Decision that subsequently led to the Corporate Services Scrutiny Panel Proposition mentioned earlier, and was approved by the Council of Ministers within the Development Agreement. This commitment was also necessary to provide the surety that was required by the developer to raise the funding required to manage funding risks of delivering the project, as noted earlier.

The financial case of the FBC (Full Business Case), and specifically the financial benefits on which basis the Council of Ministers approved the project, are presently being reviewed, to reflect:

- the rise in energy costs since April 2021, and their impact on the costs of servicing and maintaining buildings;
- changes in the value of the land which it is proposed will be vacated; and
- events since the appointment of the developer in April 2021.

Overall, however, the project remains within the allowances of the funding strategy agreed in the FBC signed-off by the Council of Ministers; and the savings forecast in the Government's revenue costs, originally forecast at more than £6.0 million per year, remain.

Questions raised following the evidence presented in public

1. *As discussed in the public quarterly hearing, please could you provide further details and breakdown of the proposed £460,000 spend for 2023 on consultants for the Office Modernisation Project?*

   As is stated at page 56 of the Proposed Government Plan 2023 - 2026[2], presented to the States Assembly by the Council of Ministers on 4 October 2022:

   > "*The developer is funding the build and the Government will lease the building on completion with an option to purchase in future years. The funding [of £460k] including in this Government Plan is for the management of the project team*".

   The Government's project team comprises in-house and out-sourced staff, including the project lead, the information manager, the technical advisors, the quantity surveyor and team support. The funding of £460k allocated the 2023 Government Plan has not changed from that envisaged (and approved) in the Government Plan 2022 – 2025[3], despite rising costs and inflation presently running at over 10%. This is due to effective management of these team costs, and agreeing early on the fees for professional consultants employed to advise the Government in delivering the project.

Previous / Ongoing Additional Revenue Growth Programmes

2. *For the following previous/ongoing additional revenue growth programmes please can you provide a) actual spend to date for 2022; b) a breakdown of how this spend to date has been allocated; and c) a summarised progress update for each programme:*

   i) 28-30 The Parade
   ii) Office Modernisation
   iii) Hazardous Waste 2023-2025
   iv) Increased liquid waste processing
   v) Recycling 2023-2025
   vi) UK/EU TCA Biosecurity Border Controls

   See table included as Annex A to this letter.

   Please note that the Minister for the Environment has responsibility for the UK/EU TCA Biosecurity Border Controls fall under the

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[2] https://statesassembly.gov.je/assemblypropositions/2022/p.97-2022.pdf
[3] https://statesassembly.gov.je/assemblypropositions/2021/p.90-2021.pdf

3. *How has increasing inflation impacted on the spend to date and delivery of each of these programmes in 2022 and how has inflation been factored into future cost and delivery in 2023?*

   i) 28-30 The Parade
   ii) Office Modernisation
   iii) Hazardous Waste 2023-2025
   iv) Increased liquid waste processing
   v) Recycling 2023-2025
   vi) UK/EU TCA Biosecurity Border Controls

   See table included as Annex B to this letter.

Mapping of departmental budgets to Ministers

4. *Minister, do you consider that previous and new revenue growth, as well as any capital projects, should be clearly mapped to each Minister in each proposed Government Plan so that there are clear lines of political accountability, as well as to demonstrate how the key priorities laid out in the Ministerial Plans will be funded?*

   Ministers have set out their key priorities in their Ministerial Plans, which were developed alongside the Government Plan. Some items in these plans directly link to growth expenditure, whilst others will be funded from existing resources.

   In line with the requirements of the Public Finances law, financial allocations are assigned to departments, and hence Accountable Officers. Ministerial responsibilities have now been more closely aligned to departments, and so the political accountability for growth is in almost all cases obvious. Whilst IHE as a department serves two Ministers, the Annex to the Government Plan includes a more detailed service analysis that allows the split of financial allocations between areas of Ministerial Responsibility to be easily seen. A mapping of departmental budgets to Ministers has now been shared with scrutiny.

   In response to the questions regarding the rationale for not including a breakdown of previous/ongoing revenue growth in the GP given that this has been provided in previous Government Plans, the following lines have been provided:

   Council of Ministers considered previously agreed investments in Government Plan 2022 and agree that the baseline for expenditure should reflect those previous decisions.
   In most cases these investments are being spent as part of departmental operating budgets and so removing these would in effect constitute a reduction in funding for services. The ongoing inclusion details of these investments were included in previous plans would be an unnecessary duplication that would make the plan more complicated and harder to understand.

Yours sincerely,

Deputy Tom Binet
Minister for Infrastructure
t.binet@gov.je

For and on behalf of

Minister for Infrastructure

Government of Jersey

Encs

Annex A. Table showing responses to Question 2.

<table>
<tr><th>Project</th><th>a) Actual spend to date (end-October) in 2022 (£k)</th><th>b) Breakdown of how this spend to date has been allocated (£k)</th><th>c) Summarised progress update</th></tr>
<tr><td>28 – 30 The Parade</td><td>£133k</td><td>
<table>
<tr><th>Cost</th><th>Amount (£k)</th></tr>
<tr><td>Emergency Lighting</td><td>10</td></tr>
<tr><td>Cleaning</td><td>37</td></tr>
<tr><td>Gas</td><td>32</td></tr>
<tr><td>JT</td><td>16</td></tr>
<tr><td>Lift Maint</td><td>10</td></tr>
<tr><td>M&E</td><td>28</td></tr>
</table>
</td><td>

The building is occupied by the Regulation department, COVID response teams and has had a number of tenants coming and going such as Team Jersey and project teams (HCS and ITS) Its use has been sporadic and as such there have been a number of gaps which JPH have had to cover.
The building was leased as part of a previous hospital project and when the project failed the premises was passed to JPH with no maintenance, rent, rates or dilapidations budget.

</td></tr>
<tr><td>Office Modernisation</td><td>£415.4k

This spend is comprised the project management, technical assurance and cos management services and team support needed by the Government to run the project. The project team also manage the reporting / forecasting / control of risks on the project.</td><td>
<table>
<tr><th>Cost Heading</th><th>Amount (£k)</th></tr>
<tr><td>Development lead</td><td>74.8</td></tr>
<tr><td>Information lead</td><td>70.5</td></tr>
<tr><td>Technical advisor</td><td>100.0</td></tr>
<tr><td>Quantity surveyor</td><td>107.0</td></tr>
<tr><td>Team support</td><td>43.4</td></tr>
<tr><td>Miscellaneous</td><td>19.7</td></tr>
<tr><td>Total</td><td>415.4</td></tr>
</table>
</td><td>

Development agreement signed.
Planning consent and Bye-law permissions obtained.
Designs for internal layouts agreed.
Demolition of former buildings completed.
Foundations for new building advanced.
Structural steel for new building commenced.
Developer’s funding arrangements secured.
Completion remains on-course for completion by the developer in Summer 2024, and occupation by the Government in Autumn 2024.

</td></tr>
<tr><td>Hazardous Waste 2023 – 2025</td><td>£nil</td><td>£nil</td><td>Growth funding was allocated in 2022 to offset unachievable income projected in 2021 for hazardous waste receipts. Due to timing issues, the waste was actually received in 2022, and therefore the department has requested this sum be re-purposed in 2022 to meet other urgent cost pressures and shortfalls in income.</td></tr>
</table>

Increased liquid waste processing	£165K	Electricity and maintenance (as part of the spend against base budget)	The funding provided supplemented the base budget for the pumping station network, in terms of utility costs (electricity) relating to pumping volumes increasing and in terms of maintenance costs (which are a combination of internal staff costs and parts, in the main). This now forms part of the base "business as usual" budget for this area.
Recycling 2023 – 2025	No funding was provided for additional spend in 2022 and therefore costs are not available.	n/a	n/a for 2022.

Annex B. Table showing responses to Question 3.

Project	How has increasing inflation impacted on the spend to date and delivery of each of these programmes in 2022?	How has inflation been factored into future cost and delivery in 2023?
28 – 30 The Parade	Inflation continues to add pressure to the JPH budget as we are required to maintain this obsolete premises without any budget. The lease does not terminate until 2027 when there will be a large dilapidation bill.	Additional funds have been allocated towards rates payment and inflationary costs in the Government plan.
Office Modernisation	Project team costs: • There has been no impact of increasing inflation on either the spend to date of the delivery of this project in 2022.	Project team costs: • The costs of wages of Government-salaried employees will rise in line with any wage settlement. These costs are included for in the budgets contained in the 2023 Government Plan. • The prices agreed with consultants advising the Government as a part of the project team are fixed for 2023, and are included for in the budgets contained in the 2023 Government Plan.
Hazardous Waste 2023 – 2025	Inflation is not particularly relevant to this funding – it is being used to offset the income expected from Hazardous Waste as volumes are expected to be minimal in 2023 onwards, leading to a shortfall in income receipts.	n/a - volume is key.

Increased liquid waste processing	The funding provided supplemented the base budget for the pumping station network, in terms of utility costs (electricity) relating to pumping volumes increasing and in terms of maintenance costs (which are a combination of internal staff costs and parts, in the main). Increasing utility costs will impact on spend, as will increasing materials costs. It is currently expected that this can be covered within budget in 2022 but will become more of an issue in future years.	Utility cost increases have been captured to an extent in the additional bid for hydrocarbon and fuel price increases, proposed to be held in reserves for 2023 under reference I-IHE-GP23-006. This allocation covers expected increases in 2023 across the IHE estate and a proportion of this will include an allowance for pumping stations. A further proposal concerning increasing maintenance costs is similarly held in reserve under reference I-IHE-GP23-010.
Recycling 2023 – 2025	Whilst inflation (and particularly fuel price inflation) will have an impact on recycling costs, volumes of recyclates, market price for recyclate materials and quality of the material collected will all play an important part in the overall cost of recycling. Transport costs have significantly increased in 2022 and other funding may have to be diverted to cover some of these costs. New export streams, such as glass, form the bulk of the additional projected spend for 2023 onwards.	Additional funding for recycling is included within the base budget of the IHE department from 2023, funded from allocations previously agreed in the Government Plan 2022. Volumes of recyclates exported plays as big a role in the cost of the operation as inflationary pressures.