

# STATES OF JERSEY



## **FUTURE HOSPITAL FUNDING STRATEGY (P.130/2016): SECOND AMENDMENT**

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**Lodged au Greffe on 4th April 2017  
by the Minister for Treasury and Resources**

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**STATES GREFFE**

FUTURE HOSPITAL FUNDING STRATEGY (P.130/2016): (AS AMENDED)  
SECOND AMENDMENT

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**1 PAGE 1, PARAGRAPH (a) –**

In paragraph (a) after the words “Jersey General Hospital” insert the words –

“which will be made up of a provisional amount of £392 million for the main construction project and all associated expenditure including relocation costs and all project spends to date, of a new Jersey General Hospital; and a provisional amount of £74 million contingency allowance for the project”.

**2 PAGE 1, PARAGRAPH (c) –**

In paragraph (c) for the words “Hospital Construction Fund” substitute the words –

“Strategic Reserve Fund and to be specifically available for allocation to the Hospital Construction Fund for the new Jersey General Hospital”.

**3 PAGE 1, PARAGRAPH (d)(i) –**

Delete paragraph (d)(i) and substitute the following paragraph –

“(i) there shall be available for transfer from the Strategic Reserve Fund to the Hospital Construction Fund the amount up to £442.4 million including the amount borrowed in (c) above (being £466 million less the sum of £23.6 million remaining from previous allocations agreed for this purpose by the States Assembly) provided that, based upon the latest available forecast as at 30th November 2016, the capital value of the Strategic Reserve is not expected to fall below the minimum level set in the Budget Statement 2015 (P.129/2014) at the estimated practical completion date of the new Jersey General Hospital, and that such transfers are effected by a published decision of the Minister for Treasury and Resources;”.

**4 PAGE 1, PARAGRAPH (d)(ii) –**

For the number “10” substitute the number “15”.

**5 PAGE 1, PARAGRAPH (d)(iii) –**

Delete the words “funded from transfers from” and substitute the words “borne by” and after the words “Strategic Reserve Fund” delete the words “to the Hospital Construction Fund”.

**6 PAGE 1, PARAGRAPH (d)(iv) –**

Delete the words “the Hospital Construction Fund by means of a transfer from”.

**7 PAGE 1, PARAGRAPH (d)(vi) –**

Delete the word “construction” and after the words “project shall be returned to” insert the words “and/or retained within”.

**8 PAGE 1, FINAL PARAGRAPH –**

At the end of the sentence remove the full stop and add the words “and to enable the Strategic Reserve Fund to directly meet the costs of borrowing and the on-going finance and administration costs related to the borrowing for the new Jersey General Hospital.”.

MINISTER FOR TREASURY AND RESOURCES

## REPORT

Since the initial debate on this matter ([P.130/2016 – 18th January 2017](#)) the Minister for Treasury and Resources and the Treasurer of the States have met on several occasions with the Corporate Services Scrutiny Panel and as a result the Minister is proposing amendments to P.130/2016 – Future Hospital Funding Strategy, to –

- bring the controls and existing strong governance arrangements surrounding the funding for the Hospital project into the main body of the proposition; and
- reflect the arrangements whereby the Strategic Reserve will hold the bond proceeds and pay for certain costs directly.

A brief summary of each of the Minister's amendments is given below.

### **Amendment 1**

The Minister, with the support of the Council of Ministers, had taken the decision to seek the agreement of the States to setting a maximum cap to the budget for the hospital, in order that plans can develop and so that a funding strategy can be finalised. However as the project is at such an early stage, it is difficult to provide certainty as to the costs of the project. In accordance with best practice, the project is therefore carrying substantial contingencies at this stage for inflation, risk and most notably "optimism bias". Optimism bias is provided for to avoid estimates and budgets set at an early stage in the project being too optimistic.

Notwithstanding this, the Minister is in agreement with the Panel that control over these contingencies should be robust and indeed for this reason the plan has always been for the Treasury to retain control over the contingencies. Further to discussion with the Panel, the Minister has agreed to make this control more overt by splitting the maximum budget, at this early stage, between the provisional cost estimates at the time of making this proposition and the provisional amounts for contingencies for risk and optimism bias.

The £466 million currently includes a provisional sum of £74 million which will be held by the Minister for Treasury and Resources and only released should the project group be able to satisfy the Minister that contingency funding is absolutely necessary. Effectively, this means that there is a provisional sum of £392 million for the main construction project.

At this stage only a provisional breakdown of the costs can be given but the States have agreed that the outcome of the further detailed development and design work for the new Jersey General Hospital will be brought back to the Assembly later in 2017. It is the Minister's intention that as part of this report more updated costings for the project will be available to this Assembly when it is envisaged that there will be further information on the split of the maximum £466 million over the overall project costs and contingency.

## **Amendment 2**

This amendment ensures that the money raised from the States borrowing will be paid into the Strategic Reserve Fund and allocated to the Hospital Construction Fund as and when required. This will enable funds to be invested within the larger investment portfolio of the Strategic Reserve Fund and whilst the hospital project is in the early stages of development will ensure that control of the funding approved by the States for the project is held by the Minister for Treasury and Resources.

## **Amendment 3**

The amendments to this paragraph are a direct consequence of amendment 2 where the States are asked to agree that the money raised from borrowing for the new Jersey General Hospital is paid directly into the Strategic Reserve Fund. The revised provision enables up to £442.4 million (being the £466 million less the £23.6 million remaining from previous allocations agreed for this purpose) to be available to transfer to the Hospital Construction Fund. The majority of the paragraph reflects the amendments previously brought by the Connétable of St. John and agreed by the Assembly.

Under the terms of this amendment all transfers from the Strategic Reserve Fund to the Hospital Construction Fund will be reported in a published Ministerial Decision.

## **Amendment 4**

The Corporate Service Scrutiny Panel are keen to ensure that the Strategic Reserve Fund will not be used for additional purposes other than those already approved by the States for the next 15 years.

Although the Minister has agreed to propose this amendment at the request of the Panel he points out that the approval of this change does not prevent a further proposition to this Assembly in the future.

## **Amendments 5 and 6**

This amendment endorses the proposal that the Strategic Reserve Fund will be used to hold and meet all repayments and costs associated with the borrowing for the Hospital project.

## **Amendment 7**

This amendment further strengthens the Minister's control over the funding of the project by requiring that once the final account for the project has been presented that any unspent monies will be returned or retained within the Strategic Reserve Fund and therefore cannot be diverted for other purposes without States approval.

## **Amendment of Appendix to P.130/2016**

As the main proposition of the new Jersey General Hospital has been amended and the terms developed over the last few months there are implications to the Terms of Reference for the Hospital Construction Fund which are referred to in paragraph (b) of the proposition.

The Terms of Reference for the Hospital Construction Fund now purely facilitate the construction and fitting out, and all associated costs of a new Jersey General Hospital. The funding arrangements for the project are now dealt with via the Strategic Reserve Fund.

The States Assembly will also receive updates in a timely manner on how expenditure on the new Jersey General Hospital is progressing with the Minister ensuring that these updates clearly illustrate the split between expenditure for the main Hospital project and that allocated for contingency.

A copy of the amended Terms of Reference are attached at the Appendix to this report.

### **Concluding comment**

In bringing forward these amendments the Minister thanks the Corporate Services Scrutiny Panel for their support and commitment to ensuring that Jersey is able to finance a high quality fit for purpose General Hospital that meets the needs of Islanders and where costs are controlled and openness is achieved.

### **Collective responsibility under Standing Order 21(3A)**

The Council of Ministers has a single policy position on this proposition, and as such, all Ministers, and the Assistant Minister for Treasury and Resources, are bound by the principle of collective responsibility to support the proposition, as outlined in the Code of Conduct and Practice for Ministers and Assistant Minister.

### **Financial and manpower implications**

The Minister's proposed amendments do not change the cost to the States of the new Jersey General Hospital project, only where they are directly funded from. They are brought forward with the intent of ensuring greater financial control and reporting of funding of, and expenditure on, the project.

There are no staffing implications arising from these amendments.

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### **Re-issue Note**

This Amendment is re-issued as one paragraph was inadvertently left off the amended terms of reference when they were submitted by the Department.

**FUTURE HOSPITAL FUNDING STRATEGY (P.130/2016)**

Consolidated Version (reflecting proposed amendments from the Minister for Treasury and Resources as at 31st March 2017)

**THE STATES are asked to decide whether they are of opinion –**

- (a) to agree expenditure up to a maximum of £466 million for the main construction project and all associated costs including relocation costs (and including contingencies), of a new Jersey General Hospital, which will be made up of a provisional sum of £392 million for the main construction project and all associated expenditure including relocation costs and all project spends to date, of a new Jersey General Hospital; and a provisional sum of £74 million contingency allowance for the project;
- (b) to approve, in accordance with the provisions of Article 3(3)(a) of the Public Finances (Jersey) Law 2005 (“the Law”) the establishment of a Special Fund to be known as the “Hospital Construction Fund”, and to approve the Fund’s purpose, terms of reference and operation as set out in the Appendix to the report accompanying this proposition;
- (c) to authorise, in accordance with Article 21(1) of the Law, the Minister for Treasury and Resources to borrow up to a maximum of £400 million for the construction of a new Jersey General Hospital and associated costs, and the amount borrowed to be paid into the Strategic Reserve Fund and to be specifically available for allocation to the Hospital Construction Fund for the new Jersey General Hospital;
- (d) to refer to their Act dated 5th December 2013, when they agreed that the Strategic Reserve Fund may be used for the planning and creation of new hospital services in the Island and, in order to progress that decision, to agree that the policy be amended as follows –
  - (i) there shall be available for transfer from the Strategic Reserve Fund to the Hospital Construction Fund the amount of £442.4 million including the amount borrowed in (c) above (being £466 million less the sum of £23.6 million remaining from previous allocations agreed for this purpose by the States Assembly) provided that, based upon the latest available forecast as at 30th November 2016, the capital value of the Strategic Reserve is not estimated to fall below the minimum level set in the Budget Statement 2015 (P.129/2014) at the estimated practical completion date of the new Jersey General Hospital, and that such transfers are effected by a published decision of the Minister for Treasury and Resources ;
  - (ii) in agreeing to the borrowing specified in paragraph (c) above, the Strategic Reserve should not be used for any further purposes, including capital spending, deficit management or fiscal stimulus (save for those sums already agreed to by the Assembly) for a minimum period of 15 years;

- (iii) the costs of borrowing and ongoing finance and administration costs related to that borrowing to be borne by the Strategic Reserve Fund;
- (iv) the amount borrowed in accordance with paragraph (c) above will be repaid from the Strategic Reserve Fund in the year the borrowed amount becomes due;
- (v) any contingency expenditure (as referred to in paragraph (a) above) which would exceed a total for such expenditure of £36 million shall be notified to the Assembly by separate report at least 15 working days before a decision to incur that expenditure is taken; and
- (vi) on the final account of the new Jersey General Hospital being presented, any unspent monies from either contingency provision or savings from the overall project shall be returned to and/or retained within the Strategic Reserve Fund,

and to note that a proposal to amend the Public Finances (Jersey) Law 2005 will be brought forward to facilitate the direct transfer of funds from the Strategic Reserve Fund to the Hospital Construction Fund and to enable the Strategic Reserve Fund to directly meet the costs of borrowing and the on-going finance and administration costs related to the borrowing for the new Jersey General Hospital.



## COPY OF AMENDED TERMS OF REFERENCE

### Hospital Construction Fund – Special Fund

#### **1. The purpose of the Hospital Construction Fund**

- 1.1 The purpose of the Hospital Construction Fund (“the Fund”) is to facilitate the construction and fitting out, and all associated costs, of a new Jersey General Hospital facility in Jersey (the “new JGH”).
- 1.2 The Fund is established as a “Special Fund” in accordance with Article 3(3)(a) of the Public Finances (Jersey) Law 2005 (“the Law”) which enables the States, on a proposition lodged by the Minister for Treasury and Resources, to establish a “Special Fund” for specific purposes.
- 1.3 The following funding sources will be available to secure the “new JGH” –
  - (a) Transfers from the Strategic Reserve Fund;
  - (b) Transfers from the Consolidated Fund;
  - (c) A capital head of expenditure already approved by the States for feasibility works and not spent at the date of the creation of this Fund (£23.6 million); and
  - (d) Returns generated from cash held in the Hospital Construction Fund prior to being spent on the new JGH.
- 1.4 The Fund will be maintained until the new JGH is complete. Upon the winding up of the Hospital Construction Fund any balance remaining in it shall be transferred to the Strategic Reserve Fund.

#### **2. The powers and limitations of the Fund**

- 2.1 As a Special Fund, the purposes of “the Fund” can only be varied by the States on a proposition lodged by the Minister for Treasury and Resources.
- 2.2 Money held in “the Fund” will not form part of the annual income of the States nor the Consolidated Fund balance.
- 2.3 Costs, as approved by the States Assembly and associated with the new JGH will be met out of “the Fund”.

2.4 Should the cost of the new JGH be estimated to exceed the figure approved by the States, it will be the responsibility of the Minister for Treasury and Resources to report back to the States indicating how any funding shortfall should be addressed.

2.5 The operation of the Fund must be in line with the Public Finances (Jersey) Law 2005 and States Financial Directions as appropriate (including any which the Treasurer may issue specifically for this Fund).

### **3. Payments into the Fund**

3.1 Payments into the Fund will include funding available from the sources specified in paragraph 1.3, other than the Capital Head of Expenditure already approved by the States for feasibility works. An amendment to the Public Finances (Jersey) Law 2005 is required to enable funds to be directly transferred from the Strategic Reserve Fund to the Hospital Construction Fund. This will be brought forward to the States in due course by the Minister for Treasury and Resources.

3.2 The control of contingency funds for the new Jersey General Hospital will lie with the Minister for Treasury and Resources and therefore any transfers from the Strategic Reserve Fund necessary to release contingency money to the Hospital Construction Fund will be conditional on a published decision of the Minister for Treasury and Resources.

### **4. Payments from the Fund**

4.1 Payments from the Fund subject to the controls set out in the proposition, will be those relating to the construction and fitting-out and all associated costs of the new JGH, up to a maximum cap of £442.4 million (being the maximum expenditure cap of £466 million less the £23.6 million capital sum already approved for the project (or such amount as varied by the States Assembly).

### **5. Those empowered to carry out actions on behalf of the Fund**

5.1 The Minister for Infrastructure has overall responsibility for the political progress of the construction of the new JGH; this will include reporting to the States and answering questions at a political level on all aspects relating to the construction, fitting-out and associated costs of the new JGH facility, and for ensuring that the construction progresses on time and within budget. The Minister for Treasury and Resources has responsibility for ensuring the availability of funds for this project.

5.2 The Minister for Treasury and Resources has responsibility under the terms of the Public Finances Law (Jersey) 2005 for appointing an Accounting Officer for the Fund. The Accounting Officer is personally accountable for the proper financial management of the Fund, including

ensuring that the project is progressed in line with States' approvals. The Accounting Officer can delegate functions to others, but will remain personally accountable. Where the Accounting Officer delegates their financial authority, the Scheme of Delegation must be documented and detail what authority has been delegated to whom and any limits placed on that delegation.

- 5.3 The Minister for Treasury and Resources will invest any cash held within the Hospital Construction Fund, as appropriate.
- 5.4 The Comptroller and Auditor General ("C&AG") has a duty under Article 11 of the Comptroller and Auditor General (Jersey) Law 2014 to provide the States with independent assurance that the public finances of Jersey are being regulated, controlled and supervised and accounted for in accordance with the Law. This duty extends to the Hospital Construction Fund.

## **6. Reporting arrangements**

- 6.1 Six-monthly update reports will be presented, firstly to the Council of Ministers and then to the States, within 2 months of the relevant 6 month period end, on the progress of the construction, until its completion. These will include details of projected costs against estimated costs, and projected costs to completion.
- 6.2 Details of the Fund will be included in the published States of Jersey Annual Financial Statement and Annex.