STATES OF JERSEY

FUTURE HOSPITAL FUNDING STRATEGY (S.R.4/2017): RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

Presented to the States on 30th August 2017
by the Minister for Treasury and Resources

STATES GREFFE

FUTURE HOSPITAL FUNDING STRATEGY (S.R.4/2017): RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

Ministerial Response to:	S.R.4/2017
Ministerial Response required by:	25th May 2017
Review title:	Future Hospital Funding Strategy
Scrutiny Panel:	Corporate Services

INTRODUCTION

The Minister welcomes the report of the Corporate Services Scrutiny Panel ("CSSP") and its advisers, whilst firmly rejecting the CSSP's alternative proposals in relation to P.130/2016. There are a number of constructive recommendations which will be given further consideration as appropriate. The Minister reviewed updated economic and fiscal data and accordingly lodged his own (fourth) amendment (P.130/2016 Amd.(4)), which set the maximum amount of borrowing at £275 million. However, the Minister ultimately agreed to withdraw the proposition to allow further work to be undertaken. This matter will now be brought back to the States Assembly later in the year, together with the business case for the project.

The Minister, his officers, and the Council of Ministers have been working on the funding proposals contained in P.130/2016 for many months. No option was ruled in or out without detailed consideration. Renowned expert advisers have been employed throughout. The proposals of the Minister have been subject to several months' scrutiny by the CSSP, who in turn have employed their own expert advisers. The Minister amended P.130/2016 to meet the stated concerns of CSSP, and believed that an acceptable solution had been reached that was right for the Island. However, he has now withdrawn the proposition to allow further work on detailed aspects to take place.

In summary, the Minister is keen to stress the following points –

- The Minister's proposals are well-developed and researched and have been subject to expert advice. The Minister has the backing of the Fiscal Policy Panel, the Treasury Advisory Panel and Ernst and Young ("EY"). It is understood that Opus, the CSSP's own advisers, are not critical. The CSSP's proposals, by contrast, appeared to be hurriedly developed and ill-thought through.
- The CSSP's proposals, whilst purporting to reduce risk in uncertain times, actually increase that risk. They increase the risk of funding not being available to complete the construction of the new hospital. They reduce the buffer of safety available in the Strategic Reserve to meet unknown future shocks, at a time when we most need them.
- The CSSP's report on its amendment is unnecessarily pessimistic in presenting the potential likelihood of downside risk on investment returns and States' income crystallising.

- The current historically low cost of borrowing is less than the level of return being earned by investing Strategic Reserve. The majority of financial advisers would not only wonder why we are considering not borrowing at this stage, they would wonder why we had not done so sooner.
- The demands on the already-stretched resources of departments would be heightened by the need to recapitalise the Strategic Reserve according to the CSSP's proposals. The Minister would be unable to rule out additional revenue-raising measures to meet this requirement.
- Under the Minister's proposals, the level of Jersey's borrowing would still be relatively low and its level of reserves would be high. It is possible that the alternative proposals put forward by the CSSP could impact unfavourably on Jersey's S&P credit rating and, potentially, mean that it may appear less attractive to investors than other jurisdictions which currently have the same rating, such as Guernsey.
- The CSSP proposed an amendment diametrically opposed to the thrust of the main proposition, which does not support good decision-making and creates confusion.

The Minister's proposal is prudent and recognised by the Fiscal Policy Panel, Treasury Advisory Panel and EY as a sensible and balanced solution in the current circumstances to fund a new hospital.

FINDINGS

	Findings	**Comments**
1	The Panel's advisers, *Concerto*, have analysed the various components of the budget and have rated it as Amber-Green under the UK Government Gateway review process. This means that "successful delivery appears probable. However, constant attention will be needed to ensure risks do not materialise into major issues threatening delivery.".	Agreed.
2	The hospital cost estimation is approximately £392 million excluding the allowance for "risk" (i.e. contingency). The risk allowance is £74 million.	Agreed, as at the time of lodging P.130/2017. The cost estimate is revised at key milestones within the project, and the risk allowance may change over time.
3	Out of the 9 projects reviewed by *Gleeds* for benchmarking, Jersey's proposed new hospital was the third most expensive.	Noted. However, as made clear during the review and in Panel hearings, the project is at an early stage of development, and no 2 hospitals are the same. Therefore, benchmarking is only one of the ways in which value for money should be considered.

	Findings	Comments
4	Out-patient services will be permanently located at Westaway Court under the Future Hospital proposals and not on the main hospital site.	This is partly correct. Out-patient services associated with long-term conditions are proposed to be located at Westaway Court. Other out-patient services, including women's and children's, renal and oncology services will be located in the main hospital.
5	With the permanent relocation of out-patient services to Westaway Court, this represents a 2-site solution.	Noted. However, the close location of Westaway Court to the main hospital means that close co-ordination of services with the main hospital was accepted as achievable by CSSP advisers.
6	There are a number of important items excluded from the hospital cost estimation which are directly relevant to the project, and the costs for which have not been quantified publicly. These include the extension to Patriotic Street Car Park, the demolition of the 1960s and 1980s blocks, and the ongoing costs for the new off-site catering facility and the relocated staff accommodation.	This is partly correct. The Transport Assessment undertaken by the project has recently confirmed the need for extra parking at Patriotic Street for hospital use, and therefore this will now be considered within the overall project cost. The lease costs for relocation of catering services off-site are included within the whole life costs of the project, as shared with CSSP advisers. As this relocation was planned irrespective of the solution for the Future Hospital, as it is not good value for money to re-provide such services within an expensive hospital building, this ongoing cost is not appropriate to be met within the capital allocation. It has recently been confirmed that key worker accommodation will be provided partly in temporary accommodation at the *The Limes* site, while a permanent base near the hospital is confirmed. Capital costs associated with the refit of *The Limes* will be met within the capital allocation. P.130/2016 confirms that the lease costs associated with the remaining temporary key worker accommodation will be met within the project costs during the current MTFP period, but will then be met through a revenue service charge to the Health and Social Services Department ("HSSD") from Andium. This provision will offset the cost of a declining capital asset with a modern and attractive key worker service. The costs of demolition of the residual hospital are not currently included within the project capital costs. The HSSD and Infrastructure Department are working together to develop a Health Estate Strategy, which will set out the proposed uses for the site in due course. The merits of a health campus and the scale of the health transformation mean it is likely that the site will need to remain zoned for health for the foreseeable future.

	Findings	Comments
7	In choosing the existing site, one of the advantages put forward by the Minister for Health and Social Services was the option to develop a health campus. No plans have been produced to support this proposal and the costings have not been provisioned for within the budget.	The Health and Social Services and Infrastructure Departments are working together to develop a Health Estate Strategy, which will set out the proposed uses for the site in due course. The merits of a health campus and the scale of the health transformation mean it is likely that the site will need to remain zoned for health for the foreseeable future. In this context, it would not be possible or appropriate to include costs for the health campus within the capital proposals for the Future Hospital.
8	At this early stage of the project, there is scope for savings to be made within the current cost estimation; for example, tenders coming in cheaper than originally budgeted for, efficiencies being found, or certain elements of the project not being required. If these savings are banked, the project can be delivered below the current cost estimation.	Agreed. However, there remain a large number of risks and issues that still need to be worked through, which means it would be unwise to unduly shackle the project at such an early stage; as this may mean that a reduced capital provision proves inadequate, and the project would need to return to the States for additional funding to ensure a safe, sustainable and affordable hospital is provided. All projects require some flexibility to ensure that they can take advantage of potential opportunities and add the most value, provided this is done in a controlled and accountable way. It is critical on such a major project, where rapid changes in health best practice and complex co-ordination is inevitable, that the project is permitted to propose opportunities for enhancing benefits and value for money, not just driving down cost, as this would not be in the long-term interest of Islanders or the sustainable and affordable operation of the Future Hospital.
9	P.130/2016 states that the Treasury Department is responsible for control of contingency; however, the exact governance structure around contingency control is still under discussion.	Noted. The CSSP's adviser acknowledged that the existing governance structure provides for extensive controls of all aspects of the project and is in accordance with Financial Directions. However, as the project is of such significance, it was already recognised within the project that the control of contingency needs additional safeguards, as was put in place on previous significant capital projects. The best approach to managing such contingency requires careful consideration of the finalised procurement approach, contractual form, risk allocation and financial management, in addition to governance and approval. These matters will be resolved and clarification provided on the proposed approach within the forthcoming investment decision proposition and report.

	Findings	Comments
10	A recent change in inflation assumptions was reallocated to fund additions to the Hospital Project.	This is partly correct. It is important to note that, as explained to the CSSP in a public hearing, during the development of the formal Project Brief certain adjustments and clarifications to the Health Brief have been required to ensure a safe, sustainable and affordable hospital. This would be the case on any construction project. Further, as conveyed to the CSSP's adviser, both additions and reductions to the project scope have been proposed through the value management framework. Finally, as these matters remain proposals, they are all subject to the States' consideration of the proposals for designs for hospital services in the investment decision proposition and report.
11	The Panel's adviser, *Opus*, has examined the options considered by the Treasury Department and has assessed that borrowing "*would appear to be a pragmatic way forward*".	Agreed.
12	Third-party involvement in the Hospital Project would provide oversight of decision-making structures and provide an element of risk reduction.	The report seeks to compare the proposed funding option with a PFI structure, in which a third party funder has a role that is absent in the proposed arrangements. This role is redundant for a funding route secured through bond (or other) direct borrowing or the use of reserves (or any combination thereof). The Project Team recognised at an early stage that 'independent' financial advice was required to provide an appropriate level of assurance. Following a competitive procurement process, Ernst and Young were appointed. The procurement sought: *"to appoint a suitably competent and appropriately resourced supplier to oversee the co-ordinated development and delivery of financial and economic (and support the delivery of the commercial) elements of the Feasibility Study and the Business Cases, and to subsequently assist and advise the Contracting Authority on issues arising from these elements of the Business Cases throughout subsequent delivery of the Project"*[1]. The Invitation to Tender set out the level of 'independence' required from the successful Financial Adviser in the following terms –

[1] *Invitation to Tender for Financial Adviser Services 31/3/2014*

	Findings	Comments
		"***Maintaining Independence*** *For the purposes of the delivery of the Services, the term 'independent' is to be considered by the Consultant in the context of them:* • *providing an objective evaluation of the evidence and information provided; and* • *using their own professional judgement in the interpretation of evidence and information provided; and* • *having a willingness to stake the Consultant's professional reputation on the quality of deliverables; and* • *maintaining a willingness to challenge stakeholder opinions;* • *being free from the influence of the Project Team, the Project Board, LOD, HSSD, TRD, or any representative of the Contracting Authority in providing advice, counsel, guidance or recommendations.* *In addition to the above, the Consultant will be required to ensure and maintain independence (as described above), during sustained engagement with stakeholders during the delivery of the Services.*" Further, in addition to independent financial advice, a separate and entirely independent team within EY plc. provide "third party" project assurance for the development of the project's business case. The project is being managed in accordance with the UK Office of Government Commerce "Gateway" process; and key third party gateway reviews, such as that undertaken by the CSSP's adviser, are planned throughout the project as evidenced through all the appointment documentation provided to the CSSP. It has previously been recommended that this process continues to be undertaken in partnership with the relevant Scrutiny Panel for ongoing public reassurance. In addition to the independent advisers and assurance process, the project has appointed an experienced architect with extensive hospital experience as 'design champion' for the project, who provides the Project Board with independent advice and challenge.

	Findings	Comments
		As the project moves into construction phases, the Project Board will look to appoint a 'construction champion' with a high level of experience of acting as adviser to client teams in delivery of major hospital projects.
13	The option of funding the Future Hospital Project solely from the returns on the Strategic Reserve was considered viable in 2014 for a project cost of £297 million, but has been ruled out as an option for funding the higher cost of £466 million.	For a budget of £297 million, at the time this was believed to be the correct approach, before it was known the extent that it would be necessary to draw from the Strategic Reserve and support the economy whilst we delivered balanced budgets. A budget of £297 million, funded from the Strategic Reserve, would very likely result in the Capital Value, agreed by the States, being breached. In any event, the £297 million solution is no longer advisable. This was the right solution in 2013. It is no longer viable and is not the right solution today, and that approach may have needed to be modified through proposals brought back to the Assembly.
14	If it is considered that borrowing is the best way to fund the Future Hospital Project, then the proposals lodged by Treasury are reasonable. However, an alternative option proposed by the Panel is to use the Strategic Reserve initially and recapitalise it from internal sources.	The Minister has presented his comments to the States (P.130/2016 Amd.(3)Com.) on the CSSP's proposal made in their amendment to the Projet, P.130/2016 Amd.(3), and its addenda, i.e. P.130/2016 Amd.(3)Add. and P.130/2016 Amd.(3)Add.(2). The 'internal resources' referred to by the CSSP are in reality funds provided out of taxpayers' pockets, totalling an estimated £388 million.
15	Recent modelling by the Treasury shows that if an amount of £4.2 million (increased annually by inflation) was paid into the Strategic Reserve each year until 2060, it would bring the Strategic Reserve back to the same level of £4.2 billion in 2060 as if the bond option had been followed, without taking on any debt.	At current prices on a comparable basis, this amount is £5.2 million, rising to £16.2 million annually. This would require taxpayers to contribute in the region of £377 million by 2060 that they would otherwise not have had to pay.
16	The Panel considers that finding an amount of £4.2 million annually from internal sources to recapitalise the Strategic Reserve should be achievable. On this basis, the Panel has lodged an amendment to P.130/2016 in order to give States Members a choice between funding the hospital from internal measures or through the proposed Bond issue.	This requires taxpayers to contribute £377 million over 40 years that otherwise would not be required by the proposal of the Minister.

	Findings	Comments
17	The Investment Strategy for the Strategic Reserve will be important in ensuring that the interest on the proposed Bond can be serviced.	Noted. The Investment Strategy for the borrowed funds will be published in accordance with legal requirements and normal arrangements.
18	In order to ensure the Bond interest can be serviced, the Strategic Reserve cannot be used for other purposes for at least 10 years (at the Panel's suggestion, this has been increased to 15 years in the recent amendment to the proposition lodged by the Minister for Treasury and Resources).	Noted and agreed, except for the Fund's primary purposes by the Minister. However, the States Assembly can, at any time, change its approach if a proposition were to be brought by a future Minister. This could arise, for example, from unforeseen resources available to the Fund.
19	A permanent reduction in annual income of the States of £42 million (approximately 5%) over a long-term period would lead to the Strategic Reserve being overdrawn without other measures being taken.	This conclusion is one drawn from stress-testing by the Treasury, testing a scenario of a £42 million deficit for each year of 40 years. As CSSP suggests, this would never be allowed to occur by any reasonable Jersey Government. The Panel confirms that impacts on a more realistic short-term basis can be absorbed. The risks identified by the Panel in relation to the States' and Strategic Reserve income apply equally to the CSSP's own alternative proposal, but would result in deeper and earlier adverse effects if they were adopted.
20	The stress-testing undertaken by Treasury shows that one-off shocks can be coped with in the proposed funding strategy. However, permanent structural changes would require changes to the strategy.	Permanent structural changes would only require amendments to the strategy if they involved very significant sums from the Strategic Reserve because of natural disaster or loss of the finance industry. Deficits would be addressed by the States.
21	The Panel's adviser has commented that the uncertainty presented by Brexit presents a choice to either take advantage of today's low interest rates or to be more cautious and allow time to see how and when the costs of the project pan out and to tailor the borrowing accordingly.	The adviser's comments are noted. However, the Minister believes that the States Assembly, and the Island as a whole, prefer a position of certainty of costs and the ability to meet those costs. The opportunity to achieve this certainty is offered by the historically low bond rates currently available. The adviser also acknowledges that waiting carries the risk of debt becoming more expensive, and would threaten the strategy.
22	When the Hospital Funding Strategy was initially debated in January 2017, the proposed level of borrowing (£400 million) was marginally below the permitted headroom under the Public Finances Law (£402 million).	This is coincidental. If the optimum borrowing amount was above £400 million, then an amendment to the Public Finances (Jersey) Law 2005 would have been brought by the Minister. Jersey's ratio of debt to GDP following borrowing of £400 million would still be low (at around 16%).

	Findings	Comments
		The Minister lodged his own (fourth) amendment to P.130/2016, which set the maximum amount of borrowing at £275 million.
23	The headroom for borrowing has increased to approximately £25 million.	Treasury figures demonstrate this.
24	Issuing a bond of £400 million would severely restrict the future borrowing ability of the States without changing the current restrictions imposed by the Public Finances Law.	Agreed. The Minister lodged his own (fourth) amendment to P.130/2016, which set the maximum amount of borrowing at £275 million.
25	Jersey's debt to GDP ratio is small, however comparisons of this ratio with sovereign nations is of limited value. Jersey is not a sovereign nation and the self-imposed borrowing limit as set out in the Public Finances Law is more relevant.	The comments on Jersey's debt ratio are made by the Minister's advisers (EY), who consider the comparison to be valid. However, the Panel's views are noted, and there are no plans at present to increase the borrowing threshold in the Finance Law.
26	On a strict legal basis, the borrowing condition in the Public Finances Law has been met. However, it is important to be aware of all liabilities of the States when considering the further borrowing now being contemplated. The Panel estimates that total current and future liabilities would be just under £2 billion if the bond proposal is accepted.	The Minister disagrees with the CSSP's calculations. See his comments on their amendment: P.130/2016 Amd.(3)Com.
27	For the purposes of the borrowing condition set out in Article 21(3) of the Public Finances Law, the Long-Term Care Charge is considered a tax.	For that purpose, the Long-Term Care Charge payments received are considered to form a part of "the estimated income of the States derived from taxation during the previous financial year".
28	It is clear from the schedule presented to States Members during the debate in January 2017 that if the Long-Term Care Charge had not been considered a tax, the proposed borrowing would have exceeded the available headroom at that time. The option that had been considered in this scenario was to change the borrowing limit in the Public Finances Law.	Yes, the Minister could have brought forward an amendment to the Law. The Minister lodged his own (fourth) amendment to P.130/2016, which set the maximum amount of borrowing at £275 million.

RECOMMENDATIONS

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
1	The maximum budget that the Hospital Project Team work to should exclude the "risk" elements of the budget (i.e. contingency) and should therefore be £392 million. Control of the majority of the "risk" part of the budget of £74 million should be external to the project team so that it is only used for genuine unforeseen costs. It should be recognised that both elements of the budget envelope are estimates and could reduce as actual costs are established.	DfI/ T&R	Accept in principle	The Treasury supports the general principle of holding the contingency sum separately from the main project sum within the Strategic Reserve, with sums being released to meet forecast expenditure on a cash-flow basis. The recommendation does, however, require some clarification. Risk allocation sums are held, in the main, for foreseeable items that have not yet occurred. The risk and value management processes within the project, on which Concerto comment positively [paragraph 6, page 15], consider the likely project risks and allocate risk contingency funding accordingly, based on impact and likelihood of occurrence. Some risks will occur and some will not – the impact may be at the forecast level or at a different sum. This is the nature of risk. There are few genuinely unforeseeable items that are not captured in the risk register and which are addressed on major projects through an allocation termed "optimism bias". They are either unknowable or unquantifiable, but materialise prior to the project business case being fixed. The robust risk and value management process will ensure those foreseen risks are properly managed and mitigated. The recommendations consider that if 'savings' are realised, they should be retained and not be reallocated within the project. The implication is that where cost forecasts reduce, either as a result of the adoption of a lower cost solution or, possibly, through an exogenous change such as a reduction in forecast inflation, the overall budget should be reduced. This position removes the necessary flexibility from the project budget. Savings will only materialise, and can only be 'banked'	Ongoing

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
				with certainty, on completion of the project when all costs, fees, any claims and any matters relating to defects and other post-contract performance issues, have been fully resolved. Until that point, a favourable budget variance is not a realisable saving. Conversely, the project must manage within the budget constraints the challenges placed upon it by an ever-evolving health service, where opportunities and risks will continue to arise until and after the project construction commences. To unduly restrain the ability of the project to propose opportunities that invest to save and offer revenue savings, or add value by promoting the sustainable delivery of hospital services or improving key matters of safety, would not appear to be in the interest of the Public of Jersey or consistent with the best practice management of major capital projects. The overall project budget of £466 million therefore rightly incorporates an appropriate level of contingency and optimism bias that is relevant for this stage of the project development. As the design develops and the procurement process progresses, an element of the contingency sum will crystallise and move into the 'base budget' requirement. Recommendation 1 recognises that, '… both elements of the budget envelope are estimates and could reduce …' – the converse is also true; and the ability to utilise the contingency sums appropriately and in a timely manner is essential to the delivery of this large and complex project. Treasury is committed to working with the project team to develop a mechanism for releasing funds that maximises the investment potential, whilst applying a prudent approach to the use of contingency funding.	

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
				Irrespective of the split between 'base budget' and 'risk allocation', the overall funding allocation will remain within the Strategic Reserve and will be released through a Treasury 'Gateway' process. The Treasury would support the retention of material reductions in cost forecasts being retained within the managed contingency sum and released to the project budget, only where justification is provided and agreed.	
2	Both elements of the budget envelope (i.e. capital cost and contingency) are estimates and could reduce as actual costs are established. The principle of external control should apply to all savings (irrespective of whether they occur within contingency or within the capital cost element), and which should not be spent.	T&R	Accept in principle	See comments on Recommendation 1. The Minister's fourth amendment to P.130/2016 made a minor wording change to reinforce the position that £466 million is the maximum budget which will be available for the new Jersey General Hospital.	Ongoing
3	Any savings achieved from the hospital cost estimate of £392 million should not be reallocated to be spent elsewhere. Such savings should be retained by Treasury separate from Contingency, as a saving.	T&R	Accept in principle	See comments on Recommendation 1.	Ongoing
4	The benchmarking work undertaken at the request of *Concerto* should be developed further to ensure the relative cost of Jersey's project is fully understood.	DfI	Accept	The Treasury welcomes the benchmarking work that has been undertaken to date, and supports the recommendation of the Panel to develop this further.	Ongoing

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
5	There needs to be a considered decision made regarding the Health Campus and Westaway Court. The long-term future usage of both sites needs clarification, justification and full costing.	DfI/ HSS/ T&R	Accept in principle	In relation to Westaway Court, the Project Team shared the decision-making process undertaken thus far to propose the use of the site as a permanent Long-term Condition Centre with the Panel's adviser, and the adviser recognised the robustness of the governance process involved. This proposal for Westaway Court will therefore be part of the considered investment decision taken by the States Assembly as explained to the Panel. The use of the vacated current hospital site is something that requires mature and comprehensive consideration, and will require a strategic decision that is fully researched. The principle of a Health Campus for this site is an attractive concept as it provides for further future-proofing during the life of the new hospital and thereafter. However, the site will not be available until the mid-2020s, and there is adequate time to consider how it can be best utilised. The development of a Health Estates Strategy in the context of the next Island Plan is an essential pre-requisite to look at, not only what can be delivered on the site, but also what that strategy would deliver in terms of releasing other sites for the delivery of services or disposal for alternative development, and this work has commenced.	To be deter-mined
6	Plans for developing a health campus on the existing hospital site, the estimated costs and the proposed funding sources should be clearly set out by Ministers by July 2017 when the detailed funding proposals for the hospital are brought before the States.	DfI/ HSS/ T&R	Reject at this time	It is clearly not possible to provide the level of information, given the time until the land becomes available, and nor is it required at this stage. These are strategic decisions for a future States Assembly.	N/A

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
7	The finance costs associated with the construction period should be clearly set out when the detailed funding proposals for the hospital are brought before the States.	T&R	Accept in principle	This proposition is the funding proposal to the States. The financing costs were set out in principle in P.130/2016, and will be confirmed to the Assembly once financing has been delivered.	July 2017 where available
8	The Minister for Treasury and Resources should publish by Ministerial Decision any significant changes to the composition of the cost estimate outlined in P.130/2016 where savings or changes in assumptions are proposed to be reallocated within the project. This should cover both the period up to July 2017 when the detailed budget is brought to the States and subsequently as the project develops.	T&R	Accept	The Treasury is committed to providing the Assembly with the outcome of decisions taken by the Minister, either personally or under an approved scheme of delegation, that relate to significant changes to the cost estimate and release of funds. The Panel will understand that the level of detail within the decisions that can be made public will reflect the commercial confidentiality necessary to ensure the Public remains well-placed to procure services at the best price.	Ongoing
9	Contingency controls should be finalised as soon as possible and included in the detail of the final budget when it is brought back to the States in July. This should include reference to material savings arising from changes in assumptions or where costs turn out to be lower than budgeted for.	T&R	Accept	Controls will be outlined further to the Assembly.	July 2017
10	Third-party oversight of the Hospital Project should be explored in greater detail, before the project progresses further.	T&R	Accept	The report seeks to compare the proposed funding option with a PFI structure, in which a third party funder has a role that is absent in the proposed arrangements. This role is redundant for a funding route secured through bond (or other) direct borrowing or the use of reserves (or any combination thereof).	Ongoing

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
				The Project Team recognised at an early stage that 'independent' financial advice was required to provide an appropriate level of assurance. Following a competitive procurement process, Ernst and Young were appointed. The procurement sought: *"to appoint a suitably competent and appropriately resourced supplier to oversee the co-ordinated development and delivery of financial and economic (and support the delivery of the commercial) elements of the Feasibility Study and the Business Cases, and to subsequently assist and advise the Contracting Authority on issues arising from these elements of the Business Cases throughout subsequent delivery of the Project"*[2]. The Invitation to Tender set out the level of 'independence' required from the successful Financial Adviser in the following terms – "***Maintaining Independence*** *For the purposes of the delivery of the Services, the term 'independent' is to be considered by the Consultant in the context of them:* • *providing an objective evaluation of the evidence and information provided; and* • *using their own professional judgement in the interpretation of evidence and information provided; and* • *having a willingness to stake the Consultant's professional reputation on the quality of deliverables; and* • *maintaining a willingness to challenge stakeholder opinions;*	

[2] *Invitation to Tender for Financial Adviser Services 31/3/2014*

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
				• *being free from the influence of the Project Team, the Project Board, LOD, HSSD, TRD, or any representative of the Contracting Authority in providing advice, counsel, guidance or recommendations.* *In addition to the above, the Consultant will be required to ensure and maintain independence (as described above), during sustained engagement with stakeholders during the delivery of the Services.*" Further, in addition to independent financial advice, a separate and entirely independent team within EY plc. provide "third party" project assurance for the development of the project's business case. The project is being managed in accordance with the UK Office of Government Commerce "Gateway" process; and key third party gateway reviews, such as that undertaken by the CSSP's adviser, are planned throughout the project as evidenced through all the appointment documentation provided to the CSSP. It has previously been recommended that this process continues to be undertaken in partnership with the relevant Scrutiny Panel for ongoing public reassurance. In addition to the independent advisers and the assurance process, the project has appointed an experienced architect with extensive hospital experience as 'design champion' for the project, who provides the Project Board with independent advice and challenge. As the project moves into construction phases, the Project Board will look to appoint a 'construction champion' with a high level of experience of acting as adviser to client teams in delivery of major hospital projects.	

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
11	The Panel's advisers have made a number of recommendations in their reports about the detail of the Future Hospital Project. Ministers should ensure that these recommendations are all acted upon.	DfI/ T&R	Accept in principle	All recommendations of the advisers will be considered properly and adopted where appropriate.	Ongoing
12	Irrespective of the outcome of the debate on the Future Hospital Funding Strategy, the Minister for Treasury and Resources should bring forward proposals for an annual capitalisation of the Strategic Reserve.	T&R	Reject	If borrowing is adopted and there are no unforeseen shocks, the Panel presents no rationale for taxpayers paying an additional burden to increase the level of the Strategic Reserve further. Proceeds from the sale of Strategic Assets, as stated in the Minister's proposals, would be considered as a means of growing the Strategic Reserve. The Minister is also mindful of the potential to replenish the Stabilisation Fund, if spending and income levels permit.	N/A
13	The Articles of the Public Finances Law in relation to borrowing and lending should be reviewed to ensure clarity of definitions, particularly in relation to the definition of "borrowing".	T&R	Accept	The beginning of the debate on P.130/2016 in January 2017 highlighted the need for greater clarity.	December 2017
14	The Public Finances Law sets the parameters around which the States considers its financing options. The self-imposed borrowing limit set out in the Public Finances Law should be considered as prudent financial management and not subject to change if additional borrowing is considered in the future.	T&R	Reject	It is not for the Minister to make such a commitment. This would be a matter for a future Minister, Council of Ministers and States Assembly to decide at the time. There are no current plans to increase the limit. The Fiscal Policy Panel, in their Annual Report published in September 2015, commented: "However, a number of existing rules and legislation such as that covering the Consolidated Fund and limits on what the States can borrow and lend, still run the risk of	N/A

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
				being counterproductive in certain circumstances. For example, the conservative limits on what the States can borrow could stop, or delay, large capital projects.”.	

CONCLUSION

Whilst rejecting the Panel’s proposals to fund the Future Hospital entirely from the Strategic Reserve, the Minister is pleased to be able to accept the majority of its recommendations.