States of Jersey
States Assembly

États de Jersey
Assemblée des États

Future Hospital Review Panel

Future Hospital Project

Presented to the States on 6th December 2017

S.R.13/2017

CONTENTS

1. Executive Summary

The Future Hospital Project Team has been developing plans for the new hospital since the Proposition (P.82/2012) to redesign the health and social services system was adopted by the Assembly in 2012. P.82/2012 explains the need to transform services in order to meet the demands of the ageing population, and to ensure the size of the new hospital can be appropriately contained through the delivery of more services in the community.

Since P.82/2012 was approved, a significant amount of work has been undertaken in transforming the health and social services system and identifying a site for the new hospital coupled with an appropriate funding mechanism.

The Proposition "Future Hospital: Approval of the Preferred Scheme and Funding" was lodged by the Treasury Minister on 31st October 2017. In summary, P.107/2017 asks Members to approve the preferred scheme (a new build hospital on a part of the current site and a new build facility at Westaway Court) and the funding strategy.

The report accompanying P.107/2017 is separated into two main areas - the first provides details of the preferred scheme for the new hospital and the second explains the recommended funding strategy. The preferred scheme is set out within an Outline Business Case (attached in full as an appendix to the Proposition).

An important aspect to the successful delivery of the preferred scheme is the management of certain risk factors. With the assistance of its advisor (Concerto), the Panel identified three short-term risks to the successful delivery of the hospital project and, if these are overcome, three longer term risks.

The short-term risks to the project are:

1. P.107/2017 is not approved by the Assembly
2. Planning permission is refused
3. A main contractor is not appointed.

Concerto assessed the short-term objectives of the project and rated this phase as **Amber-Red** which means the successful delivery of the project in the short-term period is in doubt with major risks or issues apparent in a number of key areas.

The longer-term risks to the project are:

1. The community based interventions in P.82/2012 are undelivered
2. The process of purchasing properties in Kensington Place is delayed
3. Project resources are too thinly spread across the project

In terms of the longer-term objectives, Concerto rated this phase of the project as **Amber-Green** which means that successful delivery appears probable.

Concerto's overall view of the Outline Business Case was that it is fit for purpose and presents a sound enough basis for decision making by the States Assembly.

In terms of the sequence of decision making, however, the Panel note that the States Assembly is being asked to debate P.107/2017 before the outcome of the hospital planning inquiry has been determined. The Panel consider that the ideal sequence for decision making would be for planning approval to be obtained prior to the debate on the preferred scheme and its funding. In that regard, the Panel has asked the Treasury Minister to defer the debate on P.107/2017 until the outcome of the planning inquiry is known.

The funding proposals represent an evolution of the proposals originally lodged by the Treasury Minister in November 2016. The recommended funding strategy is that the new hospital will be funded through a "blended solution" comprising a public rated sterling bond of up to £275 million and the use of existing reserves to fund the balance of the overall cost up to £466 million.

The Panel's advisor (Opus) comment that among other reasons, the proposal to issue a bond to fund the hospital project makes sense as it is a form of bond already issued by the States and therefore will be familiar to investors.

The funds raised by the bond will be held in the Strategic Reserve until they are needed for the project. In order to ensure that there is no risk to the fund and that they are readily accessible, they will need to be invested in safer assets. Opus considered the weakest part of the funding proposals was the investment strategy for the Strategic Reserve. The Panel recommend that a clear, coherent and tailored strategy, which specifically takes account of the amount and timing of the calls that will be placed on the Strategic Reserve is published before the bond is issued.

The Treasury Department commissioned some stress testing work, based on different scenarios, as part of its work on the previous funding strategy. In relation to the latest funding proposals the Panel found that this work had not been repeated. The Panel recommend that further stress testing work is carried out based on the revised funding proposals and published prior to the debate on P.107/2017.

2. Chairman's Foreword

The Future Hospital Project represents a vitally important project for the Island, not just because it represents the largest capital project that the Island has undertaken, but also and more importantly, because the Future Hospital forms a vital part of the Health care strategy being put forward by this Council of Ministers not only for this generation, but also for generations to come. As such, and quite rightly, this project has generated a large amount of public interest and concerns, all of which need to be listened to, and heeded, when deciding on the right choice going forward.

The need for a new hospital has been proven, and accepted by the vast majority of both States Members, and members of the public. That said, the decision as to where a Future Hospital will be sited still remains a contentious issue. Since the States Assembly made the final decision (P.110/2016) to site the new hospital on the site of the existing General Hospital, serious concerns have been raised, both publically and privately, as to the size and scale of what is now envisaged. Whilst only 3 States Members voted against P.110/2016 at the time, quite a number of Members have now voiced concerns that the information provided to them at the time of the debate, namely the artists drawings and illustrations, on which they based their decision, bear little resemblance to the plans put forward to support the planning application. This fact, coupled with the recent Comptroller and Auditor General's report highlighting the very serious issues with the whole decision making process surrounding the siting of the Future Hospital, and the very serious concerns and issues raised by members of the public and other stakeholders during the course of the recent Independent Planning Inquiry, raise the question in a lot of people's minds as to whether or not the current planned site for the Future Hospital is in fact the best one. This report does not address the site issue, as it is outside the remit of this Review Panel, however, this issue remains current for the reasons as stated above.

With regards to the Independent Planning Inquiry, it should be borne in mind that (at the time of presenting this report) we are still awaiting the outcome of this Inquiry, and for the Minister for the Environment to make a decision as to whether or not to grant planning permission. It seems somewhat bizarre that the States Assembly are being asked to vote on an Outline Business Case and to approve a funding solution of £466 million without even knowing if planning permission will be granted for a Future Hospital of the size, nature, and location as outlined in the Business Case. Indeed the Connétable of St John has lodged an amendment on this very issue. One of the key recommendations in this report is that the Minister for Treasury and Resources delay the debate until the outcome of the Planning Inquiry is known, so as to give certainty to States Members during the debate. It should also be borne in mind that the debate on P.107/2017 is the last time that this project will come back to the States Assembly for approval, and as such represents the last opportunity that States Members, and the voice of the public through their elected representatives, will be heard.

With regards to the funding solution being proposed, it is clear that the blended solution of public borrowing through the debt market, and utilising reserves, represents the most pragmatic approach. What is not clear is why the Minister for Treasury and Resources withdrew the previous funding proposal, which for all intents and purposes (apart from the quantum envisaged) was identical to the one now contained within P.107/2017. Aside from stating that other funding options needed to be investigated, the Minister has given no other tangible reasons as to why he withdrew the original funding proposal. It is known that approaches were made to the Council of Ministers by external third parties putting forward alternative funding solutions, but the Minister has declined to divulge the exact nature of these "alternatives" nor the identity of the third parties in question. Fortunately for the Minister this delay has not seen any significant increase in borrowing costs as the sterling bond market had already discounted the increase in base rates into its pricing models prior to the Bank of England making its announcement.

There remain a number of short term risks to the Future Hospital Project (as detailed in our advisor's report) which represent major issues to be considered. The two major ones are the question of planning permission being obtained, and the agreement of the States Assembly to P.107/2017. As mentioned above in order to obtain the full backing of both the States Assembly, and the public, the question of planning needs to be resolved in a timely and satisfactory manner prior to any further long term, binding decisions being taken.

Deputy Simon Brée

Chairman, Future Hospital Review Panel

3. Key Findings

KEY FINDING 1: There are three short-term risks critical to the successful delivery of the Future Hospital Project. Planning permission must be granted, the Proposition outlining the preferred scheme (P.107/2017) must be approved by the States, and a main contractor must be appointed.

KEY FINDING 2: The successful delivery of the Future Hospital Project in the short-term period is in doubt and has been rated as Amber-Red by the Panel's advisor Concerto.

KEY FINDING 3: There are three longer-term risks critical to the successful delivery of the Future Hospital Project. The community based strategies contained in P.82/2012 must be successfully delivered, properties in Kensington Place must be purchased, and the Future Hospital team must be appropriately resourced.

KEY FINDING 4: The successful delivery of the Future Hospital Project in the longer-term, should short-term risks be overcome, appears probable and has been rated Amber-Green by the Panel's advisor Concerto.

KEY FINDING 5: The States Assembly is being asked to approve the preferred scheme for the Future Hospital prior to the outcome of the Planning Inquiry and the Minister for the Environment's decision.

KEY FINDING 6: There is a compelling case for a new hospital. Parts of the existing building do not meet "modern standards" and are of poor quality.

KEY FINDING 7: As explained in the Proposition which outlined the preferred site (P.110/2016), pathology services were originally going to be provided in the main hospital to ensure close co-location of critical support services. The latest Proposition outlining the preferred scheme (P.107/2017) explains that pathology will now be provided in a separate location at Westaway Court. Coupled with other services at Westaway Court such as outpatients, physiotherapy, cardio-respiratory and clinical investigations, this effectively creates a two-site hospital.

KEY FINDING 8: According to the recent report on Disease Projections 2016 - 2036 certain chronic diseases are projected to increase. The Outline Business Case estimates demand in the future from the current incidence of certain diseases within the population but does not reflect potential increases in the prevalence of certain other diseases which are known to be on the rise. The report on Disease Projections was published after the modelling work on the population had been undertaken.

KEY FINDING 9: Recent developments in St Helier such as the new Royal Bank of Canada offices and the Jersey International Finance Centre will generate extra demand of an additional 608 parking spaces in the vicinity of the hospital.

KEY FINDING 10: The decision to not include parking at Westaway Court has been made without an accurate indication as to how many staff will be working in the new build. This work will be carried out as part of the next stage of transport work.

KEY FINDING 11: Patient parking at Westaway Court will be limited to 14 spaces.

KEY FINDING 12: The Panel's advisor Concerto noted that the Outline Business Case does not include a Target Operating Model which would compare the current "as is" with the future "to be" operating models. In this context, information regarding current services provided in the hospital and services which may no longer be provided in the future hospital is not accessible to the public.

KEY FINDING 13: The Proposition outlining the preferred scheme (P.107/2017) was lodged in the absence of a Health Impact Assessment (HIA). The HIA would contain a clear analysis of whether the health outcomes of the population (or certain sections of it) would be compromised by the proposed changes. Completing a HIA is considered best practice in the UK and will soon become a formal requirement.

KEY FINDING 14: The procurement strategy is supported by the Panel's advisor Concerto, although it is complex and may not be easily understood by those approving and scrutinising the project.

KEY FINDING 15: The cost of the main hospital building accounts for £386 million of the £466 million overall estimated cost. The cost of demolishing or developing the remainder of the buildings within the current hospital have not been factored into this cost estimate nor has a decision been made as to what the remainder of the current site might be used for.

KEY FINDING 16: The inflation assumption in the budget has reduced to £53 million since the previous funding proposals were put forward in P.130/2016 when the level was £68 million. This has created a gain to the project of £15 million, of which approximately £11 million was allocated in January 2017 to other items within the project such as the decision to rebuild Westaway Court (instead of refurbishing it).

KEY FINDING 17: The total capital and revenue cost for the Future Hospital is £61.1 billion over the 60 year life including inflation. If inflation is discounted, the total capital and revenue cost is £15.6 billion over the 60 year life. The costs to issue the bond have been included in the revenue costs, but the annual coupon (interest) due to investors in the bond has not.

KEY FINDING 18: Relocation costs have increased from £44 million to £80 million creating a difference of £36 million. This increase has mainly been due to the rebuild of Westaway Court and the relocation of pathology services (£17 million). This increase illustrates the importance of robust change and control management of risk and optimism bias as the project develops.

KEY FINDING 19: A critical path has been developed by the Future Hospital Team which details the sequence of stages determining the minimum time needed to complete the future hospital

project. Dates for key critical path activity such as planning approval, contractor appointment and Westaway Court have already slipped against the timetable established in September 2017.

KEY FINDING 20: The plans to rebuild Westaway Court are not on the critical path. Given that some key critical path activity has already slipped against the timetable, there is a risk that the rebuild of Westaway Court will become project critical.

KEY FINDING 21: The resources delivering the overall health transformation are too thinly spread due to the fact that the Future Hospital Team is constrained from making any appointments until P.107/2017 and the funding is approved. This funding constraint represents a continuity risk and misses the opportunity for wider knowledge and skills transfer.

KEY FINDING 22: The current Information Communications Strategy (ICT) covering the period 2013 - 2018 does not provide the necessary basis for ICT planning needed for the future hospital. It is intended that a new strategy will be developed but it is unclear whether this work has been completed.

KEY FINDING 23: It is proposed that the construction of Jersey's new hospital is funded through a "blended solution" comprising a public rated sterling bond of up to £275 million and the use of existing reserves to fund the balance of the overall cost up to £466 million.

KEY FINDING 24: The funding proposal is a "middle path" between funding the hospital entirely from borrowing or entirely from the Strategic Reserve. The Panel's advisor, Opus, considers this to be a "pragmatic response" to these two options.

KEY FINDING 25: If borrowing is considered the best option to fund Jersey's future hospital, then a sterling bond is the most appropriate option due to three reasons - sterling is the natural currency for Jersey; a nominal bond fixes the cost of borrowing so that it is known up front and; a sterling bond has already been issued for Andium Homes making it familiar to investors.

KEY FINDING 26: It is expected that the bond will be issued in the first half of 2018 although a level of flexibility has been allocated to allow for market conditions. The Panel's advisor, Opus, consider that it is appropriate to raise a bond at this stage in the project.

KEY FINDING 27: The Treasury Department is using a minimum cash receipt from the bond of £265 million for planning purposes.

KEY FINDING 28: The change in the Bank of England base rate of interest has not had a profound effect on the cost of issuing a bond to fund the new hospital.

KEY FINDING 29: There is no significant difference in bond interest rates since the previous funding strategy was withdrawn.

KEY FINDING 30: The protected capital of the Strategic Reserve would be preserved under the proposed funding strategy. Over the life of the proposed bond, the closest the total value of the Strategic Reserve would get to the protected capital value is £35 million.

KEY FINDING 31: As part of the previous funding strategy, the Treasury and Resources Department commissioned its advisors to undertake some scenario modelling for the Strategic Reserve. In terms of the latest funding proposals, no new stress testing work has been carried out to examine the impact of the revised funding proposals on the Strategic Reserve balance under certain scenarios.

KEY FINDING 32: The proposed level of borrowing of up to £275 million through issuing a bond is well within the borrowing limit set out in the Public Finances Law.

KEY FINDING 33: External financing options such as Asset Backed Commercial Paper (short term borrowing) and Private Finance Initiatives (PFI) have been considered and discounted as funding options for the new hospital.

KEY FINDING 34: Under the funding proposals, the Strategic Reserve will be used to pay part of the capital costs of the hospital project as well as the interest costs of the bond and repayment of the bond upon maturity. A tailored investment strategy for the Strategic Reserve is essential.

KEY FINDING 35: The Panel's advisor, Opus, considers that the weakest part of the funding proposals is the investment strategy for the Strategic Reserve. Although the Strategic Reserve Fund has a successful track record of investment it is unclear how the investment strategy will be tailored to the new circumstances within the revised funding strategy.

4. Recommendations

Please note: Each recommendation is accompanied by a reference to that part of the report where further explanation and justification may be found.

RECOMMENDATION 1: The Panel is of the opinion that the Treasury Minister should consider delaying the debate on the preferred scheme and funding (P.107/2017) until the first States sitting after a decision has been made on the planning application [section 6.2].

RECOMMENDATION 2: Further sensitivity testing should be undertaken, by Q1 2018, to see how recent trends in the prevalence of certain diseases might impact future demand. Testing should focus on those conditions that consume a high proportion of hospital resources [section 7.2].

RECOMMENDATION 3: The Infrastructure Minister must commission a review of parking and a traffic impact assessment specifically in the area of Westaway Court (and approach roads) by Q1 2018 [section 7.3].

RECOMMENDATION 4: A Target Operating Model (TOM) needs to be developed which describes the full range of services to be provided at the new hospital, including all support services and business/administrative functions. The TOM must provide clarity on those services that will be re-provided in other community and primary care settings, and how they will operate in future. The TOM needs to be completed and published before the end of January 2018 [section 7.3].

RECOMMENDATION 5: A Health Impact Assessment needs to be completed by the Future Hospital Team and published prior to the States debate on the preferred scheme and funding proposals (P.107/2017) [section 7.3].

RECOMMENDATION 6: The Future Hospital Team need to raise awareness of the procurement strategy and the type of contract to appoint the main contractor to ensure understanding. This needs to be undertaken in a series of briefing sessions in January 2018 before the main contractor is appointed [section 7.4].

RECOMMENDATION 7: The Council of Ministers must provide a strategic policy statement regarding what will happen to the remaining buildings on the hospital site before the debate on the preferred scheme and funding proposals (P.107/2017) [section 7.5].

RECOMMENDATION 8: Any budget savings resulting from further reductions in inflation assumptions should not be re-allocated to other parts of the project without specific authority from the Treasury and Resources Department [section 7.5].

RECOMMENDATION 9: Gleeds (the independent property and construction consultancy who developed the Outline Business Case) have put forward a strategy concerning the delegation and management of contingency and optimism bias. This needs to be implemented by the Future

Hospital Team and as such must go through the formal approvals process before the end of 2017 [section 7.5].

RECOMMENDATION 10: The critical path needs to be kept up to date and published on a monthly basis from December 2017 onwards so that progress can be easily monitored [section 7.5].

RECOMMENDATION 11: Westaway Court must be included on the critical path. In order to ensure that risks to the critical path are minimised, detailed plans for the demolition and rebuild of Westaway Court must be submitted to support the planning application. This must be completed by the end of January 2018 [section 7.5].

RECOMMENDATION 12: The Future Hospital Team need to provide an overall governance chart to give assurances that there are sufficient resources in the form of personnel, skill sets and knowledge base both currently and planned in order to deliver the overall health transformation. This chart should be published during the first quarter of 2018 [section 7.6].

RECOMMENDATION 13: A medium to long term Information Communications Strategy needs to be developed and fully costed which takes into account the plans for the future hospital. This strategy needs to incorporate the wider health transformation programme and the successful delivery of intervention strategies through enhanced levels of care in the community [section 7.6].

RECOMMENDATION 14: The Treasury and Resources Department should undertake further stress testing work based on the revised funding proposals to determine the impact on the Strategic Reserve in certain scenarios. As a starting point, prior to the debate on the preferred scheme and funding (P.107/2017), the Treasury and Resources Department should model the impact of the worst case scenario of a recurring £42 million shortfall in States Revenues over a long term period. This will mirror the work previously undertaken by the Treasury and Resources Department as highlighted in a report by the Corporate Services Scrutiny Panel (S.R.4/2017) [section 8.2].

RECOMMENDATION 15: The Treasury and Resources Department need to publish a clear, coherent and tailored investment strategy for the Strategic Reserve which specifically takes account of the amount and timing of the calls that will be placed on the Strategic Reserve. This strategy needs to be published before the bond is issued [section 8.4].

5. Introduction

5.1 Context and Background

On 1st December 2016, the States approved, in principle, the site location for the new hospital (P.110/2016). It agreed that the new hospital would be built on the current hospital site with an extension along the east side of Kensington Place, including Westaway Court. After the debate, the Council of Ministers committed to bring back detailed proposals about the development and design work of the hospital to the Assembly in 2017.

The Future Hospital Funding Strategy (P.130/2016) was lodged by the Treasury Minister on 30th November 2016 and set out proposals for funding the new hospital. The Minister's proposal was for a bond to be issued up to a maximum of £400 million and for it to be repaid from returns on the Strategic Reserve Fund. P.130/2016 was reviewed by the Corporate Services Scrutiny Panel and as a result of its work, the Panel presented a report (S.R.4/2017) and amendment (third amendment) to the Proposition which set out an alternative funding mechanism.

P.130/2016 was withdrawn by the Treasury Minister who publically announced[1] that the debate should be delayed until the project costs and risks became clearer. The Treasury Minister also advised that the Outline Business Case and funding proposals would be debated together in the autumn.

P.82/2012: Health and Social Services: A New Way Forward

Any review undertaken on the new hospital must also take into consideration the wider health transformation programme outlined in P.82/2012. P.82/2012 was approved in 2012 and explains the need to transform services in order to meet the demands of the ageing population, and to ensure the size of the new hospital can be appropriately contained through the delivery of more services in the community.

[1] Statement: Minister for Treasury and Resources, 23rd May 2017

5.2 The Review

In anticipation of a Proposition coming before the States, a Review Panel was established in August 2017 which included Members from both the Health and Social Security Scrutiny Panel and the Corporate Services Scrutiny Panel. Both Panels have previously undertaken reviews on the Future Hospital Project and so establishing a Review Panel seemed the most appropriate way of scrutinising both the Outline Business Case and funding proposals.

The Review Panel ("the Panel") appointed Concerto Partners LLP and Opus Corporate Finance as its expert advisors. Concerto conducted an assurance review of the Outline Business Case and Opus provided a desktop study of the funding proposals. Both advisors have assisted on previous reviews of the Future Hospital which ensures a level of continuity and consistency. The advisor reports can be found in appendices 1 and 2.

The Panel's report is divided into three main sections. The first provides an overview of the Proposition (P.107/2017 – Future Hospital: Approval of Preferred Scheme and Funding), the second is the Panel's scrutiny of the Outline Business Case and the third examines the funding proposals.

6. Part 1: The Proposition

6.1 Future Hospital: Approval of Preferred Scheme and Funding

The Proposition (P.107/2017 – Future Hospital: Approval of Preferred Scheme and Funding) was lodged by the Treasury Minister on 31st October 2017 and, in simple terms, asks Members to approve:

a) The Preferred Scheme which is a new build hospital on a part of the current site and a new build support facility at Westaway Court

b) The establishment of a "Hospital Construction Fund"

c) The Treasury Minister to borrow up to £275 million towards the construction of the Preferred Scheme, and to direct the amount borrowed to be paid into the Strategic Reserve Fund

d) That the Strategic Reserve Fund policy is amended so monies from it can be transferred into the new "Hospital Construction Fund" representing the balance up to £466 million (after deducting £23.6 million already allocated in connection with previous Budgets).

e) Further amendments to the Strategic Reserve Fund policy.

The report accompanying the Proposition details the funding proposals and provides a summary of the OBC. The main report of the OBC is attached as an appendix B to the Proposition. The OBC itself has over 30 different appendices which are accessible to the public on the Future Hospital's website.

6.2 Risks to the Hospital Project

It is noted that an important aspect to the successful delivery of the Future Hospital Project is the management of certain risk factors. Appendix 30 of the OBC details a risk register which includes a number of risk factors such as patient and staff safety during the construction phases and retaining existing or recruiting new staff during the transitional period. In addition to these risks, the Panel identifies some additional short and longer-term risk perspectives that are of concern.

Short-term risks

With the assistance of its advisor (Concerto), the Panel has identified three short-term risks to the project. These are:

1. **P.107/2017 is not approved by the States Assembly**
2. **Planning permission is refused**
3. **A main contractor is not appointed**

The Panel asked the Health Minister what affect it would have on the Future Hospital Project if the States rejected P.107/2017. The Minister said: *"There will not be a new hospital and all the consequences that fall from that"*[2].

The Panel also asked what would happen if the States failed to obtain initial planning permission. The Estates Director of Infrastructure explained that: *"I think it depends on whether the refusal is something that requires a small amount of activity or a large amount of activity but, in any event, further design work to develop the scheme from the outline planning application to deal with reserve matters if the planning application were approved, needs to happen in the next period, in the next 12 to 18 months. So does it have an impact? It does have an impact. Is it a critical impact to the project? It would depend upon how much redesign work would be needed and what the failure to obtain planning approval was based on*"[3].

Concerto advised that the costs of the project to date (£15.1 million) would become lost costs if planning permission was not granted. The design of the Future Hospital is "*almost wholly site-specific and starting again on a new site would require a new design solution*"[4].

Concerto also advised that if planning permission is granted but P.107/2017 is not approved, the project will be delayed, resulting in a cost impact. If the delay was measured in single weeks it is likely the cost would be in the order of low millions, but if there is a larger delay the cost impact will more likely be measured in £10 million multiples.[5]

[2] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.30
[3] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.28
[4] Appendix 1 - Concerto Assurance Report, section 5.22
[5] Appendix 1 - Concerto Assurance Report, section 5.22

When asked about the risk concerning the failure to appoint a main contractor, the Estates Director of Infrastructure advised the Panel that the process to appoint a contractor was underway: *"So all I can do for the panel today is to confirm that process is progressing well. We have good interest, credible contractors who have associated themselves with local companies. We have met with them twice and we are going through a process which we believe will deliver an outcome that will have a contractor capable of being brought on to the project, on a pre-contract services agreement, by the end of January 2018."*[6]

Concerto assessed the short-term objectives of the project, measured over a six month period, and rated this phase of the project as **Amber-Red**. This means that successful delivery of the project in the short-term period is in doubt with major risks or issues apparent in a number of key areas[7].

KEY FINDING 1: There are three short-term risks critical to the successful delivery of the Future Hospital Project. Planning permission must be granted, the Proposition outlining the preferred scheme (P.107/2017) must be approved by the States, and a main contractor must be appointed.

KEY FINDING 2: The successful delivery of the Future Hospital Project in the short-term period is in doubt and has been rated as Amber-Red by the Panel's advisor Concerto.

Longer-term risks

The Panel also identified some longer-term risks to the project, which are:

1. **Interventions outlined in P.82/2012 are undelivered**
2. **The process of purchasing properties in Kensington Place is delayed**
3. **Project resources are too thinly spread across the project**

The Panel asked the Managing Director of the Hospital what would happen if only 50% of the interventions contained in P.82/2012 were successfully delivered: "….*we will have more patients in the hospital so the bed capacity will be tighter*."[8]

Concerto were given access to a modelling tool from the FH Team and assessed the "tipping" point should P.82/2012 interventions not fully deliver their intended outcomes. Concerto found that a 50% shortfall would lead to a bed deficit in 2036[9].

The Panel note that the successful delivery of the new hospital is dependent on the successful delivery of the interventions contained in P.82/2012. The impact of not implementing these

[6] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.31
[7] Appendix 1 - Concerto Assurance Report, Executive Summary
[8] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.36
[9] Appendix 1 - Concerto Assurance Report, section 3.25 - NOTE: Concerto recognised that the interventions included in the demand and capacity model are conservative and other service initiatives are now underway and not included in the OBC which might mitigate this risk

community based care strategies will have a significant effect on the size of the new hospital and therefore should be considered as a significant risk[10].

In order to provide the full site footprint for the Future Hospital a number of properties, including hotels, residential and commercial premises on Kensington Place will need to be purchased. The Panel asked what would happen if compulsory purchase was necessary and caused a delay.

The Estates Director of Infrastructure confirmed that this was a risk but there was still time in the process before vacant possession of the properties was required: *"Firstly, we have engaged with all owners and we have established with all owners their credentials, and again I do not wish to betray any confidences, other than to say that all owners are content to engage with us in discussions which will form the negotiations with regards to the acquisition of the properties. Is there a risk that if we do not reach agreement, compulsory purchase processes need to happen; yes, it is a risk? It is an undeniable risk*"[11].

In terms of resources, Concerto advised the Panel that one of their primary concerns was capacity: "*The core project team is under-resourced. There are too few suitably experienced in-house project resources, at all levels. Consequently there is a strong reliance on Gleeds* [an independent property and construction consultancy], *whose people demonstrate high capability. We are aware that the project team are considering the resource profile for the next phase of work but are constrained from making any appointments until the OBC has been approved. As such, this represents a continuity risk*."[12]

The Estates Director of Infrastructure advised that there were plans to increase expertise within the Future Hospital Team (FH Team) but additional posts were unable to be put in place until funding was secured.[13] This is explained in further detail later on in the report.

In terms of the long-term project objectives, Concerto rate the project as **Amber-Green**, meaning that successful delivery appears probable[14].

KEY FINDING 3: There are three longer-term risks critical to the successful delivery of the Future Hospital Project. The community based strategies contained in P.82/2012 must be successfully delivered, properties in Kensington Place must be purchased, and the Future Hospital team must be appropriately resourced.

KEY FINDING 4: The successful delivery of the Future Hospital Project in the longer-term, should short-term risks be overcome, appears probable and has been rated Amber-Green by the Panel's advisor Concerto.

[10] Medium Term Financial Plan Addition 2017 - 2019, p.68/2016, p.60
[11] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.34
[12] Appendix 1 - Concerto Assurance Report, section 6.5
[13] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.47
[14] Appendix 1 - Concerto Assurance Report, Executive Summary

Decision making

The Panel is concerned about the sequence of decision making in regard to the Future Hospital Project. Although a political matter, it should be noted that it is highly likely States Members will be asked to debate P.107/2017 before the outcome of the hospital planning inquiry has been determined.

The public inquiry into the planning application for the new hospital began on 6th November 2017 and lasted for approximately 4 days. The inquiry was led by an independent inspector who will collate and summarise the evidence submitted during the inquiry and prepare a report and recommendation for the Environment Minister to determine. After considering the inspector's report, the Minister will announce his decision and the inspector's report will be published[15].

It is unclear when the Environment Minister will announce his decision but it is unlikely it will happen before the debate on P.107/2017.

The Panel's concern about the sequence of decision making is reinforced by the Comptroller and Auditor General's recent report "Decision Making: Selecting a Site for the Future Hospital (March 2012 - February 2016)". The C&AG states in the report: "*Making the right decisions in the right way is key to securing value for money*"[16].

KEY FINDING 5: The States Assembly is being asked to approve the preferred scheme for the Future Hospital prior to the outcome of the Planning Inquiry and the Minister for the Environment's decision.

RECOMMENDATION 1: The Panel is of the opinion that the Treasury Minister should consider delaying the debate on the preferred scheme and funding (P.107/2017) until the first States sitting after a decision has been made on the planning application.

[15] Planning and Building (Public Inquiries) (Jersey) Order, 2008
[16] R.125/2017 - Office of the Comptroller and Auditor General - Decision Making: Selectin a Site for the Future Hospital (March 2012 - February 2016), 23rd November 2017, p.2

7. Part 2: The Outline Business Case

7.1 What is an Outline Business Case?

An Outline Business Case (OBC) is a document which provides decision makers, stakeholders and the public with evidence-based and transparent decision making. OBCs also provide a framework for the delivery, management and performance of the project[17].

The Future Hospital OBC was completed by Gleeds - an independent property and construction consultancy. The OBC sets out the appraisal work that has been undertaken since the Strategic Outline Case was completed by W.S. Atkins in 2013. Gleeds explain that the aim of the OBC is to test the options available in meeting the challenge of implementing the health transformation programme as set out in P.82/2012.

The Five Case Model

In developing the OBC, Gleeds followed the format of the UK Treasury Five Case Model (2013) which is broken down into the following:

Green Book Treasury Guidance states that the OBC must evidence[18]:

1. That there is a compelling case for change that provides holistic fit with other parts of the organisation and public sector – the "**Strategic Case**"
2. The project represents best public value – the "**Economic Case**"
3. The proposed deal is attractive to the market place, can be procured and is commercially viable – the "**Commercial Case**"
4. That proposed spend is affordable – the "**Financial Case**"
5. That what is required from all parties is achievable – the "**Management Case**"

The Panel has followed the structure of the OBC and the following sections provide commentary on each of the five cases.

[17] Public Sector Business Cases using the Five Case Model: Green Book Supplementary Guidance on Delivering Public Value from Spending Proposals. Website accessed at www.gov.uk
[18] Public Sector Business Cases using the Five Case Model: Green Book Supplementary Guidance on Delivering Public Value from Spending Proposals. Website accessed at www.gov.uk

7.2 The Strategic Case

Overview

This part of the OBC has provided the case for change for a new hospital, in particular[19]:

- The need for system wide reform and the way in which health and social care is provided (P.82/2012)
- The ageing demographic and the management of long-term conditions
- Population growth and the impact this has on the size and functional composition of the Future Hospital[20]
- The physical condition of the hospital and the negative effect this might have on delivering transformation changes and staff recruitment

Concerto conclusion: "*Our conclusion is that the strategic case for the FHP remains sound. The case for a new hospital, as a key component of the whole service redesign and transformation agenda for health and social care on the Island, is compelling*."[21]

The need for a new hospital

The Panel accepts that there is a compelling case for a new hospital. Concurring with previous reviews on the Future Hospital Project, there is no doubt that parts of the existing hospital do not meet "modern standards" and are not fit for current or future purposes as evidenced in the Six-Facet Estate Survey (2015)[22].

The Survey confirmed that the current hospital's external fabric is at, or has exceeded, its design life. It also found that some building areas are of poor quality in terms of their effectiveness as working environments and as spaces for modern healthcare[23] - which would not support the effective delivery of interventions contained in P.82/2012.

KEY FINDING 6: There is a compelling case for a new hospital. Parts of the existing building do not meet "modern standards" and are of poor quality.

Existing site and Westaway Court

The preferred scheme is a new build on the current site and a new build at Westaway Court. The Proposition (P.110/2016) which led to the approval of the preferred scheme in 2016 explained that

[19] P.107/2017 - Outline Business Case p.32
[20] P.107/2017 - Outline Business Case p.17
[21] Appendix 1 - Concerto Assurance Report, section 2.9
[22] States of Jersey commissioned Sweett Group to carry out a standard Six Facet Survey on the General Hospital
[23] P.107/2017 - Outline Business Case p.22

Westaway Court would be repurposed and used as the new out-patients facility[24]/[25]. Since further development work has been carried out via the OBC, Westaway Court will now be rebuilt and as well as providing out-patient services will also provide the pathology service as detailed in P.107/2017.

This would lead the Panel to form the opinion that the new hospital is a two site option. When the Health Minister was questioned he said:

> **Deputy S.M. Brée:**
> *"We said: "Will you accept that this is a 2-site hospital?"*
>
> **The Minister for Health and Social Services:**
> *"No, I will not."*
>
> **Deputy S.M. Brée:**
> *"You will not. Okay".*
>
> **The Minister for Health and Social Services:**
> *"I will not. I will accept it is 2 buildings but that is not unusual but this is not a 2-site operation.[26]"*

One of the justifications given in P.110/2016 was that it ensured *"close co-location of critical support services such as pathology and pharmacy"*[27], as pathology was originally planned to remain in the new hospital build. The Panel is concerned how this will impact the main hospital when a critical support service is provided in a different location. The relocation of pathology would seem to support the Panel's view that the new hospital is a two site option.

KEY FINDING 7: As explained in the Proposition which outlined the preferred site (P.110/2016), pathology services were originally going to be provided in the main hospital to ensure close co-location of critical support services. The latest Proposition outlining the preferred scheme (P.107/2017) explains that pathology will now be provided in a separate location at Westaway Court. Coupled with other services at Westaway Court such as outpatients, physiotherapy, cardio-respiratory and clinical investigations, this effectively creates a two-site hospital.

Population projections

The Panel raised a concern about population projections, particularly given that a scenario of +700 inward migration was used in the absence of a Population Policy, and how these might affect future demand for services within the hospital.

[24] P.110/2016 - "Future Hospital: Preferred Site" p.7
[25] Public Hearing with the Minister for Health and Social Services, 4th November 2016, p.40
[26] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.23
[27] P.110/2016 - "Future Hospital: Preferred Site" p.7

P.107/2017 explains that sensitivity analysis has been undertaken to take account of variations in the population (+325, +700, +1000 and +1500)[28]. As Concerto explains, the population projections show an ageing demographic profile with a high proportion of older residents (65yrs+ and 80yrs+). These age groups show an increased prevalence of long-term conditions and as such tend to be the heaviest users of the Island's healthcare services.[29]

Chronic diseases

A recent report by the Public Health Statistics Unit estimates an increase in patients with a number of chronic diseases and conditions if the current age-specific prevalence of diseases continued together with the current level of net inward migration[30].

Concerto explain that the OBC extrapolates demand in the future from the current incidence of certain diseases within the population but does not reflect potential increases in the prevalence of certain diseases which are known to be on the rise[31]. As the Public Health Statistics Unit report indicates by 2036[32]:

- Heart failure is estimated to increase by 75%
- Coronary heart disease is expected to increase by 63%
- Chronic kidney disease by 74%

The Director of the Future Hospital Project explained that the report by the Public Health Statistics Unit was published after the modelling work had been undertaken:

> **Director, Future Hospital Project:**
> *"The report was not in favour of the timeline we did in our plan, that particular report was published in September. It does indicate a growth in primary care attendance as the order that you describe there. The question in modelling terms is how many of those primary care additional attendances are converted into hospital attendances. So there are several layers to that consideration. One is how much of that additional activity converts. We use beds as quite a rough indicator. We have done some analysis based on that. Again, it was too late to incorporate into this, which shows again, confirms that there is a negligible impact on bed requirements as a result of those primary care attendances because the kind of things that people are attending primary care for do not always convert into hospital activity and, indeed, should not convert into hospital activity if the health of the Island is going to be sustained."*[33]

Concerto suggest that further sensitivity testing should be undertaken to see how increases in the prevalence of certain conditions might impact future demand.

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[28] P.107/2017 - "Future Hospital: Approval of Preferred Scheme and Funding" p.21
[29] Appendix 1 - Concerto Assurance Report, section 3.13
[30] Disease projections 2016-2036 report, Public Health Statistics Unit, 14th September 2017, p.5
[31] Appendix 1 - Concerto Assurance Report, section 3.14
[32] Disease projections 2016-2036 report, Public Health Statistics Unit, 14th September 2017, p.6
[33] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.6/7

KEY FINDING 8: According to the recent report on Disease Projections 2016 - 2036 certain chronic diseases are projected to increase. The Outline Business Case estimates demand in the future from the current incidence of certain diseases within the population but does not reflect potential increases in the prevalence of certain other diseases which are known to be on the rise. The report on Disease Projections was published after the modelling work on the population had been undertaken.

RECOMMENDATION 2: Further sensitivity testing should be undertaken, by Q1 2018, to see how recent trends in the prevalence of certain diseases might impact future demand. Testing should focus on those conditions that consume a high proportion of hospital resources.

7.3 The Economic Case

Overview

This part of the OBC provides an economic appraisal of four development options for the Future Hospital:

1. Option 1 - Do nothing
2. Option 2 - Do minimum
3. Option 3 - A "new build" hospital on the current site and refurbishment of Westaway Court
4. Option 4 - A "new build" hospital on the current site and a "new build" at Westaway Court

The Economic Case concluded that option 4 was the best performing option and should be confirmed as the "Preferred Scheme"[34] hence the title of P.107/2017 "Future Hospital: Approval of Preferred Scheme and Funding".

Concerto conclusion: "*Our conclusion is that the Economic Case is based on sound principles and analysis.*"[35]

Preferred Scheme: Parking

Current

The Panel is concerned about the impact of the preferred scheme on car parking spaces now and in the future. Currently Patriotic Street multi storey car park is used by patients and visitors as well as staff (25 staff and 56 patient and visitor reserved spaces)[36]. There is also designated car parking within the site adjacent to Gloucester Street and Newgate Street. Overall, this parking comprises of:

- 83 staff parking spaces (25 located within Patriotic Street car park)
- 8 disabled parking spaces
- 3 blood donor spaces
- 56 patient and visitor spaces

An interim parking study (2016) indicated that the recent developments in St Helier including the Royal Bank of Canada and the Jersey International Finance Centre will result in an additional demand of 608 parking spaces[37].

[34] P.107/2017 - Outline Business Case p.95
[35] Appendix 1 - Concerto Assurance Report, section 3.31
[36] Appendix Q - Interim Parking Report - Jersey Future Hospital, Interim Parking Study, p.3
[37] Appendix Q - Interim Parking Report - Jersey Future Hospital, Interim Parking Study, p.1

Planned

All staff parking (excluding the 25 spaces located within Patriotic Street car park) is expected to be removed in order to accommodate the reduced footprint size of the new hospital. The 8 disabled parking spaces adjacent to the Newgate Street hospital entrance will be relocated within the new build site, potentially with additional new spaces. The 3 blood donor parking spaces will be lost as part of the new design[38].

The Panel note that some existing services within the hospital will be permanently moved off-site which is hoped to reduce demand on the staff car park[39]. It is also noted that no parking is planned for staff at Westaway Court. However it seems that this decision has been made without an accurate indication as to how many staff will be working in the new build. The interim parking study explains that a staff survey, as part of the proposed next stage of transport work, will be able to provide a more accurate reflection on the number of staff that will work in the building[40].

There are also plans to mitigate the demand for staff parking including introducing a car share scheme with parking spaces reserved for car sharers, a parking cash out scheme which allows staff to sell their parking space and providing a limited number of new parking permits to staff based on a needs based criteria. Some existing permit holders all have a condition within their contracts of employment providing the right to a parking space[41].

KEY FINDING 9: Recent developments in St Helier such as the new Royal Bank of Canada offices and the Jersey International Finance Centre will generate extra demand of an additional 608 parking spaces in the vicinity of the hospital.

KEY FINDING 10: The decision to not include parking at Westaway Court has been made without an accurate indication as to how many staff will be working in the new build. This work will be carried out as part of the next stage of transport work.

Given that the demand for public parking will exceed supply, it is anticipated that an additional two half decks are added to Patriotic Street car park to provide additional spaces (100) and the provision of a link bridge over Newgate Street to link to new hospital[42].

In regards to Westaway Court, which will be the new outpatients facility, the Panel were concerned about parking spaces available for patients in particular the elderly. The Panel was told that 14 spaces currently sized as disabled bays were planned plus 2 drop-off bays and a drop-off bay for patient transport vehicles[43]:

[38] Appendix Q - Interim Parking Report - Jersey Future Hospital, Interim Parking Study, p.17
[39] Appendix Q - Interim Parking Report - Jersey Future Hospital, Interim Parking Study, p.17
[40] Appendix Q - Interim Parking Report - Jersey Future Hospital, Interim Parking Study, p.17
[41] Appendix Q - Interim Parking Report - Jersey Future Hospital, Interim Parking Study, p.18
[42] P.107/2017 - Outline Business Case p.75
[43] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.21

Deputy J.A.N. Le Fondré:
"Right, okay. So that is good order there but I was thinking of other circumstances where we may have elderly people looking after elderly relatives who may not be blue badge holders and therefore would not potentially have access to what is a restricted amount of space at Westaway Court, and then the other ambulatory issue is from parking in Patriotic Street or even getting on to a minibus for an elderly person could be a challenge".

The Minister for Health and Social Services:
"We also have the pick-up and drop-off facility".

Deputy J.A.N. Le Fondré:
"Even so. Sorry, with practice that means that ... a real life example of an elderly relative looking after a mother or husband, so they drop off at the moment then they are going to have to get to Patriotic Street and then get back to Westaway".

Director, Gleeds Management Services:
"We are expecting significant improvements in the method of booking patients' appointments and that can extend as far as understanding how the patient is getting to the hospital, if someone is bringing them, and then as part of their appointment they can be directed to a space that they are allowed to park in because they have an appointment and they may remain for the period of time of their appointment or they may be dropped off by a relative. So those controls are expected as part of delivery of an improved management flow through the hospital[44]*".*

KEY FINDING 11: Patient parking at Westaway Court will be limited to 14 spaces.

RECOMMENDATION 3: The Infrastructure Minister must commission a review of parking and a traffic impact assessment specifically in the area of Westaway Court (and approach roads) by Q1 2018.

Target Operating Model

Concerto noted the lack of an over-arching document describing the Target Operating Model for the new hospital and Westaway Court. This document should compare the current "as is" with the future "to be" operating models. Concerto advised that without clarity around what the future target operating model will look like there is a risk of future contingency and fund drawdown if late changes are made to scope or layout[45]/[46]. The Panel is also concerned that, in addition to the Target

[44] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.19
[45] Appendix 1 - Concerto Assurance Report, Executive Summary
[46] Appendix 1 - Concerto Assurance Report, sections 3.5 and 3.6

Operating Model, the OBC does not provide a clear comparison of services currently provided in the hospital compared to what will be provided in the new hospital[47].

The Panel questioned the FH Team on this issue and was advised that the Department had accepted the suggestion by Concerto and was aiming to develop a Target Operating Model by January 2018 (which is consistent with Concerto's recommended timescale):

> **Hospital Managing Director:**
> *"A target operating model is a tool and some people use it in these scenarios and some people do not. We have got service plans, operational policies, design briefs, workforce plans that cover all of the elements that a target operating model would normally encompass. I welcome that recommendation for more advisers to pull all that together into one place under an operating model and so we are going to do that".*[48]

KEY FINDING 12: The Panel's advisor Concerto noted that the Outline Business Case does not include a Target Operating Model which would compare the current "as is" with the future "to be" operating models. In this context, information regarding current services provided in the hospital and services which may no longer be provided in the future hospital is not accessible to the public.

RECOMMENDATION 4: A Target Operating Model (TOM) needs to be developed which describes the full range of services to be provided at the new hospital, including all support services and business/administrative functions. The TOM must provide clarity on those services that will be re-provided in other community and primary care settings, and how they will operate in future. The TOM needs to be completed and published before the end of January 2018.

Health Impact Assessment

Concerto also noted that there was no reference to a Health Impact Assessment (HIA) in the OBC. A HIA is a specific test to identify potential effects on the health of a population that may result from policy changes. Concerto explain that a HIA would contain a clear analysis of whether the health outcomes of the population (or certain sections of it) would be compromised by the proposed changes[49].

At the time of the Public Hearing on 10th November, the Panel was advised that a HIA had been undertaken by the Department and was due to be discussed at a Project Board meeting on 15th November and would be published thereafter[50]. The Panel is concerned that P.107/2017 was lodged prior to the HIA being completed. The Director of Gleeds explained that in Jersey there was no requirement to carry out a HIA but in the UK it was seen as best practice and would soon become a formal requirement:

[47] Public Hearing with the Minister for Treasury and Resources, 13th November 2017, p.30

[48] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.40
[49] Appendix 1 - Concerto Assurance Report, sections 3.5 and 3.30
[50] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.5

Deputy S.M. Brée:
"So you can confirm that the whole process, if you like, lodging P.107, the detail in it, and indeed all the other steps that have been taken so far, have been done in absence of a Health Impact Assessment?"

Director, Future Hospital Project:
"The requirement for a Health Impact Assessment, it is not a requirement in Jersey to do a Health Impact Assessment and so we have done one regardless. We commissioned one because we felt that was best practice".

Deputy S.M. Brée:
"So is it a requirement in the U.K. (United Kingdom) to have one in place before anything else happens? This is just to inform our understanding of the situation."

Director, Gleeds Management Services:
"At the time of commencement of this piece of work and the planning inquiry it would not be a formal requirement, it is best practice. It is now becoming a formal requirement in the N.H.S. (National Health Service)[51]".

KEY FINDING 13: The Proposition outlining the preferred scheme (P.107/2017) was lodged in the absence of a Health Impact Assessment (HIA). The HIA would contain a clear analysis of whether the health outcomes of the population (or certain sections of it) would be compromised by the proposed changes. Completing a HIA is considered best practice in the UK and will soon become a formal requirement.

RECOMMENDATION 5: A Health Impact Assessment needs to be completed by the Future Hospital Team and published prior to the States debate on the preferred scheme and funding proposals (P.107/2017).

[51] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.5

7.4 The Commercial Case

Overview

This part of the OBC sets out the planned approach to ensure the successful delivery of the Future Hospital Project. This includes making sure there is a competitive market and a commercially beneficial procurement process that achieves best value for money.[52]

Concerto conclusion: "*Our conclusion is that the commercial case covers all the main elements that would be expected and matches the requirements of the project*."[53]

The Procurement Strategy

Concerto explain that the main hospital procurement strategy consists of a two stage design and build process. The main contractor contract is a target cost incentivised arrangement with a maximum guaranteed price cap. The chosen contract is a "New Engineering Contract 3", modified with a number of Z clauses which largely cover unique Jersey-specific clarifications[54].

P.107/2017 explains that a Target Cost contract is considered to offer significant benefit in terms of its scope to mitigate risk, to adopt buildability opportunities, and to drive and include aspects of agreed design innovation[55].

Concerto support the strategy despite its complexity and advise that it may not be easily understood by those approving and scrutinising the project - senior officials and politicians. In that regard, Concerto recommend that the Future Hospital Team (FH Team) should raise awareness of the New Engineering Contact 3 procurement approach among senior decision-makers, the Scrutiny Panel and key stakeholders.

KEY FINDING 14: The procurement strategy is supported by the Panel's advisor Concerto, although it is complex and may not be easily understood by those approving and scrutinising the project.

RECOMMENDATION 6: The Future Hospital Team need to raise awareness of the procurement strategy and the type of contract to appoint the main contractor to ensure understanding. This needs to be undertaken in a series of briefing sessions in January 2018 before the main contractor is appointed.

[52] P.107/2017 - Outline Business Case p.96
[53] Appendix 1 - Concerto Assurance Report, section 4.9
[54] Appendix 1 - Concerto Assurance Report, section 4.1/4.2 and P.107/2017 - Outline Business Case p.114
[55] P.107/2017 - "Future Hospital: Approval of Preferred Scheme and Funding" p.22

7.5 The Financial Case

Overview

This part of the OBC sets out the whole life financial costs associated with the delivery of the preferred scheme and, to act as a comparison, the costs associated with the delivery of the "do nothing" option[56]. The case concluded that the current capital cost estimate for the preferred scheme is £465,881,896 which falls within the envelope set out in P.110/2016 of £466 million[57].

Concerto conclusion: *"…our view is that the cost forecasts include contingency allowance that look reasonable at this stage of the project in relation to the risks. Our conclusion is that the Financial Case is based on sound principles*."[58]

Cost of the Future Hospital

The capital cost of the Future Hospital has been estimated at £466 million. The cost of the main hospital building accounts for £386 million of the proposed cost[59]. Concerto's view was that the £466 million estimate appeared safe and was a reasonable budget for the project at OBC stage[60].

Part 3 of this report scrutinises the funding strategy for the construction of the Future Hospital with a budget of up to £466 million.

What do the costs include?

The £466 estimated cost incorporates all main works to the hospital, together will all related relocation and enabling works and associated fees[61]. The costs also include[62]:

- works required to repurpose the granite block, but not any other legacy buildings for non-clinical use
- purchasing properties on Kensington Place
- building temporary clinical blocks
- relocating the corporate function to free up the space necessary to allow a single phases main construction

[56] P.107/2017 - Outline Business Case p.153
[57] P.107/2017 - Outline Business Case p.153
[58] Appendix 1 - Concerto Assurance Report, section 5.24
[59] Appendix 1 - Concerto Assurance Report, section 5.3
[60] Appendix 1 - Concerto Assurance Report, section 5.3
[61] P.110/2016: Future Hospital: Preferred Site, lodged by the Council of Ministers, 19th October 2016, p.12
[62] P.107/2017 - "Future Hospital: Approval of Preferred Scheme and Funding" p.4

The Panel note that the cost of demolishing or developing the remainder of the buildings not required for the new build are not factored into the £466 million estimate. As P.107/2017 explains, there has been no decision as to what the remainder of the current site might be used for[63].

KEY FINDING 15: The cost of the main hospital building accounts for £386 million of the £466 million overall estimated cost. The cost of demolishing or developing the remainder of the buildings within the current hospital have not been factored into this cost estimate nor has a decision been made as to what the remainder of the current site might be used for.

RECOMMENDATION 7: The Council of Ministers must provide a strategic policy statement regarding what will happen to the remaining buildings on the hospital site before the debate on the preferred scheme and funding (P.107/2017).

Inflation

An amount of £53 million has been applied for inflation. The level of inflation has reduced since the previous funding proposals were put forward in P.130/2016 when the level was £68 million[64]. This has created a sum of £15 million, of which the FH Team reallocated approximately £11 million in January 2017 to other items within the project which included the rebuild of Westaway Court. As Concerto identified in a previous Corporate Services Scrutiny (CSS) review of the funding proposals:

> **Concerto:**
> *"…the Project Board in January 2017 took a decision to reallocated £11m these potential savings towards funding some value-enhancing changes. The main change approved by the Board was the demolition and reconstruction of Westaway Court, rather than its refurbishment"*[65].

During that review, Concerto noted that, even though the correct procedures were followed to authorise this change, inflation predictions could move the other way. The CSS Panel at the time raised the concern that if inflation increased and the Westaway Court project was already underway, the FH Team would have to find compensating savings from other parts of the budget or resort to using contingency[66].

It was the CSS Panel's view that changes to inflation predictions should not be "spent" and recommended that any savings should not be allocated to be spent elsewhere and should be retained by the Treasury separate from contingency, as a saving (which was accepted in principle)[67].

The Panel asked what would happen should inflation rise and was told that there is a degree of flexibility within the project:

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[63] P.107/2017 - "Future Hospital: Approval of Preferred Scheme and Funding" p.4
[64] P.107/2017 - Outline Business Case, p.151
[65] S.R.4/2017 "Future Hospital Funding Strategy" 13th April 2017p.29
[66] S.R.4/2017 "Future Hospital Funding Strategy" 13th April 2017p.30
[67] S.R.4/2017 "Future Hospital Funding Strategy" 13th April 2017 p.3

Deputy J.A.N. Le Fondré:
"The inflation assumption, the comment is that the B.C.I.S. [Building Cost Information Service] *inflation indices have dropped, it shows decline, therefore you have a saving, shall we say, of £15 million on inflation estimates, which has now been obviously spent, you are probably saying incorporated into the cost of the project*."

Director, Estates Department for Infrastructure:
"We have not spent it yet because we have not got the budget."

Deputy J.A.N. Le Fondré:
"But it has been incorporated into the cost of the project. What happens if the inflation indices change and start going up?"

Director, Estates Department for Infrastructure:
"The value log that [Director of Gleeds] referred to has a number of opportunities on there to reduce costs, which could be taken. Some of the designed in opportunities that have been taken, depending on when your change of circumstances comes to fruition, could be reversed; there is still flexibility"[68].

KEY FINDING 16: The inflation assumption in the budget has reduced to £53 million since the previous funding proposals were put forward in P.130/2016 when the level was £68 million. This has created a gain to the project of £15 million, of which approximately £11 million was allocated in January 2017 to other items within the project such as the decision to rebuild Westaway Court (instead of refurbishing it).

RECOMMENDATION 8: Any budget savings resulting from further reductions in inflation assumptions should not be re-allocated to other parts of the project without specific authority from the Treasury and Resources Department.

Revenue costs

The OBC explains that the total capital and revenue costs for the Future Hospital is £61.1 billion over the 60 year life including inflation[69]. If inflation is discounted, the total capital and revenue costs are £15.6 billion over the 60 year life[70].

Funding these costs will require substantial investment in future MTFP periods. Concerto explains that the major element of the running costs are the clinical and non-clinical costs, which over the 60 year life significantly outweigh the capital costs[71].

[68] Public Hearing with the Minister for Treasury and Resources, 13th November 2017, p.57
[69] P.107/2017 - Outline Business Case, figure 83, p.156
[70] P.107/2017 - Outline Business Case, figure 83, p.79
[71] Appendix 1 - Concerto Assurance Report, sections 5.12

The Panel note that although the costs associated with the bond issue (£2.5 million[72]) have been included within the £15.6 billion, the bond interest rate costs have not. When asked about this issue the Director for Financial Planning and Performance said:

> **Director for Financial Planning and Performance:**
> *"We did have quite a long discussion about this as part of the project board including 40 years of interest rate for a funded solution that was outside of the project if you like. We decided that was not necessarily aligned with these sorts of end costs".*
>
> **Deputy J.A.N. Le Fondré:**
> *"So… that is roughly £7 million in 40 years, which is, what, £280-odd million… was not considered necessary to include it in the revenue costs for the scheme?"*
>
> **Director for Financial Planning and Performance:**
> *"It was not deemed as a revenue cost for the hospital project, no"*[73].

KEY FINDING 17: The total capital and revenue cost for the Future Hospital is £61.1 billion over the 60 year life including inflation. If inflation is discounted, the total capital and revenue cost is £15.6 billion over the 60 year life. The costs to issue the bond have been included in the revenue costs, but the annual coupon (interest) due to investors in the bond has not.

Relocation costs

The relocation costs have increased from £44 million to £80 million creating a difference of £36 million. The increase has been mainly due to the rebuild of Westaway Court and the inclusion of pathology services, which in total equates to £17 million. It is also due to the inclusion of the cost of staff accommodation and work to Patriotic Street car park (which were not previously funded in the Future Hospital budget) and costs associated with more general scope changes and design developments[74]. On the latter point, Concerto believe this illustrates the importance of robust change control and management of risk and optimism bias as the project develops[75].

Representatives from Gleeds presented to Concerto a possible approach to the delegation and management of contingency and optimism bias which Concerto believe should go through the formal approvals process before the end of 2017.

KEY FINDING 18: Relocation costs have increased from £44 million to £80 million creating a difference of £36 million. This increase has mainly been due to the rebuild of Westaway Court and the relocation of pathology services (£17 million). This increase illustrates the importance of robust change and control management of risk and optimism bias as the project develops.

[72] P.107/2017 - Outline Business Case, figure 83, p.79
[73] Public Hearing with the Minister for Treasury and Resources, 13th November 2017, p.36
[74] Appendix 1 - Concerto Assurance Report, sections 5.6 and 5.7
[75] Appendix 1 - Concerto Assurance Report, sections 5.8

RECOMMENDATION 9: Gleeds (the independent property and construction consultancy who developed the Outline Business Case) have put forward a strategy concerning the delegation and management of contingency and optimism bias. This needs to be implemented by the Future Hospital Project Team and as such go through the formal approvals process before the end of 2017.

Optimism Bias and Contingency

The OBC explains that the contingency allowance remains intact at this stage and has not been drawn down. Contingency is expressed in two locations within the cost estimate - construction risks are held within the works cost budget and client contingency is held separately from the works cost[76]. This is shown in the table below:

Comparison of Capital Costs	
Cost description	**OBC/current**
£m	
Works Cost Total	197.25
Works Contingency – Main Scheme	9.71
Fees, equipment and other costs	70.95
Project Cost Total	**277.91**
Contingency, Risk *(Client Contingency)*	19.25
Optimism Bias	35.25
Inflation	53.08
Main Hospital Forecast Outturn Cost	**385.49**
Relocation Works Costs	69.97
Works Contingency – Relocation Schemes	2.59
Client Contingency – Relocation Schemes	3.62
Inflation on relocation works costs	4.19
Relocation works outturn Costs	**80.37**
Forecast Total Outturn Cost	465.86

Concerto explain that the OBC includes a contingency allowance for “optimism bias” and for risk at £38 million and £19 million respectively, with a further 5% allowance for design and risk embedded in the construction cost build up[77].

In relation to optimism bias, the OBC explains that HM Treasury Green Book guidance has been followed with the ‘Mott Macdonald’ model being used to define the level of uncertainty remaining

[76] P.107/2017 - Outline Business Case, p.115
[77] Appendix 1 - Concerto Assurance Report, sections 5.6 and 5.3

within the project. A review of the model took place within the FH Team and enabled the allowance to be reduced from its previous 13% to 12%[78].

Control of contingency

It is understood that the cost estimate will be managed in two parts - Treasury will manage optimism bias and contingency (risk) whilst the FH Team will manage the remaining estimated project costs, including inflation[79].

P.107/2017 explains that, should contingency sums be required, funds "*will be accessed through a process of challenge and agreement between the delivery team and the Treasury*"[80], as described in a set of Terms of Reference for the proposed new Hospital Construction Fund. It is understood that a Financial Direction will also be issued to describe how contingency funding will be drawn down from the Strategic Reserve to the Hospital Construction Fund.

Concerto found that a good process was in place in terms of the management of risk: "*The risk log identifies a high number of acute service risks which suggests the potential for client change and confirms the need to have a robust arrangement for the management of risk and Optimism Bias funding in place as soon as possible*"[81].

The Critical Path

A critical path has been developed by the FH Team and details key activities in the timeline for the new hospital. In project management terms, a critical path is the sequence of stages determining the minimum time needed to complete a project.

Concerto saw evidence that the dates for key critical path activity (planning approval, contractor appointment and Westaway Court) are already slipping against the timetable established in September 2017[82]. For example, Appendix 23 of the OBC - Construction Programme and Phasing - states that the Planning Inquiry process was due to start on 21st July 2017 and finish on 19th October 2017[83]. Concerto recommend that the critical path is kept up to date for the activities leading up to the commencement of the purdah (pre-election) period.

KEY FINDING 19: A critical path has been developed by the Future Hospital Team which details the sequence of stages determining the minimum time needed to complete the future hospital project. Dates for key critical path activity such as planning approval, contractor appointment and Westaway Court have already slipped against the timetable established in September 2017.

[78] P.107/2017 - Outline Business Case p.152
[79] P.107/2017 - "Future Hospital: Approval of Preferred Scheme and Funding" p.4
[80] P.107/2017 - Outline Business Case p.31
[81] Appendix 1 - Concerto Assurance Report, section 5.10
[82] Appendix 1 - Concerto Assurance Report, section 5.15
[83] Appendix 23 OBC "Construction Programme and Phasing"

RECOMMENDATION 10: The critical path needs to be kept up to date and published on a monthly basis from December 2017 onwards so that progress can be easily monitored.

Westaway Court

The preferred scheme proposes the demolition of Westaway Court and the construction of a new build facility which includes out-patient services and the pathology service[84]. Westaway Court is currently used for staff accommodation and part of the enabling work is to relocate staff to new premises via Andium Homes. Once the rebuild at Westaway Court is completed, outpatient departments and office admin will be moved from the Gwyneth Huelin and Peter Crill buildings and relocated to Westaway Court[85]/[86].

The rebuild of Westaway Court, its commissioning and the relocation of key hospital functions was seen by Concerto as crucial to enable a start on the new hospital building[87]. The cost of rebuilding Westaway Court is approaching £30 million and the Panel would agree that it is a crucial and significant part of the project. The Panel was told by the Director of Gleeds that plans for Westaway Court were not currently on the critical path:

> **Director, Gleeds Management Services:**
> "*Critical path is a term used in planning and programming which defines a part of the programme that has no float. So it has no opportunity to move or be linked without impacting the end of the programme. So Westaway Court currently is not on the critical path. That does not mean to say it is not important and it is a very long piece of programme within the works. So since our last assessment, we have done quite a lot more work on Westaway Court, a much more detailed analysis of this programme. That has led to some changes elsewhere in the programme that has managed that overall change in the opening date at Westaway Court. If it was delayed we have a float in the remainder of the programme with which to address that*"[88].

Concerto consider that, given their concerns over the current slippage of key critical path activity contained in the Construction Programme, more needs to be done to provide reassurance that Westaway Court will not become project critical[89].

KEY FINDING 20: The plans to rebuild Westaway Court are not on the critical path. Given that some key critical path activity has already slipped against the timetable, there is a risk that the rebuild of Westaway Court will become project critical.

[84] P.107/2017 - Outline Business Case p.74
[85] Appendix 15 OBC "Summary of Enabling Projects"
[86] P.107/2017 - Outline Business Case p.100
[87] Appendix 1 - Concerto Assurance Report, section 5.2
[88] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.25
[89] Appendix 1 - Concerto Assurance Report, sections 5.15 and 5.20

RECOMMENDATION 11: Westaway Court must be included on the critical path. In order to ensure that risks to the critical path are minimised, detailed plans for the demolition and rebuild of Westaway Court must be submitted to support the planning application. This must be completed by the end of January 2018.

7.6 The Management Case

Overview

This part of the OBC sets out the arrangements put in place to ensure the safe and effective delivery of the new facilities. The Project Execution Plan (appendix 22 in the OBC) supports the management approach to be adopted across the project including transformational changes both within and outside of hospital[90] .

Concerto conclusion: "*Our conclusion is that the Management Case is sound*."[91]

Project resources

As mentioned earlier in the report, resources were identified as a longer-term risk to the project. In support of this, Concerto found that resources delivering the transformation are too thinly spread. Concerto emphasised the importance of not underestimating both the scale and pace of the transformation challenge ahead, and the capacity required to sustain it[92].

This is acknowledged by Ministers as P.107/2017 explains that in order to achieve significant benefits from the Future Hospital, investment of clinical and management resources is required[93]. The management case of the OBC outlines several management strategies which will be adopted across the project. The Estates Director of Infrastructure advised the Panel that the FH Team is constrained from making any appointments until P.107/2017 has been approved:

> **Estates Director of Infrastructure:**
> *"We cannot procure to those posts because we do not have funding yet. The funding available to the project does not allow us to procure somebody into a position and make commitments for the long term. So the short answer to your question is, yes, we have done a considerable amount of thinking in relation to this team, the size and structure, and how it embeds itself within the overall governance governing the structure of the project.[94]"*

Concerto warn that the funding constraint represents a continuity risk and misses an opportunity for wider knowledge and skills transfer[95]. In that regard, Concerto suggest that the FH Team should provide assurance that there is sufficient capacity (in place, or planned) to deliver the transformation agenda[96].

[90] P.107/2017 - Outline Business Case p.157
[91] Appendix 1 - Concerto Assurance Report, section 6.12
[92] Appendix 1 - Concerto Assurance Report, section 2.8
[93] P.107/2017 - "Future Hospital: Approval of Preferred Scheme and Funding" p.25
[94] Public Hearing with the Minister for Health and Social Services, 10th November 2017, p.47
[95] Appendix 1 - Concerto Assurance Report, section 7.1
[96] Appendix 1 - Concerto Assurance Report, section 6.7

KEY FINDING 21: The resources delivering the overall health transformation are too thinly spread due to the fact that the Future Hospital Team is constrained from making any appointments until P.107/2017 and the funding is approved. This funding constraint represents a continuity risk and misses the opportunity for wider knowledge and skills transfer.

RECOMMENDATION 12: The Future Hospital Team need to provide an overall governance chart to give assurances that there are sufficient resources in the form of personnel, skill set and knowledge base both currently and planned in order to deliver the overall health transformation. This chart should be published during the first quarter of 2018.

Inter-dependencies

The Panel recognise that the Future Hospital is just one part of the redesign programme. The success of the project is dependent on the successful delivery of the wider redesign programme outlined in P.82/2012. Concerto illustrates an extreme scenario that the hospital would run out of beds by 2018 if community based interventions did not achieve any of their anticipated outcomes[97].

In order to drive this ambitious programme of change, Concerto advise that this will require specialist change managers as well as change champions within the hospital and partner organisations[98].

Information Technology

As well as community-based care strategies, the Panel acknowledge that there are other critical inter-dependencies that require management expertise such as the provision of Information Technology.

In that regard, the new hospital aims to be “paper light” i.e. with minimal use of paper case notes. A fundamental requirement for the new hospital is an Electronic Patient Record (EPR) system.[99] An organisation called “The IT Health Partnership” was commissioned to describe, at a strategic level, the ICT requirements for the Future Hospital. In their report it states that: “*for ICT to be fully effective, significant investment will be required in change management if the Future Hospital is to align effectively people, process and technology and to bring about an information-led culture*”.[100]

The Panel note a previous Informatics Strategy developed by the Health Department which covers the period 2013 - 2018. Within the IT Health Partnership report, it states that the current Informatics Strategy does not provide the necessary basis for the ICT planning needed for the new hospital. It is understood that the Health Department intends to engage in a process to prepare a new strategy during 2017[101]. It is unclear whether a new ICT Strategy has been completed.

[97] Appendix 1 - Concerto Assurance Report, section 3.26
[98] Appendix 1 - Concerto Assurance Report, section 6.7
[99] Jersey Future Hospital, Information Communications Technology report, The IT Health Partnership, July 2017, p.5
[100] Jersey Future Hospital, Information Communications Technology report, The IT Health Partnership, July 2017, p.5
[101] Jersey Future Hospital, Information Communications Technology report, The IT Health Partnership, July 2017, p.14

Concerto emphasised the importance that all the inter-dependencies between the Future Hospital and the wider transformation programme are properly identified and tracked.

KEY FINDING 22: The current Information Communications Strategy (ICT) covering the period 2013 - 2018 does not provide the necessary basis for ICT planning needed for the future hospital. It is intended that a new strategy will be developed but it is unclear whether this work has been completed.

RECOMMENDATION 13: A medium to long term Information Communications Strategy needs to be developed and fully costed which takes into account the plans for the future hospital. This strategy should also incorporate the wider health transformation programme and the successful delivery of intervention strategies though enhanced levels of care in the community.

8. Part 3: The Funding Proposals

8.1 Background

The funding proposals outlined in P.107/2017 represent an evolution of the proposals originally lodged by the Treasury Minister in November 2016. A brief summary of this evolution is as follows:

Nov 2016	Future Hospital Funding Strategy (P.130/2016) align a budget of £466 million, paid for by borrowing up to £400 million (through a bond), utilising 23.6 million already allocated and the balance coming from the Strategic Reserve
April 2017	Amendment lodged by Corporate Services Scrutiny Panel calling for full cost of budget to be paid out of Strategic Reserve
May 2017	Amendment lodged by Minister for Treasury and Resources to reduce the amount of borrowing from up to £400 million to up to £275 million
May 2017	Minister for Treasury and Resources withdraws the Funding Strategy following concerns raised by Ministers, on the basis that it will be lodged together with the Outline Business Case in autumn 2017
Oct 2017	P107/2017 is lodged, proposing a blended funding solution comprising on up to a £275 million bond utilising 23.6 million already allocated with the balance of the £466 million budget being drawn from the Strategic Reserve

Opus Corporate Finance provided the Corporate Services Scrutiny Panel with expert advice on the original proposals lodged in November 2016. Following receipt of the revised proposals, the Panel asked Opus to update this advice.

8.2 Funding Options and Recommended Funding Strategy

The funding strategy for the Future Hospital Project is detailed in the report which accompanies the main Proposition set out in P.107/2017. Two broad options for meeting the funding requirements are identified:

Option 1 – Using Existing Reserves
Option 2 – External Financing

The recommended funding strategy combines elements of both options. This is described as a "blended solution" which includes:

- A public-rated sterling bond issue of up to £275 million

- Using existing reserves (i.e. the Strategic Reserve) to fund the balance of the overall cost of the Future Hospital up to the maximum budget of £466 million (inclusive of an unallocated capital amount of £23.6 million already approved for the project).

KEY FINDING 23: It is proposed that the construction of Jersey's new hospital is funded through a "blended solution" comprising a public rated sterling bond of up to £275 million and the use of existing reserves to fund the balance of the overall cost up to £466 million.

The Bond

The issuance of a bond of up to £275 million is a key decision for the States Assembly to make and will commit the States to a substantial level of debt over a long term period. This is not unprecedented for the States, as a bond of £250 million was issued in 2014 to enable investment in the Island's social housing stock.

The Panel's advisor, Opus, comment that among other reasons, the proposal to issue a bond to fund the hospital project makes sense as it is a form of bond already issued by the States and therefore will be familiar to investors (who in turn will be familiar with the States as a bond issuer).[102]

Bond Quantum

The main difference from the previous funding strategy published by the Treasury Minister is the relative amounts of the Bond and Strategic Reserve funding. The previous proposals were for a bond of up to £400 million, with the balance taken from the Strategic Reserve (subsequently amended by the Treasury Minister three weeks before withdrawing the proposals to reduce the bond to an amount of up to £275 million).

[102] Opus report, paragraph 21

Opus considered the reduction in the bond amount against the context of two "book ends" of:

- Maximising the bond issuance (as in the original proposal)
- Funding entirely out of the Strategic Reserve

Opus conclusion: *"The choice of a "middle path" – i.e. the New Funding Proposal – would appear to be a pragmatic response to the challenge of these two book ends."*[103]

KEY FINDING 24: The funding proposal is a "middle path" between funding the hospital entirely from borrowing or entirely from the Strategic Reserve. The Panel's advisor, Opus, considers this to be a "pragmatic response" to these two options.

Bond type

The funding strategy sets out a number of different types of bond that could be used for this type of project[104]:

- Rated Public Sterling Bond
- Retail Bond
- Private Placement Bond
- Bond Ladder

Each option is examined and the report ultimately recommends the rated public sterling bond option. This follows advice received by the Treasury Department from EY and Aon Hewitt and is based on a recommendation from the Treasury Advisory Panel.

While some of the other options might seem attractive, they also have drawbacks. For example, the Retail Bond would allow Jersey residents to invest in the hospital development. However, this type of issuance is expected to be costlier than a sterling public bond alternative and would not provide sufficient funding in one issuance.[105]

Opus considered three alternative types of bond:

a) Deferred Bond
b) Index linked Bonds
c) Ladder Bonds

[103] Opus report, paragraph 17
[104] P.107/2017- p.34
[105] P.107/2017 – p.35

Their report looks at each in turn and explains why each would not be appropriate for the Future Hospital project[106].

Opus conclusion: *"That essentially leaves a sterling nominal bond as the default funding mechanism – and there are a number of reasons why that makes sense:*

a. *Sterling is the natural currency for Jersey, and doesn't involve foreign exchange risk;*
b. *A nominal bond fixes the cost of borrowing so that it is known up front, providing certainty of funding cost and a target for the investment side of the equation to outperform; and*
c. *It is the form of bond already issued by the States of Jersey, and hence is familiar to investors who are themselves familiar with the investment story."*[107]

KEY FINDING 25: If borrowing is considered the best option to fund Jersey's future hospital, then a sterling bond is the most appropriate option due to three reasons: sterling is the natural currency for Jersey; a nominal bond fixes the cost of borrowing so that it is known up front and; a sterling bond has already been issued for Andium Homes making it familiar to investors.

Bond Timing

The funding strategy states that it is expected that the bond will be issued in the first half of 2018, although the Proposition allows a small level of flexibility in the final decision to allow for market conditions. This decision will be based on professional advice.[108]

The Treasury Minister has also committed to report back to the Assembly in 2018 once the bond has been issued.

Opus considered the timing issue and, in particular, three "powerful" factors in favour of an early issuance, namely the predicted superior returns of the Strategic Reserve over the bond interest rate, the current historic lows for bond yields and the tactical advantage of borrowing early while the hospital project is on time and on budget. [109]

Opus conclusion: *"In our view, these factors definitively favour a strategy of raising the bond early, using the proceeds to increase the investment return proceeds from the Strategic Reserve Fund (thus optimising the benefit from the arbitrage); and reserving payments from the Fund to top up any shortfall above £275 million."*[110]

[106] Opus report, paragraph 20
[107] Opus report, paragraph 21
[108] P.107/2017 – p.44
[109] Opus report, paragraph 23
[110] Opus report, paragraph 24

KEY FINDING 26: It is expected that the bond will be issued in the first half of 2018 although a level of flexibility has been allocated to allow for market conditions. The Panel's advisor, Opus, considers that it is appropriate to raise a bond at this stage in the project.

Bond Interest Rate

The estimated price of the bond in the funding strategy is between 2.64% to 2.74% as at 24th October 2017.[111] The final price will not be known until the point that the bond is issued.

To ensure comparability across different organisations, these types of bonds are issued in 1/8ths of a per cent, which means that Jersey's published coupon rate would be 2.625%.

Where the price that the market is willing to pay for the bond differs from the published coupon rate, the actual price of the bond is adjusted (discounted) resulting in a reduced cash receipt, as seen in the following illustrative calculation[112]:

Bond Nominal Value	Coupon rate	Price offered by the market	Actual cash received
275,000,000	2.625%	2.72%	265,395,221

It should be noted that the Treasury Department confirmed in a Public Hearing that the maximum amount the bond would have to be discounted to is £265 million:

> **Director for Financial Planning and Performance:**
> *"…our advice is we might get a bit more than that but we wanted to use a number for planning purposes and £265 million was deemed to be ... it would be no worse than £265 million"*[113].

KEY FINDING 27: The Treasury Department is using a minimum cash receipt from the bond of £265 million for planning purposes.

The Panel was keen to establish two particular points about the current expected interest rate:

a) What impact has the rise in interest rates announced by the Bank of England on 2nd November 2017 had on the bond interest rate?

b) What impact has the delay since the previous funding strategy was withdrawn in May 2017 had on the bond interest rate?

Treasury Officers told the Panel that the rise in interest rates had not affected the bond interest rate:

> **Deputy S.M. Brée:**
> *"How has the recent change in base rates affected the coupon rates that your advisers are telling you you would have to affix to such an issue?"*

[111] P.107/2017 – p.39
[112] Panel calculation for illustrative purposes only
[113] Public Hearing with the Minister for Treasury and Resources, 13th November 2017, p.10

Director of Treasury Operations and Investments:
"So it has had very little change because it had been signalled well by the M.P.C. (Monetary Policy Committee), and the underlying gilt markets have responded accordingly in advance of the change. So as we have been pricing the bond over the last few months against the underlying gilt rate that has already risen to reflect the change in the market conditions…"[114]

Opus also point out that the rise has not had a profound effect on the cost of borrowing as the bond market appears to have been discounting such a rise.[115]

In the Public Hearing, the Treasury Minister confirmed to the Panel that the 6 month delay, since the previous funding strategy was withdrawn, has not had a significant impact on the cost of the bond.

The Minister for Treasury and Resources:
"…we do not think there was or has been to date a significant difference despite the fluctuations that have occurred over the course of the year as a whole".[116]

It was later confirmed to the Panel that:

Ignoring any hedging arrangements, the gilt rate when States Members were presented the funding proposal, 17th January 2017, was 1.82%. That rate moved to 1.59% in the next 2 months, allowing for the book build process. When the proposition was withdrawn, 23rd May 2017 the rate was 1.60%. That moved to 1.71% over the next 2 months, again allowing for the book build process. On the 3rd November 2017 the gilt rate was 1.72%.[117]

The Minister also stressed that there is volatility in the bond markets and the rate is likely to move between the States approving the funding strategy and the actual issuance of the bond.[118] This can be seen from the above indicative rates. If the previous strategy had been approved in May 2017 (when the gilt rate was 1.60%), the actual price received for the bond two months later would have been based on a gilt rate of 1.71% (N.B. these are the underlying gilt rates applying at the respective dates. The actual bond coupon rates would have been approximately 2.50% and 2.61% respectively[119]).

KEY FINDING 28: The change in the Bank of England base rate of interest has not had a profound effect on the cost of issuing a bond to fund the new hospital.

KEY FINDING 29: There is no significant difference in bond interest rates since the previous funding strategy was withdrawn.

[114] Public Hearing with the Minister for Treasury and Resources, 13th November 2017, p.10
[115] Opus report, paragraph 25
[116] Public Hearing with the Minister for Treasury and Resources, 13th November 2017, p.11
[117] Email from Treasury Department dated 22nd November 2017. The rates referred to are gilt rates without the new issue spread or premium
[118] Public Hearing with Minister for Treasury and Resources, 13th November 2017, p.11
[119] Email from Future Hospital Team dated 4th December 2017

Servicing the coupon

Annual bond interest payments (known as the "coupon") would usually be paid (or "serviced") from a dedicated income stream. This gives investors confidence that the bond issuer will always be able to service the interest due. This is the case with the previous bond issued by the States (the Andium bond), where the rental income from Andium's housing stock indirectly generates the income to pay the bond interest, as opposed to being securitised against the bond.

The Future Hospital will not generate significant amounts of income, therefore the servicing of the bond income has to be approached in a different manner. As with the previous funding strategy, it is proposed to utilise the returns generated by the Strategic Reserve to meet the bond interest payments.

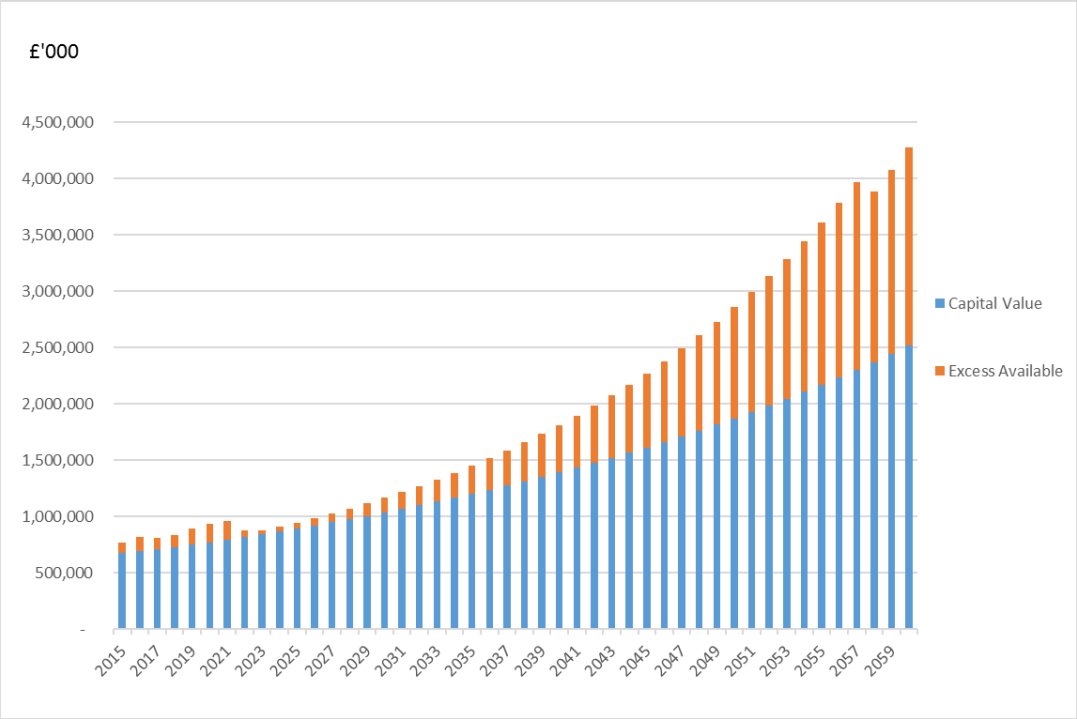
Previous States decisions mean that the "capital" value of the Strategic Reserve is protected and cannot be used. This capital value rises annually in line with inflation. Therefore, any investment returns generated by the Strategic Reserve must first be used to keep the capital value rising in line with inflation.

The funding strategy states that from 2006 to 2016, the average annual return from the Strategic Reserve was 3.8% above inflation. After taking advice, the Treasury Department has assumed that future returns will be 2% above inflation[120]. The Treasury Minister told the Panel that this was a conservative approach:

> **The Minister for Treasury and Resources:**
> *"Aon Hewitt have been involved in the process as well, looking forward in doing a much more conservative projection as to what likely returns would be and on that basis in the changing investment environment those are estimated at 2 per cent of R.P.I.(Y). and as such very much more conservative than historic data*".[121]

The funding strategy shows that the protected capital value of the Strategic Reserve would be protected under the proposals, with the closest years being between 2022 and 2025. It was confirmed to the Panel that the closest the total value of the Strategic Reserve would get to the protected capital value was £35 million.[122]

[120] P.107/2017 – p.7
[121] Public Hearing with the Minister for Treasury and Resources, 13th November 2017, p.7
[122] Public Hearing with the Minister for Treasury and Resources, 13th November 2017, p.38



KEY FINDING 30: The protected capital of the Strategic Reserve would be preserved under the proposed funding strategy. Over the life of the proposed bond, the closest the total value of the Strategic Reserve would get to the protected capital value is £35 million.

The Treasury Department commissioned its advisors, EY, to undertake some stress testing work as part of drawing up the previous funding strategy. One scenario (under the proposals for a £400 million bond) showed that a permanent reduction in annual income for 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[123]. The stress testing work has not been repeated for the new funding proposals on the basis that the new borrowing proposals are for a lower amount.[124] The Panel is therefore unsighted as to whether a lower amount of debt would mean a significant change in the life of the strategic reserve relative to the earlier level of debt being considered.

This approach to funding the coupon relies on the Strategic Reserve generating enough investment returns to service the bond each year over the 40 year life of the bond. In turn, this means that an appropriate investment strategy needs to be in place for the Strategic Reserve. This is commented on in more detail below.

KEY FINDING 31: As part of the previous funding strategy, the Treasury and Resources Department commissioned its advisors to undertake some scenario modelling for the Strategic Reserve. In terms of the latest funding proposals, no new stress testing work has been carried out to examine the impact of the revised funding proposals on the Strategic Reserve balance under certain scenarios.

[123] S.R.4/2017 Future Hospital Funding Strategy, p.58
[124] Public Hearing with the Minister for Treasury and Resources, 13th November 2017, p.39

RECOMMENDATION 14: The Treasury and Resources Department should undertake further stress testing work based on the revised funding proposals to determine the impact on the Strategic Reserve in certain scenarios. As a starting point, prior to the debate on the preferred scheme and funding (P.107/2017), the Treasury and Resources Department should model the impact of the worst case scenario of a recurring £42 million shortfall in States Revenues over a long term period. This will mirror the work previously undertaken by the Treasury and Resources Department as highlighted in a report by the Corporate Services Scrutiny Panel (S.R.4/2017).

Borrowing Capacity

When the previous funding strategy (P.130/2016) was proposed, concerns were raised about the capacity to borrow within the constraints of the Public Finances Law. The Law sets a self-imposed limit for total borrowing by the States which is linked to the States total income for the previous year. In January 2017, the proposal to borrow up to £400 million would have come within £2 million of the available borrowing capacity.[125]

The funding strategy sets out the current calculation for borrowing capacity which shows a maximum amount that could be borrowed of £428.5 million. The proposed bond of £275 million is well within this limit.[126]

KEY FINDING 32: The proposed level of borrowing of up to £275 million through a bond is well within the borrowing limit set out in the Public Finances Law.

[125] S.R.4 2017 Future Hospital Funding Strategy, p.64
[126] P.107/2017 – p.41

8.3 Other Options Considered

The funding strategy examines the option to use Existing Reserves to fund the Future Hospital Project in full. This is set in the context of the protected capital value of the Strategic Reserve, which was set at £651 million in 2012, increasing each year by inflation (RPI(Y)).

Funding the project entirely from the Strategic Reserve would require significant contributions out of the protected capital value between 2020 and 2041.[127]

It is ultimately concluded within P.107/2017 that: *In these uncertain times, making a decision now to use the Strategic Reserve Fund solely to fund the Hospital construction would compromise the Government's flexibility.*[128]

External Financing options

The funding strategy sets out a number of external financing options that would be available for a project of this type. The different bond options have been dealt with above. The other options are:

- Asset Backed Commercial Paper
- Project Finance
- Bank Finance

The Asset Backed Commercial paper is explained in the funding strategy as something which is used by corporations and banks to manage their short-term cash-flow requirements and is not considered a viable alternative for longer projects such as the Future Hospital. The funding strategy also highlights that the full value of the Strategic Reserve would have to be tied up (collateralised) to support this option.[129]

The Panel asked the Treasury Minister about this particular option, as it is understood that a similar short term funding solution was discussed by the Council of Ministers immediately prior to the withdrawal of the previous funding strategy in May 2017:

> **Deputy S.M. Brée:**
> *"… Asset backed commercial paper, as you say, is not something that would be suited to this sort of project at all. It is purely designed to manage short-term liquidity issues by large corporates. I would be concerned if you had looked at that as a serious alternative, let us put it that way. I am hoping you will tell me you discounted it quite quickly"*[130].
>
> **The Minister for Treasury and Resources:**
> *"Yes, but it was still looked at and I suppose you need to tie into it a view, if you have such a view, of a macroeconomic view, perhaps, about the future pressures, inflationary versus*

[127] P.107/2017 – p.33
[128] P.107/2017 – p.34
[129] P.107/2017 – p.36
[130] Public Hearing with the Minister for Treasury and Resources, 13th November 2017, p.18

deflationary, and indeed the future long-term potential for rates to remain low for a number of those reasons and that was at the heart, I think, of that particular proposal".

Project Finance, such as Private Finance Initiatives (PFI) is also discussed in the funding strategy but ruled out on the basis of complexity and risk. Opus also note that the lack of a significant income stream for the hospital rules out most forms of private finance or project finance.[131]

KEY FINDING 33: External financing options such as Asset Backed Commercial Paper (short term borrowing) and Private Finance Initiatives (PFI) have been considered and discounted as funding options for the new hospital.

[131] Opus report, paragraph 9

8.4 Strategic Reserve and Hospital Construction Fund

The use of the Strategic Reserve is integral to the proposed funding strategy. It will be used to both pay some of the capital costs and also to fund the coupon payments. Any use of the funds within the Strategic Reserve will have to be within the limitations imposed by the Public Finances Law, including the protected capital value (although these limitations could be changed by a decision of the States Assembly).

Investment Strategy

The investment strategy for the Strategic Reserve is published in the States Investment Strategies Report. The most recent version of this report was published in December 2016.[132] There is little discussion of the investment strategy of the Strategic Reserve in the funding strategy, although it is important that sufficient returns are generated each year to meet the bond coupon payments.

In their work on the previous funding proposals, Opus commented that the risk that the income from the Strategic Reserve is inadequate to meet the bond interest payments is "strategic" and "worthy of a clearer and more explicit combined strategy".[133]

In their latest review, Opus highlight similar concerns about the investment strategy for the Strategic Reserve.

Opus conclusion: *"This appears to be the weakest part of the New Funding Strategy and the least transparent. The Fund itself has a long and successful track record of investment, as noted in the New Funding Proposals paper. However it is not clear how the investment strategy of the fund will be tailored – if at all – to the new circumstances."*[134]

Treasury Officials told the Panel that they would be talking to their investment advisors about whether a change to the investment strategy might be required.

> **Director for Financial Planning and Performance:**
> *"Our investment advisers are Aon Hewitt, so if we get a decision in December ... I think we have sent through to Scrutiny Officers the investment strategy as it is, but we would be talking to Aon Hewitt about whether a change to that strategy might help*".[135]

The funds raised by the bond will be held in the Strategic Reserve until they are needed for the project. In order to ensure that there is no risk to the funds and that they are readily accessible, they will need to be invested in safer assets. Opus note that this will lead to a lower than average return for these funds.[136]

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[132] R.131/2016, p.13
[133] S.R.4/2017 Future Hospital Funding Strategy, p.54
[134] Opus report, paragraph 28
[135] Public Hearing with the Minister for Treasury and Resources 13th November 2017, p.6
[136] Opus report, paragraph 30

KEY FINDING 34: Under the funding proposals, the Strategic Reserve will be used to pay part of the capital costs of the hospital project as well as the interest costs of the bond and repayment of the bond upon maturity. A tailored investment strategy for the Strategic Reserve is essential.

KEY FINDING 35: The Panel's advisor, Opus, considers that the weakest part of the funding proposals is the investment strategy for the Strategic Reserve. Although the Strategic Reserve Fund has a successful track record of investment it is unclear how the investment strategy will be tailored to the new circumstances within the revised funding strategy.

RECOMMENDATION 15: The Treasury and Resources Department need to publish a clear, coherent and tailored investment strategy for the Strategic Reserve which specifically takes account of the amount and timing of the calls that will be placed on the Strategic Reserve. This strategy needs to be published before the bond is issued.

Hospital Construction Fund

P.107/2017 asks States Members to approve the creation of the Hospital Construction Fund, which will be a Special Fund under the Public Finances Law. The Hospital Construction Fund will ensure that all expenditure on the Future Hospital Project is accounted for separately and distinctly. Funds from the bond issue and the Strategic Reserve will flow into the Hospital Construction Fund as and when required, up to the maximum budget of £466 million.

The Accounting Officer for the Hospital Construction Fund will be the Chief Officer for the Department of Infrastructure, who will also be responsible for project delivery.[137]

The proposals for the Hospital Construction Fund have not significantly changed from the previous funding strategy. The Corporate Services Scrutiny Panel Report (S.R.4/2017) looked at the proposals in detail and it is not considered necessary to repeat that analysis in this report.

Further details of the Hospital Construction Fund are published in Appendix A of P.107/2017. A separate amendment to the Public Finances Law (P.111/2017) has been lodged by the Treasury Minister for debate at the States sitting on 12th December 2017, if the Outline Business Case and Funding Strategy are approved. This makes the necessary legal changes to enable transfers out of the Strategic Reserve and into the Hospital Construction Fund to be made.

[137] Public Hearing with the Minister for Treasury and Resources 13th November 2017, p.61

9. Conclusion

The Panel has reviewed the Proposition: “Future Hospital: Preferred Scheme and Funding” (P.107/2017). The Proposition includes two main sections within its report - the Outline Business Case which provides a framework for the delivery, management and performance of the future hospital project (the preferred scheme) and the funding proposals.

The Panel was assisted by two technical advisors. Concerto Partners LLP undertook an assurance review of the Outline Business Case and Opus Corporate Finance provided expert advice on the revised funding proposals.

Concerto concluded that the Outline Business Case provides the States Assembly with a sound enough basis for decision making. Concerto rated the project as Amber-Green because there is sufficient contingency, in terms of time and cost allowances to cope with the various risks that face it. In terms of the short-term objectives of the project (planning approval, P.107/2017 approval and the appointment of a main contractor) Concerto rate this phase as Amber-Red which means that the successful delivery of the project in the short-term period is in doubt.

Opus considered that the proposal to issue a bond to fund the hospital project makes sense as it is a form of bond already issued by the States and therefore will be familiar to investors. Opus also comment that the funding proposal is a “middle” path” between funding the hospital entirely from borrowing or entirely from the Strategic Reserve. Opus considers this to be a pragmatic response to these two options.

10. Appendix 1: Concerto Report

Assurance Report

Future Hospital Project

Version number:	v1.0
Status:	Final
Date of Issue to Scrutiny Panel:	8th November 2017
Chair of Scrutiny Panel:	Simon Bree
Client:	States of Jersey
Review dates:	31 October to 3 November 2017

Review Team Leader:

Matthew Symes, Concerto Partners LLP

Review Team Members:

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Bill Yardley, Concerto Partners LLP

The authors acknowledge that this report is based upon a Cabinet Office document “Gateway Review 2 V4.0 (High Risk Delivery)” dated June 2008.

Executive Summary

The Review Team has followed the UK Government's process for conducting assurance reviews, tuned by the Terms of Reference provided by the Scrutiny Panel.

The Review Team found good practice within the Future Hospital Project (FHP) and within the wider Health Transformation programme. Motivated people, albeit under-resourced, are working collaboratively to achieve a significant health system transformation in line with the objectives set out in P.82/2012 of which the FHP is a major component part.

The FHP's Outline Business Case (OBC) has five main elements in line with UK Treasury guidelines, mostly matching good practice. The project has submitted the OBC to the States Assembly for approval, so there is no time to take on board our comments, none of which are show-stoppers.

Our chief concern with the OBC is with its presentation and overarching flow. The OBC does not present a compelling story, starting with the drivers for change and leading the reader to a natural conclusion. An executive summary would help, linking the drivers for change, the whole health and social care transformation and the hospital's place within it, its Target Operating Model (TOM) and the number of beds. The OBC does not describe the TOM, raising a potential risk of future contingency fund drawdown if scope or layout changes become necessary. There are also inconsistencies in the dates and data presented in the different sections of the OBC and the accompanying appendices. Whilst not material, these are confusing.

In terms of the long-term project objectives, namely to deliver a new hospital within a budget of £466 million by mid-2025, we rate the project as Amber-Green, meaning that successful delivery appears probable. In terms of the short-term objectives, measured over six months, we classify this phase of the project as Amber-Red, which means that successful delivery of the project in that period is in doubt with major risks or issues apparent in a number of key areas.

The immediate risks at this time are:

- Delay to the OBC approval, potentially magnified by the political "purdah" period.
- Failure to obtain Planning Permission within the next few months.
- Failure to appoint a main contractor for the construction works in a similar timescale.

Despite some concerns in the detail and weaknesses in the over-arching narrative, our view is that the OBC is fit for purpose and presents a sound enough basis for decision-making by the States of Jersey.

1. Introduction & Terms of Reference

1.1 This report presents the findings of a review carried out by Concerto Partners LLP of the Outline Business Case for Jersey's Future Hospital Project (FHP) and its underlying assumptions.

1.2 The main requirement in our Terms of Reference is for an examination of the robustness of the Outline Business Case (OBC), with particular reference to the five supporting constituent cases (Strategic, Economic, Commercial, Financial and Management).

1.3 We would like to thank everyone interviewed for their openness and transparency. We would also like to thank the Officials supporting this review for their efficient help.

1.4 Appendix A lists those interviewed as part of this review.

2. Strategic Case

2.1 P.82/2012 - Health and Social Care: A New Way Forward set out a far-reaching and ambitious agenda for whole system reform and transformation across health and social care. It provides clear direction for the Island and, following its approval, an assurance that funding will be made available through the MTFP process to support its implementation.

2.2 P.82 is underpinned by a series of Health and Social Care strategies which together describe how the principal objectives will be delivered across the whole health and social care landscape.

2.3 The Future Hospital Project forms part of the Acute Services Strategy and the strategic case for a new district general hospital remains compelling on a number of levels. The inefficient design and aging fabric of the existing hospital has over time resulted in:

- Poor clinical adjacencies;
- Sub-optimal space standards;
- Lack of flexibility;
- Poor separation of clinical and non-clinical flows;
- Poor gender separation, and lack of privacy and dignity;
- Poor supporting mechanical and engineering infrastructure.

2.4 Failure to address these issues will compromise safe and effective care delivery in the future and the driver for change is clear.

2.5 The existing hospital also faces a growing capacity problem which will worsen in coming years. Population growth and a changing demographic profile increase demands on health and social care services.

2.6 Delivery of a new hospital is just one part of the overarching programme of system reform and transformation and its success is predicated on all P.82 health and social care strategies coming together. The Review Team found that these strategies closely align, and we saw good evidence of strong collaborative, integrated, patient-centred working.

2.7 Considerable progress has been made with health and social care transformation in the period 2015-17 and we saw early evidence of the positive outcomes resulting from these service re-design initiatives. We discuss these more fully later in this report.

2.8 The Service Re-design and Transformation agenda has strong leadership and highly focused, committed and capable management teams. The potential for change and improvement is gaining

traction and clinical engagement is gathering momentum. However, we found that the resources delivering the transformation are thinly spread, discussed more fully in the Management Case. It is important not to underestimate both the scale and pace of the transformational challenge ahead, and the capacity required to sustain it.

2.9 Our conclusion is that the strategic case for the FHP remains sound. The case for a new hospital, as a key component of the whole service redesign and transformation agenda for health and social care on the Island, is compelling.

3. Economic Case

3.1 The economic case in the Outline Business Case identifies four options:

- Option 1 – Do Nothing
- Option 2 – Do Minimum
- Option 3 – New Hospital Build on existing site plus refurbishment of Westaway Court
- Option 4 – New Hospital Build on existing site and a new build on the site of Westaway Court.

3.2 The economic appraisal assesses the extent to which each option satisfies the following criteria:

- Represents a sound strategic fit and meets the strategic objectives
- Fulfils the business need
- Delivers the required/expected benefits
- Is both deliverable and affordable.

3.3 The appraisal concludes that Option 4 is the preferred scheme.

3.4 The Review Team notes the lack of an over-arching document describing the Target Operating Model (TOM) for the new Hospital and Westaway Court. This document should compare the current "as is" with the future "to be" operating models.

3.5 The TOM should describe the full range of services, including all support services and business/administrative functions. It should provide clarity on those that will be re-provided in other community and primary care settings, and how they will operate in future.

3.6 There is general understanding of the main assumptions supporting the new builds and the location/relocation of the main services, but there is some uncertainty about what the future target operating model will look like. Without this clarity there is a risk of late changes of scope and layout.

Recommendation 1: A Target Operating Model should be developed for the Future Hospital, covering all its services. *Essential – First draft by January 2018*

Population

3.7 As part of our brief for this assurance review we assessed the population projections within the OBC and determined how these might affect future demand for acute services.

3.8 The OBC's data for estimating changes (i.e. growth) in Jersey's resident population comes from a range of sources, including:

Census 2011

- Births, Marriages and Deaths Registrar
- Population Office data under the Control of Housing and Work (2012) Law
- Statistics compiled by the SoJ Statistics Unit
- Data on pre-school and school-age children from the Department of Health and Social Services and the Department of Education.

3.9 The SoJ Statistics Unit keeps the population estimates under constant review and we understand that the unit is re-examining the population forecasting in the light of the Brexit decision.

3.10 Two factors affect population growth, namely net +inward migration and natural growth (births – deaths). In the OBC an analysis of the last 10 years shows that, on average, inward net migration has accounted for roughly 75% of the Island's growth.

3.11 The sensitivity analyses within the OBC relating to total population and annual net migration have an uncertainty range of approximately +/- 400.

3.12 The population forecasts in the OBC assume a net migration of +700/year for the four options, a figure that is consistent with social security planning assumptions. In recent years, net migration has been higher (for example +1300 in 2016). The sensitivity testing addresses this by modelling a range of different net migration levels (+325, +700, +1000 and +1500).

3.13 The OBC's population projections show an ageing demographic profile with a high proportion of older residents (65yrs+ and 80yrs+). These age groups show an increased prevalence of long-term conditions such as chronic pulmonary obstructive disease, cardiovascular disease and diabetes as well as multiple morbidities, cancers, joint replacements and ophthalmic conditions. As such, the older age groups tend to be the heaviest users of the Island's healthcare services and have increasing levels of dependency. The number of residents in each age group between 2016 to 2065, and the incidence of disease within each age group, informs the model's future demand for acute services.

3.14 The OBC extrapolates demand in the future from the current incidence of certain diseases within the population. It does not, however, reflect potential increases in the prevalence of certain diseases that are known to be on the rise.

3.15 The prevalence of disease in a population is influenced by many different factors including genetics, lifestyle choices/behaviours (e.g. diet, alcohol consumption), education and public awareness, other environmental factors such as pollution and socio-economic circumstances. Whilst these interactions are complex to measure and notoriously difficult to model, there may be some merit in further sensitivity testing to see how increases in the prevalence of certain conditions might impact future demand. This exercise could focus on those conditions that consume a high proportion of hospital resources.

3.16 We understand that the Public Health Division of the Statistics Unit has analysed recent trends and may be able to assist with this exercise.

Recommendation 2: Further sensitivity testing should be undertaken to see how recent trends in the prevalence of certain diseases might impact future demand. *Recommended*

3.17 The Review Team concludes that the approach adopted to assess population growth over the lifetime of the FH is well understood and that the methodology is appropriate and the data sources are reliable.

Capacity

3.18 The future hospital will open in 2025 and 66 additional beds will be available, with Samares reverting to its original function as a 24 bedded rehab unit. The table below reflects the figures used by EY in the OBC modelling exercises:

TABLE 1 – Current and Future Bed Capacity *(source OBC & appendices and HSSD data)*

Type of Beds (excluding Special Care Baby Unit)	**Number of Beds** (1) Current JGH ("as is")	Future Hospital ("to be")
Adult	148	212
Private	24(2)	24
Samares	23(3)	
Other	41	39
Hospital Total	**236**	**275**
Rehabilitation and Reablement		27
Total Beds	**236**	**302**

(1) There are some minor discrepancies between the information about the number of beds provided to us by HSSD and the information in the OBC appendices and how they are categorised.
(2) Some supporting documents refer to a private bed complement of 22. We understand that with the appointment of new consultants, there is the potential to offer new private procedures.
(3) Four Samares beds are currently closed. These rehabilitation beds are predominantly used as adult beds to relieve pressure within JGH.

3.19 The OBC's demand/capacity modelling utilises a variety of different drivers, including:

- Hospital Activity levels (episodes, attendances etc.)
- Population estimates
- Demographic profiling by age bands
- Case mix (types of conditions) and average lengths of stay
- Resource/Space Utilisation (number of hrs/day, days/week)
- Bed occupancy rates.

3.20 The success of the new hospital - with the capacity to meet the demands of a growing and aging population - is predicated on the delivery of several ambitious service "interventions" designed to prevent unnecessary/inappropriate attendance at hospital, avoid unnecessary admissions and expedite timely discharge.

3.21 The OBC includes a range of these service re-design initiatives ("interventions") designed to deliver non-financial benefits by reducing the demand on:

- inpatient beds
- theatre and day case sessions
- hospital outpatient clinics.

3.22 Using a +700 net migration annual growth rate, the options appraisal assumes that these service interventions will, in totality, avoid the need for some 120 inpatient beds, which allows for bringing

back into use four currently out of action Samares beds (see EY Intervention Modelling Report set out in Appendix 9 of the OBC).

3.23 The OBC presents a series of population/demand sensitivity tests, covering a range of net migration level. The findings for adult inpatient beds are summarised in Table 2 overleaf. Figures in red (-) denote a shortfall in the number of adult beds (i.e. demand exceeds capacity). Figures in black (+) denote spare capacity (headroom).

TABLE 2 – Sensitivity Testing of the demand for Adult Inpatient Beds at different levels of Inward Migration

Option 1 - DO NOTHING

Net inward migration	2026	2046
+325	-34.3 beds	-144.7beds
+700	-36.5 beds	-154.6 beds
+1000	-38.3 beds	-162.5 beds
+1500	-41.2 beds	-175.5 beds

Option 2 - DO MINIMUM

Net inward migration	2026	2046
+325	-46.7 beds	-129.2 beds
+700	-48.7 beds	-138.3 beds
+1000	-50.3 beds	-145.4 beds
+1500	-52.9 beds	-157.4 beds

Option 3/4 - New Builds and/or Refurbishment

Net inward migration	2026 (first year of opening)	2046 (20 years after opening)
+325	+76.9 beds	+6.9 beds spare capacity
+700	+75.2 beds	-0.4 beds
+1000	+74.0 beds	-6.3 beds
+1500	+71.8 beds	-16.0 beds

Source: Collated by the Review Team from data presented in EY demand and Capacity Modelling Methodology and Outcomes paper, Appendix 4 of the OBC
Note – this table concentrates on Adult Inpatient Beds only to present a simple inter-year sensitivity comparison, and does not include Rehab, Private and Speciality beds.

3.24 The Review Team saw evidence demonstrating that the current programme of service re-design activities are working and already releasing valuable hospital resources (e.g. the recently commissioned MCAP Report in 2017 undertaken by The Oak Group and the latest reviews to assess the impact of step-down services, rehabilitation/reablement services and improvements in discharge planning).

3.25 We were given access to an additional modelling tool to allow us to assess the "tipping" point should these service interventions not fully deliver their intended outcomes. We found that a 50% shortfall would lead to a bed deficit in 2036. However, we recognise that the interventions included in the demand and capacity model are conservative. Other service initiatives now underway and not included in the OBC might mitigate this risk. Further opportunities may reduce the pressure on hospital services e.g. introduction of new technologies, integrated care records, new surgical procedures and new drug regimes.

3.26 As an extreme scenario that illustrates this dependency, the OBC's demand/capacity modelling work indicates that the existing hospital would run out of beds by 2018 if these interventions do not achieve any of their anticipated outcomes.

Flexibility

3.27 Those interviewed said that the new hospital, its design and size would provide sufficient flexibility to allow the service to respond to future changes in demand and new ways of working. For example, the single-room pod design, the configuration of the bedrooms, improvements in work flow and opportunities in relation to the Medical Day Ward all offer physical and process options that could cope with or divert demand. There is also some limited potential to expand on the site.

Impact Assessments

3.28 The Review Team notes that the OBC makes no reference to an Equality Impact Assessment (EQIA).

3.29 Whenever there are any proposed service reconfigurations, the NHS in England is legally required to undertake an EQIA to ensure that the planned changes do not disadvantage any groups of individuals that share what are referred to as "protected characteristics" (i.e. age, disability, gender, pregnancy/maternity, race, religion/belief, sexual orientation, marital status). The results of the EQIA are included in all public sector business cases. We understand that there is no such requirement within the States of Jersey, but the HSSD has recognised the added value of an EQIA. We understand that the project team intend to carry out such an assessment.

3.30 Similarly, the OBC makes no explicit reference to a Health Impact Assessment (HIA). An HIA is a specific test to identify any unintended health consequences that may result from policy changes and/or service reconfigurations. Typically, it contains a clear analysis of whether the health outcomes of the population (or certain sections of it) will be compromised by the proposed changes. We understand that an HIA has now been completed for the FH Project and the report will be submitted to the Project Board for formal approval.

3.31 Our conclusion is that the Economic case is based on sound principles and analysis.

4. Commercial Case

4.1 The main hospital procurement strategy consists of a 2-stage design and build process, with novation of the design teams to the contractor once appointed. The contract is a target cost incentivised arrangement with a maximum guaranteed price cap.

4.2 The chosen form of contract is NEC3, modified by over 40 pages of "Z-clause" amendments. These largely cover unique Jersey-specific clarifications. Some cater for matters that are now in the NEC4, the latest version of the contract.

4.3 The Project Board has approved this strategy, based on a thorough analysis of the options. The Review Team support the strategy despite its complexity. It is well understood by the core Department for Infrastructure team and Gleeds but potentially less so by lay people, including senior officials and politicians approving and scrutinising the project as it moves forward.

Recommendation 3: The Project Team should raise awareness of the 2-stage target cost NEC3 procurement approach among senior decision-makers, the scrutiny panel and key stakeholders. *Critical – Do Now*

4.4 The procurement process for the new hospital is well advanced with the stage 1 contractor bids due back in about one months' time. The Review Team are reassured that the Department for Infrastructure core team and Gleeds recognise the importance of maintaining competitive tension

all the way through to the appointment of a contractor for stage 1 and the issue of a Pre Contract Service Agreement.

4.5 Gleeds and officials from the Department of Infrastructure are managing the relocation works. Local contractors and professional service providers are delivering these projects, with Gleeds coordinating them into the delivery schedule.

4.6 The successful timely purchase of a number of properties, including hotels, residential and commercial premises on Kensington Place will provide the full site footprint for the new hospital. The OBC reflects current valuation estimates and negotiations are ongoing with landlords. We heard that good progress is being made. At the present time there are no significant concerns that the purchases cannot be achieved within the valuations in the OBC and in a timely manner to allow the full site for the new hospital to be made available. Compulsory purchase is available to the Department for Infrastructure as a fall-back and has political support, as a last resort.

4.7 Gleeds are playing a critical role on the delivery of the project. The Review Team understand that they are contracted through to the end of the project, with hold points in their contract, the next being before the end of 2017. The Department for Infrastructure continue to monitor their performance.

4.8 The timely procurement of equipment is a key aspect of the project. A strategy is in place and as the project progresses this will be worked up into detailed plans and requirements.

4.9 Our conclusion is that the commercial case covers all the main elements that would be expected and matches the requirements of the project.

5. Financial Case

5.1 The Review Team's commentary of the financial case concentrates on the capital cost forecasts of the project and the associated programme. We have not considered the funding aspects of the project.

Capital Costs

5.2 In the Strategic Outline Business Case the total estimated project cost was £466m. That remains the case for the OBC's preferred option. The constituent costs have developed between the SOC and the OBC, as shown in the table below which reconciles the previous estimate, commonly known as CRO25, with the estimated cost at OBC stage.

TABLE 3 – Cost Reconciliation *(source Gleeds analysis of SOC v OBC costs, Oct 2017)*

Description	Total Cost (£) CR025	Total Cost (£) OBC Option 4	Diff	Comments
FEASIBILITY COST SUMMARY				
1 Departmental Works Costs (Department HPCG Costs)	124,333,568	113,300,366	-11,033,202	Reduction to main hospital area Value Management items identified
2 Site Specific Works Costs (On Costs)	47,444,003	51,191,254	3,747,251	Design development has informed the abnormals cost allowances
3 Sub Total	**171,777,571**	**164,491,620**	**-7,285,951**	
4 Provisional UK geographical location adjustment	41,226,617	39,477,989	-1,748,628	Continues to be applied at 24%
5 Works Cost Total	**213,004,188**	**203,969,609**	**-9,034,579**	
6 Consultant and Design Team Fees	31,950,628	35,627,519	3,676,891	Additional client fees identified and included at OBC stage
7 Site Specific Non-Works Costs				
7.1 Land	9,527,500	10,486,800	959,300	Land valuation has been refreshed by clients advisors
7.2 Other	4,505,000	4,505,000	0	Unchanged
7.3 % for art	1,065,021	1,019,848	-45,173	% driven
7.4 Off Site Transport Improvements	322,400	664,020	341,620	Additional highways works identified by design team
8 Equipment costs (Group 2 [Supply only], 3 & 4),	18,650,035	18,650,035	0	Unchanged
9 Project Cost Total	**279,024,773**	**274,922,832**	**-4,101,941**	
10 Contingency (Planning Contingency)				
10.1 Design development risk (inc within HPCG)				
10.2 Construction risk & Employer change and other risk	33,482,973	19,244,598	-14,238,375	Previously applied at 12% within CR025. Now 5% of this allowance is included in Item 1 above (Departmental Works Cost) to account for design development. 7% allowance included here.
11 Sub Total	**312,507,745**	**294,167,430**	**-18,340,316**	
12 Optimism bias	40,626,007	38,241,766	-2,384,241	Reduction to 12% captured in the Value Management items included in Item 1 above
13 Sub Total	353,133,752	332,409,196		
14 Inflation	68,751,739	53,083,713	-15,668,026	BCIS TPI applied (post Brexit this has shown a decline)
15 MAIN HOSPITAL FORECAST OUTTURN COST	**421,885,491**	**385,492,908**	**-36,392,583**	
16 RELOCATION WORKS COSTS	**39,932,327**	76,180,322	36,247,995	ES01 Area increased ES03 & 8 merged and scope of works increased ES04 additional floor added ES06 lease and fit out costs advised - above previous allowances ES07 scope and area increased ES09 design development detailing plant relocation work required ES10 The Limes refurbishment added into scope Pneumatic tube link works extended Multi Storey Car Park added into scope
17 INFLATION ON RELOCATION WORKS COSTS	**4,092,597**	4,189,642	97,045	BCIS TPI applied (post Brexit this has shown a decline)
18 RELOCATION WORKS OUTTURN COST	**44,024,924**	**80,369,964**	**36,345,040**	
19 FORECAST TOTAL OUTTURN COST	**465,910,416**	**465,862,872**	**-47,543**	

5.3 Our view is that the £466m estimated cost for the project appears safe and is a reasonable budget for the project at OBC stage. This is based largely on our analysis of Gleeds' work and our understanding of their approach to developing the cost model for the Main Hospital building, which accounts for £386m of the £466m proposed budget. We have not undertaken a forensic check on Gleeds work but the following points are worthy of note in supporting our judgement:

- The detailed costs follow a standard industry approach involving the Health Premises Cost Guides (HPCG).
- Significant "abnormals" (a term Gleeds use to identify and provide cost estimates for items not included in the standard HPCG data) are costed at a conservative level.
- Given the challenging nature of the site and the likelihood of a longer build programme, £5.9m has been included in the costing to cover time-related site preliminary costs

- The size, scale and value of the project would normally attract an economy of scale adjustment to the detailed costs. In the previous estimate this was included at 0.89, reducing the estimate by about 12%. This has been set at 1.00 in the OBC, which is conservative.
- Detailed value engineering work has identified a net -£7m of savings in capital cost which have been approved by the Project Board. Further opportunities are available for later consideration.
- Substantial allowances have been included for Inflation (£57m) and a Jersey "location factor" (£39m), which caters for the effects of working in Jersey rather than on the UK mainland.
- The final estimates have been benchmarked against comparable UK hospital costs, adjusted for the Jersey location, using data from the Royal Institution of Chartered Surveyors Building Cost Information Service. The benchmarking indicates the hospital costs are in the expected range.
- The OBC includes substantial contingency allowances for "Optimism Bias" and for risk at £38m and £19m respectively, with a further 5% allowance for design risk embedded in the construction cost build up.

5.4 Table 4 overleaf shows the distribution of the various contingency allowances within the OBC (shown in the yellow highlighted boxes).

TABLE 4 – Contingency Allowances within the OBC *(Source, Gleeds analysis October 2017)*

Cost description	**CR025 £m**	**OBC/current £m**
Works Cost Total	213	197.25
Works Contingency – Main Scheme	£0	9.71
Fees, equipment and other costs	66.02	70.95
Project Cost Total	**279.02**	**277.91**
Contingency, Risk *(Client Contingency)*	33.48	19.25
Optimism Bias	40.62	35.25
Inflation	68.75	53.08
Main hospital Forecast Outturn Cost	**421.88**	**385.49**
Relocation Works Costs	36.3	69.97
Works Contingency – Relocation Schemes	1.51	2.59
Client Contingency – Relocation Schemes	2.12	3.62
Inflation on relocation works costs	4.09	4.19
Relocation works outturn Costs	**44.02**	**80.37**
Forecast Total Outturn Cost	465.9	465.86
Total Contingencies	77.73	70.42

5.5 The Review Team understands that the bidders' proposals due in early December 2017 will include indicative budgets for the new hospital. This will represent another check on the robustness of the OBC budget.

5.6 The Relocation costs, including enabling works, amount to £80m and show an increase from £44m at the previous stage. The following table provides a reconciliation.

TABLE 5 – Relocation Costs Reconciliation *(Source Gleeds analysis October 2017)*

9th October 2017

EXISTING JERSEY GENERAL - ONE PHASE

RELOCATION WORKS

SUMMARY

	£ OBC	£ CR025	Difference	Comments
ES-1 Creation of Catering CPU				Allowance substituted by known leased building and scopre defined
ES-2 Relocation Medical Secretaries/Consultants				
ES-3				
ES-4 Construction of the Temporary Block				increased size of the Temporary Clinic block to house more critical services adjacent to the interim hospital during construction; this *facility has been designed to be re-used* after the opening of the Future Hospital.
ES-5 Off Site Transfers				Medical records storage, brief developed
ES-6 Relocation of Corporate Functions - Lease costs				education facilities and offices required during the construction period to house HSSD staff decanted from Peter Crill House.
	REDACTED			
ES-7 Transfer of Clinics 2 - Remodelled Westaway Court				Westaway Court to include the Pathology Lab, *reduces the cost of the Future Hospital;* as the Pathology Lab *will remain permanently* at Westaway Court connected to the hospital by a pneumatic tube.
ES-8 Transfer of Clinics 1 - Catering Refurbishment				
ES-8 Reorganisation First Floor Parade, Granite and 1960s wings				Briefing developed and requirement established
ES-9 Re-siting of Critical Plant and Systems				Complex plant relocations defined and detailed including investigative works
ES-10 Transfer of Staff Accommodation				changes in the funding assumptions for housing junior doctors at the limes, which is a one off capital cost rather than an ongoing revenue cost.
Post Occupancy Granite Block Refurbishment				
Additional 2 decks on MSCP				addition of the scope for modifications to Patriotic Street car park; *not included in the previous estimate* as no decision on funding had been made at that time.
RELOCATION WORKS TO SOA SUMMARY				
INFLATION ON SCHEMES TO SOA SUMMARY				
TOTAL RELOCATION COSTS	**£80,369,964**	**£44,024,924**	**£36,345,039**	

5.7 The increase in the Relocation costs is largely due to:

- the inclusion of the Pathology Lab in Westaway Court, which has created a saving in the estimated cost of the main hospital building,
- the inclusion of the cost of staff accommodation and work to the Patriotic Street car park which were not previously funded from the FH budget, and
- costs associated with more general scope changes and design developments.

5.8 The scope changes and design development element illustrate the importance of robust change control and management of risk and Optimism Bias (OB) monies at the next stage, following the appointment of the contractor, potentially as early as January 2018. Gleeds presented to the

Review Team a possible approach to the delegation and management of risk monies and OB and we believe it is important that this is subject to the formal Approvals Process before the end of 2017.

Recommendation 4: The Project Team should agree with the Project Board the arrangements for managing contingency funds for risks and optimism bias. *Essential: Do by end of January 2018*

5.9 The Review Team are satisfied that there is no double-counting of costs within the OBC resulting from the transfer of the Pathology service to Westaway Court. We also understand that the FHP application for Planning Permission will not include the Pathology Laboratory; rather, Westaway Court's Planning application will.

5.10 As part of this review we considered the management of risk. We found that a good process is in place. The risk log identifies a high number of acute service risks which suggests the potential for client change and confirms the need to have a robust arrangement for the management of risk and OB funding in place as soon as possible.

Revenue costs

5.11 The revenue cost elements analyses in the Finance Case are broadly as we would expect, although we have not undertaken a detailed forensic analysis. The Finance Case element of the OBC goes into substantial detail on the revenue costs of the preferred scheme (Option 4). Based on a 60 year life, timed from the completion of the new hospital, the preferred scheme shows a £13.3Bn saving over the 60 years when compared to Option1, the do nothing scheme (see Figure 73 in the OBC).

5.12 The major element of the running costs of the future hospital are the clinical and non-clinical costs, which over the 60 year life significantly outweigh the capital costs. The revenue costs also contain, as we would expect, hard and soft facilities management costs and lifecycle costs. The detailed analysis in the Finance Case section of the OBC then comes together in Figure 83 of the OBC, which indicates a total capital and revenue cost for the preferred option of £61.1Bn over the 60 year life.

Programme

5.13 In the Review Team's judgement the construction programme is realistic for an OBC at this stage, to open the new hospital in 2024, followed by the opening of the Granite Block in 2025. This judgment is based on a planned construction period of nearly 3.5 years + 1 year for commissioning and occupation of the new building.

5.14 In examining the Appendix 23 of the OBC we were advised that the construction programme and phasing had a September 2017 baseline. This was inconsistent with other sections of the OBC.

5.15 We saw evidence that the dates for key critical path activity, including planning approval, contractor appointment and Westaway Court are already slipping against the timetable established in September 2017.

5.16 Several short-term activities, due for completion by the end of January 2018, are on the critical path for the project. These include:

- OBC approval
- Planning approval
- Contractor appointment for the first stage of the main Hospital build contract.

5.17 An independent planning inspector has been appointed and will open a five-day public inquiry in early November 2017. His terms of reference steer against revisiting the decision already taken over the choice of site. The Planning Department have adopted a neutral rather than supportive stance as the project breaches the Jersey strategic planning guidelines. We heard that the influential Jersey Architectural Commission have moved from a critical point of view more towards acceptance. There is a tight timescale for the planning submission to be approved by the Environment Minister following a recommendation from the inspector.

5.18 We formed the view that small delays in these approval and appointment activities may be manageable and recoverable in later phases. However, they are all significant, have a degree of complexity and are outside the direct control of the project team. A delay of more than two months could have more serious consequences for the programme as an election purdah period is due to start in Spring 2018 and decisions of this magnitude would probably have to await the appointment of new Ministers.

Recommendation 5: The project team should keep up to date the detailed critical path plan for the activities leading up to the commencement of the purdah period. *Essential – Do by January 2018*

5.19 The rebuilding of Westaway Court is either close to or on the critical path for the FHP project. This is a substantial project in its own right, with a value approaching £30m. Design work is ongoing and the first of two planning applications, for the demolition of the existing building, are about to be submitted.

5.20 The redevelopment of Westaway Court, its commissioning and the relocation of key hospital functions, among other things Pathology, is crucial to enable a start on site to be made on the new hospital building. Given our lack of confidence in the programme at Appendix 23 of the OBC referred to above, and the current slippage, we consider more needs to be done to provide comfort that Westaway Court will not become project critical.

Recommendation 6: The project team should develop further the plan for Westaway Court, identifying options to protect the overarching FHP critical path. *Essential – Do by January 2018*

Costs to date

5.21 The costs to date are £15.1m. This nearly all relates to fees, mainly to Gleeds and their sub consultants, but also to other consultants for the planning submission process. The fees total £13.3m and the remaining £1.8m is attributable to States of Jersey costs, for example directly hiring staff to work on the project.

5.22 The costs to date become abortive costs if Planning Permission is not granted for the preferred site. The design solution is almost wholly site-specific and starting again on a new site would require a new design solution.

5.23 If Planning Permission is granted but if the OBC is not approved, the project will become delayed. The cost impact of such a delay would be of the order of low £ millions if the delay is measured in single weeks, but any larger delay will be exacerbated by the purdah period and the ensuing cost impact will more likely be measured in £10 million multiples.

Financial case – conclusion

5.24 Taking all of the above into consideration, our view is that the cost forecasts include contingency allowance that look reasonable at this stage of the project in relation to the risks. Our conclusion is that the Financial Case is based on sound principles.

6. Management Case

6.1 The project governance arrangements are in place and are working effectively. The project team has strengthened the overarching governance in the last six months, with the addition of senior advisors at project board level.

6.2 We are pleased to see evidence of the Project Board being aware of cost-time-quality - scope trade-offs and taking decisions in that light. The Board has become familiar with the concept of Value Engineering and maintains a long list of options in which the cost-time-quality-scope trade-offs are explicit. This understanding represents a line of defence against inadvertent cost rises or delays.

6.3 Terms of reference are in place for all the main governance groups.

6.4 We saw evidence of structured engagement processes with the FHP's stakeholder groups, which will help mitigate the risks of future unexpected scope changes.

Resources

6.5 It is important that the "intelligent client unit" works effectively and our primary concern is one of capacity. The core project team is under-resourced. There are too few suitably experienced in-house project resources, at all levels. Consequently there is a strong reliance on Gleeds, whose people demonstrate high capability. We are aware that the project team are considering the resource profile for the next phase of work but are constrained from making any appointments until the OBC has been approved. As such, this represents a continuity risk.

6.6 Once signed, the contract will contain numerous client obligations, many of which will involve the sign-off of critical requirements specifications and design decisions, often within very tight timescales. These tasks require specialist domain knowledge, some of which will be specific to Jersey. Dedicated resources - with the skills, knowledge and capacity to fulfil these functions - will need to be in place. One approach is to backfill key roles so that clinical, administrative and support staff can be released from their "day jobs" at critical times throughout the lifecycle of the project.

6.7 The new hospital is just one part of an ambitious programme of change and transformation across health and social care. The success of the programme depends on:

i. significant service re-design and process re-engineering, and
ii. the extent to which these new ways of working can be embedded within the hospital and the wider community.

To drive this work will require specialist change managers as well as change champions within the hospital and the partner organisations.

Recommendation 7: The HSSD should provide assurance that there is sufficient capacity (in place, or planned) to deliver the transformation agenda. *Essential – Do by January 2018*

Project and Programme Dependencies

6.8 The FHP construction schedule contains numerous project-specific dependencies (e.g. approvals. planning, funding, and relocations). There is also widespread recognition that the success of the future hospital depends on key initiatives in the community and primary care settings. There are many other critical inter-dependencies that require management attention too e.g. the provision of ICT.

6.9 The new hospital will be 'paper light' and the design assumes that there will no longer be a Health Records department onsite. This scenario assumes that the development and implementation of the electronic patient record, and all its associated systems, will be fully operational for the opening of the new hospital. It also assumes that the Jersey integrated care record will be in place across health and social care.

6.10 We understand that ICT delivery plans are on track, but it is important that all the inter-dependencies between the FHP and the wider transformation programme are properly identified and tracked.

Recommendation 8: All inter-dependencies between the FHP and the wider transformation should be identified. *Essential – Do by March 2018*

6.11 As a relatively minor point, the Review Team sees an opportunity to improve document management and control. Documents are date-stamped but not subject to effective configuration management and version control.

6.12 Our conclusion is that the Management Case is sound.

7. Risks

7.1 In addition to the risks identified in the FHP risk register, this review highlights some different risk perspectives that are of concern:

- Dependencies. The capabilities that the FHP will provide will contribute to transformation activities across the wider Jersey Health and Social Care economy. Likewise, the FHP depends on those wider transformation activities to optimise its efficiency and effectiveness. The Review Team has two concerns in relation to this. First that those interdependencies are not clearly expressed or understood. Second that future funding cuts in the wider transformational activities may undermine the ability of the FHP to operate as planned.

- Changes to scope and requirements. Despite the project team's initial stakeholder engagement work, the high incidence of acute clinical/service risks presented in the risk register suggests a potential for future contingency consumption when stakeholders engage more fully. This raises a supplementary question about the extent of the culture change programme necessary to embed new ways of integrated working, custom and practice, particularly in the acute and social care community.

- Project resources. As noted above, the core team is too thinly-resourced and is over-dependent on external support. This creates a continuity risk and misses an opportunity for wider knowledge and skills transfer.

8. Conclusion

8.1 Our overarching conclusion is that the OBC provides the States of Jersey with a sound enough basis for decision making. The five elements of the OBC match good practice, albeit containing some issues, but none of these are showstoppers.

8.2 We rate the project as Amber-Green because the project has sufficient contingency, in terms of time and cost allowances, to cope with the various risks that face it.

APPENDIX A

Interviewees

Name	Role
Ray Foster	Director of Estates, Jersey Property Holdings, DfI
Bernard Place	FH Project Director – Health Brief, HSSD
Helen O'Shea	Managing Director, JGH, HSSD
Mike Penny	Director, Gleeds Management Services - Lead Technical Advisers
Robin Whitby	Construction Advisor, DfI
Sarah Howard	Assistant Finance Director, HSSD
John Rogers	SRO Chief Officer – Department for Infrastructure
Julie Garbutt	Chief Executive – Health & Social Services
Andy Ross	EY, Financial Assurance and Evaluation
Rachel Williams	Director – System Redesign & Delivery, HSSD
Tom Brader	Costs, Gleeds Management Services
Becky Sherrington	Head of Nursing & Governance, HSSD
Bronwen Whittaker	Deputy Director – System Redesign & Delivery, HSSD
Mark Plenty	Procurement, Gleeds Management Services
Jason Turner	Deputy CEO/Director – Finance & Information Services, HSSD
Richard Glover	Manager, Planning Performance, DfI
Jessica Hardwick	Project Manager, Transport and Civil, DfI

11. Appendix 2: Opus Report

opus

Future Hospital Scrutiny Review Panel – States of Jersey

Future Hospital Review Panel

November 2017

Strictly Private and confidential

JERSEY HOSPITAL FUNDING STRATEGY

Background

1. The States of Jersey is proposing to build a new hospital and to fund it principally through the issuance of a bond equivalent to the capital value of the hospital.

2. In Spring 2017, the Scrutiny Panel engaged Opus to review a proposal for the States of Jersey to borrow up to £400 million of the projected cost of the hospital (estimated at £466 million) through a public nominal bond issue. Opus's report on that proposal and the Panel's subsequent conclusions are on the public record.

3. On 31 October 2017, the Minister for Treasury and Resources lodged a revised proposal for the hospital, including a new funding proposal including a proposal to borrow up to £275 million via a public rated Sterling bond issue, with the remainder of the financing being provided by withdrawals from the Strategic Reserve Fund (together the "New Funding Proposal").

4. In this context, we have been asked to update our advice to the Panel to assist the Panel's ongoing research of matters falling within its terms of reference.

5. The Panel has stipulated that it is seeking assistance in the following areas:

    - to provide expert opinion on the New Funding Proposal;
    - to provide a view on the type of bond proposed and the timing of its issuance; and
    - to consider the other funding options considered by the Treasury and Resources Department and to determine whether the proposal to use the New Funding Proposal in preference to those other options is a sound one.

Process and documentation

6. In reaching the views contained in this paper, we have had access to a suite of relevant documents, including the proposal itself; the minutes of various Treasury Advisory Panel meetings supportive of early bond issuance; and various pieces of advice from EY including an updated external debt financing options review dated 17 October 2017. We have also had the benefit of discussions with the Scrutiny Office and a telephone call with members of the Panel itself. In addition, we have liaised with Concerto, who are advising the Panel on issues relating to the likely cost of the hospital project.

7. Our previous advice addressed a number of key issues to be considered in the light of the earlier proposal. None of these is substantially affected by the New Funding Proposals. It is more a question of whether the New Funding Proposals modulate the risks inherent in the hospital financing in the optimum way. This paper does not therefore repeat the generic conclusions of our earlier advice. Instead it concentrated more on whether the New Funding proposals are the most appropriate solution.

Context and principal findings

8. The hospital will represent a major new asset for the States of Jersey, at an expected cost (in today's money) of £466m – by way of comparison the capital cost is equivalent to more than half of the States predicted average annual income over the next three years and about 100 per cent of the self-imposed borrowing limit relating to that income, taking into account the existing borrowings.

9. Against this cost, the hospital itself is not projected to produce any significant income, which rules out most forms of private finance and project finance to help fund the hospital.

10. As a result, the entire funding programme of +/-£450m needs to be found from the resources of the States of Jersey. The two principal sources of capacity to achieve this are:

    a. The Strategic Reserve Fund, which had reported capital of £819.6m as at end of 2016; and
    b. The States of Jersey's unutilised borrowing capacity within its current credit rating. A further constraint is the States of Jersey's self-imposed cap on total borrowing by reference to its annual tax revenues.

11. The original proposal was to issue up to £400 million debt securities in the name of the States of Jersey, to transfer the proceeds on demand to the Hospital Construction Fund to meet construction and related costs; and to service the resulting debt interest and repayments from the income of the Strategic Reserve Fund. The New Funding Proposals, restrict the amount to be borrowed to £275 million leaving the remainder to be sourced as drawings on the Strategic Reserve Fund, which would correspondingly deplete.

12. Both approaches rely on the expectation that the Strategic Reserve Fund can generate higher overall returns than the all-in cost of the bond (and also higher yields than the coupon payments) such that the arbitrage between the yield on the Fund and the cost of the debt generates enough additional balance (over time) to repay the principal of the bond.

13. Both approaches consume a considerable portion of the States of Jersey's overall spare funding capacity (i.e. the Strategic Reserve Fund aggregated with the States of Jersey's borrowing capacity at its present credit rating), but this cannot be avoided on the basis that the hospital itself is forecast to generate limited revenues.

14. The principal question, therefore, is whether the reduction in bond financing from £400 million to £275 million (with the remainder being drawn from the Strategic Reserve Fund) creates an optimal funding strategy between the two "book-ends" of:

    a. Maximising the bond issuance (as in the original proposal in order to optimise the arbitrage opportunity between the return on the Fund and the cost of the bond); and
    b. Funding entirely out of the Strategic Reserve Fund, leaving the States of Jersey's borrowing capacity unutilised and available for other purposes that might arise – this strategy was considered in the Scrutiny Panel's response to the original proposals.

15. Maximising the initial borrowing creates maximum opportunity for value creation, provided the returns on the Strategic Reserve Fund outstrip the cost of the bond. But this approach also

maximises the risk that income from the Strategic Reserve Fund is inadequate to service or repay the new debt, either because the capital in the fund needs to be deployed for some other purpose; or because investment returns fall/become more volatile, so as to prove an unreliable or inadequate source of debt service. These risks are strategic and hence worthy of a clearer and more explicit combined strategy bringing together the investment strategy for the Strategic Reserve Fund in the context of the management of debt service risk. At the moment these appear still to be very much separate from each other (EY for the bond, AON for the investment strategy) without any real consideration as to how to marry the two more effectively (this was a point raised in our initial paper).

16. Maximising the initial take from the fund leaves Jersey's borrowing capacity available for other purposes, and allows money to be drawn as needed (whereas the bond needs to be issued in a single tranche big enough to merit its issue – and then the proceeds reinvested until they are needed). But it foregoes the income on the funds withdrawn and loses the potential for the arbitrage between the return on those funds and the (expected lower) cost of servicing the bond.

17. The choice of a "middle path" – i.e. the New Funding Proposal – would appear to be a pragmatic response to the challenges of these two book-ends. It allows the States to benefit from the arbitrage (assuming that materialises as expected) but without completely denuding the Strategic Reserve Fund or going to the limit of borrowing capacity at the present credit rating. In other words, if additional funds need to be found – either for the hospital or for some other emergency – then the States should have two avenues open to it – withdrawing some of the balance of the Strategic Reserve Fund and/or additional borrowing.

18. We would conclude that the New Funding Proposals represent a reasonable way forward.

19. That said, the New Funding proposals raise several other second order (but nonetheless important) issues, which are now addressed in sequence:

    a. What is the best form of bond?

    b. Timing – should the bond be drawn first or later?

    c. Investment strategy – what is the impact of requiring sufficient funds to be liquid to meet construction payments?

Best form of the bond

20. The EY advice has consistently been that a sterling nominal bond is the most effective and efficient instrument. We concur with that advice. In our previous advice we considered the possibility of deferred bonds (i.e. those which can be drawn at a later date) and/or indexed bonds (CPI or RPI). Our comments on these remain unchanged
    a. Deferred bond – this is superficially attractive in that it would allow rates to be fixed now and funds drawn only when required, but it negates the benefit of the arbitrage if the bond is drawn in full early – and it is not clear that there would be sufficient liquidity to use it.
    b. Indexed linked bonds – these have been popular in recent utility/infrastructure issuance in the UK, and investor appetite for such instruments is relatively strong at present (particularly CPI). However these borrowers almost all have index-linked revenues, whereas the Jersey hospital does not. Index-linked bonds would therefore represent a risk

to the States of Jersey if inflation rose and it did not have alternative index-linked revenues of its own.

c. "Ladder" bonds – the Minister for Treasury and Resources' proposal examines the possible use of ladder bonds – that is, bonds which have various repayment dates, staggered over time. We agree with EY's assessment that there would be insufficient liquidity in each tranche of bonds of this type, and no obvious benefit from having different maturities.

21. That essentially leaves a Sterling nominal bond as the default funding mechanism – and there are a number of reasons why that makes sense:
    a. Sterling is the natural currency for Jersey, and doesn't involve foreign exchange risk;
    b. A nominal bond fixes the cost of borrowing so that it is known up front, providing certainty of funding cost and a target for the investment side of the equation to outperform; and
    c. It is the form of bond already issued by the States of Jersey, and hence is familiar to investors who are themselves familiar with the investment story.

Timing of the bond

22. A choice needs to be made whether to draw the bond first, leaving the Strategic Reserve Fund to top up any shortfall, or whether to fund the early expenditure out of the Strategic Reserve Fund until that expenditure has reached the level at which a bond can be issued to replenish the Strategic Reserve Fund and cover the rest of the anticipated expenditure.

23. At first sight it might seem more efficient to delay the bond issue until there was sufficient known expenditure to merit the raising of a bond, but three more powerful factors argue in favour of an early bond issuance:

    a. One purpose of the bond is to allow the Strategic Reserve Fund to keep earning superior returns. Therefore drawing the bond early maximises the arbitrage available by allowing the Strategic Reserve Fund to continue earning a return on its full balance plus the proceeds of the bond, rather than reducing the returns from the Strategic Reserve Fund due to early withdrawals from the fund;

    b. Second, bond yields and spreads are close to their historic lows (even after the recent rate rise from 0.25% to 0.5% p.a.). Market consensus, confirmed by forward spreads, is that there is more upward pressure than downward pressure on interest rates in the foreseeable future. In this context it would seem prudent to borrow now before rates go up further. Additional ballast for this view can be seen in the approach of Tideway (the most current active infrastructure issuer in the UK market), which has virtually pre-financed its entire construction programme with bonds, in some case five years ahead of the actual expected usage of that money. These bonds have been mainly deferred and mainly RPI or CPI linked, but that does not take away from the basic premiss that projects that know they are going to need funding should take advantage of present market rates.

    c. There is also a tactical advantage to borrowing early. At present, the hospital project is on time and on budget – or at least assumed to be so. If anything untoward were to happen to the project that could have a negative impact on Jersey's credit rating and its ability to raise finance on the most competitive terms. So the timing is also propitious from that point of view

24. In our view, these factors definitively favour a strategy of raising the bond early, using the proceeds to increase the investment return from the Strategic Reserve Fund (thus optimising the benefit from the arbitrage); and reserving payments from the Fund to top up any shortfall above £275 million.

25. To date, the interest rate rise announced last week (2 November – the first rate rise since 2007) has not had a profound effect on the observed cost of borrowing, particularly the bond market, which appears to have been discounting such a rise (in fact spreads tightened a bit in the immediate aftermath of the announcement). So it is difficult to say that the delay in funding from March 2017 to now has resulted in an increase in the cost of the bond (and fees are broadly unchanged too). But it does suggest that it would be wise to take advantage of the current market conditions.

26. It is worth dwelling briefly on the quantum of the bond. A truly balanced strategy would suggest that £233m be borrowed and £233m funded from the Strategic Reserve Fund's existing resources. However the bond needs to be of a minimum size to achieve a number of different objectives, but particularly achieving sufficient liquidity to encourage investors to believe that it will be freely tradeable – and also of a sufficient size that the issuance costs do not become unduly expensive (particularly the legal costs which tend to be fixed rather than ad valorem).

27. It is a reasonable rule of thumb that £250m is the minimum size of bond that meets these objectives. It is difficult to be definitive as to whether £250m, £275m or £300m is the optimal issuance size, but £275m certainly falls within a reasonable range.

Investment strategy

28. This appears to be the weakest part of the New Funding Proposal and the least transparent. The Fund itself has a long and successful track record of investment, as noted in the New Funding Proposals paper. However it is not clear how the investment strategy of the fund will be tailored – if at all – to the new circumstances.

29. The proposals assume a RPI+2% return on the fund as a whole, which would be augmented by the proceeds of the bond. While this target does not appear unreasonable, either by reference to other similar infrastructure funds or by reference to the historic track record of the Strategic Reserve Fund itself, it does not sufficiently recognise the need to be able to make the cash payments required to construct the hospital and the impact that this could have on the investment strategy.

30. The proposals would benefit from greater clarity as to how funds from the Strategic Reserve Fund (including the proceeds from the bond) will be hypothecated to the hospital project in order to ensure adequate cash is available for payments. It would seem reasonable to assume that such readily accessible funds would attract a lower return than the average for a fund without such clear and detailed funding commitments.

RSM

4 Nov 2017

12. Appendix 3

12.1 Review Panel Membership

Deputy Simon Brée, Chairman

Richard Renouf, Vice-Chairman

Deputy John Le Fondré

Deputy Terry McDonald

Deputy Kevin Lewis

Senator Sarah Ferguson

Expert advisors

Concerto Partners LLP

Opus Corporate Finance

12.2 Terms of Reference

1. To examine the Outline Business Case documentation and the 5 case model:

    a. The Strategic Case
    b. The Economic Case
    c. The Commercial Case
    d. The Financial Case
    e. The Management Case

2. To establish how services provided within the future hospital fit into the wider health profile

3. To determine the flexibility of the new hospital in relation to future demand

4. To consider the decision-making process in relation to the funding proposals with particular reference to the level of identified expenditure (£466 million)

5. To assess the appropriateness of the funding proposals and any associated risks

12.3 Public Hearings

Friday 10th November 2017

Senator A. Green, Minister for Health and Social Services

Deputy E. Noel, Minister for Treasury and Resources

Deputy P. McLinton, Assistant Minister for Health and Social Services

Mrs H. O'Shea, Hospital Managing Director

Mr B. Place, Director, Future Hospital Project

Mr M. Penny, Director, Gleeds Management Services

Mr R. Foster, Director of Estates, Department for Infrastructure

Ms B. Whittaker, Deputy Director, Out of Hospital Community

Mr J. Turner, Director, Finance and Information, Health and Social Services

Monday 13th November 2017

Senator A. Maclean, Minister for Treasury and Resources

Mrs A. Rogers, Director of Financial Planning and Performance

Mr S. Hayward, Director of Treasury Operations and Investments

Mr R. Foster, Director of Estates, Department for Infrastructure