WQ.207/2020

**WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES
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ANSWER TO BE TABLED ON TUESDAY 2nd JUNE 2020**

**Question**

What cost benefit analysis, if any, has been undertaken of all-Island testing for Covid-19 compared with the drawdown of £500 million credit that has been arranged and what were the results of any such analysis?

**Answer**

A COVID-19 Business Case was produced for the £500m Revolving Credit Facility and the Island-wide Testing Programme. Both Business Cases adopted the same approach which included the development of an Economic Case including an options analysis which set out a range of potential options and the evaluation of each option against agreed evaluation criteria. The relative costs, impacts and risks associated with each option were considered along with a consideration of the pros and cons of each option.

The Island-wide Testing Programme considered the following options:

- Option 1: Maintain the current testing programme only (no surveillance testing)
- Option 2: Maintain current level of testing at c.120 PCR tests per day on a prioritised basis, no additional on-demand testing, introduce some surveillance testing using point of care serology only
- Option 3: Island-wide testing programme at c.500 PCR per day through a prioritised planned and on-demand testing service, introduce population surveillance using point of care serology and lab-based serology.

Option 3 was selected as the preferred option.

The Revolving Credit Facility Business Case considered the following options:

1. Do Nothing – no government support or financial stimulus
2. Do Minimum – funding to meet life-saving health requirements only
3. Do Maximum – funding to fully support the economy

The Minister was advised by the Treasury Advisory Panel. Option 3 was selected as the preferred option.

We also considered a number of different types of borrowing instruments which are set out in the table below.

| | **Revolving Credit Facility** | **Private Placement** | **Public Sterling Bond** |
|---|---|---|---|
| Advantages | • Simple and quick (4 to 6 weeks) to arrange and led by SoJ<br>• Provides flexibility on amount and can be drawn down in stages<br>• Cheapest cost of financing<br>• Can be repaid in stages or a single lump sum, with no early repayment penalty | • Existing credit rating supports issuance<br>• Low rate environment means low fixed coupon<br>• Longer tenors available than RCF<br>• Delayed drawdown possible (for a premium)<br>• Amortisation possible | • No financial covenants<br>• Low rate environment means low fixed coupon<br>• Longer tenors available than RCF<br>• Existing issuance and documentation can be leveraged<br>• Amortisation possible |

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| | • SoJ has good relationships with local banks<br>• Extension options are available that can be considered alongside the Recovery Plan. | | • Multiple maturity issuance available for larger size (£500m+) |
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| Disadvantages | • Shorter tenor than other markets (<5 years)<br>• Increased re-financing risk<br>• Financial covenants likely to be required<br>• Higher arrangement fees and likely non-utilisation cost<br>• Bank capital and credit maybe constrained | • Longer time to completion than RCF (approx. 12 weeks)<br>• Financial covenants likely to be required<br>• Costs incurred if redeemed early<br>• Higher cost than public bond issuance<br>• Investors are less familiar with sovereign issuers<br>• Financing costs stretched in current market (Less flexibility than the RCF) | • Longer time to completion than RCF (approx. 12 weeks)<br>• Maintenance of credit rating and other ongoing public disclosure requirements<br>• £250m minimum issue size<br>• Costs incurred if redeemed early<br>• Staggered draw down difficult so risk of 'cost of carry' if not utilised<br>• Amortisation less attractive to investors<br>• Market effectively closed to new issues at the moment – therefore not a viable option |

Government of Jersey Business Cases use principles from the Green Book "five case model" to enable consideration to be given to the strategic case, commercial case, economic case, financial case and management case.