

**FRIENDS OF OUR NEW HOSPITAL**

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Future Hospital Review Panel  
Scrutiny Office  
Morier House  
St Helier  
Jersey JE1 1DD

25 August 2021

Dear Sirs

Re: Future Hospital Review Panel Call for Evidence

We thank the Panel for the opportunity to comment on the States of Jersey "Our Hospital – Budget, Financing and Land Assembly, P.80 2021" lodged by the Council of Ministers on 3<sup>rd</sup> August and the Government of Jersey "Our Hospital Project Outline Business Case, R.124 2021" lodged on 14 July 2021. We understand the Proposition and Report are due for debate in the Assembly in September/October 2021.

The Friends of Our New Hospital have closely followed, reviewed and commented on the Government's Our Hospital Project. The Our Hospital Project will be the largest capital expenditure ever undertaken by our government. If the Assembly approves P.80 2021 and R.124 2021 we will be committing ourselves to building one of the most expensive hospitals ever built in Western Europe and an unnecessary level of Government borrowing. The forthcoming debate is the last opportunity for the Assembly to bring the Our Hospital Project under sensible control. We strongly suggest that the Future Hospital Review Panel should consider introducing Amendments to P.80 2021 and R.124 2021 for consideration by the Assembly and the Public. The basic objective of any Amendments must be a call for a reassessment of the proposed expenditure and financing.

With the above recommendation understood, we are pleased to respond to the Panel's "Call for Evidence" in which you have requested views on the following in particular:

1. The proposed budget of £804.5 million is appropriate for Jersey and for this Project

The Government of Jersey "Our Hospital Project Outline Business Case" Report should be rejected until consideration has been given to the following:

- A. The proposed Budget has ballooned from £466 million to £804 million without adequate explanation.
- B. The Plan has built in excessive contingencies, overheads, contractor profit margins and related costs that are unjustifiable.
- C. The Plan has failed to fully describe the specifications for the new hospital including the size of the building, the number of beds and its medical facilities.
- D. There is no budget for the operation of the hospital including staffing, facilities management and overall operations.

We are enclosing Annex A "Comparison of Hospital Build Costs in Jersey Versus UK National Averages" for your review. We conclude that the projected OBC costs for our new hospital are two to three times the cost of building a new hospital in Central London. There is no justification for this differential.

In our view, the OBC and P.80-2021 do not adequately address the economic risks, provide sufficient evidence or justify the Island proceeding with the Our Hospital Project as proposed.

We suggest the Panel should consider introducing Amendments which will require the completion of the following steps before the project proceeds:

- The RIBA 4 stage of development should be completed;
- The project should be openly tendered;
- A budget limit should be set to remain within the parameters of the cost of an equivalent hospital built in central London;
- Budgets for staffing and operating the hospital are completed and independently reviewed;
- The project should not proceed until there is clear indication that the Application for Planning Development will be successful.

We acknowledge that the project will be delayed but the resulting cost reduction and certainties achieved are in the overwhelming long-term interests of the Island.

## 2. Funding Proposals

The Minister for Treasury and Resources submitted R.132 2021 to the Assembly on 19 August stating the Government's plans to finance the Our Hospital Project. We set out our view of the Government's plans in Appendix B enclosed. In summary:

- A. The proposed borrowing of £756 million should not be required if the project budget is properly controlled and reduced.
- B. We should only be borrowing funds to finance the Our Hospital Project not to make investments in the Strategic Reserve Fund. Our government should not be borrowing money in an attempt to make money.
- C. There is no guaranty that the past returns earned by the Strategic Reserve Fund will continue and generate sufficient income to cover the interest due on the bonds to be issued.
- D. The level of debt incurred may reduce the Island's credit rating and impact our ability to borrow for other needs.
- E. The Island has sufficient reserves and assets to fund the Our Hospital Project in its entirety. If we proceed to borrow as well, we should borrow no more than 50% of the projected cost of the hospital.

The Our Hospital Project requires a pause and a reassessment. We urge the Future Hospital Review Panel to consider and to introduce Amendments to P.80-2021 and the Outline Business Case to ensure a thorough reassessment is undertaken and independently audited with the Public's full knowledge, participation and consent.

Yours faithfully

FRIENDS OF OUR NEW HOSPITAL

Peter C Funk  
Interim Chair

- Appendices:
- A. Comparison of Hospital Build Costs in Jersey vs UK National Averages
  - B. Comments on the Government's Plans to Finance the Our Hospital Project

Friends Steering Group

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**Friends of Our New Hospital****Submission to the Future Hospital Review Panel****Appendix A****Comparison of Hospital Build Costs in Jersey Versus UK National Averages****1.0 Details of Historic Hospital Build Costs Throughout the Regions of the UK: Baseline 2018**

**Table 1** indicates the average costs of hospital construction throughout the various regions of the UK in 2018. A London General Hospital is the highest cost, with a Day Centre in Northern Ireland the lowest cost. (*Source: [Statistica.com](#)*)

We have added the cost of Jersey Inflation from December 2017 to June 2021 (Source: Gov.je Inflation calculator) at 9.9% for the period. In addition to the initial calculation, we have added a “Jersey Weighting” factor at a notional 12.5% to allow for the assessed increased cost of working in Jersey

Finally, we have added an overall estimated 20% increase to cover probable inflation over the five years from 2021 until the scheduled completion date of the OH in 2026.

The final column in Table 1 below calculates the cost of regional hospital construction throughout the UK adjusted for inflation from 2018 – 2021 and Jersey weighting costs and inflation from 2021 – 2026.

**Table 1 Historic Costs of Hospital Construction throughout UK per m<sup>2</sup>**

<b>UK Regions</b>	Hospital costs in the UK (Source: Statistica .com) Cost Per m <sup>2</sup>	Percentage Jersey Inflation December 2017- 2021	Calculated allowing for inflation December 2017 - June 2021 Cost Per m <sup>2</sup>	Add "Jersey Weighting"	Calculated cost for Jersey Equivalent June 2021 Cost Per m <sup>2</sup>	Add potential inflation from June 2021 - December 2026 notional completion date	Calculated costs of Hospitals allowing for inflation and Jersey uplift Cost Per m <sup>2</sup>
<b>London General Hospital Highest</b>	<b>£3,780.00</b>	<b>9.90%</b>	<b>£ 4,154 .22</b>	<b>12.50%</b>	<b>£ 4,673.50</b>	<b>20%</b>	<b>£ 5,608.20</b>
London Regional Hospital	£3,360.00	9.90%	£ 3,692.24	12.50%	£4,154.22	20%	£4,985.06
UK South General Hospital	£3,330.00	9.90%	£ 3,659.67	12.50%	£ 4,117.13	20%	£4,940.55
UK Central General Hospital	£3,101.00	9.90%	£ 3,408.00	12.50%	£ 3,834.00	20%	£4,600.80
Scotland General Hospital	£3,083.00	9.90%	£3,388.22	12.50%	£ 3,811.74	20%	£4,574.09
UK North General Hospital	£3,028.00	9.90%	£3,277.77	12.50%	£3,743.74	20%	£4,492.49
Northern Ireland General Hospital	£2,740.00	9.90%	£ 3,011.26	12.50%	£ 3,387.67	20%	£4,065.20
London Day Centre	£2,730.00	9.90%	£ 3,000.27	12.50%	£ 3,375.30	20%	£4,050.36
U K South Regional Hospital	£2,718.00	9.90%	£ 2,987.08	12.50%	£ 3,360.47	20%	£ 4,032.56
Scotland Regional Hospital	£2,630.00	9.90%	£ 2,890.37	12.50%	£ 3,251.67	20%	£ 3,902.00
UK Central Regional Hospital	£ 2,604.00	9.90%	£ 2,861.80	12.50%	£ 3,219.52	20%	£ 3,863.42
UK North Regional Hospital	£2,521.00	9.90%	£2,770.58	12.50%	£3,116.90	20%	£ 3,740.28
Northern Ireland Regional Hospital	£2,335.00	9.90%	£ 2,566.17	12.50%	£ 2,886.94	20%	£3,464.32
UK South Day Centre	£1,942.00	9.90%	£ 2,134.26	12.50%	£2,401.04	20%	£ 2,881.25
Scotland Day Centre	£1,750.00	9.90%	£1,923.25	12.50%	£2,163.66	20%	£ 2,596.39
UK North Day Centre	£1,677.00	9.90%	£ 1,843.02	12.50%	£ 2,073.40	20%	£ 2,489.08
UK Central Day Centre	£1,579.00	9.90%	£1,735.32	12.50%	£ 1,952.24	20%	£ 2,342.68
<b>N. Ireland Day Centre Lowest</b>	<b>£ 1,525.00</b>	<b>9.90%</b>	<b>£1,675.98</b>	<b>12.50%</b>	<b>£1,885.47</b>	<b>20%</b>	<b>£2,262.57</b>
<b>Average</b>	<b>£2,579.61</b>		<b>£2,834.99</b>		<b>£3,189.39</b>		<b>3,827.24</b>

Therefore, the historic build cost of hospitals throughout the UK is in a range between **£2,262 per m<sup>2</sup> to £5,608 per m<sup>2</sup>**. If we adjust these costs for inflation and the Jersey cost uplift, the average cost is **£3,827 per m<sup>2</sup>**.

## 2.0 Summary of Information Taken from Historic Build Costs

In order to avoid conclusion bias, we have selected the highest rate of construction of a General Hospital in Central London to compare with the OBC cost projections. It is difficult to conceive that Jersey costs might be compared to Central London costs, as the difficulties of construction in one of the busiest, most crowded cities in the world are far greater than those of a rural site in Jersey. Notwithstanding, we have evaluated the Our Hospital declared costs against those of a Central London General Hospital.

## 3.0 Costs of The Build of Our Hospital Per M<sup>2</sup> From The Details in the Outline Business Case

The information regarding the overall size of the new hospital provided by the OBC is not clear. We have used the figure of 69,000 m<sup>2</sup> as the size of the OH. If, however the hospital is smaller than 69,000 m<sup>2</sup> the cost per m<sup>2</sup> in the OBC is even higher than stated in the OBC.

**Table 2** indicates the various build costs extrapolated from the information provided within the OBC. The document fails to identify the key indicators required to assess accurately the true build costs of the proposed OH. Therefore, we have produced a range of outcomes from the most optimistic in the OBC to the most pessimistic.

Ancillary costs are not clearly, or separately indicated within the OBC. In order to assess the feasibility and viability of the Overdale site in comparison with other potentially viable sites accurately, an analysis of the establishment cost of Overdale should be clearly and simply provided. This must include inter alia the cost of the decant to Les Quennevais, the costs of altering the Les Quennevais Old School to suit the decant, the new re-engineered Westmount Road and any associated property purchases and costs plus the cost of returning Les Quennevais back to its original state at the completion of its temporary usage.

The cost of the car park should be entered as a separate cost heading along with demolition costs and any remediation costs. These divisions are imperative in order to make a sensible analysis of the costs of Our Hospital.

**Table 2 Stated costs of the Construction of Our Hospital**

Various Headings of the Options Taken From the OBC	Price £ Millions	Build Cost per m <sup>2</sup>
Construction of main Hospital structure based upon 69,000 sq. m. Sums extracted and calculated from Table on page 18	537.7	
Thus, cost per sq. m. from page 18 of the OBC.		£7,792.75
Alternative costs as total capital costs on page 19 of the OBC.	562.6	
Thus, cost per m <sup>2</sup> from page 19 of the OBC ('Total Capital Costs')		£8,153.62
'Bottom Line' costs extracted from the table on page 18, Baseline Capital Costs "Baseline Comparator Capital Costs" in the OBC	940.2	
Thus, calculated cost per m <sup>2</sup> from published proposals		£13,626.09

"Bottom Line" costs Extracted from Table on page 19 Baseline Capital Costs "Total Capital Costs"	804.5	
Thus, calculated cost per m <sup>2</sup> from published proposals		£11,659.42

As a result of the somewhat confused and therefore conflicting information provided within the OBC one can see that the range of cost of the new Hospital at Overdale appears to be anywhere in a range from **£7,792.75 to £13,626.09** per m<sup>2</sup>. This is a large variation which illustrates the lack of clarity of the information in the OBC. However, the upper limit numbers provided in the OBC includes various other costs such as "Optimism Bias," inflation adjustments (included in our analysis), GoJ Team costs (see below), and a client Contingency (see below).

When establishing the overall costs, we have omitted the GoJ values for Optimism Bias, GoJ Team costs, the contingency as these on-charges are Government risk items and some expenditure will be required wherever the hospital is located. However, taking just one figure (GoJ Team costs), the lower of the two estimates is £39.5 million or possibly £39.8 million.

### Government Team Costs

The Government Team cost of £39.5 million is to be spent over the five-year forecast build period starting in 2022. At this rate, GoJ will be spending £7,900,000 per year or £151,923 per week.

Presumably the GoJ figure (not analyzed in the OBC) is predominately made up of staff costs, (the Contractor is being paid for everything else). If so, then the staff costs appear to be very high. If, say, each team member costs a mean £80,000 per annum, or £1,538.46 per week this would indicate the full-time employment of 20 plus staff in addition to multiple highly paid consultants.

### Optimism Bias

This sum of anywhere between £38.1 million and £113.9 million, depending upon which table one refers to. This is a wide variation. What is this sum for and how is it calculated?

### Client Contingency

Why is a **Client** Contingency required together with a Contractor Contingency? We have included the **Contractor** contingency in both calculations as these sums are legitimate inclusions and would be encompassed within the selected contractor's tender. It must be recalled the so-called Contractor's Contingency is not the Contractor's money. It is to be spent at the discretion and direction of the client and adjusted to meet such expenditure. It is there in order to account for changes and accredited variations and/or changes to the scope of the Contracted works.

### Comparative Costs of Our Hospital

The conclusion can be drawn that that the projected cost for OH at Overdale is considerably higher than the average cost of building a hospital in Central London. Taking the best-case scenario of the cost of the Jersey Hospital at **£7,792.75 per m<sup>2</sup>** when compared to the London General Hospital cost at **£5,608.20 per m<sup>2</sup>** the differential is **39%**. If we compare the upper limit costs of **£13,626.09 per m<sup>2</sup>** for the Jersey Hospital (See Table 2 extracted from page 18, Table 1 in OBC) the differential rises to **142%**.

The main issue being is that from the sparse information presented in the OBC it is not possible to accurately assess or calculate the additional costs to be paid for the construction of the New Hospital at Overdale when comparing this site to others. The build costs overall are not particularly site dependent. However, there are significant economic penalties that arise as a result of the selection of Overdale as a site.

### The “Charge” for Building at Overdale

These include the demolition of the existing facilities housing the Samarés rehabilitation ward, the William Knot Centre and the other modern functional buildings on the site. These have been and are being relocated to the General Hospital and Les Quennevais Old school at an *estimated* cost of £15 million. Added to the as yet undeclared total costs of around £40 million for the Westmount Road and its associated costs (it is unclear whether this sum includes all of the compulsory property purchase costs and the relocation of the Jersey Bowls Club and the Crematorium).

However even at the least generous of estimated costs the “penalty” for building the hospital is approximately **£55 million!** This is in the region of 10% percent of the build cost of the hospital even before the first spade touches the ground. It is time to think again. It is unclear where these on costs are accounted for in the OBC.

The question needs to be asked, why are we building here when the Government own other sites with less complications attached to them?

#### 4.0 Conclusion

Using the published data upon UK Build costs it can be assumed that the net build cost of a 69,000 sq. m. hospital should prove achievable at the rate of say **£5,750.00** per sq. m. Therefore, the net build cost would be **£396,750,000**, (say, £400 million). Building a two story 800 space car park should cost no more than £4 million, making a total of say £450 million, including other on-costs (such as Westmount Road and land acquisition plus the Les Quennevais Old School decant building alterations).

Members of the Assembly need to seriously question the cost assumptions in P.80/2021.

## Friends of Our New Hospital

## Submission to the Future Hospital Panel – Appendix B

## Comments on the Government's Plans to Finance the Our Hospital Project

1. Borrowing and Affordability

The OBC addresses the question of the affordability of the £804 million budget. One of the key constraints of the project listed in the paper is “affordability of the project “(2.1.3) and a key dependency (2.1.4) being that “. . . there needs to be an adequate financing option available and affordable. “A comment is then made in 2.3.3 “. . . that the scheme will be affordable if the GoJ agrees to fund it.”

It is then stated in 2.2.3 that it was agreed at a meeting on 6<sup>th</sup> February 2021 to remove this as a Project Critical Success Factor with affordability now being assessed as part of the cost analysis set out in the Economic Case (2.2). However, the analysis in the Economic Case and the conclusion (2.2.10) does not address the fundamental question as to whether the very staggering sums now proposed for both the build of over £804 million together with the estimated additional borrowing costs of £611.2 million to fund this giving a total of over £1.4 million are both appropriate and necessary for the island's needs.

2. Our Hospital Capital funding solution

The Hospital project is a very significant part of the Government's wider debt strategy, which is now explained in a separate document, Debt Framework which was issued on 10 August 2021. The funding solution proposed for the new hospital is to issue two £400 million bonds with a maturity of 30-40 years which will be added to the Strategic Reserve. A high-level assumption is made that “the returns on the Strategic Reserve will be sufficient to meet both the annual financing costs and grow the value of the investments to a sufficient level to meet capital repayments as they fall due and this is commented on further below under 5.3.2.

This is a highly optimistic, speculative and potentially reckless assumption which may put future generations at severe risk of being placed in very substantial and record levels of debt when the economy may not be in a healthy position and vulnerable to any economic shocks. There is no guarantee that future investment markets will perform as well as the last 20+ years (which have included at least two global economic shocks).

It is also stated in the Debt Framework document that the proposed borrowing for the hospital of £756 million together with other proposed borrowings for the island will rise to approximately £1.8 billion and this is very likely to decrease the island's current credit rating from AA- but with an aim to maintain an investment rating of BBB- or above. This decrease in the credit rating is likely to adversely affect the island's reputation for financial stability and prudent governance and have an adverse implication on interest and other costs relating to any borrowing the island may enter into thereafter. The document also states it is intended that the proposed two £400 million bonds will be repaid at maturity (not at any time as suggested by Deputy L Ash. on 10 August in response to Senator Moore's comment on this proposal). Under the proposed new debt strategy, the island's ratio of debt to the total value of the economy would rise from the current level of 5.4% to nearly 39% in a few years' time.

It should be noted that the Fiscal Policy Panel's (FPP) latest report (issued on 12 August 21), the FPP state that this approach is “not without risk” restating their previous comments and that a more prudent approach would be to

seek to repay some of borrowings earlier.

### 3. Indicative Funding example and costings 5.3.2

Indicative funding costings are given on Pages 126-129 which state estimated interest and other costs of £682.4m based on an estimated annual interest rate of 2.5% pa (Page 124) and interest and other income receivable from the Strategic reserve of £102.3m based on an estimated 5% return (Page 124) during the terms of the bonds proposed, thus reducing the interest costs and so forth.

It is stated that these are indicative costings provided for illustrative purposes. However, these costings are a key and material part of the overall costs being proposed for the project. The indicative costs and income return included are questionable. It is difficult, if not impossible for anyone to predict the future returns generated by the Strategic Reserve Fund over the 30-40 years term of the bonds. The estimated 5% per annum is a guess.

It is likely that these indicative figures will be much too optimistic and it is essential some preliminary independent financial advice is obtained to check that the figures quoted are reasonable and realistic. Otherwise, the States members are being asked to approve a fundamental part of the island's future borrowing without any independent evidence or advice to support the figures included in the proposals being put forward.

### 4. Other comments

#### A. Shortlisted options 2.3

In 2.2.3 it states that the Baseline option (previously named "Do minimum option) is used as a comparator option in the OBC. This comparison is flawed as this option was rejected by the States in November 2020 and the option of trying to build on the existing General Hospital site was always known to be a more expensive and less beneficial than in doing a new build, whichever site was chosen. Therefore, the comparison made and the conclusions reached in the OBC are flawed with the comparison made against an inappropriate option rather than a comparison against other sites for a new build.

#### B. New Build Capital costs 2.2.7

In the second paragraph of this section, it states that "the current cost plan has been benchmarked against other similar projects, with allowance made for the unique challenges of delivery in Jersey ". However, the OBC does not provide any detail of or examples of any similar projects and the estimated total costs of £804.5m in the summary on Page 19 under 2.2.7 equates to £11-12,000 per m<sup>2</sup>.

There are also indications in the OBC that we are planning to build "a world class facility "(Page 105 under Staff costs). This raises the fundamental question as to what specification and brief was given to the design team with the resultant implications on costings. It states under 6.3 the strategy "aimed to facilitate a relatively high, but not prestigious standard of design and construction" however the very substantial and increased costings now made in the OBC raises the question as to whether this strategy has been followed.

As stated in under 6.1.2, there was already an agreed procurement strategy for the main Contractor and other work carried out previously. It would have been expected that there should have been significant efficiencies in the current process with the resultant reduction in costings. However, the current estimated costing of £940m (2.2.6) for a rebuild of the existing hospital (the more expensive option in the OBC) has increased from a maximum budget of £466m in 2017 stated by the former Treasury Minister. There is no explanation of the more than

doubling of the costing within four years. There appears to be either a fundamental change in the brief given and/or the specification together with a complete lack of budgetary control and political direction and this must be explained.

The OBC, budget and proposed funding plan need urgent review.

Friends of Our New Hospital