STATES OF JERSEY

FUTURE HOSPITAL FUNDING STRATEGY

Lodged au Greffe on 30th November 2016
by the Minister for Treasury and Resources

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

(a) to agree expenditure up to a maximum of £466 million for the main construction project and all associated costs including relocation costs (and including contingencies), of a new Jersey General Hospital;

(b) to approve, in accordance with the provisions of Article 3(3)(a) of the Public Finances (Jersey) Law 2005 ("the Law") the establishment of a Special Fund to be known as the "Hospital Construction Fund", and to approve the Fund's purpose, terms of reference and operation as set out in the Appendix to the report accompanying this proposition;

(c) to authorise, in accordance with Article 21(1) of the Law, the Minister for Treasury and Resources to borrow up to a maximum of £400 million for the construction of a new Jersey General Hospital and associated costs, and the amount borrowed to be paid into the Hospital Construction Fund;

(d) to refer to their Act dated 5th December 2013, when they agreed that the Strategic Reserve Fund may be used for the planning and creation of new hospital services in the Island and, in order to progress that decision, to agree that the policy be amended as follows –

(i) there shall be available for transfer from the Strategic Reserve Fund to the Hospital Construction Fund the difference between the £466 million cost of the hospital and the sum of £23.6 million remaining from previous allocations agreed for this purpose by the States Assembly and the net amount that is to be borrowed by the Minister for Treasury and Resources in accordance with paragraph (c);

(ii) the costs of borrowing and ongoing finance and administration costs related to that borrowing to be funded from transfers from the Strategic Reserve Fund to the Hospital Construction Fund; and

(iii) the amount borrowed in accordance with paragraph (c) above will be repaid from the Hospital Construction Fund by means of a transfer from the Strategic Reserve Fund in the year the borrowed amount becomes due,

and to note that a proposal to amend the Public Finances (Jersey) Law 2005 will be brought forward to facilitate the direct transfer of funds from the Strategic Reserve Fund to the Hospital Construction Fund.

MINISTER FOR TREASURY AND RESOURCES

REPORT

Executive Summary

A new hospital for Jersey

Jersey is not alone in facing the challenges of maintaining the health and well-being of an ageing population. However, unlike many jurisdictions, we are facing up to these challenges and putting in place a range of policies to tackle them. A hospital that is fit for purpose is an essential component of our strategy to care for Islanders in the community, and to provide high quality medical treatment both now and in the future. The current hospital has developed piecemeal over many decades, and its physical condition, as independently assessed, is rapidly becoming inadequate. All credible options for a new hospital require a once-in-a-generation investment.

Extensive consideration of possible hospital sites has culminated in the current option outlined in P.110/2016 (entitled 'Future Hospital: preferred site'). Ministers, upon advice, are proposing to build the new hospital on part of the existing site, as well as some adjoining properties in Kensington Place and Westaway Court. The proposal has been carefully assessed with help from external experts, and it is estimated that the capital cost will be £466 million. More detailed work will be needed – on design, planning and procurement – to turn this indicative estimate into a final cost.

This figure includes buying the required land, all related relocation work, the new build, the refurbishment of Westaway Court, the repurposing of the granite block, and fees. It also includes the rental costs for key workers until 2020. It does not include any work needed to adapt redundant buildings for different purposes.

The original hospital funding proposal, outlined in the Budget 2014 and agreed by the States Assembly, was for transfers from the Strategic Reserve to be used for the "planning and creation of hospital services". That proposal is no longer realistic for the currently proposed site; however, this proposal builds on it by making use of the historically low cost of debt and of the reserves we have accumulated over many years. It also maintains and increases the capital value of our Strategic Reserve.

Funding proposal

This will be Jersey's largest single capital investment in a generation. After considering all the options and consulting with expert advisers, the Council of Ministers is proposing to raise the funding required through a Public Rated Sterling Bond, supplemented by existing reserves. The proceeds of any future sales of property or other strategic assets would be used to repay withdrawals and further strengthen reserves.

There is a precedent for issuing such a bond. When we saw the need to invest in improving and adding to our social and affordable housing stock, we issued a £250 million Public Rated Sterling Bond. That decision is now producing more and better quality homes for Islanders.

The benchmark interest rates on borrowing through such bonds are at a historic low, so by borrowing at a low rate of interest, we can leave our existing reserves in place where they generate returns that are expected to exceed the cost of borrowing.

The average return on Jersey's Strategic Reserve since 1986 has exceeded RPI by 4%.

From 2005 – 2015 the average return was 7%, which was 4.5% above RPI(Y).

After consultation with independent investment advisers, for modelling and options appraisal, Treasury has assumed a long-term rate of return of RPI(Y) + 2% on the Strategic Reserve.

Financial advisers have helped to assess the price of a fixed-rate Public Rated Sterling Bond, which was estimated at 2.6% on 8th November 2016.

These figures demonstrate that it makes sense to borrow through a Bond, then repay the interest and, eventually, the capital, using excess returns on the Strategic Reserve. The capital amount the States Assembly agreed to protect, increasing each year with inflation, would be protected and available for future generations.

Markets and other circumstances may change, and it is important that flexibility is retained to make detailed decisions, with advice from the Treasury Advisory Panel, closer to any Bond issuance. The current approach would be to borrow £350 – £400 million over 40 years, with the balance coming from reserves and sums already agreed. The money raised would be placed in a specific fund set up for the hospital construction – the Hospital Construction Fund.

This funding proposal will increase our borrowing, but Jersey will still have very low rates of borrowing compared to elsewhere. It would take our debt to GDP ratio from 6% to 16% (at £400 million). This is well below most countries; for example, the UK has a ratio of 88%. While there is a risk that the cost of borrowing could increase as a result, our strong position makes this unlikely. Jersey's balance sheet remains strong, and we are using this borrowing to build an asset. Matching a long-term asset with a long-term liability is both a logical and typical approach.

Fluctuation of returns in the early years may mean using capital in some years and paying it back in other years. If our income were to fall to such an extent that we needed to use these returns for other purposes, we might need to temporarily dip into the capital value of the reserve. This would then be repaid from future returns or asset sales.

Every funding proposal carries some risk but, based on current knowledge, this is the best way to make the most of our considerable reserves and strong balance sheet. It takes advantage of the fact that the historically low cost of borrowing is less than conservative estimates for future income from our Strategic Reserve, and it does this without requiring direct contributions from Islanders through additional charges or taxes.

We need to offer our population the best health care possible, and in order to do this we need a new hospital. After taking professional advice, this is the most cost-effective way to raise the funds needed to build a hospital that meets modern standards and can continue to evolve as healthcare changes.

Background

Introduction

When the States approved P.82/2012 ('Health and Social Services: A New Way Forward'), Members confirmed the requirement to bring forward detailed plans for a new hospital.

In the Budget 2014, the States Assembly agreed that transfers from the Strategic Reserve Fund ("the Fund") may be used for the "**planning and creation of new hospital services in the Island".**

Within the Budget 2014 and the Budget 2015, the States granted £10.2 million and £22.7 million respectively from the Fund so as to provide funding for these purposes.

At the time of Budget 2014, the plan was to develop a dual site facility combining new build and refurbishment at a then estimated cost of £297 million. The funding strategy was to fund this cost over the period of the development out of returns to the Strategic Reserve Fund, over and above those required to maintain the current value of the Fund's balance of December 2012.

In December 2014, Ministers commissioned a site options appraisal on a like-for-like basis so that the States Assembly could compare the whole life costs of the Dual Site with 4 shortlisted alternatives. A public engagement on the outcome of the options appraisal was undertaken in February 2016, culminating in the acceptance of the removal of one of the shortlisted sites when Ministers accepted P.3/2016 ('People's Park: removal from list of sites under consideration for future new hospital').

It was clear, through positive engagement with States Members, that the hospital was valued as a special place where key life events happened, and that it needed to remain easily accessible to all. It was also recognised that the hospital's unique status could mean previous assumptions could be challenged within reason. As a result, a new approach on the site of the current General Hospital, the footprint currently occupied by Sir Peter Crill House and Gwyneth Huelin out-patient buildings in the existing hospital estate, together with certain properties adjoining the current hospital and Patriotic Street car park on the east side of Kensington Place, combined with the use of Westaway Court, has been recommended to the States Assembly by the Council of Ministers, in P.110/2016 ('Future Hospital: preferred site').

This approach proposes the development of a whole new hospital in a single construction phase. It would use Patriotic Street car park for patients and visitors to access different levels of the hospital. It also requires the relocation of existing uses and acquisition of neighbouring properties, potentially by compulsory purchase, subject to further feasibility. It would provide a new hospital in 8 years and at a capital cost comparable with new build, new site alternatives.

In parallel to the site selection activity, a revised funding strategy for the new hospital has also been under development.

Given the latest estimate for this proposed development, the funding strategy agreed in principle by the States Assembly within the Budget 2014 is no longer appropriate. It is unlikely that there would be sufficient returns to the Strategic Reserve over the construction period, and this option cannot be relied upon.

Now that the options for the site choice have greater certainty, as has the range of likely costs, this has allowed greater certainty for the funding strategy to be provided.

Budget

An indicative capital cost of up to £466 million for the project cost of developing the concept envisaged in the approach proposed in P.110/2016 has been developed and is set out within P.68/2016 ('Draft Medium Term Financial Plan Addition for 2017 – 2019'). The cost estimate incorporates all main works to the main Hospital, together with all related relocation, site acquisition and enabling works and associated fees. This is an indicative estimate, founded on area-based assumptions. Significant further development and design work, as well as planning and procurement, is needed before a final cost can be provided.

The costs include works required to repurpose the Granite Block, but not any other legacy buildings for non-clinical use. The cost of acquiring property not under public ownership, and part of this site proposal are included, as are the costs to build temporary clinical blocks to free up the space needing to be cleared to allow a single build and the cost of relocating the corporate functions.

Some cost estimations are not included, including the capital cost implications of key worker accommodation, for example, which will require further assessment and alternative solutions.

The workings associated with the cost estimate for this project have been brought together with the assistance of advisers, Gleeds and EY, who have provided assurances over the costs and modelling associated with their estimates.

Provisional cost estimation

An indicative capital cost and cash flow model for developing the concept envisaged in the approach above has been developed and is set out in the table below –

Year Cash Flow	Total	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Inflation Separate	£	£	£	£	£	£	£	£	£	£	£
Works Cost after location factor	213,004,188	0	0	3,101,870	48,219,710	76,477,922	65,961,098	19,243,588	0	0	0
Fees	31,950,628	2,076,791	10,383,954	9,006,083	2,795,680	2,795,680	2,795,680	2,096,760	0	0	0
Non-Works Costs	15,419,921	0	205,000	10,727,500	50,000	450,000	682,000	2,900,000	405,421	0	0
Equipment	18,650,035	0	0	0	0	0	0	18,650,035	0	0	0
Risk	74,108,981	0	0	1,079,211	16,776,729	26,608,401	22,949,360	6,695,280	0	0	0
Inflation	68,751,737	169,883	849,417	1,218,717	9,368,273	20,462,754	23,103,976	13,445,840	132,877	0	0
Main Project Costs	421,885,490	2,246,674	11,438,371	25,133,381	77,210,392	126,794,757	115,492,114	63,031,503	538,298	0	0
Relocation Costs	39,932,329	430,995	25,094,837	8,747,260					332,266	4,645,290	681,681
Inflation	4,092,597	10,847	1,333,480	654,378					68,758	1,758,598	266,536
TOTAL COST	**465,910,416**	**2,688,516**	**37,866,688**	**34,535,018**	**77,210,392**	**126,794,757**	**115,492,114**	**63,031,503**	**939,322**	**6,403,888**	**948,217**

This is an estimate based on current information; however, it carries a high level of contingency. The proof of concept will provide a firmer feasibility estimate. It is proposed that at this stage, to provide more certainty to the funding strategy, the budget is set by the States Assembly at a maximum of £466 million.

This budget will be managed in 2 ways: the high levels of contingency will be managed by the Treasury, leaving the delivery team to manage the remaining estimated project

costs. The contingency sums, if and when required, will be accessed through a process of challenge and agreement between the delivery team and the States Treasury.

Future issues to consider

Some cost estimations are not included at this point: for instance, the potential capital receipt or cost of any redevelopment of the remainder of the current General Hospital site and the longer-term revenue implications of key worker accommodation arrangements. These costs, or income, are a consequence of the new hospital build rather than a direct cost of construction. These consequential costs are, however, being estimated by the project team and considered by those responsible for this project.

The cost of demolishing or developing the remainder of the existing site not required for the future hospital has not been factored in to the £466 million cost estimate. There has been no decision at this time as to what the remainder of the current site might be used for. It may be that the States Assembly use the opportunity to redevelop it. Alternatively, the site could be earmarked for other uses or sold, but until a plan is developed in due course, those costs are outside the current estimate. This approach is not unusual, where a replacement building is developed in a different location, it is normal to not assume the current site is raised to the ground, particularly when developed space is at a premium in a small Island.

With regard to key worker accommodation, discussions have been ongoing with Andium Homes Limited ("Andium"), recognising that provision of accommodation is not a primary function of a Health and Social Services Department, and that such matters should be managed by specialists.

Andium are proposing to provide key worker accommodation through their affordable housing supply, both rented and purchased; and recommend a means of doing so, on the same basis as for those on-island, via the Affordable Housing Gateway. This is believed to offer significant benefits in relation to key worker attraction and retention. Cost estimates of providing the rented solution, both as serviced and non-serviced accommodation have been requested from Andium. The annual cost of accessing Andium Homes' properties is yet to be decided but, for planning purposes, estimates of approximately £1 million are being used; and once costs are finalised, Health and Social Services will need to consider what growth bid might be required in the next Medium Term Financial Plan ("MTFP") 2020 – 2023.

Any necessary costs required before the next MTFP are now planned to be covered by the construction budget. These revenue costs were not originally included as they have emerged as part of the planning process, and as no other source of funding has been identified in this MTFP, they will now form part of the £466 million.

As part of this project, ongoing lifecycle costs, including equipment replacement, have been estimated and used for planning purposes. These estimated have been made using the expertise of external advisers based on operational modern equivalent hospitals. We will have increasing detail on this as we proceed during the feasibility process, but an average annual cost of £1.8 million over 60 years after construction has been estimated inclusive of equipment replacement.

Part of the current proposal is to make use of Patriotic Street Car Park to access the new hospital. The development costs of the car park have not yet been worked through to sufficient detail to assess whether the £466 million will be sufficient to include these

costs. As further feasibility work is carried out and the design decisions are made, this will enable more accurate estimates. If necessary, the Car Park Trading Account will be used to assist in funding the car park development. Currently intended refurbishment plans of approximately £0.5 million have been put on hold until details have been drawn up.

Funding options

The scale of this project is unprecedented in Jersey. It is too costly to be funded from the regular annual funds available for the Capital Programme, so alternative options have to be considered, as they were for Andium's Social Housing programme, and as they were in deciding the previous funding strategy.

When the Budget 2014 was considered, the States was asked to agree to –

- £250 million to provide funding for Andium's Social Housing programme;
- use existing resources to progress the planning and creation of new hospital services; and
- use internal borrowing through an infrastructure investment from the Currency Fund to help finance the Sewerage Treatment Works project.

Two of these funding solutions are in place, leaving the long-term hospital funding outstanding.

At a very basic level, there are 2 broad options when considering such funding requirements – use existing reserves or look to external options. The key considerations when assessing internal or external financing are –

- The scale of financing required – for example, the number of reserves able to afford £466 million is limited.
- Costs of the funding solution – it is assumed the new hospital will not generate significant additional income, so the opportunity cost of using existing reserves and interest costs of external options need to be compared, including how to meet such costs.
- Repayment requirement – if external debt is used, a sinking fund or other future funding solution will be required to repay the amount borrowed.
- Certainty of funds – whether the solution is external or internal funding, the sum of money will need to be ring-fenced to ensure the money is available when required.
- Debt to Gross Domestic Product (GDP) – it is important to the Island to demonstrate the strength of our economy to other jurisdictions. Debt to GDP is a widely-recognised metric for investors who are assessing a country's ability to meet its liabilities and therefore its economic strength.
- Currency required – it is difficult to predict with certainty which currency will be needed to pay for building the new hospital until a provider has been decided upon. As a funding strategy is required ahead of any contracts being in place, it is assumed at this stage that the majority of costs incurred will be in Sterling, and that any hedging considerations will be made at a later date, as construction plans become clearer.

Option 1 – Using existing reserves

There are only 2 reserves that have large enough balances to fund the construction of the new General Hospital, the Strategic Reserve Fund and the Social Security (Reserve) Fund.

It would not be appropriate to use the Social Security (Reserve) Fund. The Fund represents a contract with its contributors, it is a key part of the Strategy for managing the pressures arising from an ageing population and is the mechanism by which contribution rates are smoothed over time, effectively acting as a buffer contributing towards the rising burden of pension costs. The Minister for Treasury and Resources is responsible for the investment of the Fund's assets. The Minister for Social Security has responsibility for the development of a strategy to deal with meeting future pension provisions for eligible contributors.

Consideration of whether the Fund could provide the funding as part of its investment strategy is covered later in the report.

The current policy on the use of Strategic Reserve capital balance is restricted to exceptional circumstances caused by severe structural decline or major natural disaster, or specifically in relation to the Bank Depositors Compensation Scheme (limited to £100 million).

In the Budget 2014, the States Assembly approved the amendment of the Strategic Reserve policy to include "that the Fund may be used for the planning and creation of new hospital services in the Island".

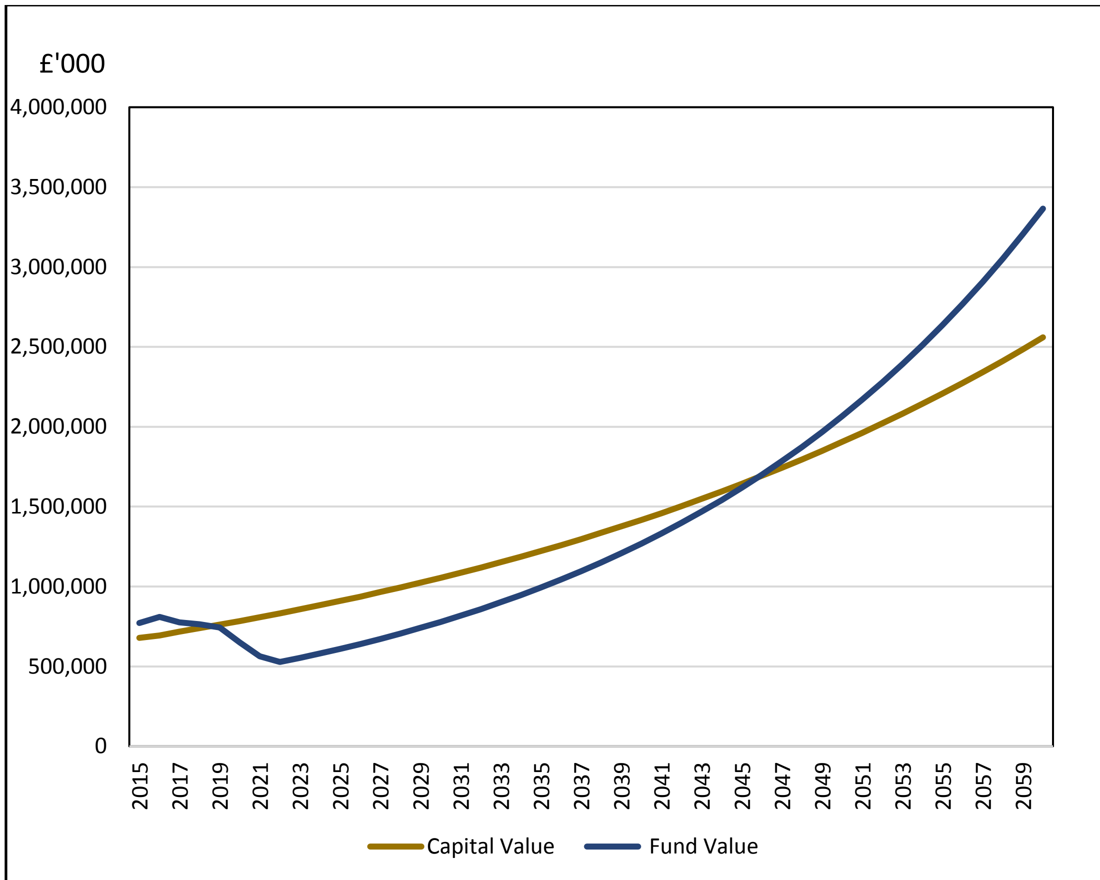
The funding strategy proposed here varies that existing decision and asks that the Fund may also be used for providing the financing costs of any borrowing for this project.

The States agreed as part of the 2015 Budget that the capital value of the Strategic Reserve should be maintained at the real terms value of the balance at the end of 2012, which was £651 million. This means the protected amount increases annually by RPI. The Budget 2015 report described how the envisaged cost of the new hospital could be met from the Strategic Reserve over the 10 years of development.

The MTFP 2016 – 2019 assumes that returns for the Strategic Reserve will generate, on average, 2% above RPI(Y). This is a possible source of partial funding; however, the MTFP 2016 – 2019 already earmarks a proportion of the excess income for other purposes: £56.7 million in 2016, net £50.3 million in 2017, and a further £16 million in 2018. A repayment of £20 million is currently planned in 2019. The remaining excess return at that point is estimated at £85 million.

The MTFP projections did not include withdrawals from the Fund for the construction of the Hospital, and further withdrawals are likely to reduce returns.

These simple projections serve only to review the high-level feasibility of funding the hospital construction through the excess returns of the Strategic Reserve. Based on simple assumptions, the shortfall in funds can be seen in the following graph. The blue line shows the total value of the Fund, and the gold line shows the protected capital value target as it would be maintained in real terms.



With planned drawdowns and hospital costs, there would not be sufficient excess returns by 2019. This would require significant contributions out of protected capital value. The Strategic Reserve balance would not return to a level above its Capital value until 2046.

The Strategic Reserve would be at its worst in 2022: the deficit against the protected capital value of £833 million is estimated at £305 million.

Before deciding whether or not to use the Strategic Reserve to fund the hospital build, the opportunity cost and forgone investment returns needs to be considered.

Furthermore, at present, borrowing is significantly cheaper than the returns on the Strategic Reserve historically. It makes sense in this situation to use debt rather than drawdown on reserves.

In these uncertain times, making a decision now to use the Strategic Reserve to fund the hospital construction would compromise the Government's flexibility.

In terms of borrowing from existing resources, consideration of individual Funds' investment strategies is required.

	Strategic Reserve £m	Stabilisation £m	Social Security (Reserve) £m	Health Insurance Fund £m	Currency Fund £m
Fund balances as at:					
31.10.2016	866.5	0.0	1,546.6	83.8	89.8
31.12.2015	772.0	0.0	1,289.0	74.0	111.0
Amount of money held not for investment (i.e. cash buffer)					14.8
Current Investment Strategy (R.81-2016 published 28.07.16)					
Equities	50%		68%	40%	20%
Alternatives (1)(2)	10%		20%		60%
Bonds	40%	80%	10%	45%	10%
Cash		20%	2%	15%	10%
	100%	100%	100%	100%	100%

These strategies are agreed by the Treasury Advisory Panel following advice from the States' investment advisers and have been recommended to the Minister for Treasury and Resources. The Strategies reflect the risk and return acceptable to each of the Funds based on the purpose of the Funds.

From this information, it is clear to see that there are insufficient funds allocated to alternative assets (of which we have assumed the project would be categorised) to fund this construction project. Alternative investments are non-conventional investments, conventional investments being, for example, stocks and bonds. Alternatives might be, for example, investment in real estate, hedge funds or infrastructure. The largest Fund, the Social Security (Reserve) Fund, has a 20% allocation to alternatives which would only equate to £257.8 million based on the 2015 position. Investing such large amounts in a single alternative investment would be a risk to the Fund, and current investment holdings would need to be reversed.

The highest percentage allocation to alternatives is within the Currency Fund strategy at 60%; however, this only equates to £66.6 million based on the Fund's 2015 position. Again, the current alternatives investments would need to be reversed: this includes the £25.5 million allocation to the Liquid Waste Strategy as agreed by the States in the Budget 2015.

To make a decision to "borrow" from the Social Security (Reserve) Fund to fund this investment would require changing strategy and reducing expected returns to much lower levels, if such a solution were to compare well with the current estimated costs of external financing options, with a subsequent impact on the Fund's role in managing the cost of future pension provision.

Option 2 – External financing

There are a number of options available to obtain external financing, including –

- Rated Public Sterling Bond
- Retail Bond
- Private Placement Bond
- Project Finance
- Bank Finance.

Rated Public Sterling Bond

Rated Public Sterling Bonds are priced with reference to benchmark "risk-free" rates, for example, UK Gilts. UK Gilts are Bonds issued by the UK government and viewed as low-risk investments that carry as close as you can get to a watertight guarantee repayment. Benchmark rates are at historic lows, offering an opportunity to those wanting long-term fixed rated debt at record-low coupon rates.

Investors' appetite for Bonds will depend on a clear communication of the credit position, a well-structured marketing process, and an appropriately priced and sized offering. Advice shows that the public Bond market continues to show appetite for high-grade sovereign and sub-sovereign issuers, Jersey's credit-rating of AA- would be an example of a high-grade sovereign.

Typical investors in public Bonds are large sophisticated institutions. The issuance size of £250 to £400 million provides comfort over the secondary markets to investors, and are considered to be benchmark-sized issuances. Issuances below the benchmark and larger issuance sizes are likely to attract a small premium.

Bonds can be issued for a variety of periods (tenor) and open up the opportunity to borrow over long periods of time.

Bonds can be openly traded after issuance, resulting in changes to holders. Investors will want access to secondary markets' liquidity through the Bond's inclusion in one or more index. Bonds that are liquid and regularly traded tend to attract tighter pricing, as they provide greater opportunities for holders to sell the Bonds in the secondary market, if required. The existing £250 million Jersey Bond is listed on the Channel Islands Stock Exchange.

Bond issuances of smaller amounts can be achieved by "tapping" an existing Bond on exactly the same terms and conditions. With a coupon rate already set, there is an adjustment to the price that investors pay, so they would pay more. So with a tap of £150 million, you could raise, say, £180 million, depending on the Gilt yield rates at the time.

There is a cost of carry risk associated with holding the full value of any Bond receipt until such time as the cash-flows are required. This can be managed by holding the receipts in safe assets and not looking to realise a return on the money held.

Retail Bond

Retail Bonds target retail, or private, investors in contrast to Public Bonds bought by institutions. This would allow Jersey residents to invest in the hospital development whilst enjoying an attractive return. Issuance volumes have been steady over the last 2 years, but the majority of the new issuances have been for amounts of less than £100 million.

Such issuances are also predicted to be costlier than a Sterling Public Bond alternative, and would not provide sufficient funding in one issuance.

There is a requirement to have an active relationship with investors, and those investors are likely to be "unsophisticated" in investment and regulatory parlance, as they may well be first-time investors, requiring greater protection.

Private Placement

Private Placements have become more popular in recent years, due to the lack of long-dated bank debt at competitive pricing. Private Placements are typically sold directly to one or more sophisticated institutional buyers, such as US or UK insurance companies. UK institutions contribute a significantly smaller liquidity pool than US domiciled equivalents, but a large number of UK companies are active in this market.

Private placements are not exchange traded, so they generally attract an illiquidity premium. However, they are not rated and are usually not subject to any ongoing public disclosures, but will have a direct ongoing relationship with the issuer. Financial covenants that require the issuer to remain in compliance with certain ratios can be a typical feature of a Private Placement, unlike rated Public Sterling Bonds.

Only a limited number of sovereigns and sub-sovereigns have issued in the Private Placement market, which suggests a higher level of execution risk than the other options. Private Placements also typically price wider than issuance in the Rated Public Bond markets.

Project finance

A secure finance facility could be tailored for the construction of the new General Hospital, whereby funding profiles match the cash requirements of the project, limiting, in theory, any negative cost of carry.

A typical project finance structure involves a Special Purpose Vehicle ("SPV") being set up as the borrowing entity, as well as the contracting entity for the construction contracts. A guarantee from the States of Jersey to the SPV could help reduce the cost of the debt, although project finance structuring is likely to be more expensive in pure funding cost terms. It can provide other qualitative benefits, such as ongoing maintenance or facilities management, although that has not been tested in a Jersey environment.

To obtain an appropriate tenor (>25 years) for the project financing, an associated Bond issuance is likely to be required. With that in mind, the benefit of matching funding to cash-flows is no longer there, and the negative cost of carry becomes an issue again. This adds cost of carrying risk as well as complexity in arrangement and execution.

An example of such a structure, Private Finance Initiatives ("PFI") were widely used by the UK government. They now have a Public-Private Partnerships ("PPP") programme with a more collaborative approach on risk and reward.

Another financing arrangement that has been considered is a 'sale and buy back' arrangement: this is an off balance sheet financing arrangement in which an owner sells an asset or property to an investor or lender on a cash basis, and immediately buys it back on a long-term mortgage basis, often index-linked, to retain possession, title, and use. The highest risk with this method is whether it is cost-effective, and when applied to a bespoke building such as a hospital, the cost is indicated to be higher than existing borrowing rates.

No construction project is risk-free, but it can be managed or transferred. This funding option could be considered an effective way of removing yourself from construction risk; however, by transferring the construction risk to another, you will lose a significant amount of control in what is constructed and how. It is acknowledged, however, that risks should be shared wherever possible, and doing so through contracts is the way to achieve the best outcome.

Bank finance

Traditional bank finance is accessed by sovereign entities, but it is more common for those with weaker credit profiles and who cannot therefore easily access capital markets. Typically the tenor is much shorter in bank financing compared to debt financing.

Bank financing is more flexible in terms of drawdowns and could be part of a funding solution, but is unlikely to be a standalone solution and carries other risks if the rate is not fixed.

Summary of external funding options

	Public Bond (rated)	Retail Bond (listed)	US Private Placement	Project Finance	Bank Debt
Currency	GBP, EUR, USD, others	GBP, EUR, USD	USD, GBP	GBP, EUR, USD	GBP, EUR, USD
Liquidity capacity	£250m+ (could go lower with an illiquidity premium)	£50 - 200m	£25-500m	£50m+	£20m+
Maturity	5-50 years	3-10 years	3-30 years	5-25 years	1-7 years
Financial covenants	Typically none	None	Typically bank style covenants	Required, typically cashflow driven	Yes
Credit ratings	Minimum one required	Not required for issuance but typically preferable	Private ratings may be required	Not required	Not required
Investor relationships	No	No	Yes	Yes	Yes
Pros	✓ Deep and liquid market ✓ No financial covenants ✓ Historically attractive fixed coupon cost ✓ Long tenors available ✓ Benchmark issue lays ground for future issues ✓ Retained bond an option	✓ Access to alternative investor base ✓ No financial covenants	✓ No public credit rating required ✓ Historically attractive fixed coupon cost ✓ Flexible maturities available ✓ Delayed drawdown possible	✓ Non-recourse debt ✓ Suitable for investment capex where there is a construction period ✓ Flexibility in draw down and repayment profiles ✓ Has been previously structured to be off balance sheet	✓ Simple to arrange ✓ Flexibility in draw down and repayment profiles ✓ Low negative carry costs for unutilised portion
Cons	× Public credit rating and ongoing disclosure requirements × £250m benchmark issuance size to obtain most competitive pricing/liquidity × Early redemption costs × Negative carry costs on unutilised portion	× Bespoke disclosure and documentation requirements × Insufficient capacity to fully fund £350m issuance × Shorter tenors than alternatives	× Financial covenants required × Early redemption costs × Typically more costly than public markets × Long dated swaps would be required	× Security required × Can be complex in structuring × Lengthy arrangement process × Financial covenants required × Amortisation required typically	× Shorter tenors than other markets × Refinancing risk × Financial covenants required
Pricing	30-40yrs G+84-89bps	10yrs 4.50-5.00%	10-30 yrs G + 95-125 bps	25 yrs 150-225bps*	1-7yrs 60-70bps

Current recommended funding strategy

The Treasury and Resources Department engaged with external expert advisers to help evaluate the financing options.

After careful consideration of the options available, the currently recommended funding strategy for the construction of a new General Hospital with a budget of up to £466 million brings together a number of sources into what is known as a blended solution. This would include a further Public Rated Sterling Bond issue, supplemented by existing reserves, with the potential at a later date to use proceeds from the sale of strategic or fixed assets to repay withdrawals from reserves.

It is important that options are kept under review and that the right strategy be deployed at the relevant time. It is important to recognise that the recommended approach may change and to allow flexibility.

The recommendation to choose external debt is largely driven by the record low levels of debt costs. A financial assessment has been carried out by the States Treasury, working with our financial advisers, EY, to consider what the cost of borrowing might be compared with an assumed return on existing reserves, and also taking into account the impacts of differing debt levels.

After consultation with the independent investment advisers for the States, an assumed return of RPI(Y) + 2% on the Strategic Reserve is reasonable over the long term.

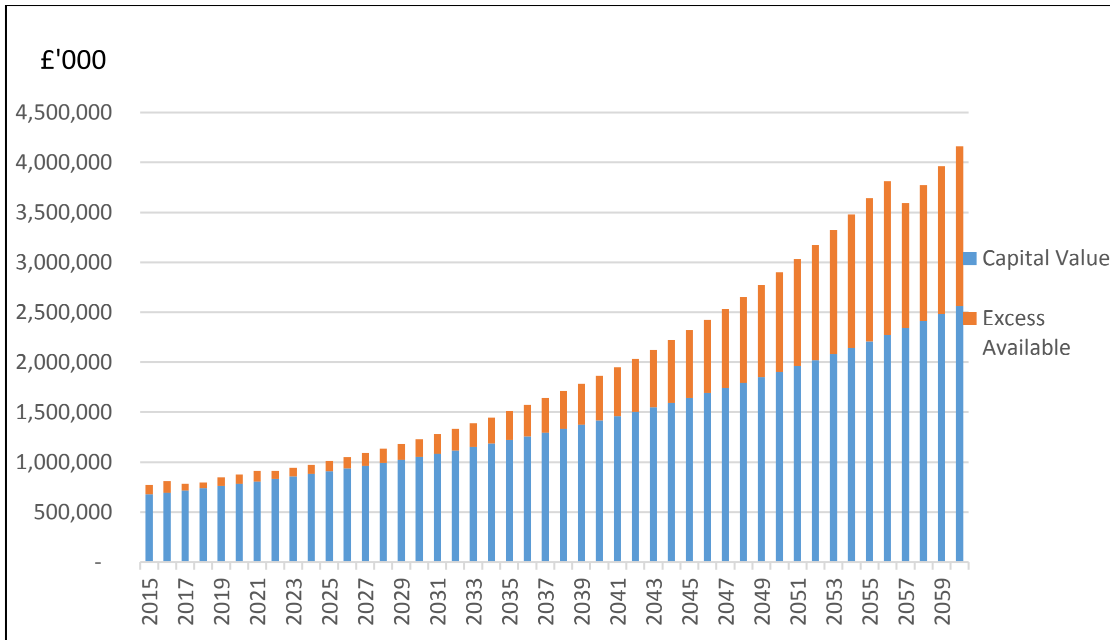
Analysis was carried out to look at historical returns on the Strategic Reserve Fund. The average return on the Fund since 1986 is 8.1%. In 1987 the return was 19.9%, being the highest return achieved. In more recent times, 8.3% was achieved in 2009 and 9.6% was achieved in 2012.

The Treasury's financial advisers have been helping to assess the estimated price of a Fixed Rate Sterling Public Bond, which is estimated at 2.61% as at 8th November 2016.

So by borrowing at historically low rates of interest, the States can leave existing reserves in place, under investment, generating returns in excess of the cost of borrowing.

Borrowing requires servicing (annual coupon) and eventually repayment. In a commercial environment, such an investment would be expected to make returns sufficient to move than service and repay the debt. Whilst the public sector is not a "for profit" organisation, often we would be looking ideally for improved income to service the debt, as in the case of the Affordable Housing Bond. This is not the case with the new hospital.

The cost of debt is currently so low, compared to the estimated income on the Strategic Reserve Fund, that it also allows for the cost of borrowing and the debt repayment to be funded from the excess returns on the Strategic Reserve and maintain the capital value, as shown in the following graph, assuming a bond of £400 million –



This graph shows the capital value of the Fund, in blue, growing over time by inflation. The graph also shows how the excess returns, in red, are affected by the MTFP drawdowns in the early years, and clearly shows the risks to the capital value in the early years and the dip in 2057 when the principal sum, assumed at £400 million, would be repaid.

This pictorially demonstrates the strength in the Fund in the long term, and reiterates the need to consider this funding strategy over the whole period of the borrowing.

In 2015 a new fiscal framework, R.107/2015, was established for the Medium Term Financial Plan 2016 – 2019 and beyond. This update demonstrated how the previous framework recommendations had been considered, and how fiscal decisions needed to be made in the future both in the short and longer terms.

The framework recognised the limitations set in the Public Finances (Jersey) Law 2005 around borrowing and lending, and commented that whilst no changes were recommended at that stage, they should be kept under review to make sure they did not constrain fiscal policy decisions. As pointed out by the Fiscal Policy Panel ("FPP") –

> *"a number of existing rules and legislation such as that covering the Consolidated Fund and limits on what the States can borrow and lend, still run the risk of being counterproductive in certain circumstances. For example the conservative limits on what the States can borrow could stop, or delay, large capital projects".*

The States of Jersey has low levels of debt compared with most governments across the world, the current rate of debt to GDP being 6%. This has been used to demonstrate Jersey's economic position of strength for some time now. If further debt of £400 million was entered into, that would increase the rate to 16%. By comparison, Australia's debt to GDP rate is 37% and the UK rate is 89%. So increasing our debt to this level still leaves Jersey in a very strong economic position.

There are ongoing costs of having a bond. These costs are to be met from the new Hospital Construction Fund after any transfers necessary from the excess returns on the Strategic Reserve are completed to meet the liabilities. These costs include not only the coupon, but also ongoing Channel Island Stock Exchange Listing costs, ongoing and set-up costs, and other administrative costs.

The size of the new issuance needs to consider a number of things, including –

- appetite from investors
- the annual cost of the coupon
- any effect on the Standard & Poor's rating for Jersey
- protecting the States of Jersey's Balance Sheet position.

There is a demand for long-dated, high-credit sovereign debt by institutions that have similar characteristic liabilities. This means that there is likely to be sufficient interest in a 30- or 40-year Public Rated Bond which has a low coupon rate for Jersey, as it still provides yield to investing institutions.

As well as the low cost of borrowing, low levels of interest do put pressure on the possible return that the equivalent sum of money can achieve through investment. There is an argument that using existing reserves is the solution on the basis of low levels of opportunity cost; however, the £250 – £400 million would need to return less than the coupon rate for that to be preferable. With the current strategy for the Strategic Reserve Fund, a higher percentage return is expected than predicted coupon costs over that period of time.

With the cost of raising debt at such historically low levels, it seems sensible to borrow the majority of the funding needed, leaving reserves to finance the cost of the debt and maintain flexibility in such uncertain times.

The coupon cost for a Bond of up to £400 million is likely to be an amount that can be financed over the long term without the need for further taxes or charges; although there is always the possibility that things may change in the medium or longer term. However, the modelling work around assessing whether the coupon costs could be met by excess return on the Strategic Reserve Fund assumed no further withdrawals being made for other purposes.

In order to further reduce the levels of existing reserves being used, any sale of strategic assets or significant property assets should and will be considered, this will further improve the likelihood that sufficient returns can be generated.

The modelling work done by the States Treasury and reviewed by advisers demonstrates that Bond financing costs should be affordable from excess returns on the Strategic Reserve. If income tax receipts were to fall to a level where further withdrawals were necessary from the Strategic Reserve, there may not be sufficient excess returns in every year, and there may be a need to use the capital value in the short term to fund the coupons. This use of the capital value of the Strategic Reserve would then be repaid when sufficient excesses are achieved.

Other ways of paying for the debt may be used, such as a further savings target, use of part of the capital allocation, further asset sales or other revenue-raising measures as a last resort.

The model produced by the Treasury uses an investment return assumption of RPI(Y) + 2 and the RPI(Y) assumption used is 3% equating to a 5% long-term return.

Over the long term that return is viewed as reasonable. We have looked back to 1986 when the Strategic Reserve was created, to assess whether we have achieved that target, and on average we have exceeded RPI (and RPI(Y) since 2000 when this adjusted figure was first measured) by 4%. However, the target was not met every year: in 2001 to 2003 the target was missed by very small amounts of less than 1%, but in 2011 and 2009 the target was not met by larger amounts. During that period, the target was also exceeded by some large amounts: in 1987 the target was exceeded by 16.3%, in 1998 the target was exceeded by 9.7%, and in 2012 by 7.4%.

This analysis makes it clear that a longer-term view is necessary, and some capital may need to be used to smooth odd years in which under-performance results in returns not meeting the target assumed.

Advice from the Treasury's investment advisers, Aon Hewitt, has been sought in order to test our target and to further assess assumptions being used. Their analysis assumed that the current strategy would remain in place over the long term, and had prudently assumed market returns from asset. They believe that investment returns are likely to be challenging in the short term, but have advised over the longer term, i.e. the likely term of the Bond, that there is a higher likelihood of returns being stronger, and that our target figures seem reasonable.

From this data it should be assumed that the target return may not be met each and every year, and that it may be necessary to use capital value in those years. This would then be repaid once returns are sufficient to so do. In the longer run, previous years' out-performance would provide some protection of the capital value.

The States Treasury commissioned a Debt Capacity Analysis report from EY, including sensitivity scenarios which tested the capacity for the States of Jersey to meet the costs of the proposed Sterling Public Bond issue, and provided some impact commentary on the outcomes. For this piece of work, a base case of a £350 million Bond was used, but one scenario was that the size of the Bond was £400 million.

The work carried out by EY was requested to provide some independent corroboration of the work done by the Treasury and to assist in "stress-testing" the base case.

Risks

There are risks associated with any funding solution. The risks associated with this proposal are –

1. **Increasing construction costs**

Whilst the current estimates used for the cost are an early estimate and more work needs to be done to refine costs with more certainty, those estimates include considerable contingencies.

Establishing a budget cap at this stage encourages a discipline to stay within the sum allowed and will not be seen as a target to build a budget up to. Release of contingency would be controlled by the Treasury.

Any further increase in budget sought would require the States' approval.

Any such modest increases may require temporary use of the capital value of the Strategic Reserve Fund.

2. **Increased levels of debt and credit-rating**

Following the decision made by the UK to exit the EU, Standard & Poor's ("S&P") reduced Jersey's credit-rating by a notch to AA- with stable outlook. This followed an earlier recalibration exercise they applied to all similar sovereigns, which down-rated us from AA+ to AA.

The 2015 debt to GDP ratio for Jersey as estimated by S&P was 6%. Whilst the debt to GDP ratio after an additional £350 million to £400 million Bond would be 14.7% to 16%, well below their estimated 30% threshold for a further downgrade, the significant quantum of change may raise the risk of a downgrade.

Our advisers have told us that it would appear that even at this debt level there is a low risk of a downgrade, but even if there were, Jersey would still remain investment grade and be considered to have a strong capability to meet its financial commitments.

A reduction of one notch would place Jersey on a rating of A+, this would signal to our investors that we are "somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligator's capacity to meet its financial commitment on the obligation is still strong". This would put Jersey on a par with a number of UK housing associations who were downgraded following the Brexit referendum.

If there is a downgrade, it is likely that investors will require a modest premium to reflect the increase in potential risk, making the annual coupon rate higher.

3. **Increased cost of borrowing**

Modelling and sensitivity analysis has been undertaken based upon current knowledge; however, markets will change between now and issuance, which may vary the assessment. It is vital therefore that the Minister has the flexibility to make the right decision at the time on the quantum, timing and period of debt chosen.

4. Future requirements to use the Strategic Reserve Fund

The modelling work undertaken by the Treasury and reviewed by advisers demonstrates that Bond financing costs should be affordable from forecast excess returns on the Strategic Reserve, especially over the medium to long term. If income tax receipts were to fall to a level or other events resulted in further withdrawals being required from the Strategic Reserve, there may not be sufficient excess returns in every year, and there may be a need to use the capital value in the short term to fund the coupons. This use of the capital value of the Strategic Reserve would then be repaid when sufficient excesses are achieved.

Alternatively, over the longer term, other ways of funding the financing of the debt may be sought, such as a further savings target, use of part of the capital allocation, further asset sales, or consideration of further revenue-raising measures as a last resort.

5. Investment returns

The model used by the Treasury uses an investment return assumption of RPI(Y) + 2%. Over the long term, that return is viewed as reasonable given our historic record of performance.

The target return is likely not be met in each and every year due to volatility, and therefore it may be necessary if those years were early in the period of borrowing to use capital value in those years. This would be repaid once excess returns are sufficient to so do. We need to take a long-term view and have the flexibility to use capital when required.

The Hospital Construction Special Fund

As part of the process of marketing a Bond, investors are interested in the intended use of the funds. Having a specific Fund set up for the hospital construction, and transferring the money received from the Bond into that Fund helps to demonstrate the intended use and to ring-fence that money. It also assists in putting controls around the expenditure.

The terms of reference for the Fund are attached as the **Appendix** to this report. The intention is that a specific Fund will hold the Bond proceeds and draw-downs required for the hospital construction. Associated costs will be paid from this Fund. £23.6 million is already in the Consolidated Fund and is the remaining balance from allocations in previous budgets, this money will be used first.

Once the money from the Consolidated Fund and the Bond issuance have been exhausted, the residual funding will be drawn from the Strategic Reserve excess returns, to complete the project. If a strategic asset or property asset is sold in the meantime, and proceeds are deemed to be used for this purpose and transferred into the Hospital Construction Fund, these transfers from the Strategic Reserve may not be needed.

Conclusion

The proposition has been constructed in a way that allows some flexibility in the final decision. It is essential that the Minister for Treasury and Resources has the authority and support of the States Assembly to make the right decision at the right time, based upon professional advice.

The timing of any debt issuance needs to be carefully considered. Once the States have approved the funding strategy, the process of appointing financial and legal advisers and bookrunners will begin in accordance with the appropriate procurement requirements.

The market conditions may well be different from now, when the process of issuing the Bond has concluded and the deal is to be done. Decisions such as the length of the borrowing period (tenor) need to be made after the potential investors have been visited and their preferred tenor considered, and the Treasury Advisory Panel will be providing advice on these matters.

The pricing at the time of execution will be key to decide at what level the Bond or other borrowing would be issued. If the cost of borrowing were to increase steeply, the decision may be made to use more reserves and borrow less.

At this time, accepting all the risks described above, the expected way forward would be to issue debt of £350 – £400 million in the first half of 2017, and to hold those proceeds in a newly constituted Special Fund as set up to facilitate the funding requirements around the new General Hospital construction. This Fund would also hold any other amounts allocated, excluding the £23.6 million already allocated from the Consolidated Fund, up to the proposed £466 million expenditure limit.

The Minister for Treasury and Resources will report back to the Assembly in 2017 once any Bond has been issued, to update Members on decisions made and the outcome of those decisions.

As part of the annual Budget process, starting from the Budget 2018, an updated expected cash requirement for the project will be presented and the source of that cash explained.

Financial and manpower implications

There would be no manpower implications with this funding strategy, as all associated work, other than external advisory work, would be managed within existing resources.

The financial implications can be divided into 2 distinct areas, the one-off costs of delivering the solution, and the ongoing costs associated with the solution.

One-off costs

There are a number of upfront fees associated with a public bond issuance.

There is a small range of advisers that the States of Jersey will need to appoint, in a competitive manner, in addition to our main Adviser.

The roles for which appointments will be made at the start of the issuance process include –

- Bookrunner(s) – Responsibilities are numerous, with main roles including production of investor presentation, arranging road show logistics, marketing to potential investors, bookbuilding and documentation, including the Prospectus (which is the main Offering Document to potential investors). Bookrunners are normally appointed on a deal-by-deal basis to ensure competitive tenders for each assignment.

- Legal Adviser: Responsibilities of Legal Advisers include the drafting of documentation. Documents that will require legal input include –

    - The Prospectus, which will be signed off by the appropriate Listing Authority. This is the FSA if a London listing is chosen.

    - The Subscription Agreement, which is a relatively standard legal agreement between the States of Jersey and the bookrunners, covering the terms on which the Bond will be issued and the representations and warranties of all parties.

    - The Trust Deed, which is a legal agreement with the Trustee, setting out the limit of empowerment to act for the bondholders as a group;

    - The Agency Agreement, which will be the agreement between the States of Jersey and the Paying Agent; and

    - The Auditors' Comfort Letter, which gives the underwriting banks comfort that the Prospectus is accurate. This is usually a standard form letter.

- Legal Advisers will be required for both the States of Jersey and the bookrunner(s).

- Paying Agent: Usually one of the bookrunners, who will be responsible for the disbursement of funds in connection with the Bond, will act as Paying Agent. The Paying Agent will receive coupon payments from the States of Jersey, and pass them on to the holders of the bonds.

- Trustee: Again, usually one of the bookrunners will take the role of Trustee. The Trustee sees that Bond interest payments are made as scheduled, and protects the interests of the bondholders if the issuer defaults. The Trustee is responsible for the registration, transfer and payment of bonds.

- Trustee Legal Adviser: Legal counsel will be required for the trustee.

The total cost for the previous Bond issuance was £1.5 million. At this stage, a range of £1.5 million to £2.5 million is a preliminary estimate from our advisers, and these costs will reflect the size of any Bond.

Ongoing costs

In addition to the upfront costs, there are a small number of fees which are ongoing for the life of the Bond. These are a fee to the Trustee and Paying Agent and the Channel Islands Stock Exchange Listing, which would incur annual fees of approximately £1,000 per debt security.

There will also be the financing costs of any debt issuance over the life of the Bond. For planning purposes, this has been estimated, assuming a £400 million bond, at £10 – £11 million per annum. This is planned to be paid from the excess returns from the Strategic Reserve, through the Hospital Construction Fund.

No cost of any hedging arrangements are included in the advised cost estimates. A decision will be required as and when appropriate.

APPENDIX

Hospital Construction Fund – Special Fund

1. The purpose of the Hospital Construction Fund

1.1 The purpose of the Hospital Construction Fund ("the Fund") is to facilitate –

(a) the construction and fitting out, and all associated costs, of a new General Hospital facility in Jersey (the "New Jersey General Hospital – JGH"); and

(b) the funding and all costs of arrangement, and financing and repayment of any external borrowing for the "New JGH".

1.2 The Fund is established as a "Special Fund" in accordance with Article 3(3)(a) of the Public Finances (Jersey) Law 2005 ("the Law") which enables the States, on a proposition lodged by the Minister for Treasury and Resources, to establish a "Special Fund" for specific purposes.

1.3 The Hospital Construction Fund ("the Fund") will provide a mechanism by which financing for the "New JGH" can be collected, and then spent to deliver the construction of the "New JGH"; and any financing and related costs can be made in line with P.130/2016 ('Future Hospital Funding Strategy').

1.4 The following funding sources will be available to secure the "New JGH" and financing arrangements –

(a) External borrowing;

(b) Transfers from the Strategic Reserve Fund;

(c) Transfers from the Consolidated Fund; and

(d) A capital head of expenditure already approved by the States for feasibility works and not spent at the date of the creation of this Fund (£23.6 million); and

(e) Returns generated from money raised from any borrowing and held in the Hospital Construction Fund prior to being spent on the "New JGH".

1.5 The Fund will be maintained until all external borrowing has been repaid and the new JGH is complete. In line with the requirements of the Public Finances (Jersey) Law 2005, the States will be consulted about whether the Fund will be retained or whether it should be wound up once all payments have been made and the project is complete, and borrowing has been repaid. In accordance with Article 3(5) of the Law, any balance remaining within the Fund at this time will be transferred to the Consolidated Fund.

2. The powers and limitations of the Fund

2.1 As a Special Fund, the purposes of "the Fund" can only be varied by the States on a proposition lodged by the Minister for Treasury and Resources.

2.2 Money held in "the Fund" will not form part of the annual income of the States nor the Consolidated Fund balance.

2.3 Costs, as approved by the States Assembly and associated with the New JGH will be met out of "the Fund".

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

2.5 The operation of the Fund must be in line with the Public Finances (Jersey) Law 2005 and all existing States Financial Directions and, if appropriate, the Treasurer of the States may issue Financial Directions specifying any additional procedures for this Fund.

3. Payments into the Fund

3.1 Payments into the Fund will include –

- Funding available from the sources specified in paragraph 1.4, other than the Capital Head of Expenditure already approved by the States for feasibility works. An amendment to the Public Finances (Jersey) Law 2005 is required to enable funds to be directly transferred from the Strategic Reserve Fund to the Hospital Construction Fund. This will be brought forward to the States in due course by the Minister for Treasury and Resources.

- Transfers from the Strategic Reserve Fund of amounts required to meet the payment of the annual interest or similar costs and the repayment of the borrowed principal.

- Any financial returns earned on unspent funds.

4. Payments from the Fund

4.1 Payments from the Fund will include –

- those relating to the construction and fitting-out and all associated costs of the new JGH, up to a maximum cap of £442.4 million (being the maximum expenditure cap of £466 million less the £23.6 million capital sum already approved for the project (or such amount as varied by the States Assembly));

- all costs relating to the operation, administration and repayment of any borrowing secured to facilitate the new JGH;

- all other administrative costs (as agreed by the Accounting Officer responsible for the Fund) associated with the operation and maintenance of the activities of the Fund.

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

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

5.2 The Minister for Treasury and Resources has responsibility under the terms of the Public Finances Law (Jersey) 2005 for appointing an Accounting Officer for the Fund. The Accounting Officer is personally accountable for the proper financial management of the Fund, including ensuring that the project is progressed in line with States' approvals. The Accounting Officer can delegate functions to others, but will remain personally accountable. Where the Accounting Officer delegates their financial authority, the Scheme of Delegation must be documented and detail what authority has been delegated to whom and any limits placed on that delegation.

5.3 Under the terms of the Public Finances (Jersey) Law 2005, the Minister for Treasury and Resources has to develop an "Investment Strategy" for States' money and to report this, and any update, to the States. The Minister and Treasurer are required to ensure that the Strategy is met. This requirement will extend to money held within the Hospital Construction Fund. In developing the relevant Investment Strategy, the Minister will need to ensure that cash is available to meet all contractual payments associated with the new JGH. There will be a formal agreement between the Treasurer and the Accounting Officer for the Fund to ensure that contractual payments for the new JGH are met.

5.4 The Comptroller and Auditor General ("C&AG") has a duty under Article 11 of the Comptroller and Auditor General (Jersey) Law 2014 to provide the States with independent assurance that the public finances of Jersey are being regulated, controlled and supervised and accounted for in accordance with the Law. This duty extends to the Hospital Construction Fund.

6. Investment Structure of the Fund

6.1 The investment of States' funds, including money held in this Fund, is subject to the requirements of Article 6 (and the Regulations issued under this Article) of the Public Finances (Jersey) Law 2005, which sets the parameters within which the States may invest money and the procedures which must be followed before funds are invested.

6.2 The unspent monies within the Hospital Construction Fund may be invested through the States' Common Investment Fund, and as stated in paragraph 5.3 above, the Minister for Treasury and Resources will be responsible for ensuring that there is an Investment Strategy for the money held in the Fund.

6.3 All costs associated with the investment will be paid from the Fund, and all financial returns gained from investment retained within the Fund.

7. Reporting arrangements

7.1 Six-monthly update reports will be presented, firstly to the Council of Ministers and then to the States, on the progress of the construction, until its completion. These will include details of projected costs against estimated costs, and projected costs to completion.

7.2 Details of the Fund will be included in the published States of Jersey Annual Financial Statement and Annex.