STATES OF JERSEY

DEBT FRAMEWORK - INCORPORATING THE POLICY OF THE COUNCIL OF MINISTERS ON OBTAINING FINANCING AND THE DEBT STRATEGY OF THE MINISTER FOR TREASURY AND RESOURCES

Presented to the States on 5th May 2022
by the Minister for Treasury and Resources

STATES GREFFE

Debt Framework - incorporating the Policy of the Council of Ministers on obtaining financing and the Debt Strategy of the Minister for Treasury and Resources

Financing Policy

Introduction

In compliance with Article 30(3) of the Public Finances (Jersey) Law 2019 (“the Law”) the Minister for Treasury and Resources (the ‘Minister’) must present to the States a written statement of the policy of the Council of Ministers on obtaining financing (the ‘Debt Policy').

As required by the Law this includes policy regarding the type and value of financing that might be included in a Government Plan without compromising sound fiscal and financial management principles; and the process by which the risks of such financing are assessed.

A notice of any amendments to the Debt Policy is required to be presented to the States as soon as practicable after they are made.

The Council of Ministers (‘Council’) recognises that financing may provide a valuable source of funding to assist the public administration in meeting its objectives. When considering financing, Council will ensure that all funding alternatives are fully considered.

For the purposes of this policy, financing is considered to be:

- Loans from external institutions
- The issuance of bonds
- Finance leases (not operating leases)
- Assignment of debt from a third party
- Sale and leaseback transactions

The Debt Policy applies to debt put forward for approval by the States Assembly. It is not designed to limit the Minister’s ability to operate transitional debt arrangements (such as bank overdraft facilities and smaller short-term debt arrangements) as outlined in Article 26 of the Public Finances (Jersey) Law 2019. These transitional debt arrangements are designed to allow for the efficient management of the liquidity requirements of the States and not as a long-term funding solution.

Governance arrangements

To support the Debt Policy the Minister has published herein and will maintain a Debt Strategy. The Debt Policy and underlying Debt Strategy in combination form the Debt Framework governing how the States will manage debt issuance and monitor and oversee the total debt portfolio.

As a principles-based document, the Debt Policy is not expected to be re-issued annually but will be reviewed periodically to ensure it remains appropriate and up to date.

The Debt Strategy is expected to be reactive to changes to the States economic position or outlook and the Minister will be required to review the content and present a revised document to the States at least annually.

Overarching Objectives

The objectives of the Debt Framework of the States are:

- to ensure the States' financing (borrowing) needs are met in a timely and cost-effective manner; and
- to minimise borrowing costs subject to a prudent degree of risk; and
- to ensure the States of Jersey's finances are sustainable in the long term.

All documents within the Debt Framework will seek to meet these objectives.

The Council of Ministers will generally seek to minimise borrowing levels but similarly does not endorse the view that an arbitrary maximum borrowing level should be set. In considering whether to propose borrowing, Council will consider the following principles:

a) **Strategic objective –** the purpose for which borrowing is to be used will be of strategic significance (see below).

b) **Amount** - the amount of borrowing will be limited to the maximum sum required.

c) **Need** - borrowing will be considered in the context of the States' ongoing financial sustainability, i.e. current and forecast revenues and investment levels and the ability to make repayments as and when due.

d) **Security** – borrowing will generally be undertaken on an unsecured basis.

e) **Covenants** – borrowing must not include covenants which impair or restrict the States' ability to function effectively or restricts access to assets or revenue.

f) **Term** – the period over which money is borrowed will be an approximate match to the purpose for which the money is borrowed or repayment can be achieved.

The Council of Ministers is committed to making the right decisions for the long-term sustainability of Jersey's public finances. Following these objectives will ensure prudent financial management and a fiscal policy which is fair across generations.

Financing included in a Government Plan

The maximum level of financing (borrowing) is to be approved by Proposition of the States Assembly (currently a Government Plan). The Proposition will establish the maximum level of financing the Minister is authorised to issue. Included in the proposition for any new financing will be the purpose of the debt to be issued and the intended mechanism for servicing of costs and ultimate repayment.

Unless specifically identified within the Proposition the purpose of borrowing should be limited to the following:

- Capital Investment in public sector assets for a non-financial return, but which provide public services (e.g. a hospital)
- Capital Investment in public sector assets for a financial return (e.g. housing or office space), where an income stream is generated

- Temporary costs of the economic cycle, and in times of economic duress, through lower revenues and higher spending (e.g. passive fiscal stimulus through use of “automatic stabilisers” and exceptional costs associated with COVID-19)
- Active fiscal stimulus – Short-term, targeted, and timely, (e.g. financing the Fiscal Stimulus Fund)
- Deferral of income and cashflow, although potential losses and financing costs need to be identified

Responsibility for the issuance of the debt rests with the Minister and will be undertaken in compliance with the Debt Strategy.

The exact terms and type of debt issued to meet the approved financing will depend on market conditions at the date of issuance alongside independent advice received by the Minister. The precise debt structure/type cannot therefore be determined in advance with absolute certainty.

To ensure full transparency, once debt has been issued the Minister will update the Debt Strategy, including the structure of the newly issued debt and the repayment strategy.

Assessment of risk

There are a number of risks which must be assessed and monitored as part of the Debt Framework. The Debt Strategy includes an assessment of the key risks associated with the debt portfolio and determines the key monitoring metrics.

In managing and monitoring these risks, the Debt Strategy will include an assessment of key criteria against which the States financial position is being monitored.

The monitoring criteria should seek to capture both the strength of the current balance sheet, but also the seek to identify trends which could indicate a need to reassess the long-term repayment plans for any debt issued.

The key objective of the risk assessment and monitoring processes is to identify whether remedial action is required for the States of Jersey to remain in a sound, sustainable and economically positive long-term position in compliance with the third of the stated Objectives.

Debt Strategy of the Minister for Treasury and Resources

Contents

1. Background

In considering the level of debt issuance and in line with many sovereign nations, the published Debt Strategies serve to ensure that both the level and rate of growth in public debt are on a sustainable path and that the debt can be serviced under a wide range of circumstances, including economic and financial stress, whilst meeting cost and risk objectives.

Sound risk management is essential given that public debt has the potential to generate risk to a nation's balance sheet and overall financial stability. The World Bank and International Monetary Fund have combined to produce well established guidelines for the creation of Debt Strategies and those guidelines form the basis of this document.

The approved Government Plan 2022-25 lays out the Council of Ministers intentions regarding debt issuance. Debt issuance has been approved for three objectives, the funding of the Our Hospital Project, the refinancing of pension liabilities and the repayment of the COVID-19 debt, although borrowing for this purpose is limited to a short-term time horizon of five years.

As approved in P.80/2021 the Our Hospital project is to be financed through borrowing of up to £756m – as opposed to using existing reserves – which will allow the States of Jersey to take advantage of low interest rates and maintain existing reserves, which are expected to yield a higher return than the cost of the interest to be paid on the debt. This borrowing would be serviced using the long-term returns on the Strategic Reserve.

The Government currently has two pension liabilities – one to the Public Employees Contributory Retirement Scheme (PECRS) and a second to the Jersey Teachers Superannuation Fund (JTSF). These liabilities were valued at the end of 2021 at c.£475m and are planned to be refinanced through external borrowing, creating a substantial saving to taxpayers in the long-term. The liabilities are currently serviced through departmental budgets. Once the liabilities are repaid these amounts will be used to service the borrowing, including paying the coupon (interest) and making transfers into the Strategic Reserve as part of a sinking fund mechanism. These contributions, combined with investment returns on these monies will build sufficient funds to repay the issued debt at maturity.

In 2020, the Minister for Treasury and Resources put in place a Revolving Credit Facility (RCF) of up to £500 million to cover the costs of the COVID-19 pandemic. Current forecasts indicate that these costs will be capped at £209 million, with approval for an additional £29.6m million for the funding of the Fiscal Stimulus Fund. Borrowing relating to COVID-19 debt has been limited to £238m and for no more than 5 years with plans to reduce this borrowing to zero by 31st December 2026. The application of any unspent funds along with receipts relating to the move of all taxpayers to current year basis, are to be applied as a priority to repay this outstanding debt and minimise the borrowing.

2. Introduction

This strategy document is presented by the Minister for Treasury and Resources (the 'Minister') and outlines how the debt programme of the States of Jersey ('States', 'GoJ', 'Government') is to be managed.

The States has long-term debt currently in place to fund its Social Housing programme and short-term facilities in place to fund the impact of the COVID pandemic on the finances of Government.

This document summarises the strategies to enact, control and monitor the GoJ debt programme and provides the framework within which the debt management programme will be operated. The framework is intended to include the ongoing issuance programme, arrangements for the servicing of debt, monitoring of the overall debt position and the long-term strategy for repayment of GoJ debt.

The strategy reflects the long-term plans for managing the GoJ debt programme, but also provides the flexibility to transparently adapt plans in reaction to market conditions and the financial position of the GoJ.

The Debt Strategy applies to debt as approved by the States Assembly. It is not designed to limit the Minister‘s ability to operate transitional debt arrangements (bank overdraft facilities and minor borrowings) as outlined in Article 26 of the Public Finances (Jersey) Law 2019. These powers are intended to facilitate efficient management of the GoJ balance sheet rather than provide a source of long-term funding.

This document also outlines the relationship with the Government's Investment Strategy document, already published annually by the Minister. Debt issued will result in significant cash injections into the investment portfolio which will need to be effectively managed, until utilised for the purposes for which the debt was issued. Where long-term investment returns are intended to be used to meet debt repayments it is intended that the Debt Strategy will define the source of capital allocated to this purpose and the long-term return objective required to meet repayment requirements; while the Investment Strategy will define the investment strategy and asset mix designed to meet the defined requirements. Where alternative funding arrangements have been identified for either the payment of debt servicing costs or capital repayment, these should be defined in the Debt Strategy or the Proposition approving the borrowing.

The main reason for separating the Debt and Investment Strategies is to allow the investment strategy to react to short-term market conditions and effectively manage the portfolio which is expected to be subject to market shocks or opportunities, while the Debt Strategy will focus on initial issuance, funding sources and delivery of the long-term 'glide path' to repayment.

Each of the following sections provides an overview of the more detailed content included in the corresponding appendices.

This update to the Framework reflects the financing approvals contained within the Government Plan 2022-25, the latest economic data releases and assumptions and a change to the minimum credit rating following a States Assembly approval of P.18/2022.

3. Economic Assumptions

The Debt Strategy document seeks to define the States' approach to debt management which is designed to operate over a 40-year long time horizon.

In combination the Debt and Investment Strategies seek to deliver a sustainable capital structure to meet the Island's needs whilst minimising the total funding costs over the medium to long-term, consistent with a prudent degree of risk, but at the same time retaining flexibility to react to unknown future events.

The long-term time horizon of the Debt Strategy, the issuance of debt and preservation of reserves maintains GoJ's ability to react to short term economic shocks. Furthermore, diversification between funding sources can have beneficial consequences for the GoJ total portfolio (for example higher levels of inflation might be detrimental to certain investment assets but may also erode the real value of debt).

This update to the Debt Strategy focusses on the initial planned issuance of long-term debt which is expected to be applied primarily to refinancing the existing past service pension liabilities. The short-term economic conditions will define the environment in which debt will be issued whilst the long-term economic assumptions will define repayment of the debt over time.

Capital markets have experienced increased levels of volatility in recent months, stemming from increased inflation expectations and geopolitical events, namely the war in Ukraine. Short term volatility may be managed through hedging, which gives greater certainty over the effective rate at which a bond is issued, although hedging cannot fully insulate GoJ from market volatility. Further details of this are outlined in the statement on hedging at the end of section 5.

Future debt issuance is subject to greater uncertainty as the potential for changes to market conditions increases with time. The attractiveness of issuances is dependent on factors such as the credit rating of both Jersey and the appetite of investors. Any issuance of debt is likely to put downward pressure on credit ratings, though this is dependent on a wide number of factors including economic outlook and the net asset position of the States of Jersey Island as assessed by rating agencies and independently by potential investors. The purpose of debt issuance is also a relevant factor; the refinancing of existing liabilities (such as those relating to public sector pension funds) may be seen positively by the market if it reduces anticipated future costs.

FPP Updated assumptions:

The most recent Fiscal Policy Panel assumptions were provided in March 2022, their full report is published online.

FPP noted increasing inflationary pressures, stemming from several sources including supply chain pressures, largely resulting from the bounce back after the Covid-19 pandemic, but also the Russian invasion of Ukraine, which will continue to impact on commodity prices. Inflation forecasts for the UK have been revised upwards on several occasions illustrating how challenging the circumstances are in making these forecasts in such an uncertain political and economic climate.

Expectations for higher interest rates represents a marked change from the Panel's last economic assumptions. Higher interest rates will likely have a positive impact on the Islands GVA as Jersey is primarily a deposit-taking centre and interest rate rises usually lead to increase in net interest margins, but may be detrimental to individual islanders, with real earnings expected to fall in most sectors. The timing of future Bank Rate changes is very uncertain, which will impact the exact path of GVA.

The Panel's updated forecast includes:

- Whilst prices in Jersey are likely to increase further into 2022, the rise may be less than in the UK due to differences in Jersey's energy mix, and the supply impacts affecting different energy sources to varying degrees.

- Faster employment growth in the early part of the forecast, reflects strong momentum in the labour market recovery. Employment bounced back to pre-pandemic levels from June 2019 to June 2021 with total number of jobs at 62,430. Average earnings were 3.3% higher in June 2021 than the year before.

The overall impact of the revisions to the forecast results is an upgrade in the forecast of GVA in 2022 to a 5.1% increase. This will mean that GVA is at a higher level than was forecast pre-pandemic, which is largely driven by the marked change in interest rate expectations.

Other than inflation, economic data looks broadly more positive than the FPP's projections in March 2021. Though they note residual risks from the pandemic stemming from the potential for new variants and waning immunity.

Future updates to the Debt Strategy will incorporate the most recent views of the FPP and other sources of expert advice, this will be vital in ensuring our long-term plans remain valid or highlight the need for mitigating action.

4. Overarching Policies

Several overarching policies will apply to the Government's debt programme, if not superseded by specific arrangements or legislation. These identify the governance arrangements and responsibilities for oversight of the debt and define the high-level principles which are to be applied.

4.1. Governance Arrangements

The Minister is responsible for the development of a Debt Strategy, including a written statement of the policy of the Council of Ministers, written in compliance with Article 30 (3) of the Public Finances (Jersey) Law 2019, outlining how the States will issue and manage debt within limits approved by the States Assembly. Having prepared an initial Debt Strategy, the Minister will review the content and must present a revised document to the States at least annually.

The Debt Strategy applies to long-term debt as approved by the States Assembly. It is not designed to limit the Minister's ability to operate transitional debt arrangements as outlined in Article 26 of the Public Finances (Jersey) Law 2019. These transitional debt arrangements are designed to allow for the efficient management of the liquidity requirements of the GoJ and not as a long-term funding solution.

The Treasurer of the States (the 'Treasurer') is responsible for ensuring that the issuance of any debt is properly managed, controlled and accounted for in accordance with the Debt Strategy and the Public Finances Manual.

Decisions on the debt management policy are taken in advance to achieve the debt management objectives. The Treasurer will seek appropriate advice to assess the costs and risks associated with different possible patterns of debt issuance, considering the most up-to-date information on market conditions, including demand for debt.

The Minister and Treasurer have a range of powers and responsibilities provided for through the Public Finances (Jersey) Law 2019. The Treasury Advisory Panel ('TAP') is established by the Minister to provide advice on discharging these responsibilities and exercising relevant powers.

The full duties and responsibilities of the TAP are detailed within their Terms of Reference which are available online.

4.2. Political approval for debt

The issuance of debt is approved by the States Assembly. The proposition will establish the maximum level of financing the Minister is authorised to arrange, the purpose of the financing as well as the intended mechanism for servicing of costs and ultimate repayment.

Unless specifically identified within the proposition the purpose of borrowing should be limited to the following purposes, as determined in the Debt Policy:

- Capital Investment in public sector assets for a non-financial return, but which provide public services (e.g. a hospital)
- Capital Investment in public sector assets for a financial return (e.g. housing or office space), where an income stream is generated
- Temporary costs of the economic cycle, and in times of economic duress, through lower revenues and higher spending (e.g. passive fiscal stimulus through use of "automatic stabilisers" and exceptional costs associated with COVID-19)
- Active fiscal stimulus – Short-term, targeted, and timely, (e.g. financing the Fiscal Stimulus Fund)
- Deferral of income and cashflow, although potential losses and financing costs need to be identified

Any proposition to issue new debt will prompt an update of the Debt Strategy to ensure full transparency and for the impact of the new issuance to be considered in the context of the debt programme as whole. When considering the issuance of debt, the costs and risks associated with different possible patterns of debt issuance, need to be considered along with the most up-to-date information on market conditions and demand for debt instruments.

Guidance about the likely term and structure of debt issuance will support any Proposition to approve such debt. In determining the overall structure of the financing remit, the Government assesses the costs and risks of debt issuance by maturity and type of instrument. Decisions on the composition of debt issuance are also informed by an assessment of investor demand for debt instruments by maturity and type as reported by stakeholders as well as the principles contained in the Council of Ministers' policy on financing. Alongside these considerations, the Government will consider the practical implications of issuance.

The objective of the Debt Strategy is to manage the GoJ debt programme to raise the approved amount of funding at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk. Minimising cost, while ignoring risk, is not an objective. Transactions that appear to lower debt servicing costs may embody significant risks for Government. Managing cost and risk therefore involves a trade-off. Judgments will have to be made based on the risk tolerance of the government, keeping in view other policy objectives.

Any debt issuance programme will face a trade-off between short-term and long-term costs that should be managed prudently. For example, excessive reliance on short-term or floating rate debt to take advantage of lower short-term interest rates may leave GoJ vulnerable to volatile and possibly increasing debt service costs if interest rates increase, and even the risk of default in the event that a government cannot refinance its debts at any cost.

In issuing debt, the responsibility for ensuring procedures within the Public Finances Manual are adhered to rests with the Treasury & Exchequer.

4.3. Debt principles

The objective of the Debt Strategy is to manage the GoJ debt programme to raise the approved amount of funding at the lowest possible cost over the medium to long-term, consistent with a prudent degree of risk. At a minimum risk should be considered in terms of maturity, currency, or interest rate composition and assessed in relation to the overall GoJ balance sheet. Risk is assessed more fully in the risk section of this document.

The risks inherent in the Government's debt structure will be carefully monitored and evaluated. These risks should be mitigated to the extent feasible, considering the cost of doing so and Government's appetite for risk.

The Debt Strategy seeks to ensure that the level of public debt is on a sustainable path and that the debt can be serviced under a wide range of circumstances, including economic and financial market stress, while meeting cost and risk objectives. The Debt Strategy aims to be flexible in the face of a wide range of risks.

The debt strategy is split into three sections:

- Issuance - the process for issuing debt
- Operation - the strategy for meeting the ongoing cost of debt and the repayment of debt
- Monitoring - the process for monitoring the net asset position of GoJ.

Debt should be considered relative to current asset positions with a view to ensuring a minimum coverage ratio of assets to liabilities is maintained.

It is necessary to consider the net asset position of the GoJ in the current economic environment but also on a forward-looking basis to support the identification of long terms trends with sufficient notice so that any necessary corrective action can be taken over an appropriate timescale. Regular modelling will be conducted using a range of possible economic scenarios to identify potential risks over a long-term time horizon.

The fixed value of debt (in nominal terms) and variable value of investment assets increases the importance of careful stress testing of the net asset position of GoJ to ensure that the balance sheet is robust enough to provide flexibility of policy choices in the event of short-term economic shocks.

Debt should be structured so to spread maturity dates over an appropriate timescale. This ensures significant cash flows do not coincide with unanticipated periods of market stress, ensures refinancing risk is mitigated, should GoJ seek to refinance borrowing and improves investor appetite.

GoJ will remain cognisant of any debt issued by States-owned entities, but these are outside the scope of the GoJ Debt Strategy, unless that debt is directly guaranteed by GoJ. At the present time no debt procured by States-owned entities is guaranteed by Government.

5. Risks associated with debt

The main risks impacting the GoJ Debt Strategy relate to market risk, which includes interest rate risk and exchange rate risk, refinancing risk, liquidity risk, credit risk, and operational risk.

The risk exposures are determined by the composition of the debt portfolio, including the share of short-term debt versus longer-term debt, the variable interest rate debt relative to fixed rate debt, and debt denominated in foreign currency.

The degree to which the GoJ is exposed to risk may vary from time to time depending on the size of the debt portfolio relative to GoJ's assets and Jersey's vulnerability to economic shocks. In general, a larger debt portfolio the higher the vulnerability to economic shock which will place a greater emphasis on reducing risks rather than costs.

RISK	DESCRIPTION	MITIGATION
Market risk	The risk of increases in the cost of the debt arising from changes in market variables, such as interest rates and exchange rates.	The impact of changes in interest rates is most likely prior to debt issuance, this can be mitigated by implementing hedging arrangements if considered appropriate
Execution risk	The risk that the government is not able to issue the offered amount of debt or must sell it at a large discount to the market price.	This is a risk at issuance which is managed through close monitoring of market conditions at execution and use of professional bookrunners to reduce risk as far as is possible
Interest rate risk (pre-debt issuance)	The risk of increases in the cost of debt arising from changes in interest rates before debt is issued.	Regular market monitoring by GoJ and debt advisors and the setting of an acceptable cost ceiling prior to debt issuance. Once approval is obtained consideration could be given to

		the use of hedging instruments to further manage this risk. See statement on hedging beneath this table.
Interest rate risk (post-debt issuance)	The risk of increases in the cost of debt arising from changes in interest rates. Changes in interest rates can affect debt servicing costs and is particularly relevant to floating-rate debt which would see costs rise in an increasing rate environment.	Debt issuance will be on a fixed rate basis wherever possible, this provides a fixed cost over the full term of the borrowing. There remains the risk that rates will remain low or potentially fall below zero, though this is deemed as less likely over a long-term horizon. Furthermore, in this scenario downside risk is capped given constraints to how low rates can fall.
Exchange rate risk	The risk of increases in the cost of foreign denominated debt arising from changes in exchange rates.	The GoJ's main income and expenditure streams are denominated in Sterling and debt will also be denominated in Sterling, thus negating this risk
Refinancing risk	The risk that debt will be refinanced at an unusually high cost, or in extreme cases, cannot be refinanced at all.	All debt is issued alongside a repayment mechanism designed to repay outstanding debt at maturity which negates the need to address refinancing risk. The annual review of the debt strategy will include assessment that repayment strategies remain achievable. Debt issuances are to be appropriately staggered to mitigate any remaining refinancing risk.
Liquidity risk	The risk that liquid assets are exhausted quickly due to unanticipated cash flow and the subsequent difficulty in raising cash through borrowing in a short period of time.	Even in some of the most historic stressed market conditions, the public bond markets and short-term bank lending have been available In the unlikely event that such markets are closed, the GoJ might need to consider sales of investment assets in the short-term. Liquidity across the combined GoJ portfolio in a downturn environment is considered by the Treasury Advisory Panel in formulating strategy. Sufficient liquidity is

		maintained to ensure expected short-term requirements can be met whilst a methodical liquidation of other assets can be achieved.
Operational risk	A range of different types of risk including transaction errors, failures in internal controls, reputational risk, legal risk, or other factors which affect GoJ's ability to meet its debt management objectives.	Government departments have well-established risk monitoring and escalation procedures which can manage these events
Cost of carry risk	The potential costs associated with holding debt raised in the investment portfolio prior to expenditure falling due.	Clear cash flow forecasting combined with extending the duration of the investment of funds through the Strategic Reserve's investment strategy
Investment risk	The risk that long-term investment returns are insufficient to meet target debt repayments over time.	Long term returns of the States portfolio are dealt with in more detail in the Investment Strategy Document. Assets are widely diversified across geographies, sectors, and asset classes, with a wide range of return drivers. Investment strategies are carefully monitored and reviewed over time to ensure they achieve their aims. The review of the Debt Strategy is expected to highlight if a funding strategy becomes unviable, at which point several other policy options remain available to GoJ. The likelihood of such actions being required are deemed remote.

To assess risk, Treasury & Exchequer will regularly conduct stress tests of the debt and investment portfolios against the economic and financial shocks to which the Government and the Island are most potentially exposed.

Statement on hedging

The rate paid by GoJ on a bond can be split into two components, represented by the underlying gilt yield and the spread. The gilt yield represents the yield of the relevant

UK Government bond issued with an equivalent duration. It is sometimes considered to represent the 'risk free rate' in the Sterling debt market. Gilt yields may move over time and differ across maturities, with longer maturities typically commanding a premium over shorter maturities.

In addition to the gilt yield is the 'spread', which is the value in excess of the gilt yield paid by issuers (such as GoJ) to compensate for the higher perceived risk. This value will vary in accordance with market conditions and the perceived creditworthiness of the issuer.

Given the large liquid markets for gilts, instruments can be readily purchased to allow gilt yields to be hedged, providing protection against market movements. The spread however is specific to the issuer and cannot be effectively hedged, it will be borne by GoJ on issuance of any bond.

Hedging is usually undertaken when material certainty exists to the quantum, expected timing and tenor of debt issuance. Hedging before this certainty exists exposes an issuer to significant additional risk if the final terms of the debt vary from those hedged. This prevents the hedging far into the future as issuance dates, maturities and values (which are market determined) cannot be ascertained with sufficient certainty to allow for effective execution.

Hedging does not directly reduce the long-term costs (bond coupon), but it provides a cash settlement that can be used over the life of the bond to reduce the cashflow impact. Should the structure or tenor of the proposed bond change, the hedge may not be accurate which can lead to additional cost to close out a position or switch to a different tenor. Similarly, if the bond is not issued or is delayed there may be additional costs/or gains to unwind or extend the hedge.

6. Summary of planned and approved debt

Issued debt (See appendix A for details)
This table summarises the States approved debt and its maturity profile.

Debt Issuance	Value of debt	Debt Maturity	Fund holding debt	Coupon
Public Rated Sterling Bond – Social Housing	£250m	2054	Housing Development Fund	3.75% Fixed
Revolving Credit Facility	up to £500m. Drawdown approved up to £385m	2023 (facility expires)	Consolidated Fund	Variable (circa 1%)

Debt approved but not yet issued (See appendix B for details)
This table summarises the financing approved by the States, but not yet issued.

The conditions outlined reflect the expected characteristics of the debt based on current market conditions at the time of the Debt Strategy update. Until debt is issued the exact terms will remain uncertain.

Debt Issuance	Value of debt	Debt Maturity	Repayment mechanism	Expected Coupon

Public Rated Sterling Bond – Pension Liability Refinancing	£480m	Likely 30 years	Coupon payments met from annual budget. Contributions to sinking fund mechanism will be paid into the Strategic Reserve.	c.3.0%
Public Rated Sterling Bond – Our Hospital	Up to £756m	20 to 40 years	TBC	TBC

Potential future debt issuance (See appendix C for details)
There are currently no new projects for which debt is being considered as a funding solution.

7. Debt Monitoring

Risk management is essential and sound debt structures will allow GoJ to reduce their exposure to interest rate, currency, refinancing, and other risks. To support these processes targets and ranges for key risk indicators will assist GoJ in overseeing their borrowing activities and minimising the vulnerability of the debt portfolio to economic and financial shocks.

Efficient management of the public debt portfolio, lower hedging costs, and greater ability to absorb external shocks could be facilitated by debt management practices that consider the Government's overall balance sheet structure.

7.1. Key reporting metrics

Key reporting metrics are detailed below alongside expected limits which would prompt corrective action and re-assessment of the Government's strategic positioning.

Debt-to-GDP
A debt-to-GDP ratio is a commonly accepted method for assessing the significance of a nation's debt. As debt as a proportion of GDP rises, the cost of servicing debt is expected to increase, and at higher levels may prompt a negative re-rating of GoJ's external credit rating, making it more difficult to access funding. The debt-to-GDP ratio is expected to evolve over time based on the growth of GDP, inflation, interest rates and the cumulative value of GoJ debt issuances. Short term shocks to GDP may however result in temporary rises in the ratio.

Long-term trends in GDP will be monitored to inform decisions should they indicate increased future stress against prescribed limits.

Short term shocks may also have more temporary impacts on the ratio but are less likely to increase borrowing costs if asset levels remain supportive and forward projections indicate recovery.

Aim: Jersey will aim to achieve a medium-term debt-to-GDP ratio in a range of between 30% and 40%. Independent advice indicates that maintaining this range (or lower) reduces the potential for negative adjustments to the credit rating.

	2018	2019	2020	2021	2022	2023	2024	2025
Debt/GDP	5.2	4.9	5.3	11.9	33.2	31.0	29.3	27.9

Source: S&P Global Ratings and GoJ*

Note, figures are based on updated S&P calculations as published, to ensure consistency.

Liquid assets to GDP

The GoJ's liquid assets (fiscal reserves directly on the States' balance sheet; social security reserves and the assets of the public sector pension schemes) play a key part in underpinning the strength of the Island's economy. This ratio supports the ability of the GoJ to meet their obligations, including servicing debt, as it falls due. In times of economic stress higher liquid asset ratios may reduce the requirement to generate liquidity from the sale of illiquid assets, which would likely be more costly.

The trade-off between depleting liquid assets and/or raising debt has historically been faced by many countries. An analysis of S&P's assessment of this trade off supports the view that raising debt whilst retaining the liquid asset buffer above 100% has limited impact on credit ratings. Maintaining this measure will mean a very limited approach to alternative uses for the Government's investment portfolio in future years.

Aim: Jersey will aim to achieve a liquid asset to GDP buffer in excess of 100%. This is intended to provide sufficient scope to meet liabilities as they fall due and allow sufficient headroom to manage the GoJ asset portfolio in the event of a prolonged downturn.

	2018	2019	2020	2021	2022	2023	2024	2025
Liquid assets/GDP	117.2	122.2	138.4	139.2	153.0	146.1	141.8	141.0

Source: S&P Global Ratings and GOJ

Repayments to income

This metric tracks the income receipts as a multiple of debt financing costs, a measure of affordability. GoJ generates income primarily through a combination of tax receipts but also receipts and dividends from the investment portfolio.

Monitoring of the level of coverage achieved provides lenders comfort that GoJ's debt costs remain affordable and ensures liabilities remain manageable. The source of income for funding debt servicing costs may differ for each debt issuance and will be detailed in the business case. This leads to two separate affordability metrics, both relevant to the source of income being utilised.

Aim: Jersey will aim to maintain a coverage ratio of at least 1.0 for financing costs that are met from reserves, meaning that investment returns are greater than financing costs. For financing costs met from general revenues we will aim to ensure that those costs are less than 5% of total revenues.

Credit rating
In their most recent research update on 14th January 2022, S&P Global Ratings affirmed the States of Jersey's long-term rating at "AA-" with a "Stable" outlook.

S&P noted Jersey's fiscal deficits are likely to remain elevated because government spending is set to increase, owing principally due to the construction of a new hospital. Nonetheless, assets and asset returns remain very substantial and materially offset the growing debt burden. The outlook reflects balanced risks to Jersey's creditworthiness.

The credit rating will be influenced by a range of factors including the rating of the UK Government, prevailing market conditions and the specific outlook of Jersey.

Aim: In line with P18.2022, except in periods of emergency, the Council of Ministers should endeavour to ensure that the States of Jersey's long-term credit rating should be maintained at a level of BBB or above (Standard & Poors) or the equivalent for other ratings agencies. The maintenance of such an investment grade credit rating serves to support the ability of GoJ to issue debt or to access short-term facilities if warranted by the prevailing environment.

7.2. Monitoring process
These metrics are predominantly standard measures used by risk managers, investors and credit rating agencies to help them understand the risks and costs contained within a debt portfolio and how future events or changes to strategy might impact on the ability of GoJ to service the ongoing financing costs and the ultimate repayment of debt.

Monitoring by GoJ is an ongoing process, and not limited to the KPIs detailed above. External monitoring of the above KPIs will be reported and published at least annually and reported quarterly at meetings of the TAP, who advise the Treasurer and Minister about both debt and investment strategies.

In their role as advisor to the Treasurer and Minister, TAP is expected to conduct stress tests at least triennially on the net portfolio of GoJ to inform policy and strategic decisions in light of potential market environments Government might be expected to experience over an appropriately long time horizon.

Appendix A. Existing external Debt portfolio

The outstanding debt of the GoJ includes the following issuances:

Social Housing Bond: £250m.

Issued debt

Date of issuance	Value of debt (£m)	Maturity date	Maturity type	Issue type	Coupon
9 June 2014	£250	9 June 2054	Bullet maturity	Unsecured Public Bond	3.75%

Formal approvals
The debt issuance was approved in Budget 2013.

Purpose of debt
Capital Investment in public sector assets for a financial return. The net proceeds of the issue of the Notes have been used to fund investment programmes in Jersey's social housing.

Funding strategy

Issuance proceeds were paid into the Housing Development Fund.

Funds are to be issued as loans to providers of social housing for the purpose of construction or renovation of social housing stock.

Coupon payments are to be met through interest payments from loans issued to providers of social housing via the HDF.

Repayment programme

The Housing Development Fund held a liquid lower risk portfolio during the drawdown stage of the strategy. During this stage commitment to housing construction programmes were drawn and a portfolio of loans was built. During this stage coupon payments exceeded receipts and the Fund fell in value.

The portfolio is currently in its growth stage, interest receipts exceed coupon payments and the Fund will grow over time recycling excess receipts back to social housing providers for the purpose of funding further renovation/construction.

Over time the strategy will transition to a repayment phase when loans are recovered to repay the bond due in 2054. Consideration of rotation to the repayment phase is projected to begin in 2034.

Revolving Credit Facility: up to £500m.

Issued debt

Date of issuance	Value of debt (£m)	Maturity date	Maturity type	Issue type	Coupon
7 May 2020	(Up to) £238.1m drawdown approved by Assembly*	May 2023	Final repayment must be made in full by 31/21/2026	Instantly accessible loans	variable

*Total facility available is £500million

Formal approvals
The facility issuance was approved by the Ministerial Decision in May 2020, following States Assembly approval to changes in the Public Finances Law borrowing limits.

Purpose of debt
To support the Government's financing requirements and the local economy in the short to medium term because of the impact of the COVID-19 pandemic.

Funding strategy
The financing costs are being met from Government's existing general revenues.

Repayment programme
The application of any unspent funds along with receipts relating to the move of all taxpayers to current year basis, are to be applied as a priority to repay this outstanding debt and minimise the borrowing.

Appendix B. Debt approved but not yet issued

The following section summarises debt approved by the States Assembly and not yet issued.

Values are based on market predictions at time of issue of this Debt Strategy.

Public Sector Pension Fund Liability Re-financing

Planned debt characteristics

Date of issuance	Planned value of debt (£m)	Expected Maturity profile	Expected Maturity type	Likely Issue type	Expected Coupon
2022	£480m	30 years	Bullet maturity	Unsecured Public Bond	3.0%*

*a higher range of potential coupon rates is possible in current market conditions. Hedging has been undertaken to provide greater certainty, but an assumed rate of 3.0% has been applied for modelling purposes.

Purpose of debt

To re-finance the current liabilities of the Public Employees Contributory Retirement Scheme and the Jersey Teachers' Superannuation Fund.

Funding strategy

The annual financing costs are to be met from Government's existing general revenues. In line with current servicing arrangements, these payments will rise in line with inflation, whilst the coupon payment on the refinanced debt will remain fixed.

Repayment programme

Payments in excess of those required to service the coupon will be paid into the Strategic Reserve. This value, in addition to compounded returns, will repay the debt on maturity.

Public Rated Bond to finance the Our Hospital project: £756m.

Planned debt characteristics

Date of issuance	Planned value of debt (£m)	Expected Maturity profile	Expected Maturity type	Likely Issue type	Expected Coupon
2022-2023	£756m (2 x tranches)	20-40 years	Bullet maturity	Unsecured Public Bond	TBC

Purpose of debt
Capital Investment in public sector assets for a non-financial return, but which provide public services (e.g. a hospital)

The net proceeds of the issue will be applied to fund the construction of a new hospital.

Funding strategy

Issuance proceeds are to be paid into the Strategic Reserve and drawn as required in line with the project's financing requirements.

Coupon payments are to be met through investment returns from the Strategic Reserve.

Repayment programme

The Strategic Reserve will continue to be invested to generate sufficient investment returns to meet repayments of the debt capital as they fall due.

Appendix C. Potential future debt issuance

No new debt is currently being actively considered.