STATES OF JERSEY

OUR HOSPITAL – BUDGET, FINANCING AND LAND ASSEMBLY (P.80/2021): SECOND AMENDMENT

Lodged au Greffe on 21st September 2021
by Future Hospital Review Panel

STATES GREFFE

1 **PAGE 2, PARAGRAPH (a) –**

In paragraph (a) substitute "up to £550 million" for the figure "£804.5 million"

2 **PAGE 2, PARAGRAPH (b) –**

In paragraph (b) add the word "partly" after "funded" and substitute "£400 million" for the figure "£756 million"

3 **PAGE 2, PARAGRAPH (c) –**

In sub-paragraph (c)(ii) substitute "£400 million" for the figure "£756 million"

4 **PAGE 3, PARAGRAPH (d) –**

In sub-paragraph (d)(i) substitute "as up to £550 million" for "to £804.5 million"

5 **PAGE 3, PARAGRAPH (d) –**

In sub-paragraph (d)(iii) substitute "up to £400 million" for the figure "£756 million"

FUTURE HOSPITAL REVIEW PANEL

Note: After this amendment, the proposition would read as follows –

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

to refer to their Act dated 23rd October 2012, which requested the Council of Ministers to bring forward proposals for a new hospital, their Act dated 17th November 2020, which approved Overdale as the preferred site for a new hospital for Jersey and which approved the use of Compulsory Purchase of property identified in Appendix 1 of P.129/2020, if required, and their Act dated 1st February 2021, which approved Westmount Road as a two-way roadway with areas for active modes of travel, such as walking and cycling, as the preferred primary access option for a new hospital at Overdale and to agree –

(a) a maximum expenditure cap for Our Hospital, to project completion, of up to £550 million, that cannot be exceeded without further approval from the States Assembly;

(b) that the remaining costs of Our Hospital, to project completion, should be funded partly through borrowing (external financing) up to and including a maximum of £400 million allowing for the reimbursement of £12.7 million to those capital schemes that provided funding to Our Hospital in 2021;

(c) that the Strategic Reserve Fund policy be amended so as to allow the Fund to be used to support the delivery of Our Hospital, and to further agree that –

   (i) the borrowing (external financing) obtained for Our Hospital, referred to in paragraph (b) above, will be paid into the Strategic Reserve Fund;

   (ii) transfers will be made from the Strategic Reserve Fund to the Consolidated Fund, as and when required and permitted, up to and including £400 million to meet the cashflows required to deliver the Project, including reimbursement of funding to those capital schemes that provided funding in 2021; and

   (iii) all costs related to the borrowing (external financing) to meet debt financing costs, issuance costs, debt repayments, management and administration costs will be met from the Strategic Reserve Fund with a transfer made to the Consolidated Fund, as and when required and permitted (with the intent that sufficient returns are generated to meet the debt obligations and associated costs as they fall due).

(d) in accordance with the terms of the Public Finances (Jersey) Law 2019 (the Law) to approve the following amendments to the Government Plan 2021-2024 (the Government Plan) –

   (i) to increase the overall cost of the Major Project defined as Our Hospital as up to £550 million and to agree to the amendment of the figure shown for this project in Table 4 – Major Projects of Appendix 2 of the Government Plan as set out in Appendix 2 of the Report accompanying the proposition;

   (ii) to increase the 2021 head of expenditure, being the amount which may be spent on this project in 2021, to £70 million, included in Table 5(ii) – Capital Heads of Expenditure of Appendix 2 of the Government Plan;

   (iii) to increase the level of external borrowing (financing) required by up to £400 million for 2021, which may be obtained by the Minister for Treasury and Resources as and when required, to enable the delivery of Our Hospital and to amend Table 3 – Proposed borrowing of Appendix 2 of the Government Plan;

   (iv) to authorise the transfer of £21 million from the Strategic Reserve Fund into the Consolidated Fund in 2021, to meet the additional cash flow funding requirements of Our Hospital over and above amounts previously approved in the Government Plan for 2021 and transfers approved by the Minister for Treasury and Resources;

(v) to agree that up to a further £2 million be transferred from the Strategic Reserve Fund in 2021 and into the Consolidated Fund and a new Head of Expenditure – Debt Management be established for up to £2 million to cover costs relating to the issuance, management and administration of the borrowing required for Our Hospital;

(e) in accordance with the Compulsory Purchase of Land (Procedure) (Jersey) Law 1961 –

(i) to approve the acquisition by the Public of the land and properties required to deliver the Our Hospital project at Overdale, including, where appropriate, land or property to accommodate the hospital buildings and their reasonable curtilage and any other properties to facilitate access to the site as identified on Plan 4 in Appendix 1;

(ii) to negotiate with the owners for the purchase of the said land and properties at a fair and proper price to be agreed by the Minister for Infrastructure;

(iii) to empower the Minister for Environment, in exercise of the powers conferred by Article 119 of the Planning and Building (Jersey) Law 2002, to acquire the land and any interest therein, including the acquisition of a servitude or other right over land by the creation of a new servitude or right, or to extinguish or modify a servitude or other right over land, by compulsory purchase on behalf of the Public in accordance with the provisions of the Compulsory Purchase of Land (Procedure) (Jersey) Law 1961;

(iv) to provide funds to meet the expenses of up to a maximum of £36 million included within the budget sums included in paragraphs (a) and(b) above for the acquisition of the land and properties and any interest therein as referred to in sub-paragraph (i) of paragraph (e) in accordance with Article 3(b) of the Compulsory Purchase of Land (Procedure) (Jersey) Law 1961, and, in accordance with the Public Finances (Jersey) Law 2019 ("the Public Finances Law"), to authorise the payment or discharge of the expenses incurred in connection with the acquisition of the land and any other interests therein referred to in sub-paragraph (i) of paragraph (e), and of the payment of all legal expenses;

(v) to authorise H.M. Attorney General and the Greffier of the States on behalf of the Public to pass any necessary contracts in connection with the acquisition and subsequent sale of the site and adjoining land.

REPORT

At the outset of the Our Hospital Outline Business Case and Funding Review this Panel asked the public a very simple question: whether a budget of £804 million is appropriate for a new hospital for Jersey.

The overwhelming majority of the over 130 public submissions to our call for evidence are clear that they do not believe that £804 million is an appropriate sum. The message that this Panel has received, repeatedly, is that Jersey needs a good hospital which caters for the needs of the community.

There is a strong backdrop of public opinion that this can be achieved for less than £804 million.

The recent Bailiwick Express survey also provided a further gauge of sentiment in relation to the proposition. Just over 800 members of the public (80% of respondents) said they did not support the Government's preferred method of funding, which would see the new hospital financed through two bonds of £400m each. Fewer than 200 respondents indicated their agreement with the proposals.

At the Panel's final Public Hearing on this review, held on Thursday's 16th September, the Deputy Chief Minister, Senator Lyndon Farnham, said that he hoped that the whole project could be delivered without utilising all of the £804 million budget and that there was scope to deliver at a lower level:[1]

Deputy Chief Minister:

> *"I very much hope we can fund the delivery of the whole project without utilising all of that budget. If we are to look at how the budget is made up I believe there is scope to deliver at a lower value."*

At the same hearing, the Panel heard the following from the Treasury and Resources Minister, Deputy Susie Pinel:

> *"The £804 million, which we are asking the Assembly to agree, that is the maximum level and were we to end up looking as if we were going over that we would have to go back to the Assembly, so that is the restriction on that. The estimated construction capital cost is £604 million but there are contingencies and optimal bias and all sorts of things put in to that extra £200 million, which we may or may not need but it gives us the flexibility then to not go over that £804 million. You have to build into that prospect the cost of what it is going to do to maintain the current hospital. We have just heard that it is going to be another £6.5 million to reconstruct, for want of a better word, the Maternity Unit."*

It is the opinion of the Panel that this assurance of prudence is not enough guarantee that expenditure will be capped in an appropriate manner and, crucially, that a smaller figure should be imposed on the project and the design, scale and scope of the project revisited to fit that budget.

[1] Transcript - Future Hospital Review Panel - Our Hospital Project Outline Business Case and Funding Review - Witness Deputy Chief Minister and Minister for Treasury and Resources - 16 September 2021

The Future Hospital Review Panel's approach

In other words, the Panel is urging the Government to 'cut its coat according to its cloth' and provide leadership and budgetary restraint. The Panel has taken a pragmatic approach to providing the States Assembly with an alternative to the choice which is currently before it: acceptance of a new hospital budget of £804 million or rejection of the current project.

The Panel has concluded that, in the current financial circumstances and to reduce exposure to unknown future financial risk, an affordable and appropriate figure for Jersey's new hospital is £550 million. The intention behind this amendment and the approach taken by the Panel is:

- To scale back the project cost and borrowing exposure so that the risks are reduced
- To ensure that affordability is considered at every level of the project
- To allow more time for a measured and transparent approach to running costs to be achieved by reducing the specification.

Concerns about the Outline Business Case

In bringing this amendment, the Panel has been cognisant of the preliminary findings of its appointed expert advisors, Currie & Brown and the Chartered Institute of Public Finance and Accountancy (CIPFA).

Currie & Brown were engaged by the Panel to do a thorough examination of the Outline Business Case (OBC) which supports the Government's proposed £804.5 million budget. They have voiced a number of concerns about the structure of the OBC and the evidence that it contains, including the following:

- That insufficient rationale has been provided for the departures made from the principles of The Treasury Green Book principles. The OBC states that: "This OBC has been developed following the principles set out in the UK HM Treasury Green Book 5 Case Business Case Model. The Green Book is internationally recognised as being a gold standard process for developing a business case and is therefore being followed by the Government of Jersey for major Projects and in the development of this project". The departures that have been made from this approach means that there is insufficient evidence to substantiate that the preferred option offers the greatest value for money.
- Demand and capacity modelling for the project are inadequately addressed in the Outline Business Case and the audit trail has not been properly evidenced. No details have been provided to explain how the functional content of the new hospital (summarised in the Deputy Chief Minister's letter to the Chair of the Panel dated 27th August 2021) was determined.
- Sufficient evidence has not been provided in the OBC, the Functional Brief or the Jersey Care Model (to which the Functional Brief for the new hospital relates), to support the size of the proposed hospital.

- That the baseline comparator in the OBC is addressed as well as the cost and benefit consideration of other potential options past a "do minimum" scenario to evidence value for money.

In their view, the OBC does not provide the evidence needed to justify the scale of the project.

The departure from Green Book procedure has been explained to the Panel as follows at the Public Hearing held on 11th August:

> *"The brief is a framework for decision-making and it is not unusual to adapt it to those circumstances. I think in this case we set out quite clearly where we have and have not undertaken work that perhaps would be expected at the O.B.C. stage in the business case itself and the rationale for that. I think to the extent it has not followed specific aspects that the Green Book suggests are appropriate at a particular stage, we have sought to justify why that is the case. I think the implication is transparent in terms of what it does and does not do."*

Like Currie & Brown, CIPFA have identified that the OBC is silent on the anticipated running costs of the new hospital and that this lack of information has a negative impact on the credibility and robustness of the approach taken.

At the Public Hearing on 16th September 2021, the Panel heard that work is ongoing on the facilities management costs which will be subject to a separate business case, and it was indicated that this would not be available until the new year. [2]

Despite Senator Farnham's assertion at that Public Hearing that the States Assembly was not being presented with an unfinished product as a result of the constraining political timetable applied to the project, he also accepted that:

> "*it is not ideal not to have these detailed costs in the Outline Business Case, as we would have hoped to do initially."*

It is particularly concerning that no new information has been provided when the Strategic Outline Case indicated an increase when compared to the existing revenue budget. Furthermore, it has been indicated to the Panel that not including forward costs contradicts The Green Book model.

The Panel also heard on 16th September that the design of the project was continuing to evolve. As such, the Panel believe that there is still an opportunity to introduce a reduced budget within which that evolution can take place.

The advice received by the Panel from the Chartered Institute of Public Finance and Accountancy (CIPFA) is that the proposition and the approach taken by the OH Team has risks attached which commits the States of Jersey to a strategy that may impair future policy option capability and threatens the stability of the current medium- and long-term financial strategy. In terms of proportionality, the scale of the project is

[2] Transcript - Future Hospital Review Panel - Our Hospital Project Outline Business Case and Funding Review - Witness Deputy Chief Minister and Minister for Treasury and Resources - 16 September 2021

extremely big, and its nature and complexity mean that it has the potential for costs to exceed £1 billion.

The reduction in budget would have the effect of limiting the exposure to future risk of the proposed borrowing and allow a wider range of options to be considered alongside a bond issuance.

Affordability, bond financing and borrowing

In its work for the Panel, CIPFA has concluded that detailed capital and revenue running costs should be clearly formulated and stress tested before funding solutions are considered. While they agree that bond finance is a sensible approach to this scale of borrowing, they are also clear that this needs to have a backdrop of full confidence of the asset (hospital) specification to service demand and needs and robust cost construction. In their terms: "Bond finance is not free money' irrespective of financial leverage/arbitrage."

As outlined above, the Panel's intention in amending this proposition is to reduce the Island's exposure to the financial risk posed by this project. These risks are:

- **Lower than expected investment performance.** That the rate of investment return is lower than anticipated and threaten the delivery of required level of performance
- **Opportunity Loss**. There are opportunities that will be foregone in tying up this level of investment. Any asset sale alternative assumptions should be happening as a matter of course to fund the public service investment. Expected organic growth within the Strategic Reserve Fund will be displaced by the requirement to lock in to financing the Our Hospital project.
- **Reduced capacity for future borrowing.** There is potential that the headroom for borrowing would reduce and a potential credit rating notch downgrade creates the potential for future borrowing to be more expensive.
- **The changed nature of the Strategic Reserve Fund.** The changes proposed see the fund change from one which exists to assist in the event of threats to being a means for funding external borrowing
- **Lack of cost control.** There are many global examples of project overrun on major infrastructure projects.
- **Lack of effective States Assembly control.** Potential lack of effectiveness of Assembly decision control on costs due to nature of the project. Although the Panel agree that any costs above an approved budget envelope would need to be approved by the States, the current scale means that the Assembly would be faced with the unenviable task of choosing between an increase beyond £804.5 million or an unfinished hospital. In other words, the project is too big to be allowed to fail.
- **The scale of future impact.** In the event of the non-delivery of investment returns and overage in project costs, tax and spend decisions for the public services on the island in the years ahead could be impacted. It could create the potential for tax increases, for example. The scale of project costs is currently

higher than an annual personal income tax yield, corporate tax yield and GST put together.

- **Global uncertainty.** There is an expectation that most future capital spend over and above the Our Hospital Project capital expenditure will be financed by bond finance and this approach sets an acceptance that external debt is a positive strategy. In a settled world where arbitrage may work this would make sense but there are growing material global uncertainties emerging.
- **Precedent.** Brings forward a behaviour of borrowing in advance of need without having complete oversight of the overall project cost or running costs of the asset being created. As stated earlier, CIPFA's view is that the lack of sight on running costs is a serious omission which undermines the credibility of the Our Hospital Project at this point in time.

Project costs and reduction of scale

The Panel's proposal sets a limit within which discussions would need to be had about the expectations of the building and what is required. It is the view of the Panel that a project ceiling of up to £550 million should be set (this figure to include optimism bias and site specific costs).

Advisers have indicated that the foregone reduction on expected investment returns to the Strategic Reserve Fund of £2.1 billion would arise on a £1.2 billion investment. An investment of 50% of this value to £550 million would reduce the loss on investments by approximately £1 billion and the Strategic Reserve would continue to organically grow albeit with some drag placed on the need to reroute investment returns at a lower level to repay Bond liabilities.

As a consequence of the lowered budget, the borrowing and reliance on bond finance should also be reduced. The Panel is of the view that further alternative funding can then be used to meet the additional requirement of the project to reduce overall borrowing for the project to £400 million. The Panel would ask that Treasury explore other options, including the use of the windfall payment of approximately £40 million resulting from JT's sale of its IoT business.

The Panel is mindful that in proposing a budget of £550 million, what it is not doing is specifying to the States Assembly – or to the Our Hospital Political Oversight Group and the Project Team – exactly how this should be achieved, or what should be removed from the current plans. There is an expectation that there is scope for a reduction in the costs of this project while still providing a facility that is suitable for Jersey's needs.

For example, in the past when a previous Treasury Minister set a lower spending envelope, a dual site option was proposed. During the Panel's Public Hearing held on 16th July the Our Hospital Clinical Director alluded to a dual site as follows and in response to a question about resilience and the use of the private ward during a future pandemic:

> *"I have previously given evidence in this panel that we also wanted to provide for escalation should there be either a pandemic or other breakout so that we can have a hospital within a hospital. In an ideal world you would have a 2-site solution, a hot site and a cold site, which is what we needed to do during*

COVID, which led to a very significant service discontinuity and disruption. This plan allows us, if we need up to 30 beds in a hot room, to have a separate hospital within the hospital or that could be the cold work. That is about future-proofing the Island's health."

The Panel would suggest, however, that elements of the Our Hospital Project which could be revisited include:

- **Building size.** Reduction in overall size of the hospital building, the Panel has received contradicting calculations of this, ranging from 65,000 to 69,000 m^2.[3]
- **Reduction in wards**. Such as private healthcare provision, benefits for which are, at this stage, anecdotal.
- **Building design.** Removal of atriums, reduction in beautification.
- **Knowledge Centre.** Potential for delay until it can be afforded through existing Government funding.
- **Multi-story car park.** Reduction in size.
- **Highways works.** Reduce ambition for road alterations.
- **Overhead and Profits.** This is stated in the OBC as 9.5%, it has been indicated that a range of 3% to 6.5% could be expected, the latter should be a maximum.
- **Compulsory purchases.** Although the Panel has decided not to amend the proposition to remove the ability to make compulsory purchases, not buying more land would be preferential.
- **Inflation and contingency.** Reducing costs elsewhere will then reduce the contingency required.

The explanation provided by the Our Hospital Clinical Director at the most recent hearing for the square meterage and size of the project and its comparison with current facilities was as follows:

"…The difference between Jersey General Hospital, which is the 40,000 figure that you refer to, does not include the following services. We have made this information available to Scrutiny in the past. It does not include the mental health facility, the sterile services, the pharmacy stores, the knowledge and education centre, fresh cooked food catering services, the facilities currently at Overdale that are going to be relocated into the main hospital, which includes the hearing aid resource centre, pre-operative assessment, urology, neurology, rheumatology as well as speech and language therapy, dietetics, and of course, as you have said, it does not include the current building standards and recommendations by H.B.N. (Health Building Note). So H.B.N. alone would bring the facilities from 40,000 to 54,000. When you then add in all of those other facilities it comes up to a number somewhere between 65,000 and 69,000. I do not have the exact number to hand. As we said earlier on, that is an iterative process. As part of the changes due to COVID, we have reduced some areas through that check and challenge process of our user groups and we have not

[3] Transcript - Future Hospital Review Panel - Our Hospital Project Outline Business Case and Funding Review - Witness Deputy Chief Minister and Minister for Treasury and Resources - 16 September 2021

to date increased that. That will give you an update on all of the additional things. Comparing that 40,000 with the circa 65,0000 to 69,000 is literally comparing apples to grapes."

At a previous hearing held on 11 August 2021, the Clinical Director has provided the assurance that the size of the project will not increase further:

"There is no danger of it increasing any further, it will only be going down. The one bit we will not compromise is clinical safety and patient experience."

At the same hearing, the following clarification was also provided on the size:

"Where we were at S.O.C. stage was 67,000 square metres, as you have mentioned. The O.B.C. position is at 69,000 so we have not got that 10 per cent increase you mentioned. The 69,000 position incorporates a number of the savings that [have been] mentioned before that are being worked through. Just for clarity on the O.B.C. position."

However, given continued uncertainty about the size of the build and the evolution of the plans, the Panel are seeking the firm assurance that this will be the case and that proper restraint will be exercised.

It has been suggested to the Panel that the cost per square metre of the Our Hospital Project is higher than hospital construction projects that have taken place worldwide. While the Panel accepts that no two developments are the same, it also feels that Government has not engaged in providing the public with a suitable benchmark comparison to understand the scale of the build proposed.

It remains unclear to the Panel – and to members of the public - why the political direction of this project has allowed for a build of this scale to develop with little evidence as to why that should be the case.

Conclusion

As outlined at the beginning of this report, the evidence provided by the submissions made to this Panel is that there is a significant public desire for the scale and size of this project to be curbed. The Panel believes that Islanders want their political leaders to focus clearly on the level of borrowing and expenditure involved in this project and, in bringing this amendment, we hope to provide a way forward by presenting a more restrained budget window within which a good hospital for the Island's future can be developed.

Financial and manpower implications

The Panel approached Treasury & Exchequer Department, prior to lodging the amendment, to ascertain the financial and staffing implications and were advised that given the significant level of change proposed an assessment could not be provided in the timeframe allowed.

Whilst at face value the headline impacts are self-evident from the proposition, appropriate time would be required to consider the full implications to the planning and design of reducing the overall budget, as well as the implications to financing the project and alternative arrangements.

The Panel were advised that the project team will need time to consider the implications of the amendment, in order to advise Ministers, to enable them to provide comment in advance of the debate.