



Hospital Review Panel

Financial Governance Aspects of the New Healthcare Facilities Programme

Witness: The Minister for Treasury and Resources

Friday, 4th October 2024

Panel:

Deputy J. Renouf of St. Brelade (Chair)

Deputy S.M. Ahier of St. Helier North (Vice-Chair):

Deputy K.M. Wilson of St. Clement

Deputy A.F. Curtis of St. Clement

Connétable M. O'D. Troy of St. Clement

Witnesses:

Deputy E. Millar of St. John, St. Lawrence and Trinity, The Minister for Treasury and Resources

Mr. R. Bell, Treasurer of the States of Jersey

Mr. N. Kelly, Treasury Finance Business Partner

[10:00]

Deputy J. Renouf of St. Brelade (Chair):

Good morning, a lovely autumnal morning. Welcome to this hearing of the Hospital Review Panel. First of all, just to remind everyone that this is filmed and will be streamed live and the recording and transcript will be published afterwards on the States Assembly website. All mobile devices to silent. To begin with, just to be clear about who everyone is, I think we will do some introductions so anybody watching can see who we all are. They cannot necessarily see the name tags. I will introduce myself first. I am Deputy Jonathan Renouf. I am the chair of the panel.

Deputy S.M. Ahier of St. Helier North (Vice-Chair):

Deputy Steve Ahier, vice-chair.

Deputy K.M. Wilson of St. Clement:

Deputy Karen Wilson, member of the panel.

Deputy A.F. Curtis of St. Clement:

Deputy Alex Curtis, member of the panel.

Connétable M. O'D. Troy of St. Clement:

Marcus Troy, Constable of St. Clement and panel member.

The Minister for Treasury and Resources:

Elaine Millar, Minister for Treasury and Resources.

Treasurer of the States of Jersey:

Richard Bell, Treasurer.

Treasury Finance Business Partner:

Neil Kelly, head of finance business partner for the project.

Deputy J. Renouf:

Okay, great. So we have got one hour. Let us see how we get on. If I could start, Minister, perhaps if you could describe to us what you understand your formal role, your formal responsibilities are in terms of the New Healthcare Facilities Programme.

The Minister for Treasury and Resources:

Well, I would say as Minister for Treasury I ultimately have overall responsibility for how the hospital is funded, so A where we find the money that we are going to spend on it, how that package is put together and, secondly, how we then, I suppose to some degree, spend the money. I suppose the actual spending of the money is possibly one that is shared with the Minister for Health. I would fulfil that responsibility through a the project team who are ... you have seen the structure we have in terms of project management and control. I think you have seen the procurement strategies that we have, and also through my officers and specialist advisers in terms of how we borrow, how we draw down the money and how we ... and that is in the context of the wider public finance. So I think it is an overall responsibility.

Deputy J. Renouf:

What structures have you got in place to oversee the spending of the money on the project?

The Minister for Treasury and Resources:

Well, I think we have already sent to you the ... we have sent the project ... I mean the project kind of has its own infrastructure, if you like, in terms of the programme. I am sorry, I cannot ... you have got the programme executive group, the senior officers steering group. There is an accountable officer who has to look at that and then all the various people who are responsible for spend. So that will come up through that tree, if you like, that pyramid of control and responsibility and there will then be reporting into Treasury and reporting from the Treasury team to me.

Deputy J. Renouf:

I guess what I am trying to get at is how would you get to know if there was a problem. Would you be asking questions or would you expect it to be reported to? How hands-on are you in terms of interrogating the way that vast budget is being spent?

The Minister for Treasury and Resources:

I think it is very difficult to be hands-on on that because it is so vast and it is so complex. I would expect that to be reported to me. We have very clear ... through the programme structure, the Public Finances Manual, the programme manuals. I would have every expectation that people will be in line with doing what they have said they are going to do in terms of spend and that if there is any issue with that spend, if suddenly somebody realised that they had .. and I do not believe this is going to happen, somebody realised that they had underestimated quite considerably on the cost of bricks, that that would be reported to me because then that would be ... anything that would create a potential shortfall would then have to come up to have to look at whether the money comes from another source within the overall pot or is it significant enough that we would have to address it in terms of the budget as a whole.

Deputy J. Renouf:

I guess what I am trying to drive at is the separation between Treasury and Health, that Treasury surely has a role to monitor and control what is going on in the spend and so what questions are you asking to make sure that that is happening?

The Minister for Treasury and Resources:

As I said, there is a format I would expect ... do you want to add how that works in practice?

Treasurer of the States of Jersey:

There is a number of aspects across various Treasury functions where there is functions in terms of the Public Finances Manual or underlying manuals each project and department are required to comply with. That could be around management of the project, management of the most significant

project in Jersey's history covered within the manual, the Public Finances Manual. We have in addition to which interface with Commercial Services and us being content that how the project is going to be procured is in line with what we expect and using our services as well. Then we have financial monitoring and control and Neil is the Treasury finance business partner, so he works for Treasury and is on the project and that is another way in which we will receive any heads up. We also have the risk division within our team as well and the head of risk meets up all the various different levels of that project to understand the risks that the project faces and to look to see if there are risks outside of that as well.

The Minister for Treasury and Resources:

We also have a regular ministerial New Healthcare Facilities risk group which meets ... I cannot remember how frequently it meets but I am invited to that and I have attended that meeting. Certainly I would hope that that meeting will also ... I think that does also look at financial risks. If there is a risk in the finance, that would certainly come up at that meeting.

Deputy J. Renouf:

I guess at a political level what I am interested in is to what extent you would challenge the Minister for Health over, let us say, allocations within that huge overall sum of money and say: "Are you sure that that is the right thing for us to be doing? What evidence are you presenting to me to justify that?"

The Minister for Treasury and Resources:

I do not see that as my role. I see the actual build and how the hospital ... what it looks like inside, what it looks like on the outside, what it does, how they deliver, that sits with the Minister for Health and I think the responsibility for staying within budget sits with the Minister for Health and the programme structure. We have allocated a certain amount. Treasury cannot possibly go round every department checking whether it is meeting its budget. We have accountable officers in every department. They are responsible for staying within their budgets and they have the responsibility to report if they have any ... and we do see that regularly. We have got the business partners but the overall responsibility I think sits with the Minister for Health and provided they are staying within the budget and delivering within budget, I think it is largely for the programme team to decide ... if they decide that a window is in the wrong place and it would be better over there and that is going to cost £20 extra then as long as they find that £20 from elsewhere ...

Deputy K.M. Wilson:

I am just going to jump some of the questions because this is in relation to what you have just said. Minister, could you then tell us what the risk appetite of the Treasury is for managing capital projects?

The Minister for Treasury and Resources:

Pretty low.. well our risk appetite is where a capital project has a budget, my risk appetite is that they stay within that budget and we would not expect ... I would expect capital projects to be managed within the budget that is allocated to them.

Deputy K.M. Wilson:

Does that mean that you have to put in additional controls in order to make sure that that expenditure is in line with your expectations?

The Minister for Treasury and Resources:

Again, I think if we were talking about a capital project it is for the department concerned to decide what they are doing and to decide whether that is building a car park, if they have a budget to build a car park they have to go and build the car park and I would expect them to stay within that budget. I do not think it is not ... within the reporting structures that we have talked about for capital spend and the Public Finances Manual, people have to get to stay within the Public Finances Manual and if people just ignore that and go completely ... decide to put in gold-plated taps then that is not within the Public Finances Manual.

Deputy K.M. Wilson:

Usually within a capital project there is uncertainty or unexpected issues. What is the tolerance that you are prepared to take in relation to any overspend?

The Minister for Treasury and Resources:

I do not think it is a tolerance. I think people have a budget and we expect them to deliver in that budget. Obviously there will be unexpected issues and where there are unexpected issues they have to come and talk to us about it because then if there is a budget shortfall it then falls on to Treasury to work out whether that budget shortfall can be met and how.

Deputy K.M. Wilson:

If the request was that there was an extra, let us say, 2 per cent needed on top of the allocated budget, how would you deal with that?

The Minister for Treasury and Resources:

That is a technical question. How do you deal with that, Treasurer?

Treasurer of the States of Jersey:

We have got a traditional saying in Treasury. It has got 2 letters. First and foremost, we are looking to see that we have got the right professional advice in respect of contingency in the project and

obviously with a project of this size contingency is large. We have a history of getting to this stage of the project within government. What we have is a strong government team supplemented by people who have the expertise of delivering this sort of scale of project from elsewhere. So, first and foremost, looking to see if contingencies are where you would expect from a project at this stage. Secondly, to be clear as to what the scope of the project is to ensure that the contingency is being used for the purpose that it is there for rather than for significant changes in scope. That will be in there and once we get to the stage where the Assembly has approved it, we will look to see whether we need to issue any specific guidance in respect of this project. We have been there in the past before we have got beyond planning and into having issued a contract. I suppose the next key point in the project from a cost perspective, as well as the States approval and the planning permission, will be when you have gone out to contract and you have people coming back. That will be the first decision point if there are significant variations from what you might expect going out to contract. That would be the key point. Thereafter, it is largely for the project to manage and the expectation would be that we do not get to the point of overspend. The pushback from Treasury would be therefore at that point what changes in scope from the scope that is stated can be delivered in order to deliver the savings and, therefore, stay within budget.

Deputy A.F. Curtis:

I just want to understand, Minister, from your view. The Treasurer has articulated that aside any project there is a scope and your view very much it sounds like is once you have agreed the funding it is for the Minister to deliver and to deliver within the funding. Are you clear what he is to deliver for the £710 million? Is that scope clear that you feel sufficiently able to be offhand? Do you know what is to be delivered?

The Minister for Treasury and Resources:

They have plans, a very clear vision and plans and I think we are now at stage 2, so we have got a concept design and that has enabled us to go for planning.

Deputy J. Renouf:

It is not just Overdale we are talking about. This is a programme with several different other projects. Are you clear about all of those other projects?

The Minister for Treasury and Resources:

The other projects will be developed alongside. The plan at the moment is to deliver Overdale. That is the key priority. As far as I am concerned, the key priority of this is to deliver Overdale and to make meaningful progress in developing the other 2 sites. I personally do not ... I am sure people in the project team do but this is driven by the new hospital facilities and I do not recollect, having

had briefings about the other 2 sites, but the plan is to make meaningful progress on that, so I think that is still in development and I cannot say any more than that.

Deputy J. Renouf:

But there are millions of pounds against those projects within that £710 million and ...

The Minister for Treasury and Resources:

They are in the minority. They are not huge sums of money in the great scheme of things, I do not believe.

Deputy S.M. Ahier:

Minister, you mentioned that the Minister for Health had to work within the allocated budget. Now, obviously you are the new Minister for Treasury, so you came into office with that budget already allocated. What have you done to review that allocation and are you satisfied that it is appropriate and needed?

[10:15]

The Minister for Treasury and Resources:

I do not have the skillset to review that budget. That is a very, very complex piece of work. The budget has not changed. The budget I believe was £710 million last year and it is £710 million still. That is what we are expecting to deliver Overdale and make meaningful progress on the other 2 sites. In terms of have I sat down with reams and reams of these numbers, no, because I could not tell whether it is right or wrong. That is why we have the project team, that is why we have Treasury officials, but we will be seeking the whole ... you have seen the structure of decision making. Everybody is making very strong efforts to make sure this comes in within budget.

Deputy K.M. Wilson:

In the Green Book it states that financial costs should be calculated according to the international accounts statistical framework. Can you clarify which frameworks have been used by Treasury to set out the financial costs in the outline business case?

The Minister for Treasury and Resources:

Do you want to explain this? I could just read this out.

Treasurer of the States of Jersey:

I will explain it by reading it out. In respect of the Green Book that we refer to, we are referring to a U.K. (United Kingdom) document issued by H.M. (His Majesty's) Treasury. We adhere to the principles regarding the Green Book but the Green Book is a U.K. document and ...

Deputy J. Renouf:

That is why we are asking about what we are using.

The Minister for Treasury and Resources:

International accounts statistical framework.

Treasurer of the States of Jersey:

That is broadly about the fact that the U.K. is a far more complex and broader organisation than Jersey so it uses these categorisations of cost in order to capture where they might impact departments. We do not adopt that in Jersey, so we use what we would generally expect to see in any business case, costs broken down against the costs you would see in the project. I know that the panel has seen the business case. That is broadly in line with what we would expect to see in a business case. Those costs look to be appropriate in terms of their categorisation.

Deputy K.M. Wilson:

How do you benchmark that? How do you know?

Treasurer of the States of Jersey:

How do I know? By the fact that the team has consultants in place who are experts in respect of this, that challenge in respect of the project when putting those together. As opposed to cost categorisation or accounting categorisation, if I might suggest in respect of the Office for National Statistics, we are talking about building the costs using professionals in their field, experienced in building hospitals, and there are checks and balances within the team reporting upwards to the programme director and accountable officer.

Deputy K.M. Wilson:

Those consultants would use frameworks?

Treasurer of the States of Jersey:

They would use those frameworks if they were building something in the U.K. They are using broadly categories of cost appropriate to this project.

Deputy K.M. Wilson:

So we do not have any standard framework that we are using; we are just adopting the principles of the Green Book?

Treasurer of the States of Jersey:

This is about categorisation of costs. The costs when you look through the business case are the categories you would expect to see rather than dogged adherence to whether it is capital or revenue, for example. We are more interested in the overall cost, be it revenue or capital. We are interested in the ongoing revenue cost but that is split out separately as opposed to splits between revenue and capital and how they might feature in the Office of National Statistics in the U.K.

Deputy K.M. Wilson:

In terms of the monitoring that you undertake for the programme, can you just talk to us about how as the Treasury Department you review that expenditure? I know we have heard from the Minister about an explanation as to what the governance framework is, but if we are adopting principles and if the decision making is dispersed somewhat through the programme, what specifically is it that Treasury and Exchequer do to review the expenditure separate to the project team?

Treasurer of the States of Jersey:

Firstly, we have bedded within. There are finance representatives from Treasury from within it, Neil being one. Secondly, we will have regular meetings, as I said earlier, across the different functions within Treasury that contribute to the control of this particular programme and the N.H.F.1 (New Healthcare Facilities) part of that programme in particular. That will be adherence against frameworks that are in place through the Public Finances Manual. We will be then, just as we are with a department and in particular departments of a particular size, looking to see where the variations against the budgets that have been set in detail are and looking for the explanations against them and then also looking to see where the forecast is going. We will have questions as we look at all those things.

Deputy K.M. Wilson:

Are there any areas that you have got particular concerns about?

Treasurer of the States of Jersey:

Firstly, I look that we are confident that we have the right level of contingency within the budget. There are a number of risks to this project and the one in particular, the one that is across all versions of the project, is getting the project to the next stage and getting it delivered but ...

Deputy J. Renouf:

Political risk.

Treasurer of the States of Jersey:

There are more than just the political risks but they are part of it and they are rightly there. Secondly is can we get a good field of people interested in the project and that comes with some of the past history of the project, so engagement with the suppliers and particularly the large contractors who could deliver this project. That is where I am looking for that next milestone in the project to ensure that it can be delivered within budget. So that is really from my perspective where I see the next large risk to be. Of course there is planning permission and States approval, but that is one that is going to give us insight as to whether the budget is adequate.

The Connétable of St. Clement:

Minister, could you please describe how Treasury and Exchequer ensures that the level of funding requested for the programme is appropriate for the expenditure required?

The Minister for Treasury and Resources:

Level of funding appropriate for the expenditure? Well, the funding, I would have thought, has to match the expenditure they are forecasting. They are forecasting a budget of £710 million and we have to ... our job is to make sure that we have £710 million available to meet that spend.

The Connétable of St. Clement:

I think the point is, Minister, they have said to you and the Exchequer: "We want £710 million for this hospital" but has that been checked, fact checked? Has your department had a look at the whole situation and said: "Actually that is probably about right" or do you think with a forecast later on with inflation and weight inflation, et cetera, that might be overtaken or that might be dropped a little because you have more than sufficient contingency? Has the Treasury actually checked their figures as opposed to being given an ask?

The Minister for Treasury and Resources:

It is a very complex project and we do have to rely on the expert advice we have. The construction cost has been developed with the design team and cost consultants. We have the cost consultants, quantity surveyors who are expert in the field and the £710 million also takes into account the cost of construction and inflation and it has got optimism bias and it has got risk contingency. So I think we are satisfied with all the work that has been done on this by all the experts that that is right. We have to rely on professional advice for that because none of us would know how much a hospital costs to build.

The Connétable of St. Clement:

But you do have people in your department who can cost measure.

The Minister for Treasury and Resources:

We do not have cost consultants, no, but we have people who have, as the Treasurer just said ... do you want to touch on that again?

Treasurer of the States of Jersey:

The approach to date in particular on this project, which is not necessarily the approach with all projects but usually is with the larger projects, is that there is representation from within the Treasury on the project and that allows us insight and, therefore, to be embedded in the project so that we are receiving the reports or representatives from Treasury are receiving the reports and we can form a view through that work.

The Connétable of St. Clement:

So you are satisfied that the figures are right. Okay. Can you provide your assessment of the extent to which the outline business case provides sufficient information and the level of detail required to determine whether the programme funding and expenditure is appropriate? This crosses over the previous question to a certain extent.

Treasurer of the States of Jersey:

Yes. It is at outline business case level I think at this point ahead of ... back to the point I am making about going out to the market, it has got the ... it has probably got more detail in it or it goes further than previous versions of the business case for previous versions of this project. So at the level you would expect at this stage in the project then, yes.

The Connétable of St. Clement:

There is a big query on this as far as going out to tender with a total project figure before you have had tenders in, so what you are expecting is anybody that is tendering will say: "Yes, we can do that for £710 million" but it has not been tested yet.

Treasurer of the States of Jersey:

No because we are going out to tender in the near future.

The Connétable of St. Clement:

So at the moment we do not know whether somebody will be able to produce the project for the £710 million.

The Minister for Treasury and Resources:

There will not be ... there will be multiple suppliers, I would imagine. There will be a main delivery partner but they will not have a budget of £710 million because for good reason that budget is made up of various elements.

The Connétable of St. Clement:

Yes, I am aware of that.

The Minister for Treasury and Resources:

The actual budget for the build will not be £710 million. It is much less than that. That is why we go out to tender.

The Connétable of St. Clement:

Do you have a parcel of money for the main contractor?

Treasurer of the States of Jersey:

Yes. Once we have that business case spectrum, if you like, we move to the full final business case which has more detail fed into it through the knowledge that we would have after we had gone to market. That may lead to other decisions needing to be made within the budget. That might be about scope but, first and foremost, for all projects at this particular level we are looking for States approval of the budget to move to the next stage, as consistent with other projects.

Deputy S.M. Ahier:

I want to move on to the different projects in the overall programme, Overdale, Kensington Place and St. Saviour's. Please can you advise how Treasury ensures that the funding for each specific project within the programme is appropriate?

Deputy J. Renouf:

Drilling down into it, we want to understand the extent to which you have interrogated the non-Overdale parts of this programme, which are significant expenditures in their own right.

The Minister for Treasury and Resources:

Not in the great scheme of things, I do not think.

Deputy J. Renouf:

They would be the second largest capital project in the Government's programme on their own.

Treasurer of the States of Jersey:

It is broadly outlined in the budget but further detailed within the business case as to what that relates to. It largely is taking those plans to R.I.B.A. (Royal Institute of British Architects) stage 2 for those plans but also recognises the need to make some progress on the existing site. Bedded within that programme, the scope of that work is not where the focus has been to date for the project. It has been on the Overdale acute but the budgets are set within the business case. The reason we do not say what those budgets are is that will therefore remove any commercial tension for anyone bidding for the other pieces of work. You can either say: "That is how much money we have got allocated for the particular job" or you can say: "That is the total, now tell us all the other bits and we will get to that answer."

Deputy K.M. Wilson:

Why is that any different to the fact that you have identified £710 million for the hospital development?

Treasurer of the States of Jersey:

How is it?

Deputy K.M. Wilson:

Why is it different?

Treasurer of the States of Jersey:

I would envisage they are going to be different contracts not in this particular tender process. We know what the total of the project is. In the past one of ... it is a trade-off between absolute full transparency. That transparency is absolutely right for the political process but what that means is that puts the Government, and therefore the taxpayer, at a commercial disadvantage. It all being in one means that there is no clear, therefore, amount that we are thinking of, including the level of contingency, as there would be in the past, that might be, therefore, what a bidder bids for even if they could do it less expensively than that.

Deputy S.M. Ahier:

Can you outline the financial risks and benefits of a phased approach to the hospital facilities programme?

[10:30]

Treasurer of the States of Jersey:

Well, I have to focus firstly on the benefits. The phased approach really is about deliverability. This is by far and away the largest - I am talking about N.H.F.1 - capital project or programme in the

Island's history. N.H.F.2 and N.H.F.3 would possibly be in their own right significant projects potentially of a similar scale. We are far more advanced in respect to N.H.F.1 So affordability of future phases comes into play as well and how we are going to finance those. A key element from a Treasury perspective is being clear that these are distinct pieces of work, distinct from one another, so that we could therefore be clear that we can afford those particular phases as they come forward. That is a large element of that. There is also deliverability given the scale of it. If you were progressing N.H.F.1, N.H.F.2 and N.H.F.3 at the same time, you would have to wait until all that was developed. That would be quite a challenge from a deliverability perspective - my language, not a technician's language - in terms of the economic impacts in particular but also how you get the workforce in place to deliver those projects, both from within government and outside of government, and also the governance oversight of being on top of all of those projects at the same time.

The Minister for Treasury and Resources:

Also, I would say, the political element. I do not think anybody is in any doubt that we need a new hospital, that the hospital we have is no longer up to current standards. We need a new hospital and I think if we do not deliver a new hospital the public will really have ... I think the public want to see a new hospital and want to see a new hospital pretty quickly, so that is why the focus has to be on the new acute hospital. Is that acute? I hate those expressions. The new hospital at Overdale, the public are saying get on and build that, and that is what we are trying to do and the others will follow but that has to be the priority.

Deputy S.M. Ahier:

We are all on board with that. What work did you do as Minister to investigate the Kensington Place and St. Saviour's elements of the outline business case, which obviously involve tens of millions of pounds? What evidence was presented to support the need for spending on both these projects?

Deputy J. Renouf:

I am quite interested, Minister, in your answer to this. This is about political oversight of millions of pounds of taxpayers' money, so I would like to know what is your understanding of those additional elements within the O.B.C. (outline business case).

The Minister for Treasury and Resources:

My understanding is that those elements are relatively minor in the overall framework and, yes, they are millions of pounds but in the context of £710 million they are a relatively small amount. I have not investigated because it is not within my skillset. I could look at the business case until I am blue in the face and I would not be able to tell you whether it is right or wrong because that is not my area of expertise. So there is an element where you have to rely on design teams and the planners and all the financial specialists and all the financial controls to do that, but as far as I am concerned, we

have a relatively small amount of money in the £710 million to do development work on those 2 other sites.

Deputy J. Renouf:

Do you know what it might ... what those sites are for, what is going to be built there?

The Minister for Treasury and Resources:

No. Well, I know ... sorry, I do, Deputy. Kensington Place is going to be the ambulatory, and I have got to be reminded every time what ambulatory and acute mean. Kensington Place is going to be ambulatory, which is outpatients, so that will be a better version of what we have got at the moment in time. We have got the health village at St. Saviour's, which will focus on mental health but I do not know the exact detail of what that involves. That is the overall thrust of what we are trying to get to.

Deputy A.F. Curtis:

I guess a thrust is quite high level but within ...

The Minister for Treasury and Resources:

That is my word. I am sure people on the team have a much clearer idea.

Deputy A.F. Curtis:

... the funding it must be for a quantum of development that responds to healthcare needs and we have just touched on the risks, positives and benefits of phasing but as a phase this is intended, as our understanding, to be able to work standalone. So it is really how much have you looked at whether even ... not whether the beds are the right brand or whether they provide ... but the quantum and form of what meaningful progress on these 2 sites would deliver and whether you, as the Minister for Treasury, the financial controller there, are seeing that as an appropriate spend.

The Minister for Treasury and Resources:

Those will be different projects. Those will be ultimately separate projects and will have to be funded as standalone projects in due course. The meaningful progress is to allow them to take forward the planning, to develop what that may be and once Overdale is complete and is well on to completion ... because what we do not want is not to complete Overdale because everybody is too busy working on other sites, as the Treasurer said. There will be work involved and that really is in the hands of the experts and I am in no position to judge whether that is right or not.

Deputy S.M. Ahier:

Minister, you have already said that the allocation to Kensington Place and St. Saviour's is very minimal as you have said ...

The Minister for Treasury and Resources:

In the context of £ 710 million it is a relatively small amount.

Deputy S.M. Ahier:

You have also accepted that the Minister for Health will be coming back to you for substantial sums to proceed with the Kensington Place project although that is supposed to be running concurrently. When do you expect that to happen and how much do you expect it to be?

The Minister for Treasury and Resources:

I do not know because what I have said ... I think the meaningful progress on those 2 projects will include what they are going to be and how much they are going to cost. They will come forward in due course for funding and we will have to consider how those are funded, but at the moment the main development work is on Overdale and those other 2 sites will follow. I do not have a timescale. I think that is a matter for ... those are questions for the Minister for Health.

Deputy S.M. Ahier:

But we can expect substantial amounts to be required for the procedure of the Kensington Place site?

The Minister for Treasury and Resources:

It depends on how those are structured and what they are going to do and what the scope is. I have not seen a scope or a specification. I do not know what the scope or specification is. That is part of the ... I am assuming that that is part ... my understanding is that that is part of the meaningful progress work in terms of scoping out what those 2 things will comprise and then there will have to be a future discussion of what the cost is and the States will have to decide whether it wants to ... it is not just my decision because this will have to come to the Assembly in terms of what it costs: is that what we want; are we satisfied; can it be done another way? I do think those 2 sites are absolutely a discussion for another day and we know they will cost more money. Yes, they are not going to cost what we have got. We are not going to build Overdale and those 2 other sites for £710 million.

Deputy A.F. Curtis:

Is it your understanding that the meaningful progress on these 2 sites is preliminary in design work or do you see within phase 1 a spade in the ground, so to speak, on the sites outside of Overdale?

The Minister for Treasury and Resources:

That is not my understanding. Meaningful progress is what I have been led to believe, which I believe will be some initial work in terms of what we want to do, what the need is, what the scope is, what the concept is.

Deputy A.F. Curtis:

But not footings and ...

The Minister for Treasury and Resources:

There may be spades in the ground in Kensington Place, I do not know. That is a matter for the project team.

Deputy K.M. Wilson:

Can I just ask you terms of you talked about the low risk appetite before but what you have just outlined is that there are significant risks associated with the way in which the development is shaping up and the money and the flow of that money is being organised. Can you tell us what kind of assurances you are going to establish or secure that gives you the confidence that what you are actually committing to in terms of capital spend is going to be able to deliver the outcome that is anticipated through the strategic outline case?

The Minister for Treasury and Resources:

I do not think I have said there are risks. I have said that we will be working on what 2 and 3 are going to look like. The main focus, our main focus as an Assembly has to be building Overdale and I think that is what everybody needs to be focusing on and we know that there will be additional costs that are for a future date. Whether those facilities are ultimately built will depend on whether the Assembly supports the funding and we can produce the funding to do them, but Overdale seems to be very clearly the thing that we have to deliver first.

Deputy K.M. Wilson:

I think there is no question about the building of the hospital. What we are trying to establish is whether or not, in terms of the assurances that you are seeking as the Treasury Department, that they are aligned to the delivery of the strategic outline case. While you have got the content and the detail of what is certain in the sense that we need a hospital, what we are trying to do is what kind of certainties do you have at this stage about the other phases of the programme.

Treasurer of the States of Jersey:

Some of the funding within here is to develop the concept plans for R.I.B.A. (Royal Institute of British Architects) sites technically but there is other elements of the programme, so that is the sort of

money, funding that you would put in place, as we have done up to this point, for the building at Overdale. That work needs to be progressed in order to understand what the costs and options for delivery of those 2 sites are. The difference between Kensington Place and what is the plan for a future health village at St. Saviour is, of course, that you are going to be moving services out of Kensington Place and leaving other services in place. That necessitates a degree of work being done on that site in the meantime, in addition to which the use of the site on the street that escapes me that we took from ... Kensington Place. That is the difference between the 2. What we have been making clear to this point, and I will do so again, is that any work that takes place there is not the sort of the work that says: "I have built 4 walls, now you need to give me the money to build a roof." It is standalone and discrete pieces of work that are not dependent upon any further funding on the site, so it should not be that any works that are done on this site almost tie your hands to do further work. It should be for the meanwhile use of that site because that site has currently services within it which will be moved up to Overdale. That is how I regard that meanwhile use development work on that site so that it is a place that is appropriate for hospital services to be delivered and there are services, the walk-in, ambulatory, outpatients, one of those headings to be applied to it. So that is what spend relates to rather than forcing the hand of the Government or forcing the hand of the States Assembly to the next phase. The next phase will be subject to its own business case.

Deputy J. Renouf:

But you are forcing the hand, at least implicitly, in this because you are developing at St. Saviour's site. Have you interrogated whether better value for money might be provided by using the very large estate that we already have, for example at Gloucester Street and Kensington Place?

The Minister for Treasury and Resources:

I think the design team will have done that. That is part of a health vision and it is for the Minister for Health and his team to explain that vision. The vision for the provision of healthcare does not sit with me.

Deputy J. Renouf:

But whether it is value for money surely does sit with you.

The Minister for Treasury and Resources:

We have been talking about the multi-site approach for 2 years now and it has been broadly accepted by the Assembly from what I can see. We have accepted that approach and there will be implications arising from that but that is the approach we have accepted as an Assembly. We have been talking about it for 2 years and delivery of healthcare and its cost. I think there is an element of crystal ball gazing here in terms of future work.

Deputy J. Renouf:

You would be happy for some of the money within the £710 million to be spent on, say, buying fields in St. Saviour, which are not zoned for use, effectively tying the hands of future decision making around the location facilities?

The Minister for Treasury and Resources:

I am not sure if it envisages buying fields but if a field was bought, any field that is bought can be sold or it can be applied for another purpose.

Deputy A.F. Curtis:

It can be but ... we have only the information available to us but the feasibility study that was made public showed the high-level plans for a health village on what is agricultural land. So how would you feel, to the Chair's point, to buy agricultural land, would you want to see it bought at an agricultural value, for example? There is an element of speculation that comes in here. You say land can be bought and it can be sold, but from an accounting perspective would you feel comfortable buying over agricultural price if ultimately it has no zoning, no kind of planning backing to be used for anything other than agriculture?

The Minister for Treasury and Resources:

Well, I do not know the answer to that question. Again this comes down to the overall health strategy and what the design and development team think they can do with a field and if they buy a field at a price I would certainly expect them to buy it at a price that reflects its use and its likely use.

[10:45]

Deputy K.M. Wilson:

Minister, the proposed budget highlights some of the key challenges to the sustainability of public finances in relation to the programme. Can you provide an overview of how the Treasury and the Exchequer are managing the risks associated with specific programme challenges, particularly over the time of the project?

Treasurer of the States of Jersey:

If you are driving at the cost of the project as opposed to the financing of the project ...

Deputy K.M. Wilson:

It is actually both because there have been issues around how and in what way the project is going to be financed. If you could illustrate the 2, Richard, that would be helpful for the public to understand.

Treasurer of the States of Jersey:

Yes. I will focus predominantly on the financing because I think I will end up giving similar answers to what I have done on the project itself and the monitoring that needs to be in place, adequate contingency for example. We have had a model for funding of the hospital or previous versions which recognises the scale of the project, the unprecedented scale of the project to any of those previous versions as well. Also it, therefore, recognises that it is not possible to achieve the level of funding required for the project through the means that we might otherwise have done in the past. It is not £45 million for Les Quennevais School. It is a very large number. We have always looked to include either an entire debt or blended approach cost with other sources, which has from time to time included drawdowns from the Strategic Reserve for example. There are and of course the F.P.P. (Fiscal Policy Panel) report - was only last week and does underline the importance of retaining the Strategic Reserve and ideally growing the Strategic Reserve in terms of the resilience of public finances but also a second part, its importance in terms of being able to borrow in the market at a good rate in particular or borrowing, full stop, in the market. So we have always had an approach that at its heart includes borrowing. The things that have changed since previous versions have been the cost of that borrowing. At different points in time it would have been possible to have borrowed cheaper but the project is now at that point again where we can look to access markets but it is at a higher interest rate. That brought with it an additional threat as well as - actually over the last 2 versions of the project - the scale of the cost. It just is after our experience of COVID using revolving credit facilities gives us the flexibility to be able to access borrowing without locking in at those high costs and looking to see when the market might stabilise and, therefore, be able to borrow at favourable rates. But nevertheless the previous model where we were looking to use Strategic Reserve returns in order to fund the interest costs appeared to us to be more challenging and, therefore, we were looking for other ways in which we could fund the interest costs. The interest costs, now our proposal is they are top sliced out of the base case, the prudent - and that is the word used by the F.P.P. - estimate of what we might expect from Pillar Two from 2026 onwards and that forms the first slice, if you like, of that funding in order to meet the interest costs. That means that the interest costs are not going to be met by increased taxation or savings from elsewhere or what would have been quite a strain and threat to the long-term value of the Strategic Reserve, so broadly the issues that changed from previous versions. We have also had an eye to potential costs arising from N.H.F. 2 and N.H.F.3 but also that we know that there is probably a need to start looking at other means of funding other capital expenditure across the Island. F.P.P. points to the pressures placed in a low tax regime on the capital programme, given the revenue costs of departments. Therefore, we have not proposed in this particular iteration to borrow the entire cost of N.H.F.1, knowing that we would like to retain some borrowing capacity. Therefore, the default position we need to anticipate, if not in the forecasts, higher receipts to come from the Pillar Two tax regime and those be allocated firstly to meeting the other costs. The default position though that we have to put

in place, given that the States needs a default position for certainty, would be drawdowns from the Strategic Reserve for the remaining balance.

Deputy K.M. Wilson:

Thank you. That is really clear. There is just one follow-up question if I might: is that approach going to be adopted for the programme until its end point or are you going to take that approach in relation to each of the different phases so we might actually ... if I were to ask you the same question around phase 2 or phase 3, you might have some variation to that approach or do you anticipate this being the approach all the way through the programme?

Treasurer of the States of Jersey:

I think from a perspective of subject to where we see Pillar Two receipts and there will be a number of calls upon those Pillar Two excess receipts if they are large. If they are large; that is why we have not built them into the base case. I would expect us to have to consider other means of funding outside of just tax receipts. However, just as with this particular version of the hospital, the funding strategy has changed and I expect it to change with changing circumstances. I am not going to throw a dart in that dartboard at this time and say: "Hold me to that in 3 years' time or 2 years' time or 4 years' time." I am sure it will change depending upon the state of the public finances and that is also part of the decision making here in phasing to be clear what the state of public finances is as and when decisions are made further down the line.

Deputy K.M. Wilson:

Thank you.

Deputy A.F. Curtis:

I think we have to probably move on and try and be quite quick now, but looking at the project and you have mentioned contingencies, could you describe, Minister, the contingencies that have been identified and built into the financial case for the programme?

The Minister for Treasury and Resources:

I cannot describe them, no, but I would imagine they ... well, they cover ... there is a general contingency for increase. We have got inflation, optimism bias and contingency. I do not think we should be discussing those publicly because of commercial sensitivities, but again we have expert advisers who will be looking at areas of contingency and it will be contingency to give us a cushion in terms of cost being more than expected or economic ...

Deputy A.F. Curtis:

Are you satisfied they are appropriate, the levels currently forecast and planned?

The Minister for Treasury and Resources:

I believe so. We have to rely on the experts, I think, to tell us what the contingencies are.

Treasurer of the States of Jersey:

They are appropriate to a project of this type at this stage.

Deputy A.F. Curtis:

Then looking at some of the political lead here, of course following the change of Government earlier this year the ministerial lead changed from Infrastructure to Health and Community Services. From your perspective, I wondered if you could explain the rationale behind that move.

The Minister for Treasury and Resources:

I was not involved in that decision but it makes sense that the Minister for Health has very close involvement in the building of a hospital. I will say no more.

Deputy A.F. Curtis:

With your financial controlling hat on, do you see in particular any financial risks or value for money risks associated with the fact that the chief officer for this project remains the chief officer of Infrastructure and Environment while coming from a different department's political lead, if we are to understand the chief officer correctly?

The Minister for Treasury and Resources:

I do not think so, no. Whoever the chief officer ultimately reports to, his or her obligations under the Public Finances Manual, are not changed in the programme manuals. Their obligations and responsibilities are not changed in terms of the way they spend public money.

Deputy J. Renouf:

The issue about the Minister for Health taking charge of the project is he is both the client and the supplier in a way. He is the person who ultimately decides what goes in the hospital and he is also the supplier of the building. Is that an appropriate way to run the project?

The Minister for Treasury and Resources:

I do not think it is right to say he is the supplier. He is the client and he is instructing the build he wants. So I think it probably makes sense for the Minister for Health to have a very close involvement with the building of the hospital.

Treasury Finance Business Partner:

The accountable officer is the Minister for Health.

Deputy J. Renouf:

No, the accountable officer is the Health chief executive.

Treasury Finance Business Partner:

The chief executive, sorry. The chief executive is the accountable officer.

Treasurer of the States of Jersey:

Not the Health ... whatever the title is for the Health chief officer rather than ... in my head the accountable officer for Health is the ultimate accountable officer for this project, and that is now Tom Walker. The accountable officer for Infrastructure is the senior responsible officer for the delivery of the project. The ultimate accountability officer level is with H.C.S. (Health and Community Services).

Deputy J. Renouf:

I have got a question returning to this question of the multiple projects within the programme. Is it conceivable that money could be moved from projects such as Kensington Place or St. Saviour to fund the main Overdale hospital? If so, would there be any oversight in that?

Treasurer of the States of Jersey:

It is conceivable in terms of a single head of expenditure and the approach we would probably take in terms of the Public Finances Manual is to require some additional decision making outside of the project to move money between the separate projects.

Deputy J. Renouf:

It is an important point, is it not? It is a sort of backhand way in which the costs of the Overdale project could be increased.

Treasurer of the States of Jersey:

The overall funding for this project is to deliver a number of deliverables that are established and, therefore, when you are moving some from one to another you are inevitably altering the scope. So we would look to put in place, under the Public Finances Manual, some additional control around that that would therefore involve the Minister for Treasury.

Deputy J. Renouf:

Would the logical way of doing that not be to create separate heads of expenditure for the different projects, Minister?

Treasurer of the States of Jersey:

That would, therefore, remove the commercial tension that we are trying to achieve by keeping it in.

Deputy J. Renouf:

It would still leave quite a bit of commercial tension because you are only removing a relatively small part of the budget, as the Minister described.

Treasurer of the States of Jersey:

This is true but if you are expert in delivering these projects and you know the narrow scope of it, you might be able to, as we are, arrive at a reasonable estimate of the level of contingency that we are carrying. We know what the total envelope for the delivery of that project is.

Deputy K.M. Wilson:

Can I just come back to the point around the accountability issues here? So in terms of delivery, what you have just explained is that the accountable officer is the chief officer for Health for the delivery of the project.

Treasurer of the States of Jersey:

For the overall project.

Deputy K.M. Wilson:

For the overall project. What do you understand about what those accountabilities are? Does that include delivering financial ...

Treasurer of the States of Jersey:

That includes financial ... accountable officer has come to mean greatly more things than it was originally intended, which is around responsibility for the economy, efficiency and effectiveness and regularity. The key one in regularity is not spending money you do not have or spending it on things you should not be spending it on.

Deputy K.M. Wilson:

Yes. We are just trying to understand, the Minister is financial controller overall; who actually manages the financial risks of the project and the programme?

Treasurer of the States of Jersey:

There is a governance structure that includes a political steering group and there are decisions that rest with that.

Deputy K.M. Wilson:

Yes, we know and you have told us, but who is it?

Treasurer of the States of Jersey:

Ultimately the accountable officer is responsible for staying within the budget. The only 2 ways that a budget can be added to for an accountable officer - and this applies across the piece - is through the Minister for Treasury and Resources or the States Assembly. The Minister for Treasury and Resources, particularly these days, is constrained if funds are available elsewhere.

Deputy K.M. Wilson:

Which accountable officer is it?

Treasurer of the States of Jersey:

The ultimate accountable officer is the chief officer for Health.

Deputy A.F. Curtis:

One more thing, and I am conscious we are running up on time, was about this tension. I just want to understand what learnings you are taking from this programme to the wider responsibilities of the Minister for Treasury. You have mentioned that if you keep more money within one head of expenditure it, in essence, gives you a greater commercial tension. Are you considering applying this to wider areas outside the health estate, for example youth facilities or other capital programmes to, in essence, hide any one part of the build? Do you see this as a model to copy across Treasury and Exchequer?

Treasurer of the States of Jersey:

In essence, it already is. There are quite large heads of expenditure, which we call the rolling head of expenditure, for infrastructure. It is not one project. There is a number of projects.

Deputy A.F. Curtis:

There are several projects which are discrete projects. Have you considered consolidating any of those to take this as a model example?

[11:00]

Treasurer of the States of Jersey:

Shall we just say that in particular in respect of this project there is a particular risk given the size of the project, but it is a balance between transparency. Ultimate transparency is really important to us in Treasury, as it is across departments, but we have also seen as we have gone through different

versions of this project in particular it puts us at a commercial disadvantage and when we look elsewhere it is not as publicly available what that contract sum is going ... the allocation for that particular contract is for those who would be bidding for the work.

Deputy J. Renouf:

I think we are going to have to end it there. That is an hour. It races by when you are having fun, does it not? Thanks very much indeed, ministerial team, for coming. We very much appreciate your time and we will now move to the States, I think, as the next forum. There are some questions that we did not manage to get to answer ...

The Minister for Treasury and Resources:

Move to the States, what do you mean, sorry?

Deputy J. Renouf:

Well, debating the budget.

The Minister for Treasury and Resources:

The budget, yes, sorry.

Deputy J. Renouf:

I think we are still planning to do that. Now, there are some questions that we did not manage to get the time to answer, so you can answer them at your leisure when we submit them. Thank you very much indeed for your time. We can go offline now.

[11:01]