

STATES OF JERSEY



FUTURE HOSPITAL: APPROVAL OF PREFERRED SCHEME AND FUNDING (P.107/2017) – THIRD AMENDMENT

**Lodged au Greffe on 12th December 2017
by Senator P.F.C. Ozouf**

STATES GREFFE

FUTURE HOSPITAL: APPROVAL OF PREFERRED SCHEME AND FUNDING
(P.107/2017) – THIRD AMENDMENT

1 PAGE 2, NEW PARAGRAPH (d) –

After paragraph (c), insert the following new paragraph –

“(d) to request the Minister for Treasury and Resources –

- (i) to undertake a review of the feasibility and costs of undertaking any borrowing on the basis that the capital amount borrowed is repaid in tranches over the intended life of the new General Hospital rather than in a single lump sum on final maturity; and
- (ii) in each case to report the outcome of such review to the Assembly no later than 28th February 2018;”.

2 PAGE 2, ORIGINAL PARAGRAPHS (d) AND (e) –

Rename the original paragraphs (d) and (e) as “(e)” and “(f)” respectively; and at the end of the renamed paragraph (f)(iii), for the full-stop substitute a semi-colon.

3 PAGE 2, NEW PARAGRAPH (g) –

After the renamed paragraph (f), insert the following new paragraph –

“(g) to request the Minister for Treasury and Resources to bring legislation to the Assembly to place the Treasury Advisory Panel (TAP) on a statutory basis on a similar basis to the Fiscal Policy Panel.”.

SENATOR P.F.C. OZOUF

REPORT

This revised amendment, as I am writing it, has the support in principle of the Council of Ministers following helpful and constructive dialogue, for which I am grateful

Preamble

The original amendment was lodged with no desire whatsoever to delay the debate and vote for necessary decisions to give Islanders, patients, families and hardworking staff the certainty that is needed to make a decision which will lead to the much overdue rebuilding of the Hospital that Islanders need and deserve.

Whilst there is always the dream of a perfect solution for any major capital project, the fact is that there has been a whole series of capital projects which were delayed in the hope of a perfect plan.

All capital projects in recent years have been highly contentious. They have often been however acrimonious debates and years of delays.

The incinerator should have been shut down on safety grounds a decade or more earlier than it was. The delay, it could be argued, failed the people of St. Helier, and even possibly cost lives.

The controversy concerning the building of the 'Cavern' was enormously controversial; however, what is not said is that without it – the absence of the attenuation of water could well have caused major flooding on more than one occasion since it has been built. The associated misery for thousands of Islanders needs to be put into the context of the controversy, and even the final cost.

The interminable delays involving the Police Station are now legendary.

The States' inability to have made timely decisions concerning social and affordable housing has caused hundreds of residentially qualified Islanders, let alone those who we welcome to Jersey, huge social problems.

Even today in 2017, our employees work in accommodation which is not fit for purpose.

These are all examples of decisions that should have been made earlier.

Members may advance the argument that they believe that there is a better solution for the rebuilding of the Hospital.

However, the demands of more information, and the dream of an alternative 'better' or even 'perfect' solution, lead to delays.

Delayed decisions cost money and have an untold impact on the people of Jersey whom we are elected to serve.

All decisions inevitably need constant ongoing work during their implementation.

This amendment is made in the knowledge that more work is needed, but an in-principle decision is also needed.

Background

After years of delay and a lack of recognition of the need for investment, an agreement to rebuild the Hospital is now urgent.

The majority of Islanders are exasperated that it has taken so long to solve the Island's health infrastructure needs.

A plan to rebuild the Hospital on the current site plus the purchase of additional adjacent land was published and agreed in principle.

Moreover, that plan had an estimated cost and an agreed sustainable funding source. At that time this did not require the issuance of an additional long-dated Bond.

The decision was not implemented. Historians will record why the agreement to rebuild the General Hospital has not been realised.

It is unfortunate that delays have resulted in these costs increasing, such that in principle the funding strategy is no longer appropriate.

The Public will not tolerate more delays and expects the Council of Ministers to speed up the decision-making for the urgently-needed new General Hospital. At the same time, they expect the in-principle decisions to be constantly worked on and improved if new information comes to light or markets change.

My principal concern relates to the proposal to borrow a further £275 million in a fixed-rate Sterling Bond with a single repayment after 40 years.

I commend the Minister for Treasury and Resources for reducing the amount that is proposed to be borrowed from the original 2016 funding strategy, which proposed a public-rated Sterling Bond of £466 million.

Personally, I would like to see the borrowing reduced further. If that is possible, that will be a good decision.

The reason for requesting some more work is the particular concern that future generations of this Island will face the need to finance the maturity of the existing Bond of £250 million in 2052, and if the Report accompanying the Proposition is implemented, the maturity of a further £275 million Bond in 2058 will need to be paid for.

Moreover, at the same time, they may well be facing a similar predicament to that which we are currently facing with a need to build a new Hospital – given that the projected life of the new General Hospital is 40 years.

This is all a long way into the future, Jersey has a proud history of living within our means and funding capital investment from the resources that we have available to us.

We are moving significantly away from this principle, and I do not wish to see us follow many jurisdictions in becoming addicted to debt.

I am familiar with the proposition that inflation will operate to erode the effective value of the amount that is being borrowed, but equally there are risks that this does not occur, and I do not consider that these risks are fully articulated in the Report.

The original amendment

In that report I explained that I believed Andium Homes Limited has had difficulty, not of their own making, in deploying the proceeds of the existing 2014 Bond. Moreover, I understand that the company could now raise funds more cheaply on its own than by borrowing the existing fixed-rate debt.

I therefore requested that consideration was given which meant those monies could be redeployed in reducing the borrowing requirement as part of the proposed funding strategy for the Hospital.

I regret that the result of what was designed to be a win-win for Andium and the States was not able to be agreed. It is further a matter of regret that Andium has felt that they have been inadvertently dragged into an arguably unrelated debate about Hospital Funding.

The original report sets out certain disadvantages of borrowing monies across a number of different maturities, but did not quantify these costs.

I requested that the Minister for Treasury and Resources discuss this.

The outcome of this request, whilst I would wish it could be different – is that neither Andium nor the Treasury feel able to accept the proposal which was made in good faith.

Therefore, I have submitted a revised amendment without the option of swapping the existing Bond which was issued for housing and using it instead for the Hospital.

The remaining amendments

The remaining amendment requested the Minister for Treasury and Resources to consider a financing option that was not a financial instrument, which only required a repayment in 40 years.

I suggested that the repayments of any financing would be staged or laddered.

A laddered approach could be –

- £75 million – repayable after 5 or 10 years;
- £100 million – repayable after 10 or 15 years;
- £100 million – repayable after 20 or 30 years.

I did not and have not prescribed what laddering could be considered. That is what I have asked the Treasury advisers to consider.

Any financing instrument – whether that be internal borrowing or whatever financial instrument is taken, should not be in 40 years, in my view and in the view of many I have spoken to.

I have no issue with the requirement to ensure the project can be paid for when the bills need to be paid.

I expressed the hope that the work on laddering could be carried out very quickly, and without disruption or delay to the necessary decision to approve P.107/2017.

The repayment for any Financial Instrument

The repayment period is equally important.

What is important is that the repayment is being made by hope for returns from the Strategic Reserve, albeit with regular reviews.

The analogy I have used is that what was being proposed was effectively an interest-only loan with an endowment. However, that 'endowment' paid for by the roll-up of Investment returns from the Strategic Reserve.

Advice and the Treasury Advisory Panel

I fully accept that the Minister for Treasury and Resources has to rely upon the advice of the Treasury Advisory Panel.

I am familiar with the important work of the Treasury Advisory Panel and the significant expertise that they provide in investments.

I consider that it is important that the Treasury Advisory Panel is put on a proper footing, given an extended remit to advise on financing, and I ask the Minister for Treasury and Resources to bring forward to this Assembly legislation to place the Treasury Advisory Panel on a statutory basis.

Financial and manpower implications

The Treasury has budgets set aside for advice for the funding: hundreds of thousands pounds has been spent on advice.

The additional work necessary should be paid for from this budget.

The proposal for putting the Treasury Advisory Panel onto a statutory basis will be similar to those of the Fiscal Policy Panel, and will mainly concern the internal resources of Treasury officials and the Law Draftsman's Office.