

2016.12.12

3 Deputy J.A. Martin of St. Helier of the Minister for Treasury and Resources regarding the cost of securing a bond to pay for the new Hospital: [9752]

Given that up to £400 million will be borrowed in the form of a bond to pay for the new hospital, if agreed by the Assembly, will the Minister provide the lowest, the middle, and the highest amounts to the nearest million it has been calculated the States will pay back in total over the proposed 40-year life of the bond

Senator A.J.H. Maclean (The Minister for Treasury and Resources):

An important point to emphasise is that no decision has been made yet as to the exact level of any such borrowing, nor has a decision been made on the terms of any bond that may be issued. In other words, whether to borrow over 30, 40 or even 50 years. The coupon or interest rate is also to be secured as part of the process although it will be a fixed rate for the term. There is therefore no clear answer to the question the Deputy asks until the above criteria is set. As an indication of the States Members' presentation in November we used £400 million over 40 years using a coupon rate of 2.6 per cent, as an example advised by our advisers for planning purposes. This equates to an interest or coupon rate per annum of £10.5 million.

3.3.1 Deputy J.A. Martin:

I am surprised and I do apologise I was not at the briefing. I think on that day I was unwell. But we are going to be asked on 17th January to pass this future funding and the Minister says there has been no decision. So can he tell me what we are going to be literally passing? I have read the report on P.130 and it talks about £400 million over 40 years. What are we going to be looking at on 17th January?

Senator A.J.H. Maclean:

I understand the Deputy's question and this is following a similar path to the housing bond, which was approved by this Assembly. It is important because of the process that we have to follow that as much flexibility as possible is afforded to the Treasury to ensure that the best value deal possible can be achieved on behalf of the Island. So effectively we have set a broad criteria of up to £400 million and we will then go through the process, which if this Assembly approves the principle will take between 3 and 4 months to secure. Obviously during that period of time one of the key criteria that we need to be working on is what the markets may well be doing with regard to the likely interest rate that can be achieved.

3.3.2 Deputy T.A. Vallois of St. John:

The Minister just referred to the housing bond that was created for I think it was P.33/2013. Can I ask the Minister whether he thinks the report to his proposition, which we are due to debate, is sufficient enough for us to make a decision on such a large amount of money?

Senator A.J.H. Maclean:

I understand the sensitivity. To answer the question in short, it is enough, I believe, in terms of information, to give the direction of travel. We hope that by explaining it in the way we have Members will appreciate the difficulties of securing a borrowing fund of this nature, a bond in other words, that has to go through a 3 or 4-month period to be able to secure it once the Assembly make the decision, assuming the Assembly do make the decision. It is

necessary to do it in this way to ensure that we get best value for the public. There is no other easy way in which it can be crafted or structured.

3.3.3 The Deputy of St. John:

Does the Minister not accept that there is a concern from the public and third sector providers that they are not aware of what this hospital will look like or what will be involved in the hospital in terms of whether it will be future-proofed or how it will help in terms of community care? On that basis, if they are not aware of that, why we should be agreeing such a large amount of money in terms of borrowing.

Senator A.J.H. Maclean:

What I was referring to was the process we would go through in order to secure the funding that has been set. The budget that has been set for the hospital, which is at £466 million, as Members will be aware, includes substantial contingencies, incidentally. The details to which the Deputy is referring are matters in part that are dealt with in P.110 but also for both Treasury and Health to work on together. I believe this discussion today in this particular oral question is specifically about the process of arranging suitable funding.

3.3.4 Deputy G.P. Southern:

My first question must be whether the Minister will produce the figures requested by the Deputy well in advance of the 17th January debate because otherwise there is no point in having the debate. If it is just an in principle debate we may as well not have it.

Senator A.J.H. Maclean:

No, absolutely, and the point I am trying to make is that every day and every week the markets are changing. It is important that immediately before the debate the latest up-to-date figures are provided for Members from an indicative perspective to make it clear what it is that we are proposing in terms of the funding of this hospital, the bond and how much it is going to cost over the period of time. As I pointed out, we have already had some indicative figures based on those at the States Members' presentation. What that has showed us, and we have done quite a bit of sensitivity analysis on that, is that over the period that the bond would be held, if it were to be 40 years, and if it were to be £400 million, and if it were at 2.6 per cent, which is what the rate was at that particular point, then all of the capital cost of the hospital would be paid off by 2057. All the interest payments would have been met over that period of time from the Strategic Reserve and based on a conservative prudent 2 per cent above R.P.I. (retail price index) investment returns on the Strategic Reserve that fund would have a capital base of £3.6 billion at the end of the period. But this is changing all the time, and we will of course update Members nearer to the debate.

3.3.5 Deputy G.P. Southern:

As part of the information required will the Minister show, as he has done on page 16 of his accompanying report, the growth of the fund over the 40 to 50 years of the bond? Will he show a parallel diagram which shows what happens if we spend the money directly from our reserves over the next 8 or 10 years and then grow the fund? Can we have a look at what that looks like?

[15:00]

Senator A.J.H. Maclean:

Yes, absolutely. I am pleased the Deputy has raised that point because on the basis of external advice we have looked very closely at the numbers and it is absolutely clear that it makes more financial sense currently to borrow the money than it would do to use the money sitting within our reserves and gives us an additional amount of flexibility over the period of time. That position of course could change. We have got a number of months in which to secure the bond and the markets are volatile and there could be a change, but as we stand at the moment it is undoubtedly more preferential to borrow the money than it would be to use our reserves.

3.3.6 Deputy J.A. Martin:

It seems a shame that the Minister for Treasury and Resources seems quite scared to say the figure. It is going to be near £1 billion and I did say to the nearest million, and I think I was being quite generous. I was not pinning him down too narrowly. My second concern, and it is what the Minister has just said about the markets and how unstable they are at the moment. Is the Minister going to propose this before we have discovered our relationship with the U.K. (United Kingdom) or the E.U. (European Union) after Brexit because that is where the instability is? I know the Minister for Health and Social services is looking at the Minister for Treasury and Resources and saying: "Oh no, we cannot wait this long." But really I am pleading to the Minister to come back with much more information before the 17th and some assurances because I cannot support this at the moment and people out there are saying: "It is Monopoly money and you are not playing with our Monopoly money." Does the Minister agree?

Senator A.J.H. Maclean:

The Minister certainly does not agree that we are dealing with Monopoly money here although the numbers I accept are high. There is a degree of volatility, the Deputy is absolutely right, and it is a point that I have made and this I suspect will not change. The process from the point at which the States Assembly make the decision, assuming this decision is that we can proceed to get a bond over whatever period is agreed or proposed and at whatever level, will take 3 to 4 months. To answer the Deputy's question, if she is worried about the triggering of Brexit and what additional affect that might have in terms of volatility, it is frankly difficult to tell. There is significant volatility globally anyway. We have a timeframe that we can work to and a process that we have to go through. There is no way easily to foreshorten that and so we will have to work with what we have got. The other point about bringing back more information; yes, if you want to take the estimated interest payments at £10.5 million, and those will change between now and when we debate it, and again between when we debate it and when we secure the bond if we go down that route. But those numbers, if you just add them up on an annualised basis, do come out to about £420 million, about £860 million in total, but of course in 40 years' time that money will be significantly different if it is inflation adjusted. I have talked about what the Strategic Reserve would be worth in 2057 based on just 2 per cent above R.P.I., and that would be £3.6 billion, and that is a large sum of money as well.