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3.3 Deputy G.P. Southern of the Minister for Treasury and Resources regarding funding the projected cost of the new hospital:

Will the Minister inform Members how he proposes to fund the projected cost of the new hospital and clearly account for the difference in costs of the 5 options under consideration?

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

The future hospital will most likely be funded by what I have described as a blended solution. By that I mean it is likely to include the issuance of a further sterling sovereign bond, the use of some existing reserves, the sale of some assets and, only in an extreme circumstance, a possible charge. The final solution will of course depend on the site option chosen, as there is a considerable range in potential cost between the sites. Turning to the costs of the 5 site options under consideration, this is difficult to deal with in the time available for an oral question. However, in essence, the 2 most expensive options, that is option A, the dual site at £504 million and option C, the current hospital at £630 million. The other options are more similar in cost, ranging from £444 million to £471 million. Options A and C are more costly because they involve more complex construction than other options and include increased levels of temporary works. As such, they have significantly longer build times, 11-plus years versus 6 or 7 years for the other options, which accordingly attract higher inflation. The complexity of building on the current site, while simultaneously maintaining an operational hospital, also adds risk and therefore cost.

3.3.1 Deputy G.P. Southern:

The Chief Minister, the Minister for Treasury and Resources and the Council of Ministers have all said that the people will decide over the site of the new hospital. In order to help them do so will he reveal to Members the compensatory land costs in option E and the opportunity cost of not building offices or apartments in option D?

Senator A.J.H. Maclean:

Yes, the public, through the public consultation process, will indeed voice their opinions and I know that the Minister for Health and Social services and indeed the Council of Ministers have stated that they will listen very closely to what members of the public have to say in determining the outcome of the future hospital. With regard to land values, the question the Deputy has asked, some of that is commercially sensitive. What has, I believe, been undertaken is that the Scrutiny Panel will be provided with all the necessary information so that they can make an informed decision on the relative merit.

3.3.2 Deputy J.A. Hilton of St. Helier:

Can the Minister explain why in the space of 2½ years the option of developing the existing hospital site has risen from £460 million to £630 million for the same specification?

The Bailiff:

This is almost a matter for the Minister for Health and Social Services rather than the Minister for Treasury and Resources, is it not? The Minister for Treasury and Resources is responsible for how you fund it.

Deputy J.A. Hilton:

The reason I ask that question is because it was the Minister who told Members that the development costs of the existing hospital site are £630 million. I dispute that figure.

Senator A.J.H. Maclean:

I shall answer the question then. My understanding is the specification is different to what was originally outlined but really the key point here is that the various figures have been externally validated. First of all, Gleeds have looked in detail at the information. They have been verified independently by Ernst & Young and, indeed, the land values, which are of course of interest to Members, have been verified by PNB Paribas.

3.3.3 Deputy J.A. Hilton:

It is my understanding the figure quoted included all the same third party acquisitions that had to be made, so I am still not understanding how there can be £170 million worth of difference in 2½ years. There must be a reason for that.

Senator A.J.H. Maclean:

It is mixed up in the various land acquisition costs. As I pointed out to Members, the details of the various site values and other sensitive information will go to the Scrutiny Panel. All that information will be made available and then a report will no doubt follow. But all I can tell the Deputy is, to date, the figures that we have available have been independently verified by professional external practices and not those that have been thought up by Ministers or others internally.

Deputy J.A. Hilton:

The only comment I would like to make is I do not believe ...

The Bailiff:

It is not comment time. It is question time.

3.3.4 Deputy M. Tadier:

Will the Minister for Treasury and Resources explain whether the option D costs for the Waterfront include decontamination of the site and if so, what decontamination?

Senator A.J.H. Maclean:

I can confirm that decontamination costs are included in those costs, but I cannot give specific details to the Deputy other than it would be done in an appropriate way to meet international standards.

3.3.5 Deputy M. Tadier:

What are we decontaminating down there?

Senator A.J.H. Maclean:

There is potential for land contamination, potash and such like. As such, that will be dealt with and had to be considered as part of the assessment. I am sure Members would expect all potential costs and issues to be included within the relative costs, and that is the case in this instance.

3.3.6 Deputy M.R. Higgins of St. Helier:

Can the Minister explain further to his answer earlier, that he is looking at funding the hospital partly through the issue of bonds, what impact the downgrading of Jersey's credit rating has?

Senator A.J.H. Maclean:

That is a very good question. We are advised that the downgrading is going to have, if any difference, a marginal difference on the ability to raise a bond. Interestingly, if we consider the housing bond that was raised back in 2014, the gilts market has indeed fallen since then. We have seen Guernsey raise their own bond at a lower strike rate than we managed to achieve, and our rate was a fantastic rate at the time. So we therefore believe that a bond, if we were to go to the market fairly quickly - and that is why I have said publicly that a decision needs to be made earlier rather than later - would be at a strike rate, in my opinion, that would be lower than the existing housing bond that we have got. Therefore there is available cheap money for this particular exercise.

3.3.7 Deputy M.R. Higgins:

Would the Minister tell us what the impact then of a British exit will have on the gilts market and all the others because it will have a significant impact?

Senator A.J.H. Maclean:

If only I had such information.

The Bailiff:

Are you really not going to answer that question, Minister?

Senator A.J.H. Maclean:

I am always prepared to venture an opinion but probably not in this forum. I would just point out to Members that clearly the downgrading and negative outlook that Jersey received from Standard & Poor's was as a result of the pending E.U. (European Union) referendum. I should also point out that the United Kingdom also had a downgrade to a negative outlook for the very same reasons. There is going to be a period of uncertainty over the coming months and it will not be until after the referendum that the question posed by the Deputy will be more easily answered.

3.3.8 Deputy G.P. Southern:

The Minister for Treasury and Resources mentioned the housing bond recently raised, but that comes attached with a revenue stream in rental. Where is the revenue stream for any potential bond issued in this particular case? There is not one at the present, surely.

Senator A.J.H. Maclean:

No, and another excellent question. Yes, the external advice that we have received is that the expected returns over the long term - and we are talking about a bond issuance of 40 years - would provide the returns from the Strategic Reserve investments while maintaining the value of that reserve in real terms. That is up to, we are advised, a bond level of around about £400 million and that is one of the reasons that I stated earlier that the most likely outcome is going to be a blended solution because a bond alone is not necessarily (a) either enough money to raise for the building of a hospital but it is also unlikely that we would want to necessarily raise that level in one go, when other options perhaps exist, such as the ones I have mentioned; disposal of assets and perhaps using some other reserves.