

STATES OF JERSEY



FUTURE HOSPITAL PROJECT (S.R.13/2017): RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

**Presented to the States on 25th January 2017
by the Minister for Treasury and Resources**

STATES GREFFE

**FUTURE HOSPITAL PROJECT (S.R.13/2017): RESPONSE OF THE
MINISTER FOR TREASURY AND RESOURCES**

Ministerial Response to: S.R.13/2017

Ministerial Response required by: 17th January 2018

Review title: Future Hospital Project

Scrutiny Panel: Future Hospital Review Sub-Panel
(S.R. presented by the Chairmen's Committee)

FINDINGS

	Findings	Comments
1	There are three short-term risks critical to the successful delivery of the Future Hospital Project. Planning permission must be granted, the Proposition outlining the preferred scheme (P.107/2017) must be approved by the States, and a main contractor must be appointed.	Noted and agreed.
2	The successful delivery of the Future Hospital Project in the short-term period is in doubt and has been rated as Amber-Red by the Panel's adviser Concerto.	Noted and agreed.
3	There are three longer-term risks critical to the successful delivery of the Future Hospital Project. The community based strategies contained in P.82/2012 must be successfully delivered, properties in Kensington Place must be purchased and the Future Hospital team must be appropriately resourced.	Noted and agreed.
4	The successful delivery of the Future Hospital Project in the longer term, should short-term risks be overcome, appears probable and has been rated Amber-Green by the Panel's adviser Concerto.	Noted and agreed.
5	The States Assembly is being asked to approve the preferred scheme for the Future Hospital prior to the outcome of the Planning Inquiry and the Minister for the Environment's decision.	Noted, this approach is consistent with all capital schemes. Planning approval is not normally required prior to inclusion in the Capital Programme in the Annual Budget – the proposition was approved on 13th December 2017.
6	There is a compelling case for a new hospital. Parts of the existing building do not meet "modern standards" and are of poor quality.	Noted and agreed.

	Findings	Comments
7	As explained in the Proposition which outlined the preferred site (P.110/2016), pathology services were originally going to be provided in the main hospital to ensure close co-location of critical support services. The latest Proposition outlining the preferred scheme (P.107/2017) explains that pathology will now be provided in a separate location at Westaway Court. Coupled with other services at Westaway Court such as out-patients, physiotherapy, cardio-respiratory and clinical investigations, this effectively creates a two-site hospital.	<p>The proposals do not deliver a ‘two-site’ Hospital in the sense that the previous General Hospital/Overdale solution proposed.</p> <p>Medical services will be delivered from a number of buildings, as is currently the case, with Acute Services being delivered from a single new-build solution.</p> <p>The proposed development of Westaway Court for some out-patient and continuing care services, together with pathology, creates a facility nearby the proposed main Future Hospital building and within a ‘Health Campus’.</p>
8	According to the recent report on Disease Projections 2016 – 2036 certain chronic diseases are projected to increase. The Outline Business Case estimates demand in the future from the current incidence of certain diseases within the population but does not reflect potential increases in the prevalence of certain other diseases which are known to be on the rise. The report on Disease Projections was published after the modelling work on the population had been undertaken.	Noted and agreed.
9	Recent developments in St. Helier such as the new Royal Bank of Canada offices and the Jersey International Finance Centre will generate extra demand of an additional 608 parking spaces in the vicinity of the hospital.	<p>The Transport Assessment (TA) submitted to support the Outline Planning Application for the Hospital was agreed with the Transport Policy section of the Department for Infrastructure and accords with the Sustainable Transport Policy. The TA included sets out a Parking Strategy that considers planned developments that had been notified at the date of issue of the report (including the Royal Bank of Canada and International Finance Centre). Trip Generation and parking information on these planned developments was taken from Transport Assessments submitted with Planning Applications.</p> <p>In his report on the outline planning application the inspector concluded –</p> <p><i>“I am satisfied that, subject to specific junction and highways works, the completed development could operate</i></p>

	Findings	Comments
		<i>without causing undue impacts on the highway network or highway safety concerns. Measures such as cycle parking provision and the implementation of travel plans could promote and encourage sustainable travel and these could be secured by Planning conditions. The proposal would accord with the respective Island Plan transport policies and this weighs in the proposal's favour."</i>
10	The decision not to include parking at Westaway Court has been made without an accurate indication as to how many staff will be working in the new build. This work will be carried out as part of the next stage of transport work.	Parking will be provided for those attending Westaway Court who cannot access the site on foot or by other means, such as patient transport. There is no requirement to provide staff parking (see response to Finding 9 above).
11	Patient parking at Westaway Court will be limited to 14 spaces.	Noted and agreed – the proposed parking arrangements are considered to be sufficient based on the modelling undertaken, which includes improved management of appointments. There is no parking or public drop-off on the existing General Hospital site allocated to out-patient parking, and so the proposals represent a significant improvement.
12	The Panel's adviser Concerto noted that the Outline Business Case does not include a Target Operating Model which would compare the current "as is" with the future "to be" operating models. In this context, information regarding current services provided in the hospital and services which may no longer be provided in the future hospital is not accessible to the public.	A Target Operating Model will be developed by the end of January 2018 (see response to Recommendation 4 below). <u>Information</u> regarding current and future services was the subject of a written question posed in the States Assembly, and the answer is available on the States Assembly website ¹ . It is noted that this information could be more accessible to the Public, and this will be taken into account with our ongoing website improvements.
13	The Proposition outlining the preferred scheme (P.107/2017) was lodged in the absence of a Health Impact Assessment (HIA). The HIA would contain a clear analysis of whether the	The HIA was completed (approved by the Future Hospital Political Oversight Group on 20th November 2017), issued to the Future Hospital Scrutiny Review

¹ [http://www.statesassembly.gov.je/assemblyquestions/2017/\(175\)depofst.johntohssreservicesprovidedafternewhospitalbuild.pdf](http://www.statesassembly.gov.je/assemblyquestions/2017/(175)depofst.johntohssreservicesprovidedafternewhospitalbuild.pdf)

	Findings	Comments
	health outcomes of the population (or certain sections of it) would be compromised by the proposed changes. Completing a HIA is considered best practice in the UK and will soon become a formal requirement.	Sub-Panel on 23rd November 2017, and published on the States of Jersey website on 1st December 2017 ² .
14	The procurement strategy is supported by the Panel's adviser Concerto, although it is complex and may not be easily understood by those approving and scrutinising the project.	Noted that the strategy was supported. The approach is a standard methodology for procuring projects of this scale and nature.
15	The cost of the main hospital building accounts for £386 million of the £466 million overall estimated cost. The cost of demolishing or developing the remainder of the buildings within the current hospital have not been factored into this cost estimate nor has a decision been made as to what the remainder of the current site might be used for.	£386 million is not the cost for the "main hospital building". This represents the total budget envelope of £466 million less contingency elements. The future use of the legacy land of the current Hospital site will be determined during the development period, which does not conclude until 2025.
16	The inflation assumption in the budget has reduced to £53 million since the previous funding proposals were put forward in P.130/2016 when the level was £68 million. This has created a gain to the project of £15 million, of which approximately £11 million was allocated in January 2017 to other items within the project such as the decision to rebuild Westaway Court (instead of refurbishing it).	Noted.
17	The total capital and revenue cost for the Future Hospital is £61.1 billion over the 60 year life including inflation. If inflation is discounted, the total capital and revenue cost is £15.6 billion over the 60 year life. The costs to issue the bond have been included in the revenue costs, but the annual coupon (interest) due to investors in the bond has not.	Noted and agreed.
18	Relocation costs have increased from £44 million to £80 million creating a difference of £36 million. This increase has mainly been due to the rebuild of Westaway Court and the relocation of pathology services (£17 million). This increase illustrates the importance of robust change and control management of risk and optimism bias as the project develops.	The Financial Direction to be issued by the Treasury will address the usage of risk and optimism bias and how it is allocated during the design development phase of the Project.

² <https://www.gov.je/government/pages/statesreports.aspx?reportid=3303>

	Findings	Comments
19	A critical path has been developed by the Future Hospital Team which details the sequence of stages determining the minimum time needed to complete the future hospital project. Dates for key critical path activity such as planning approval, contractor appointment and Westaway Court have already slipped against the timetable established in September 2017.	In a complex project with many parallel actions, critical path analysis will change from time to time, and is kept under constant review to ensure that the overall programme is managed within the anticipated timeframe.
20	The plans to rebuild Westaway Court are <u>not</u> on the critical path. Given that some key critical path activity has already slipped against the timetable, there is a risk that the rebuild of Westaway Court will become project critical.	Noted – the critical path is kept under constant review.
21	The resources delivering the overall health transformation are too thinly spread due to the fact that the Future Hospital Team is constrained from making any appointments until P.107/2017 and the funding is approved. This funding constraint represents a continuity risk and misses the opportunity for wider knowledge and skills transfer.	Approval of the Proposition has now removed this risk and enables the procurement and development of the necessary resources.
22	The current Information Communications Strategy (ICT) covering the period 2013 – 2018 does not provide the necessary basis for ICT planning needed for the future hospital. It is intended that a new strategy will be developed but it is unclear whether this work has been completed.	A Future Hospital ICT Strategy has been completed which provides the necessary basis for ICT planning needed for the Future Hospital. This document was provided to the Scrutiny Panel and their Concerto advisers in October 2017 and will shortly be published on www.gov.je .
23	It is proposed that the construction of Jersey’s new hospital is funded through a “blended solution” comprising a public rated sterling bond of up to £275 million and the use of existing reserves to fund the balance of the overall cost up to £466 million.	Noted and agreed.
24	The funding proposal is a “middle path” between funding the hospital entirely from borrowing or entirely from the Strategic Reserve. The Panel’s adviser, Opus, considers this to be a “pragmatic response” to these two options.	Noted and agreed.
25	If borrowing is considered the best option to fund Jersey’s future hospital, then a sterling bond is the most appropriate option due to three reasons: sterling is the natural currency for Jersey; a nominal bond fixes the cost of	Noted and agreed.

	Findings	Comments
	borrowing so that it is known up front and; a sterling bond has already been issued for Andium Homes making it familiar to investors.	
26	It is expected that the bond will be issued in the first half of 2018 although a level of flexibility has been allocated to allow for market conditions. The Panel's adviser, Opus, consider that it is appropriate to raise a bond at this stage in the project.	Noted and agreed.
27	The Treasury Department is using a minimum cash receipt from the bond of £265 million for planning purposes.	Noted and agreed.
28	The change in the Bank of England base rate of interest has not had a profound effect on the cost of issuing a bond to fund the new hospital.	Noted and agreed.
29	There is no significant difference in bond interest rates since the previous funding strategy was withdrawn.	Noted and agreed.
30	The protected capital of the Strategic Reserve would be preserved under the proposed funding strategy. Over the life of the proposed bond, the closest the total value of the Strategic Reserve would get to the protected capital value is £35 million.	Noted and agreed.
31	As part of the previous funding strategy, the Treasury and Resources Department commissioned its advisers to undertake some scenario modelling for the Strategic Reserve. In terms of the latest funding proposals, no new stress-testing work has been carried out to examine the impact of the revised funding proposals on the Strategic Reserve balance under certain scenarios.	With the level of borrowing almost halving, the need for such stress-testing was no longer relevant.
32	The proposed level of borrowing of up to £275 million through issuing a bond is well within the borrowing limit set out in the Public Finances Law.	Noted and agreed.
33	External financing options such as Asset Backed Commercial Paper (short-term borrowing) and Private Finance Initiatives (PFI) have been considered and discounted as funding options for the new hospital.	Noted and agreed.

	Findings	Comments
34	Under the funding proposals, the Strategic Reserve will be used to pay part of the capital costs of the hospital project as well as the interest costs of the bond and repayment of the bond upon maturity. A tailored investment strategy for the Strategic Reserve is essential.	Noted and agreed.
35	The Panel's adviser, Opus, considers that the weakest part of the funding proposals is the investment strategy for the Strategic Reserve. Although the Strategic Reserve Fund has a successful track record of investment, it is unclear how the investment strategy will be tailored to the new circumstances within the revised funding strategy.	There is already an investment strategy for the Strategic Reserve, as there is for all Funds. This is reviewed at least annually. As explained in a public meeting with the Panel, if the States approved the proposition the strategy would be revisited, and any adjustments would be reported to the States, as all investment strategy adjustments are.

RECOMMENDATIONS

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
1	The Panel is of the opinion that the Minister for Treasury and Resources should consider delaying the debate on the preferred scheme and funding (P.107/2017) until the first States Sitting after a decision has been made on the planning application.	T&R	Reject	<p>The decision in front of the Assembly was not dependent on the outcome of the Outline Planning Application process.</p> <p>The Inspector's Report will include recommendations to the Minister for the Environment. The Minister will determine whether Outline Planning permission is granted, with reserved matters, or not granted and state the reasons why.</p> <p>Either of these outcomes will require a continued engagement with the Planning Authority to revise and develop the design and associated matters to reach a point where a permit may be issued.</p> <p>There was no benefit to States Members in delaying the debate.</p>	<p>N/A</p> <p>Note this response was compiled prior to the release of the report</p>
2	Further sensitivity testing should be undertaken, by Q1 2018, to see how recent trends in the prevalence of certain diseases might impact future demand. Testing should focus on those conditions that consume a high proportion of hospital resources.	H&SS	Accept	<p>The prevalence of the conditions modelled in the Disease Projections 2016–2036 are –</p> <ul style="list-style-type: none"> • predominantly related to lifestyle • diseases of the elderly • managed effectively in primary and community care settings. 	Q1 2018

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
				<p>The ability to model the projected impact of lifestyle changes is challenging due to a lack of consistent evidence of these future changes on demand projections, as well as the current lack of knowledge in technological advancements and services that could actually reduce some of this demand. In short, it is difficult to develop a robust set of assumptions to model these changes.</p> <p>Added to this complexity, we would need to model the ‘conversion rate’ of primary care attenders described in the Report into hospital attenders (out-patients and in-patient attenders) for a large number of primary care attenders for which there is no equivalent hospital primary diagnosis to inform the modelling analysis to do the sensitivity analysis requested. For example, the Hospital does not admit patients with a diagnosis of “obesity” used in the Disease Projections Report, although it will admit patients with sequelae to “obesity”, e.g. diabetes. Similarly, an acute hospital admits very few patients with a primary diagnosis of “diabetes”, but again it is a secondary or tertiary level condition to other primary diagnosis codes.</p> <p>While the recommendation is accepted, the Panel should be alert to the complexity of the work. Project Team advisers (EY LLP) indicate they have not undertaken such work for other Acute Hospital OBCs. The Project Team has initiated work with States of Jersey Public Health colleagues who authored the Disease Project Report, to provide the necessary sensitivity testing.</p>	

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
3	The Minister for Infrastructure must commission a review of parking and a traffic impact assessment specifically in the area of Westaway Court (and approach roads) by Q1 2018.	DfI	Accept	A traffic impact assessment was undertaken and submitted as part of the main Hospital planning application in June 2017. Further information will be provided as part of the detailed planning application for the redevelopment of Westaway Court scheduled for Quarter 1 2018.	Q1 2018
4	A Target Operating Model (TOM) needs to be developed which describes the full range of services to be provided at the new hospital, including all support services and business/ administrative functions. The TOM must provide clarity on those services that will be re-provided in other community and primary care settings, and how they will operate in future. The TOM needs to be completed and published before the end of January 2018.	H&SS	Accept	The information that supports a TOM was developed for the Outline Business Case. The Future Hospital team, working with the Health and Social Services management team, is committed to produce an updated TOM and will scope the requirement for this by the end of January 2018. There will be a need to align with the SoJ TOM and consult internally within the organisation before this is published.	January 2018 Q3 2018
5	A Health Impact Assessment needs to be completed and published prior to the States' debate on the preferred scheme and funding proposals (P.107/2017).	H&SS	Accept	The Health Impact Assessment process commenced in January 2017. It was considered by the Future Hospital Project Board in May 2017. It was accepted by the Future Hospital Project Board in Nov. 2017 and published in Dec. 2017 The final version was issued to the Scrutiny Review Panel on 23rd Nov. 2017.	Completed
6	The Future Hospital Team need to raise awareness of the procurement strategy and the type of contract to appoint the main contractor to ensure understanding. This needs to be undertaken in a series of briefing sessions in January 2018 before the main contractor is appointed.	H&SS	Accept	The form of contract proposed in the approved Procurement Strategy is NEC 3 Option C. Relevant Future Hospital team members not already familiar with this form of contract will be trained on its use, and the Future Hospital Project Board and other key stakeholders will be briefed on its content and usage by the end of January 2018. The Procurement Strategy has been approved, and in the interests of transparency a summary of the Outline Procurement Strategy is included as an Appendix to this response.	January 2018

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
7	The Council of Ministers must provide a strategic policy statement regarding what will happen to the remaining buildings on the hospital site before the debate on the preferred scheme and funding proposals	CoM	Reject	<p>The retained Hospital buildings will continue to function to deliver healthcare until 2025. No specific proposals have been developed for this part of the Hospital on completion of the new facilities, as it will not be available for re-use or development until post-2025.</p> <p>In the long term, it is envisaged that the site may be safeguarded for potential expansion or redevelopment of the Hospital or allied health-related activities.</p> <p>The CoM considers that this is a matter best considered within the context of the next iteration of the Island Plan, which will commence in 2018 and conclude with the adoption of a new Plan by the end of 2020.</p> <p>To make a 'strategic policy statement' at this time is premature, and did not impact on the decision before the Assembly.</p>	N/A
8	Any budget savings resulting from further reductions in inflation assumptions should not be re-allocated to other parts of the project without specific authority from the Treasury and Resources Department.	T&R	Accept	<p>Inflation allowances are not a project contingency, but represent the forecast of future costs.</p> <p>The mechanism for agreeing the release of funds to the project is based on a cash-flow forecast provided to and approved by the Treasury and Resources Department that will incorporate forecast inflation.</p> <p>Proposition P.107/2017 item (f)(iii) requires all unspent monies, including any unspent inflation allowance, to be returned to the Strategic Reserve Fund.</p>	N/A
9	Gleeds (the independent property and construction consultancy who developed the Outline Business Case) have put forward a strategy concerning the delegation and management of contingency and optimism bias. This needs to be implemented by the Future Hospital Team and as such must	H&SS /T&R	Accept	<p>Appendix A to Proposition P.107/2017 sets out the process for operating the Hospital Construction Fund.</p> <p>The Treasurer of the States will issue, with the approval of the Minister for Treasury and Resources, a Financial Direction on the process for the management and release of</p>	When issued

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
	go through the formal approvals process before the end of 2017.			funds from the Risk Allocation. <i>[Paragraph 3.3 of Appendix A to P.107/2017, page 48 refers]</i>	
10	The critical path needs to be kept up to date and published on a monthly basis from December 2017 onwards so that progress can be easily monitored.	H&SS	Accept	The overall programme is updated on a monthly basis to identify the 'critical path' and is reported to the Future Hospital Project Board.	N/A
11	Westaway Court must be included on the critical path. In order to ensure that risks to the critical path are minimised, detailed plans for the demolition and rebuild of Westaway Court must be submitted to support the planning application. This must be completed by the end of January 2018.	H&SS	Reject	A programme for Westaway Court will be included in the integrated programme that contains all the enabling works projects. Westaway Court will only be included on the 'critical path' if it is a critical path matter. The detailed planning application for Westaway Court will be issued in Quarter 1 2018.	Q1 2018
12	The Future Hospital Team need to provide an overall governance chart to give assurances that there are sufficient resources in the form of personnel, skill sets and knowledge base both currently and planned in order to deliver the overall health transformation. This chart should be published during the first quarter of 2018.	H&SS	Accept	A revised governance process and resource organisational chart will be developed and published in Quarter 1 2018.	Q1 2018
13	A medium- to long-term Information Communications Strategy needs to be developed and fully costed which takes into account the plans for the future hospital. This strategy needs to incorporate the wider health transformation programme and the successful delivery of intervention strategies through enhanced levels of care in the community.	H&SS	Accept	A comprehensive medium and long term Communications Strategy will be developed and published in Quarter 1 2018.	Q1 2018

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
14	The Treasury and Resources Department should undertake further stress-testing work based on the revised funding proposals to determine the impact on the Strategic Reserve in certain scenarios. As a starting point, prior to the debate on the preferred scheme and funding (P.107/2017), the Treasury and Resources Department should model the impact of the worst case scenario of a recurring £42 million shortfall in States Revenues over a long-term period. This will mirror the work previously undertaken by the Treasury and Resources Department as highlighted in a report by the Corporate Services Scrutiny Panel (S.R.4/2017).	T&R	Reject	With the level of borrowing almost halving, the need for such stress-testing was no longer relevant. The Treasury Advisory Panel has already requested scenario-testing on all of the major funds under management in order to understand the effects of a “black swan” event.	N/A
15	The Treasury and Resources Department need to publish a clear, coherent and tailored investment strategy for the Strategic Reserve which specifically takes account of the amount and timing of the calls that will be placed on the Strategic Reserve. This strategy needs to be published before the bond is issued.	T&R	Accept	The Minister for Treasury and Resources has published an updated Investment Strategy. The strategy states that following a decision by the States on P.107/2017 then a discussion will be held with our investment advisers as to what the appropriate investment strategy for the Strategic Reserve would be.	Q1 2018

APPENDIX

Jersey Future Hospital – Outline Procurement Strategy

Based on the States of Jersey’s Project Brief, together with the evaluation of the different Procurement Strategies against the Procurement Objectives, consideration of our project objectives, our own and adviser’s professional judgement, the following Procurement Strategy has been established for the project:

Contract Scope:	One single contract for the Main Hospital Works.
Design Responsibility:	RIBA Stage 3 (Developed Design) to be concluded prior to Contract Award. Contractor will take ownership of the entire design, following novation of the design team, which will take place upon completion of RIBA Stage 3 market testing and will be concluded within RIBA Stage 4.
Pre-Selection Procedure:	Pre-Qualification Questionnaire followed by First-Stage Tender.
Tender Strategy:	Two-stage tender including the procurement of the contractor’s preferred mechanical and electrical services subcontractor as part of the Stage 1 tender process. All sub-contract tendering will be managed through the contractor’s portal to which the States of Jersey (SoJ) client team and GMS-led team will have access to provide a transparent sub-contract procurement process. <i>Note:</i> <i>Contractor subscribes to Pre-Construction Services Agreement; Full Contract Award following completion of RIBA Stage 3 market testing. This allows maximum control over design and specification by the SoJ client team and GMS-led team.</i>
Number of Contractors to Tender:	A maximum of 6 for ITT
Tender Period:	PQQ – 4 weeks First-Stage Tender – 8 weeks
Procurement Strategy:	Design and Build
Basis of Invitation Documents:	Employer’s Requirements, incorporating design brief, performance/quality specifications, drawings, and all other supporting Works Information.
Design Consultants:	Design consultants, Hassell and Arup, to be novated to the Contractor at award of Main Contract.
Contract Conditions:	NEC 3 Engineering and Construction Contract
Contract Strategy:	PCSA: NEC 3 ECC Option A – Lump Sum Main Contract: NEC 3 ECC Option C - Target Cost
Risks and Responsibilities:	Risk to be allocated into contractor owned, client owned and client/contractor shared risk categories.
Compliance Monitoring:	Technical Advisors to be provided by GMS following novation to advise on contractor’s design proposals.