

19-21 Broad Street | St Helier
Jersey | JE2 3RR

Deputy Sam Mézec
Chair
Corporate Services Scrutiny Panel

By Email

1st December 2022

Dear Deputy Mézec,

R.154/2022 – A Review of The Our Hospital Project – Scrutiny Review Cost savings

Thank you for your letter dated 24th November 2022, which refers to R.154/2022¹ – A Review of The Our Hospital Project – Scrutiny Review. Please find responses to your questions below:

1. Appendix 5 outlines a number of areas for cost reduction opportunities, based upon the experience of the Principal Expert Adviser in delivering hospital developments elsewhere. An assessment of potential cost savings in terms of percentage of overall development has been applied to the approved £804.5m budget to determine that Option 4 (the hybrid option) could have the largest opportunity for a saving with the lowest capital cost from £635m at today's prices.
 - a. The currently approved option is unaffordable with current estimates £70m to £115m in excess of the £804.5m budget cap approved by the States Assembly. The preferred option following the review, provides an opportunity to control expenditure through phases, resulting in a more affordable programme of delivery, exposing the Government to less risk.
 - b. It is not possible to provide this assurance in the current uncertain economic context. However, this does not change the fact that the single-site Overdale scheme is unaffordable. As highlighted in the review, detailed work is still required to establish better cost certainty and mitigation of financial risks.
 - c. Given that the cost reduction opportunities have been discounted from the £804.5m budget, £635m at today's prices represents a figure which includes some element of optimism and contingency. However, specific allocations are not identified, which will need to be assessed as part of the investment case work. No allowance for inflation is included in this figure.

¹ 'A Review of the Our Hospital Project: Advice to the Assembly About Whether Changes Can Be Made to Deliver a More Affordable and Appropriate Alternative' (R.154/2022), presented by the Minister for Infrastructure, 1 November 2022.

2. Assessments suggest that the cost to deliver the single-site Overdale scheme is currently between £70m - £115m above the approved £804.5m budget, which included contingencies. This is one of the reasons that the scheme is assessed to be unaffordable. This information is commercially sensitive, but I will ask officers to share it with the panel on a private and confidential basis.
3. The Our Hospital Project had reached RIBA design stage 3, which provides a natural break point in the project lifecycle and for the PCSA, which is suitable given global economic circumstances that have led to cost estimates being outside the current funding envelope and the unfavourable borrowing position. The review recognises that additional detailed work is required to develop a revised investment case, so it was prudent to stand down and demobilise the Design and Delivery Partner whilst exploring affordable alternatives, rather than commit to ongoing expenditure.
4. Please see the response to Question 2.
5. It is important to note that the options assessment undertaken as part of the review was based upon a range of strategic criteria, of which operational costs was just one criterion. This is in line with HM Treasury Green Book Guidance that requires all facets of a project are explored. As noted in the executive summary of the review, the review concludes that:
 - A prudent risk management approach can be taken to deliver a more affordable project through a different financing model, and by spreading commitment to spend over a longer period, rather than progressing a single large-scale and high-cost scheme with cost estimates for construction outside the forecasts within the Outline Business Case.
 - Services can be broken over two or more sites to deliver a more appropriate scale of scheme – to ensure that given our island context, the broad range of services delivered by Jersey's Health and Community Services continue to be delivered safely on-island but do not have the same degree of environmental or infrastructure impacts as a single-site scheme.

As noted in the Our Hospital review report, further detailed work is required to produce a robust investment case, that will include consultation with clinicians and an assessment of the resources required and maintenance costs to support the preferred option.

6. The scale of potential cost reduction opportunities in relation to digital is based upon the experience of the Principal Expert Adviser in delivering hospital developments elsewhere. Further work will be required to provide better certainty of the costs that may be saved due to utilising digital technologies .

7. As noted by the Minister in WQ.292/2022² recent volatility experienced in financial markets and the subsequent impacts on long-term interest rates mean that the funding strategy for as set out P.80/2021 would need careful review before committing to any borrowing, this includes a more detailed assessment of forward-looking investment strategy and projected returns.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'I. Gorst', with a long horizontal stroke extending to the right.

Deputy Ian Gorst
Minister for Treasury and Resources

² [wq.292-2022.pdf \(gov.ie\)](#)