THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

9th October, 2023

Proposition No. P.2023/101

Policy & Resources Committee

Funding & Investment Plan

AMENDMENT

Proposed by: Deputy A H Brouard
Seconded by: Deputy T L Bury

To replace Proposition 4 (Scenario 1) as follows:

"4. To agree that the States shall, with the exception of Our Hospital Modernisation Programme – Phase 2 and associated works, limit investment in public infrastructure to critical investment only until such time as measures are agreed to address the structural deficit and to:

a. adopt Portfolio 1, capped at £340m (including the in-flight schemes and including a contingency of £30m to cover any additional inflationary pressures) as the agreed capital investment portfolio for the remainder of this term, subject to the following amendments;

   (i) substituting the sum of "£340m" for "£190m" where references in the policy letter to funds available in respect of Scenario 1 appear;
   (ii) reading Scenario 1 and Appendix 2 and Appendix 5 in the context of the revised capped figure of £340m in (i);
   (iii) inserting 'Our Hospital Modernisation Programme – Phase 2 and associated works at an estimated cost of £120m', as 'Do as Planned' works in Portfolio 1 in Scenario 1 (shown on page 5 of Appendix 1);

b. fund the amendments to Portfolio 1 of Scenario 1 set out above by either Option 1, 2, 3 or 4 of c. below;

OPTION 1:

"

c. agree that, on the basis that funding available is insufficient to fund the amended Portfolio 1, new borrowing should be taken out to support the funding of capital expenditure.

and to authorise the Policy & Resources Committee to implement these agreed measures and direct it to return to the States by September 2026 with proposals for addressing the deficit and putting the finances of the States into a sustainable position."

OR, IF OPTION 1 IS NOT APPROVED:

OPTION 2:

"

c. agree that, on the basis that funding available is insufficient to fund the revised Portfolio 1, new borrowing should be taken out to support the funding of capital expenditure, in addition to a maximum of £46m from the Guernsey Health Reserve, to contribute to the funding of the Our Hospital Modernisation Programme – Phase 2.

and to authorise the Policy & Resources Committee to implement these agreed measures and direct it to return to the States by September 2026 with proposals for addressing the deficit and putting the finances of the States into a sustainable position."

OR, IF OPTION 1 OR 2 IS NOT APPROVED:

OPTION 3:

"

c. agree that, on the basis that funding available is insufficient to fund the revised Portfolio 1, new borrowing should be taken out to support the funding of capital expenditure, in addition to a maximum of £90m from the Guernsey Health Reserve, to contribute to the funding of the Our Hospital Modernisation Programme – Phase 2.

and to authorise the Policy & Resources Committee to implement these agreed measures and direct it to return to the States by September 2026 with proposals for addressing the deficit and putting the finances of the States into a sustainable position."

OR, IF OPTIONS 1, 2 OR 3 ARE NOT APPROVED:

OPTION 4:

"

c. to agree that a maximum of £90m from the Guernsey Health Reserve can be utilised to contribute to the funding of the Our Hospital Modernisation

Programme – Phase 2 to enable this work to proceed and to be supplemented by the General Revenue reserve and/or through the use of funding to be set aside for capital expenditure in future years.

and to authorise the Policy & Resources Committee to implement these agreed measures and direct it to return to the States by September 2026 with proposals for addressing the deficit and putting the finances of the States into a sustainable position."

Rule 4(1) Information

a) The propositions contribute to the States' objectives and policy plans by delivering on the action in the Government Work Plan, in particular the strategic portfolio for sustainable health and care services.

b) In preparing the proposition(s), consultation has been undertaken with the Policy & Resources Committee.

c) The proposition(s) have been submitted to His Majesty's Procureur for advice on any legal or constitutional implications.

d) The financial implications to the States of carrying the proposal into effect are for additional borrowing to be taken to fund the Phase 2 development of the Princess Elizabeth Hospital and/or the use of reserves currently held within the Guernsey Health Reserve. This will impact on the long-term revenue position of the States, as described in the explanatory note, and any new borrowing will need to be serviced through revenue sources.

Explanatory note

This amendment provides for the "Our Hospital Modernisation Programme (OHMP) – Phase 2 and associated works" to be inserted into the capital portfolio in Scenario 1 as "Do as planned" works (as shown on page 5 of Appendix 1).

The capital investment into OHMP - Phase 2 will support the long-term sustainability of the delivery of health and social care for the Bailiwick community and represents a generational investment in the Princess Elizabeth Hospital campus. Phase 2 will deliver essential facilities to respond to the needs of the ageing demographic, to meet future demands in high pressure areas and will provide for greater resilience of acute care services. The development will also help to drive more efficient working practices, enable better care pathways to be developed and support the mitigation and management of key clinical risks. It is important for Phase 2 to proceed without further delay.

In line with the assumptions set out in the Funding & Investment Plan, the estimated cost of OHMP - Phase 2 is £120m. The propositions are drafted with reference to this figure and the proposed replacement proposition 4 a. also includes contingency of £30m to take account of any additional inflationary pressures across Portfolio 1 in Appendix 1 (as amended).

The amendment proposes four options for funding this addition to the capital portfolio in Scenario 1. The Options are presented in order of preference, meaning that Option 1 – to take new borrowing – is the preferred approach for funding OHMP – Phase 2. Only if Option 1 is not supported would consideration need to be given to Option 2, moving on to Option 3 should Options 1 or 2 not be supported, and so on.

It is not preferable to utilise the Guernsey Health Reserve to fund the Our Hospital Modernisation Programme – Phase 2, but it is considered essential for Phase 2 to be incorporated into Scenario 1 and for all possible avenues in terms of funding to be available to the States at this stage.

As set out in the Funding & Investment Plan, the Guernsey Health Reserve had a balance of £112m at the end of 2022. The use of up to £90m from the Guernsey Health Reserve for OHMP – Phase 2 (as per Scenario 2) would leave some funds for NICE TAs before this cost is later absorbed into General Revenue as always envisaged, together with meeting the cost of several of health initiatives, such as tackling waiting lists.

The effect of Option 1 would be for the States of Guernsey to take new borrowing to provide the necessary funds available to allow the Phase 2 development of the Princess Elizabeth Hospital to continue. Options 2, 3 and 4 provide for the use of funds held within the Guernsey Health Reserve: £46m in Option 2, £90m in Option 3, to be supplemented by new borrowing and £90m in Option 4 to be supplemented by the General Revenue reserve and/or from the allocation to be set aside for capital expenditure in future years.

The modelling assumptions and financial implications of these Options are described below.

Please note that this modelling has been undertaken based on assumptions which have not all been verified and in a timeframe which has not allowed the degree of consideration, scrutiny and review that would normally be given to modelling of this type. There has been limited time for the identification, consideration and modelling of the possible implications of the revised assumptions. Therefore, any model outcomes should be treated as indicative only.

In closing, there is some additional commentary relating to the maintenance of capital spending at 2% of GDP and the impact of this amendment on funding requirements.

<u>Assumptions relating to Options 1, 2 3 and 4:</u>

The modelling assumptions for Options 1, 2, 3 and 4 are based on Scenario 1 except for the changes below:

1. The cost of "Our Hospital Modernisation – Phase 2 and associated works" are included.
2. An additional capital contingency of £30m is added.
3. No other capital savings are included.
4. The Revenue Impact of Capital Expenditure (RICE) costs relating to OHMP - Phase 2 are included.
5. In addition, it is assumed that the spend from 2026 onwards for next term's capital is set at 2% of GDP plus the cost of OHMP - Phase 2 (rather than 2% of GDP as per scenario 1). While it is unknown what the future capital spend is likely to be and this will depend on the priorities of future terms of government, this is considered an appropriate planning assumption in this scenario where a commitment to OHMP - Phase 2 is prioritised in this political term.

As a result, the total portfolio is costed at c£340m.

A variety of funding options as set out in Options 1, 2, 3 and 4 in the amendment are explored below.

1. Funding by way of new borrowing;
2. To fund using a combination of £46m from the Guernsey Health Reserve and borrowing;
3. To fund using a combination of £90m from the Guernsey Health Reserve and borrowing; and
4. To fund using a combination of £90m from the Guernsey Health Reserve and General Revenue monies and/or an allocation from the funding to be set aside for capital expenditure in future years.

In each Option, the level of borrowing is the amount that is required to maintain the reserves broadly in line with the projections from Scenario 1 in the Funding & Investment Plan.

<u>Option 1</u>

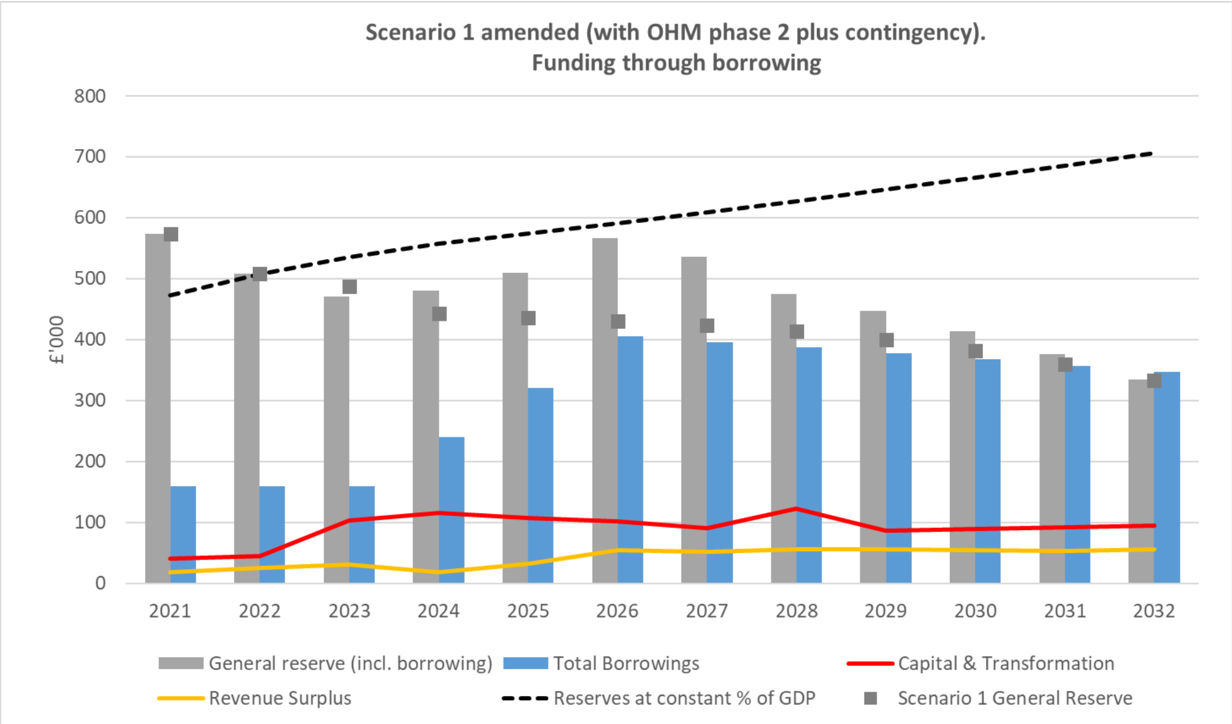
Funding Assumptions:

- NICE TAs continue to be funded from the Guernsey Health Reserve until end 2032. The modelling allows for annual expenditure of £5m per annum for NICE TAs, but this is subject to a review.

- £250m of new borrowing is assumed, drawing down over 2024-2026 with capital repayments assumed to start from 2027.
- This is the amount required to maintain closing reserves by 2032 at a level broadly similar with Scenario 1 of the Funding & Investment Plan.

Modelling Outputs:

- The net revenue surplus is very similar to scenario 1: insufficient to afford long term capital requirements and not sustainable in the long term.
- New borrowing costs are estimated to increase as the borrowing is drawn down, increasing to c£13m per annum by 2027.
- The total new borrowing interest costs to end 2032 are £99m.
- Repayment is calculated as ranging from c£3.4-£4.4m per annum assumed from 2027-2032.
- The Guernsey Health Reserve is as per Scenario 1, with the 2032 closing balance projected as £46m.
- The original modelling for Scenario 1 illustrating the closing reserve balances are illustrated by grey dots in the chart below for comparative purposes.
- The blue bars (closing borrowing) include the new borrowing.



<u>Option 2:</u>

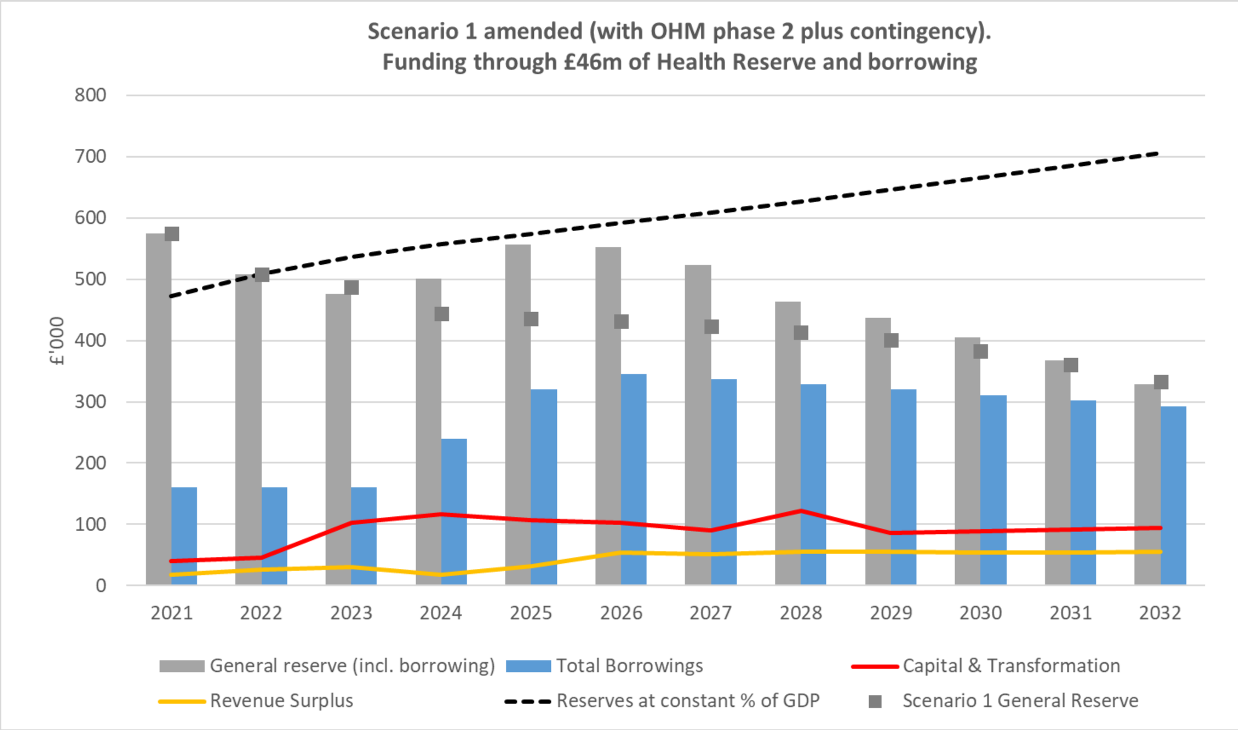
The closing balance of the Guernsey Health Reserve at the end of 2032 is expected to be £46m. In line with the approved use of the Reserve, it is suggested that this forecast balance could be utilised to provide some of the capital funding required for OHMP Phase 2 to proceed.

Funding Assumptions:

- £46.1m of capital funding for OHMP - Phase 2 is funded from the Guernsey Health Reserve.
- NICE TAs continue to be funded from the Guernsey Health Reserve until end 2032. The modelling allows for annual expenditure of £5m per annum for NICE TAs, but this is subject to a review.
- £190m of new borrowing is assumed, drawing down over 2024-2028 with capital repayments modelled to start from 2029.
- This is the amount required to maintain closing reserves by 2032 at a level broadly similar with Scenario 1 of the Funding & Investment Plan.

Modelling Outputs:

- Net revenue surplus before financing costs is very similar to scenario 1: insufficient to afford long term capital requirements and not sustainable in the long term.
- New borrowing costs are estimated to increase as the borrowing is drawn down, increasing to c£13m per annum by 2027.
- The total new borrowing interest costs to end 2032 are £79m.
- Repayment is calculated as ranging from c£2.5-£3.3m per annum assumed from 2027-2032.
- The Guernsey Health Reserve would be depleted by end 2032 and after that NICE TAs would need to be funded by General Revenue.
- The original modelling of Scenario 1 closing reserve balances are illustrated by grey dots in the chart below for comparative purposes.
- The blue bars (closing borrowing) include the new borrowing.



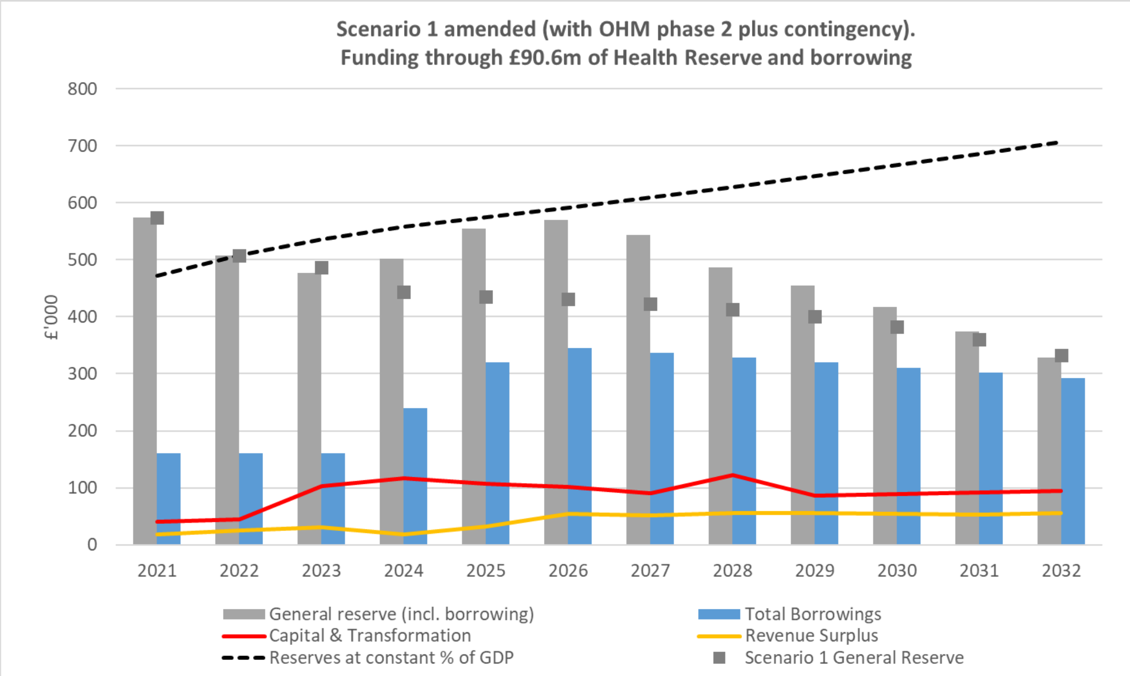
Option 3:

Funding Assumptions:

- £90.6m of capital funding for OHMP - Phase 2 is funded from the Guernsey Health Reserve;
- It has been assumed the NICE TAs, which are currently funded from the Guernsey Health Reserve, would be funded from General Revenue from the end of 2024;
- £190m of new borrowing is assumed, drawing down over 2024-2028 with capital repayments modelled to start from 2029;
- This is the amount required to maintain closing reserves by 2032 at a level broadly similar with Scenario 1 of the Funding & Investment Plan.

Modelling Outputs:

- The net result by 2032 on General Reserve the same in funding Option 2 above, as the Guernsey Health Reserve is still being used to the same degree, the only difference is whether it is used for health project funding, or NICE TAs.
- While the closing balances by 2032 are projected to the same as in Option 2 above, there would be a difference on the phasing depending on the timing of the expected uses of the Guernsey Health Reserve and the amount that therefore needs to be funded by General Revenue.



Option 4:

This Option provides for the use of £90m of funding from the Guernsey Health Reserve to enable the Phase 2 redevelopment to commence and for the shortfall in funding to be drawn from General Revenue and/or through funding from the allocation to be set aside for future capital expenditure. This is on the basis that payments for the Phase 2 works would be made over several years between 2024 and 2030 (depending on the start date), meaning that additional funding to supplement the £90m from the Guernsey Health Reserve would not be required until the latter stages of Phase 2.

Comparison: maintaining 2% of GDP restriction in the future

The Scenarios above assume that the capital spend for 2026 onwards for next term's capital is set at **2% of GDP plus the cost of OHM Phase 2.**

However, if the next term's capital spend was restricted to 2% GDP **including** OHM phase 2 this would change the funding requirements.

Based on the estimated phasing of OHMP - Phase 2 this would reduce the capital funding assumed to be required for subsequent political terms by £70m compared to the versions above.

2% future capital restriction/Funded by Borrowing

In this situation, and by funding entirely by borrowing, borrowing of £150m would be required to maintain closing reserves by 2032 at a level broadly similar with Scenario 1 of the Funding & Investment Plan.

New borrowing costs are estimated at £8m per annum and the total new borrowing interest costs to end 2032 are £64m.

2% future capital restriction /Part Funded by the Guernsey Health Reserve and Borrowing

In this situation (to fund using a combination of the Guernsey Health Reserve and borrowing) would require borrowing of £100m to maintain closing reserves by 2032 at a level broadly similar with Scenario 1 of the Funding & Investment Plan.

New borrowing costs are estimated at £5.5m per annum and the total new borrowing interest costs to end 2032 are £45m.