

FRIENDS OF OUR NEW HOSPITAL

P O Box 442

Jersey JE4 5RE

A Non-Profit Organisation NPO1277

Email: Friends@ournewhospital.org.je

Website: <https://www.ournewhospital.org.je/>

To Our Friends of Friends

Bulletin 9:

How Our Healthcare is Funded

22 February 2021

©Copyright Friends of Our New Hospital 2021

Introduction

Concerns about the new Jersey Care Model (JCM) were discussed in Bulletin 8 and here we look at the financial implications.

The JCM report said there would be a need to develop and implement a sustainable model for health and social care by 2025. In this Bulletin, we raise concerns about financial aspects generally, not just in relation to the aspirations to reform health care provision in Jersey but also the cost of the hospital at a time when the economic impact of Covid is of concern and the full effects of Brexit are still to be worked through.

Developing the Jersey Care Model

The first three years of the JCM is estimated to cost £28.1million but with the promise that this will produce savings of £874 million in the Health Budget by 2036, offset by £679 million to be spent on new services and the expansion of some existing services, giving a net saving of £195 million. The savings are to be achieved largely from reductions in services currently paid out of the Health budget, which is, of course, only part of the overall Island expenditure on health care. Health expenditure is a bit like a balloon - if you squeeze one area, it pops out in another. We doubt whether savings of this level can be achieved across the whole healthcare system.

The Cost of the New Hospital

Against this, we have a projected cost of the new hospital at £804.57 million. No details of how this money will be raised have yet emerged, although the intent seems to be to borrow around £500 million and use the States Strategic Reserve (the 'rainy day' fund) for the rest. Repaying that half billion pounds with interest will be a huge drain on health's budget over an extended period. It will be interesting to see what is actually proposed (States debate not planned until the summer), how much is to be borrowed, at what interest expense and over how many years. We can make some assumptions to illustrate potential costs.

The new hospital has a planned life of 40 years from 2026, when it is scheduled to be opened. Using the methodology for the funding of the Future Hospital in March 2018¹, we looked at the current Gilts market for a 30-year issue, which is 1.7%. This would give a cost of 2.7% and assessed a 40-year hospital bond at 2.07%, which in turn gives an annual interest rate of just over £10 million. At the end of that period the so-called 'bullet' of the original sum of £500 million borrowed would then have to be repaid or re-financed. One option discussed in this report was to put an amount in a ring-fenced fund so that there would be sufficient to repay the debt at the end. Over a 40-year period that would mean putting away an annual sum of more than £10 million, depending on how it was invested. So, in

¹ <https://statesassembly.gov.je/assemblyreports/2018/r.17-2018.pdf>

very basic terms, annual costs of over £20million for a loan that would only cover part of the cost of the new hospital.

In 2018, the affordability of a similar interest fund was acceptable, as it was believed that the interest from the States Strategic Reserve would exceed the interest on the bond. However, a lot has changed since then, including the apparent plan to use the strategic reserve to cover the difference between the bond and the estimated project cost of £805 million. Add the uncertainties of Brexit covering our existing economy and the drawdown on the £500 million facility to cover the Covid 19 pandemic it remains to be seen how that sum will be paid back.

Another concern is that the Functional Brief, released on 8th February, is for an Acute Hospital and not a General Hospital that we have now. There will be no room to manoeuvre if the new Health Care Strategy (the JCM) runs into difficulties.

Is the Hospital Build Value for Money?

It seems that money is literally being thrown at this project. Contracts have been signed with the developers before any plans have been drawn up for the hospital, let alone any Planning permission being granted. Apparently, there was an invitation to tender, but as no details were published, we do not know whether the Government has negotiated a fair deal. On the face of it, we are paying dearly, as is shown in the tables below, reference and drawn up on our behalf by the retired principal of a major Jersey builder with 54 years of experience as a Manager and Cost Estimator.

The following table sets out the average Hospital build costs in 2018-2021 adjusted for inflation and the additional Jersey costs:

<u>Source: www.statista.com/statistics/601817/hospital-building-cost-uk/</u>	<u>£/m²</u>	<u>Inflation 2018-2021</u>	<u>£/m² plus Inflation</u>	<u>Weighting Jersey (1)</u>	<u>Adjusted Jersey £</u>
Southern UK Hospital Build Cost 2018	3,360	6%	3,562	12.5%	4,008
Adjusted UK Hospital Build Cost 2021	4,150	0%	4,150	12.5%	4,669

Footnote:

1. Jersey weighting = UK material costs + freight + Jersey labour cost differential.

The following table compares the average UK Hospital Build Cost with the Government's announced contract commitment to ROK/FCC for the Design & Build of the new Jersey Hospital:

	<u>Hospital m² (1)</u>	<u>Contract £million (1)</u>	<u>Cost £/m²</u>	<u>UK Cost £/m²</u>	<u>ROK/FCC Variance £</u>	<u>Variance %</u>
ROK/FCC D&B Contract	66.847	412.2	6,163	4,669	1,494	24.2

Footnote:

1. States of Jersey, P.123 2020 Our Hospital Site Evaluation Report, Executive Summary.

It seems apparent that we are paying 24% over UK Hospital Build costs. Why?

Primary Health Care

The JCM report is very vague on changes to the primary care sector - GPs, pharmacists, dentists and opticians, who all operate privately, and charitable organisations like Family Nursing and Home Care (FNHC) and Hospice.

Financial support towards the cost of GP consultations and prescription is made through the Health Insurance Fund (HIF) - a contributory Social Security fund into which earners pay 2% of their Social Security contributions. It is from this Fund that the full cost of prescriptions is currently paid and, most importantly, your GP consultation fee is subsidised. The co-payment for doctor's visits from the Fund is £20, an amount that has not been increased for the last decade despite the previously accepted policy of annual reviews.

The Health Insurance Fund

The HIF was founded under the Health Insurance Law (Jersey) 1967. The aim of the Fund was to pay at least half the cost of prescriptions and doctors' visits. The Fund was previously built up to the equivalent of about three years expenditure to even out the peaks and flow of demand and projected demographic changes. Its whole purpose was to ensure that Islanders could afford to visit their doctor and pay for prescriptions and was originally based on the New Zealand system although it is common in Europe, Australia and elsewhere

Clearly, as Doctors fees have increased to meet their rising costs, the amount patients have to pay has increased substantially, no doubt causing hardship for many.

This Fund has long been coveted by Health and Community Services (HCS). At the start of the Covid 19 pandemic £4.3 million was taken from it to fund the Urgent Treatment centre (UTC) in the hospital between April and early August. On 17th December, a report and proposition P156/2020 was passed and, as a result, an initial £11.3 million was agreed to be transferred from the HIF to cover the first year's costs of the bureaucratic development of the JCM during 2021, from a proposed total of £28.1 million (set out in the 493-page JCM proposal document). This included the first year of the digital care strategy, designed to create digital health and care services, such as hospital patient records, which were announced as being in operation on 27th January 2021. The government is committed to seek further transfers from the HIF between 2022 and 2024 for as yet unspecified expenditure on developing the JCM

What this means is that your HIF is being systematically drained and not for the purposes originally prescribed in Law. Meanwhile the co -payment for your GP visit has been frozen for a decade.

It is simply wrong to continue to take this expenditure from the HIF, rather than from General Revenues and be part of the normal budget process. It is a matter of record that the HIF is referred to on Page 78 of the Government Financial Report and Accounts 2012, which states that: "The HIF is a special fund which falls outside of the States of Jersey Group Boundary". It is very important that the HIF is maintained for its primary purpose and is not used as a form of 'magic money tree'.

There is no intent, that we know of, to repay any of this back into the Health Insurance Fund from the supposed savings. More worryingly, the States approved a Law which effectively tries to circumvent the main Health Insurance Law² and is certainly not in the spirit of that Law. By any standards, this is sharp practice, not good governance, yet the political process at the time failed to recognise and understand the implications of what they were approving. How can we trust our Government to manage ring fenced funds like HIF and the Social Security Fund, which largely pays for your Social Security pension? The matter has been raised with the Auditor General and we are awaiting a response.

² The Health Insurance Fund (Miscellaneous Provisions) (Jersey) Law 2011

Support for the Less Well Off

In June 2019 Deputy Geoff Southern brought a Report and Proposition P125/2019 calling for the Minister of Health to come up with a plan to fund, or at least ameliorate, the cost of healthcare for those on low incomes and who are disadvantaged. It was voted on and accepted by the States Assembly, calling for the Minister of Health to bring forward a scheme to the States Assembly on the third quarter of 2020, and, if approved, for the scheme to be implemented at the start of FY 21 in January 2021.

In February 2020 Deputy Southern brought back P125/2019 to the States for further clarification on the action being developed by the Health Minister to deliver it. In response the Health Minister introduced P80/2020, which basically, using the Covid 19 pandemic as an excuse, called on P125/2019 to be set aside and, although the commitment was recognised within the Government Plan, to delay its implementation.

The Arrival of the Health Assistance Scheme (HAS)

However, on 3rd December 2020 the Health Minister revealed his response³ to P125/2019 with the creation of the HAS⁴ for implementation from 11th December 2020, funded by the HIF.

The HAS will mean those who are receiving Income Support or Pension Plus are able to receive the care they need at reduced rates with children in income support households receiving free surgery appointments. Previously, there had been provision in the Income Support system for some free health care (that system amalgamated all the many means tested benefits, including the Health Insurance Exemption Scheme, which had provided for certain free care.)

How this fits into the new system is not explained and seems to be more out of political expediency than planned reform.

Summary

It is a worrying situation when your government is seemingly unconcerned about the cost of a new hospital in these difficult times when businesses are having to take drastic action to survive. It is also concerning that ring fenced funds are being used for purposes for which they were not intended. Investment of funds in the new hospital provision (Secondary Care) is being made at the expense of affordable GP care (Primary Care) for which the HIF was set up.

“Friends of Our New Hospital”

The Friends Steering Group

Tom Binet, Graham Bisson, Ann Esterson, Peter Funk (Interim Chair),
Andy Howell, Stephen Regal, Tamara Vanmeggen, Mary Venturini, Bruce Willing CBE

³ <https://statesassembly.gov.je/AssemblyHansard/2020/2020.12.17%20States%20-%20edited%20transcript%20FINAL.pdf>

⁴ <https://www.gov.je/Health/DoctorDentist/Doctors/Pages/HealthAccessScheme.aspx>