P.2023/101 Amdt 4

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

17th October 2023

Proposition No. P.2023/101

Policy & Resources Committee

Funding & Investment Plan

AMENDMENT

Proposed by: Deputy Heidi JR Soulsby
Seconded by: Deputy Gavin A St Pier

To delete all the propositions and substitute therefor:

1) To reaffirm that, for modelling purposes, the Policy & Resources Committee should use the targets established and approved as policy by the States or through direction by Committees, including the targets for population growth and investment returns set out in Appendix 1.

2) To note that the States is under resolution as agreed in Tax Review: Phase 2, Billet d'Etat III, Article 2022/112 dated 30th January 2023, that the longer-term financial position of the States of Guernsey is unsustainable and effective measures must be implemented in a *staged approach* to mitigate challenges, particularly those arising from an ageing demographic with increased health and care needs, requiring:

   - Delivery of expenditure restraint, savings and revenue raising;
   - The identification of a longer-term vision for Guernsey and an accompanying economic, social and environmental model;
   - The consideration of alternative funding models for capital projects;
   - The development and delivery of revised health and care models; and

   to agree that the work associated with this issue is a very high priority for government, and resources need to be re-prioritised accordingly.

3) To agree to invest in the policy, strategies and plans approved as part of the Government Work Plan over the remainder of this term of government.

Expenditure restraint and revenue raising

4) To direct the Policy & Resources Committee to prepare the States of Guernsey Annual Budget for 2025 to include a £4m real-terms reduction in revenue expenditure.

5) To direct the Policy & Resources Committee to apply the OECD Pillar 2 initiative setting an effective rate of tax of 15% to companies with global revenues of more than €750m, raising a minimum of £10m per annum from 2025.

6) To direct the Policy & Resources Committee to implement vehicle and parking taxes raising an estimated £10-£15m per annum (includes corporate parking, parking and vehicle/road taxes) from mid-2025.

7) To direct the Policy & Resources Committee to implement by 2026 further measures to increase revenue by £10m per annum from the corporate sector including review of the Guernsey Registry Fees, introduction of an additional levy and any feasible adjustments to the 0-10 regime.

8) To direct the Policy & Resources Committee to implement an Open Market inscriptions policy as developed by the Committee for the Environment & Infrastructure, pursuant to the Population and Immigration Policy Review Policy Letter dated 5th September 2022.

9) To direct the Policy & Resources Committee, pursuant to Resolution 11 of Billet d'Etat III, Article 2022/112 dated 30th January 2023, to progress the introduction of a tourism levy to raise a minimum of £2m from 2025.

10) To direct the Policy & Resources Committee, as from 2025, to increase the current personal tax caps of £150,000 and £300,000 to amounts that the Committee believes are appropriate, taking into account the need to generate additional revenue and making income tax more progressive and to ensure that any increased caps do not unduly negatively impact Guernsey's competitive position particularly, with regard to Jersey.

11) To direct the Policy & Resources Committee to implement an additional real terms increase of £1m per annum of budgetary revenue raising measures.

Capital expenditure and reserves

12) To reaffirm that the States should continue with, until further policy is developed, Principle 6 of the Fiscal Policy Framework approved in January 2020 that capital

expenditure over any States term should be maintained at a level which reflects the need for long and medium term investment in infrastructure and direct capital expenditure by the States should average no less than 1.5% of GDP per year averaged over a four year period and 2% per year averaged over any eight year period.

13) To direct the Policy & Resources Committee to prioritise housing and thereafter to reprioritise the capital portfolio (of 'in-flight' projects and those outlined in Scenario 3) to fit into the capital expenditure envelope outlined in Proposition 6) having given specific consideration to the capacity of: the construction industry; other relevant contractors; the States to deliver capital projects; and the timing of delivery of capital projects.

14) To agree that Our Hospital Modernisation ('OHM') programme aligns with the criteria under which the Guernsey Health Reserve has been created and agree that the majority of the Guernsey Health Reserve can in principle be used to help fund the OHM programme between 2024-2032 and to ring fence at least £50m of the reserve for that purpose and release it as required based on the capital spending timeline developed by the Committee for Health and Social Care to 2030.

15) To agree to maintain the level of the General Revenue Reserve this political term which acts as one of the determinants of Guernsey's credit rating.

16) To agree that, based on Scenario 4, up to £100m of borrowing may be required to help finance capital expenditure, and to reduce the maximum new borrowing authorised in Resolution 16 on item 1, entitled "Government Work Plan 2021-2025, 2021/71", of Billet d'État No XV dated 21st June 2021 from £200m to £100m.

17) To agree that the employer contribution rate in respect of the defined benefit scheme part of the States of Guernsey Superannuation Fund be decreased to 0.00% for the period 1 January 2024 to 31 December 2026 having regard to the Fund being 107% funded based on the 2020 actuarial valuation, making around £76m available to fund capital expenditure and GWP priorities.

Conclusion

18) To note that, following the amendment to the Tax Review: Phase 2, Billet d'Etat III, Article 2022/112 dated 30th January 2023, the States directed the Policy & Resources Committee to undertake a series of workstreams to explore various savings and revenue raising opportunities and to report back on the impact of measures arising from these propositions by June 2026 and any measures necessary to address the sustainability of the financial position and to agree that, when reporting back at that date, to include the impact of the additional measures as set out in the above propositions.

19) To direct the preparation of such legislation as may be necessary to give effect to the above decisions."

Rule 4(1) Information

a. The proposition contributes to the States' objectives and policy plans by delivering on the action in the Government Work Plan to agree a sustainable taxation policy.

b. In preparing the propositions, there has been active consultation with the Treasury team.

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

d. These proposals represent a significant saving of approximately £90m compared to the F&IP Scenario 3 by avoiding, during this phase, the cost of introducing GST arising from the introduction of new tax collection requirements, lowering income tax, increasing allowances, uprating of benefits and States pension and the worsening of the States' employee pension fund position equivalent to £50m due to GST induced inflation (Appendix 2).

Explanatory Note

This amendment builds on the *staged approach* developed by the The Fairer Alternative proposals to present a pragmatic, realistic and politically deliverable package of measures to address the States' short and medium-term fiscal position, reversing the trend of the current unsustainable path, while investing responsibly in GWP actions and capital projects and placing the States in a good position to address the longer-term issues in the next political term.

The F&IP Scenario 1, as the 'do nothing' option is unacceptable as it only puts off decisions that need to be made. Scenarios 2 and 3 are reliant on significant capital expenditure in the short term supported by borrowing but at the same time require substantial spending from reserves before any means of replenishing them is in place. Scenario 2 commits to significant and immediate spending but without a good package of measures to address the funding gap and Scenario 3 depends on the introduction of a GST, which will come at considerable cost and likely to be uncertain if not already in place before the next election, by which time the liability of taking on borrowing may have been incurred.

The various aspects of this amendment are set out below.

1) Sets out a revised modelling scenario in accordance with States' policies on population, fiscal framework and investment returns as set out in Appendix 1.

2) Builds on the staged approach developed by The Fairer Alternative proposals and as approved in February providing a phased, pragmatic, realistic and politically deliverable package of measures.

3) Greenlight to unlocking funding for all GWP initiatives.

Expenditure restraint and revenue raising

4) Continues the Budget Restraint measures for the 2024-2025 period proposed by The Fairer Alternative and eventually adopted by P&RC as part of the 2024 Budget process taking into account the ongoing underperformance of expenditure against budget.

5) to 11) Propose a package of non-GST revenue raising measures equalling up to £40 million building on projections and methodology developed by F&IP, EY and the earlier Fairer Alternative proposals.

12) Reaffirms extant fiscal policy on capital spending providing an ambitious but realistic envelope of capital expenditure up to £840m between 2023-2032.

13) Affirms the importance of housing for capital expenditure, acknowledges limited capacity and the importance of working within the fiscal policy and subsequent need to rescope or rephase work if necessary.

14) Makes it clear that the Guernsey Health Reserve can be used for OHM Phase 2.

15) Acknowledges the importance of liquidity and hence maintaining the level of General Revenue Reserve, which can be assisted through limited borrowing.

16) Sets borrowing authority at £100m.

17) Scenario 3, through the introduction of GST would have a negative impact on the Public Sector Pension Scheme of £50m. This proposition takes advantage of the fact there is a surplus in the fund that can be used to the benefit of the community.

Notes what was approved in February and adds the impact of the work instructed to be carried out by the above propositions.

Appendix 1 - Scenario 4 modelling

The following has been developed by Treasury on the basis of propositions contained in this amendment.

Effect of 300+ population growth on general revenue and contributory funds.

In £m:	2024	2025	2026	2027	2028	2029	2030	2031	2032
General Revenue									
GR Tax adjustment for +300	£0.96	£2.02	£3.18	£4.45	£5.81	£7.28	£8.84	£10.50	£12.25
GR cost adjustment for +300	-£1.14	-£2.19	-£3.16	-£4.05	-£4.86	-£5.67	-£6.51	-£7.37	-£8.27
Net change	**-£0.17**	**-£0.17**	**£0.02**	**£0.40**	**£0.96**	**£1.61**	**£2.34**	**£3.13**	**£3.98**
Contributory Funds									
SSC adjustment for +300	£0.35	£0.73	£1.15	£1.60	£2.10	£2.62	£3.19	£3.79	£4.42
SSC cost adjustment for +300	£0.00	£0.00	£0.00	-£0.01	-£0.02	-£0.03	-£0.05	-£0.07	-£0.09
Net change	**£0.35**	**£0.73**	**£1.15**	**£1.59**	**£2.08**	**£2.59**	**£3.14**	**£3.72**	**£4.33**
Total Change	**£0.18**	**£0.56**	**£1.17**	**£1.99**	**£3.04**	**£4.20**	**£5.48**	**£6.85**	**£8.31**

Table 1. Population growth modelling on general revenue, expenditure and social security.

Effect of 300+ population growth on capital expenditure

In £m:	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
Capex adjustment for +300	**-£0.12**	**-£0.25**	**-£0.39**	**-£0.55**	**-£0.72**	**-£0.90**	**-£1.09**	**-£1.30**	**-£1.52**

Table 2. Population growth modelling on capital expenditure assuming it's 2% of GDP.

10-year projections

Please note that the 10-year table below does not currently include Proposition 3 - the inclusion of a £4m real-term reduction in the 2025 Annual Budget. This was omitted during modelling requests. This means that the overall operating surplus position would be £4m better than indicated below.

The projections also do not take account of any changes to the Social Security Contribution policy, which will be dealt by the Committee for Employment and Social Security separately through their Contributory uprating policy also lodged for debate in October.

General Revenue

£m	10 YEAR PROJECTIONS									
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
General Revenue Income	593	595	598	602	604	607	609	611	614	618
General Revenue Expenditure	556	568	572	574	579	585	591	597	602	607
Revenue Surplus	**38**	**27**	**26**	**29**	**25**	**22**	**18**	**15**	**12**	**11**
States Trading Assets	(4)	(3)	(2)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Capital Income	3	1	1	1	1	1	1	1	1	1
Adjusted Operating Surplus	**37**	**25**	**25**	**29**	**25**	**22**	**18**	**15**	**12**	**11**
+300 Population Assumption	0.0	(0.2)	(0.2)	0.0	0.4	1.0	1.6	2.4	3.1	4.0
Brexit	(0.5)	(0.6)	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Priority Actions	(1.9)	(6.1)	(5.9)	(4.0)	(3.5)	(2.9)	(2.9)	(2.9)	(2.8)	(2.8)
Revenue Impact of Capital Expenditure	(2.3)	(2.8)	(2.8)	(3.2)	(5.5)	(2.7)	(2.3)	(2.3)	(2.3)	(2.3)
Next Term's GWP	0.0	0.0	0.0	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
IT resilience costs	(1.0)	(1.6)	(2.0)	(2.5)	(2.8)	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)
Savings Target	0.0	2.5	4.0	5.5	7.0	8.5	10.0	10.0	10.0	10.0
Pension Contribution Holiday	0.0	26.2	26.2	26.2	0.0	0.0	0.0	0.0	0.0	0.0
Budget income measures	0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0
Tax Measures	0.0	0.0	10.0	25.0	35.0	40.0	40.0	40.0	40.0	40.0
Inflation	0.0	1.5	3.4	6.6	6.5	9.2	11.0	12.5	14.2	16.3
Operating Surplus before Financing Activities	**31**	**45**	**59**	**82**	**63**	**74**	**75**	**75**	**76**	**79**
Net Investment Return	35	39	40	42	43	44	45	47	48	49
Bond Borrowing	(4)	(6)	(6)	(6)	(6)	(5)	(5)	(5)	(5)	(4)
New Borrowing Costs	0	0	0	0	0	0	0	0	0	0
Operating Surplus after Financing Activities	**62**	**78**	**93**	**118**	**100**	**112**	**115**	**117**	**119**	**124**
Capital and Transformation	**72**	**75**	**77**	**80**	**82**	**85**	**88**	**90**	**93**	**96**
Contributory Funds										
Forecast deficit	-17.4	-18.5	-16.0	-15.4	-14.4	-14.0	-13.9	-13.7	-13.9	-17.2
+300 Population Assumption	0.0	0.4	0.7	1.2	1.6	2.1	2.6	3.1	3.7	4.3
Operating Surplus before Financing Activities	**(17)**	**(18)**	**(15)**	**(14)**	**(13)**	**(12)**	**(11)**	**(11)**	**(10)**	**(13)**
Net Investment Return	49	57	59	62	65	69	72	76	81	85
Operating Surplus after Financing Activities	**31**	**39**	**44**	**48**	**52**	**57**	**61**	**66**	**71**	**72**

Table 3. 10-year projections.

Overall position - reserves, borrowing, capital

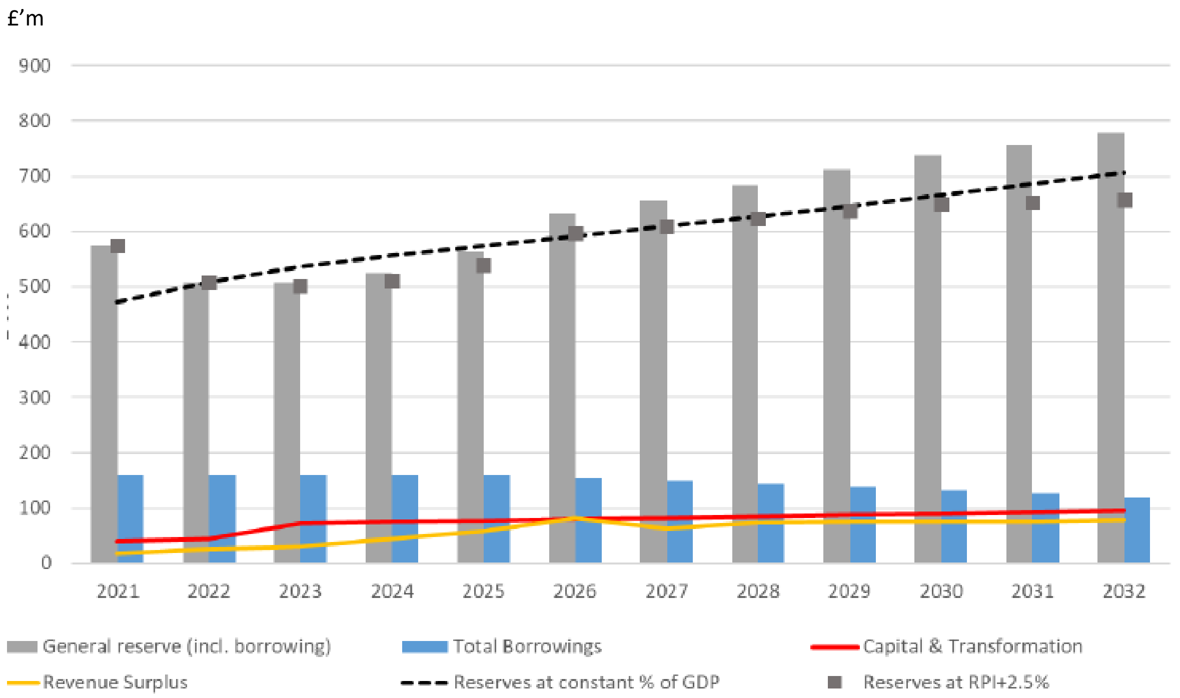

Table 4. Overall position

General Revenue surplus versus Capital spend

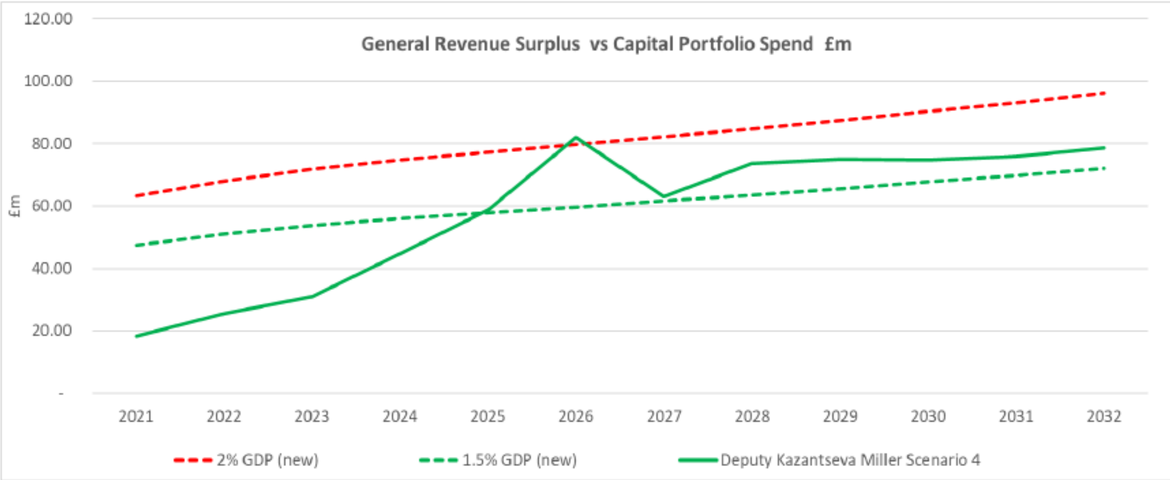

Table 3. General revenue surplus versus Capital spend

The following wording is included at the request of Treasury:

"The 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."

Appendix 2 - Cost of introducing GST

Cost after first year		
Prior to introduction	**Lower estimate**	**Higher estimate**
Pension uprating*	5,000,000	6,000,000
Income Support uprating*	2,000,000	2,000,000
Capital cost*	2,435,000	2,435,000
Total cost prior to launch	9,435,000	10,435,000
Following introduction		
Household mitigation measures*	29,300,000	29,300,000
Administration*	1,930,000	2,530,000
States employee pension fund impact**	50,000,000	50,000,000
Total cost after introduction	**81,230,000**	**81,830,000**
Total cost after first year	**90,665,000**	**92,265,000**

* Costs included in the policy letter Tax Review: Phase 2, Billet d'Etat III, Article 2022/112 dated 30th January 2023.
** Costs provided by the States of Guernsey Treasury department.