

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

POLICY & RESOURCES COMMITTEE

MAJOR PROJECTS PORTFOLIO REVIEW

The following propositions are laid in accordance with Rule 17(9) of the Rules of Procedure.

The States are asked to decide:-

Whether, after consideration of the Policy Letter entitled “Major Projects Portfolio Review” dated 17 January 2025, they are of the opinion:-

1. To note the update following the Policy & Resources Committee’s review of the Major Projects Portfolio including that the successor States will have a maximum of £150m of funding to deliver its Major Projects Portfolio with demand likely to be in excess of £1bn.
2. To note that both the Alderney Airport Runway Rehabilitation and the Our Hospital Modernisation programmes will be subject to separate policy letters ahead of the schemes being finally approved.
3. To note the intention of the Policy & Resources Committee to return to the States with proposals for a Fundamental Services Review following engagement with all Committees of the States.



Policy & Resources
Committee



Major Projects Portfolio Review

Summary at a Glance



The forecast General Revenue deficit for 2024 is c£20m.



The agreed 2025 Budget is for a General Revenue deficit of £1m – had the temporary increase in income tax been agreed this would have been a £26m surplus. The structural deficit is currently calculated at £57.5m.



Without surpluses being generated, the States' reserves are being used to fund capital investment (and to cover the deficits) and therefore continue to be reduced.



States' reserves are already exceptionally low and the States agreed in 2023 to maintain them at or above £315m.



Events in 2024 mean that they have already dropped below that level.



Cash outflow in 2025 is expected to be c£130m.



This means that all capital expenditure must be funded through use of the Guernsey Health Reserve and borrowing – either the existing bond or new borrowing.



The funding currently available is £357m although projects in the current portfolio agreed by the States are expected to cost £419m – a £62m shortfall.



Having examined the projects within the portfolio the Policy & Resources Committee has concluded that all are essential and should continue.



The only way of addressing the shortfall is to limit the funding available to some/all projects and/or allow the portfolio to complete over a longer period thereby reducing funding available for the next States.



The Committee believes that funding for the Alderney Airport runway rehabilitation project should be limited to the original £24m (subject to debate and agreement by the States through a separate policy letter) and that the portfolio period be extended by at least a year – this allows all projects in the portfolio to proceed to completion.



However, the consequence is that the next Assembly will have a maximum of c£150m of funding (c0.9% of GDP) for major projects with likely demand over £1bn.



The tax reforms agreed by the States should ensure sufficient surpluses are generated in the future to fund capital expenditure, but the States are left with a legacy backlog of pent-up demand, addressing which will need to be balanced against demand for new schemes.



Separately, the Committee has noted the concerns raised by Members of the States regarding the growth in public sector services and expenditure and is proposing it commence a Fundamental Services Review, in collaboration with Committees of the States.



Since no decisions are required at this stage, this policy letter is being presented as a 'green paper'.

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

POLICY & RESOURCES COMMITTEE

MAJOR PROJECTS PORTFOLIO REVIEW

The Presiding Officer
States of Guernsey
Royal Court House
St Peter Port

17th January 2025

Dear Sir

1 Executive Summary

- 1.1 The 2025 Budget Report stated that if the Assembly did not support a temporary 2% increase in Income Tax the Policy & Resources Committee (the Committee) would return to the States early in 2025 with a policy letter that reassesses the affordability of the Major Projects Portfolio.
- 1.2 While the decision of the States to implement tax reform is a fundamental step towards addressing the structural deficit¹ in States' finances, without the 2% Income Tax increase the agreed 2025 Budget still results in a General Revenue **deficit** of £1.1m². The forecast General Revenue **deficit**³ for 2024 is c£20m. Therefore, there are currently no operating surpluses from which major projects can be funded and the States' reserves are consequently reducing.
- 1.3 Reserves are already low and reducing them further removes the little financial resilience the States have. Over recent years, the States have benefitted from the financial prudence of previous generations who built up reserves in good times. The position is now precarious and reducing reserves builds further challenges for future States, leading to increased uncertainty, a more unstable financial position and potentially makes future borrowing both more challenging and expensive. This is the case even with recently agreed tax reform since the package agreed by the States will stabilise, not restore, reserves.

¹ A structural deficit is a calculated underlying government deficit that is independent of the business cycle and is created when a government is spending more than the long-term average tax revenues it is receiving.

² The deficits shown here are operating deficits - that is day to day income and expenditure before any adjustments for project costs and non-cash items such as investment return and depreciation.

³ Excluding unincorporated trading entities losses.

- 1.4 The Assembly should be considering how to replenish reserves, rather than allowing them to reduce yet further with no plan as to how this might be reversed in the future.
- 1.5 The States have previously resolved to maintain the General Reserve at or above £315m but the deficit in 2024 results in an estimated closing balance as at 31 December 2024 of c£304m⁴. However, it should be noted that the majority of the reserve is held as investments, the actual value of which is only confirmed when they are sold - until that time they are held at current market value. The forecast deficit in 2025 will reduce this balance further.
- 1.6 Although the cash position has worsened, the investment required by the Major Projects Portfolio remains substantial and has increased. Current estimates are that the funds required to complete the schemes prioritised in this term's portfolios, both Routine and Major Projects, totals c£419m.⁵ However, the funding available and approved by the States totals only £357m, leaving a £62m shortfall.
- 1.7 It is this funding shortfall, which would have been addressed by additional revenue from income tax, which has led the Committee to review the capital portfolio with the intention of reducing its cost. This approach was taken rather than re-playing the 2025 Budget as the States have already approved the Budget by a substantial majority and it is now too late to revisit income and expenditure for 2025 in a piecemeal way.
- 1.8 Given that the portfolio has already been prioritised and then reviewed in 2023, there are no schemes which can be removed, no "nice to have" projects. The Committee therefore believes that the States should continue to support all the schemes in the portfolio providing that the detailed proposals are approved, and that funding is available to do so. However, the options for providing funding are limited with no scope for further depleting reserves, and insufficient surpluses to take on further borrowing and ensure the debt can be serviced.
- 1.9 The only options available to address the shortfall are to restrict the funding available to schemes and/or extend the portfolio period into 2027 to be able to use surpluses generated in those years to fund the commitments. However, it should be noted that those surpluses will only be generated if the States implement changes to increase revenues and reduce costs as previously agreed.
- 1.10 The two schemes whose projected costs have increased significantly above the portfolio estimates are Phase 2 of the Hospital Modernisation Programme (OHM)

⁴ This position will remain estimated until the 2024 Accounts have been finalised.

⁵ These are the funds required to cover project expenditure from 1st January 2025 through to completion.

and the Alderney Airport runway rehabilitation project.

- 1.11 The Committee *for* Health & Social Care is proposing a change in scope to the OHM programme which will split Phase 2 into a further two phases and bring the immediate funding requirements more in line with the previously agreed amount (being some £10m above the original allocation). It should be noted that this decision will need to be approved by the States and a policy letter is planned for early in the next political term, but the Policy & Resources Committee has assumed that this planned approach will be accepted which secures its affordability.
- 1.12 The Alderney Airport runway rehabilitation project will be debated by the States in the coming months, but the latest reported costs for the agreed solution have risen to £38m, £14m above the funding agreed by the States. The Committee considers that, to ensure affordability, any solution agreed by the States must be contained within the original estimate of £24m. Doing so would reduce the overall portfolio cost to £405m and the funding shortfall to £48m.
- 1.13 If the portfolio period is then extended, which reflects both the delay in the implementation of several schemes and the longer period required to secure funding, this term's portfolio can be delivered in full. The consequence of extending the portfolio period is that the next Assembly will have extremely limited funding available for its capital investment priorities.
- 1.14 Current indications are that there will be up to £150m to fund the next portfolio (representing c0.9% of Gross Domestic Product (GDP)), generated entirely from surpluses from 2027⁶ which only come about as a result of the increased revenues from tax reform. However, indications of demand for funding for capital investment total in the region of £1bn. There will therefore need to be a robust prioritisation exercise in the next term to decide the most important schemes in which to invest.
- 1.15 The tax reform agreed by the States will ensure sufficient surpluses are generated to enable investment of up to 2% of GDP per annum across routine and major capital schemes. However, this will mean that a backlog will persist and, should this rate of capital investment be achieved, reserves will remain at the current precariously low level.
- 1.16 This policy letter delivers on the commitment to review the capital portfolio, but as no changes are being proposed, the States are being asked only to note the report and the implications of funding future capital portfolios.
- 1.17 The Fiscal Policy Panel (the Panel) has reviewed the policy letter and provides its

⁶ Although at least part of the forecast surplus for 2027 will be needed to complete the current term's portfolio of projects.

independent comment in Appendix 1. To summarise, the Panel recognises the need to ensure the portfolio is fully funded and welcomes the continuity in the approach adopted which it considers preferable to a stop/start approach that would delay projects and could have knock on implications. However, it is important to note that the Panel considers the approach adopted by the Committee the “least bad option” and urges the States to:

“take prompt action both to increase funding to public investment and to put that funding on a surer footing so that a stable and predictable stream of projects can be efficiently commissioned and executed.”

- 1.18 The Committee is aware that there are Members of the States who had anticipated re-running the 2025 Budget debate to seek to increase funding available in 2025. In section 2 of this report, the reasons for not doing so are set out. These include that the States agreed the 2025 Budget by a significant majority following lengthy debate; that compiling a Budget is complex and takes significant time and research; that businesses and households will have made plans based on the decisions of the States in November; and that Committees of the States have already made commitments within the budgets allocated to them.
- 1.19 However, the Committee has reflected on the sentiment during the Budget debate on the rising cost of public services and wishes to propose action is taken. Although there is significant focus on the cost of services, the Committee has concluded that a review should be undertaken examining the scope and extent of services now delivered by the States, including whether they are all necessary and whether they could be more effectively commissioned for delivery outside the States. Therefore, the Committee is intending to consult with all Committees of the States to develop proposals for a Fundamental Services Review.

2 Introduction, Background & Funding Gap

Budget Position for 2025

- 2.1 Following debate on the 2025 Budget the States agreed the expenditure proposals but did not approve the proposed temporary increase in Income Tax. In addition, a decision was made to pause the withdrawal of mortgage interest relief for principal private residences. This resulted in a £27.5m shortfall in the agreed 2025 Budget compared to the 2025 Budget proposed by the Committee.
- 2.2 The agreed 2025 Budget General Revenue deficit before depreciation and investment returns is £1.1m.

- 2.3 The structural deficit, which is calculated as the government deficit independent of the business cycle and including capital expenditure at a level of 2% of GDP, is £57.5m.
- 2.4 However, the cash position for 2025 is projected to be a net outflow of £130m owing to the amounts required to fund the current Major Projects Portfolio and Routine Capital. In addition, while the £30m income from the implementation of Pillar 2 is recognised in the 2025 income it will not be banked until 2027.
- 2.5 Given that there is no forecast surplus for 2025, the only way of funding Major Projects and Routine Capital expenditure is through a combination of reserves and borrowing.
- 2.6 Since the Funding & Investment Plan (F&I Plan) update was published, there have been some significant impacts to the States' financial position, including an estimated General Revenue net deficit of c£20m for 2024, which is £25m worse than the 2024 Budget owing to unforeseen impacts on revenues, including weak earnings growth relative to inflation and a significant adjustment in relation to current and prior year banking profits, as well as a number of expenditure pressures.
- 2.7 It was agreed by the Assembly that to retain financial resilience the General Reserve should be maintained at £315m this political term. The balance of the General Reserve (excluding the bond proceeds allocated to fund the Major Projects and Routine Capital portfolios) has reduced to an estimated £305m at the start of 2025. It should be noted that the balance on the reserves is recorded as the market value of investments plus cash. The market value will include unrealised appreciation of investments which can only be confirmed by selling them.
- 2.8 The General Reserve now needs to be replenished and therefore has no capacity to fund the costs of the Major Projects Portfolio and essential Routine Capital.
- 2.9 The Assembly has previously agreed that bond proceeds of £160m, up to £90m of the Guernsey Health Reserve and new borrowing estimated at £155m be used to fund the Major Projects Portfolio and Routine Capital. However, this was on the assumption that small ongoing surpluses were being generated annually and that therefore the General Reserve was not eroded by delivering public services.
- 2.10 Table 1 shows that the current portfolio is estimated to cost £62m more than the funding available. It should be noted that this estimate includes only the costs of Phase 2A of the OHM programme (Phase 2B has been removed - Appendix 2 provides a more detailed explanation).

Reserves/Borrowing £m	Closing Balance 31.12.24	Available to Use
General Revenue Reserve before 2024 Investment returns	255	(60)
2024 Estimated Investment returns	50	50
Bond	123	123
Guernsey Health Reserve - project funding	98	90
Revenue Deficit 2025		(1)
New Borrowing		155
Available Reserves/ Borrowing	526	357

Major Portfolio/Transformation 2025 onwards		396
Routine Capital 2025		23
Funds Required for Portfolio		419

Funding Shortfall	(62)
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Table 1: Affordability of the Current Portfolio

Options to Address the Shortfall

- 2.11 The Committee has considered whether to propose any changes to the agreed 2025 Budget for either income or expenditure. Having reviewed the options, it has unanimously decided against this.
- 2.12 The States agreed the 2025 Budget by a significant majority following lengthy debate. The Budget takes months to compile involving research, consultation and dialogue and it is now too late to make changes to taxes, without potential negative consequences.
- 2.13 The Annual Budget is published in October the preceding year, allowing businesses and individuals to plan their tax affairs, budgets, and business activities in line with the agreed rates and tariffs in the 2025 Budget, meaning that changes now could have a negative impact on affordability of planned expenditure and put further pressure on the cost of living.
- 2.14 Businesses will already have updated payroll systems, aligned pricing and costing strategies, re-evaluated supplier contracts considering new tariffs, trained staff and communicated as necessary with their supply chain.

- 2.15 Any in-year and un-planned tax and duty changes could impact in a number of ways such as increasing costs and reducing profitability, disrupting cashflow projections and increasing unit costs requiring un-planned pricing changes. Businesses may also need to revise their overall budget and investment plans if they should become unaffordable following any changes.
- 2.16 In terms of expenditure, a rigorous process was applied in agreeing the expenditure budgets, and during the Budget debate the States considered and rejected two amendments to the proposed Committee expenditure. Plans have now been made based on the agreed 2025 Budget and any in year changes to Committee cash limits may have consequences not yet thought through.
- 2.17 The Committee does, however, recognise the significant concern expressed during the Budget debate over the rising cost of public services. While it is a fact that the States spend less per capita on delivering their public services, despite the lack of scale indicating the reverse, there is currently limited external confidence that the right services are being delivered and that they represent value for money for taxpayers.
- 2.18 The States have embarked on multiple reviews of spending starting with the Fundamental Spending Review in 2008, and since then the Financial Transformation Programme, the Costing & Benchmarking review of health and social care services, Priority Based Budgeting reviews (which included reviewing Education Sport & Culture services and those provided by the Committee *for* Home Affairs) and the Reducing the Cost of Public Services initiative.
- 2.19 The Committee is of the view that further gradual budget tightening (the “salami slice” approach) is unlikely to result in any significant savings of the magnitude required.
- 2.20 Given the significant work undertaken in the area of cost over the last decade and more, the Committee wishes to propose a different approach which reviews the services delivered by the States (including the transferred services in Alderney and internal corporate services) before deciding where and whether services can be cut and costs reduced.
- 2.21 The Committee considers that such a Fundamental Services Review would help define which are the core services that must be delivered by government resulting in an agreed universal entitlement; which services might better be commissioned by others; which services should become ‘user pays’; and which services should be stopped altogether. In considering these options, the Committee is extremely conscious that the States must not be tempted to simply shift the cost burden to service users hence creating further strain particularly on middle income families and households.

- 2.22 Such a review must be owned and sponsored by the entire States and the Committee will work collaboratively over the remainder of this term to scope the work, considering learning from previous experience locally and elsewhere and ensuring an external/independent challenge, before bringing back detailed proposals to the States.
- 2.23 Due to the time required to undertake a thorough and independently verified review and implement any service reductions that result, the earliest any budget reductions might be realised is 2026, but more likely 2027.
- 2.24 Therefore, with little scope for realistic and considered changes to expenditure or income in 2025, with limited reserves or scope for borrowing, the focus has naturally been on the Major Projects Portfolio and what actions can be taken by the States to immediately stabilise the financial position by reducing expenditure.

Funding Gap for the Current Portfolio

- 2.25 Based on the financial position for 2024 and 2025, as well as the increased cost of the portfolio, the cost of the current agreed portfolio is now c£62m higher⁷ than the funding available, as agreed in the F&I Plan.
- 2.26 The actual result for 2023, the forecast position for 2024 and the approved budget for 2025 are £65m lower than the estimates in the F&I Plan. This means that without action there is less funding available for projects.
- 2.27 The F&I Plan assumed that future investment returns would not be used to fund capital expenditure owing to their uncertainty. However, these have now been included but noting that to realise this funding, investments would need to be sold which would reduce the asset base from which returns could be earned in the future. These investment returns have partially offset the £65m reduction in revenue surpluses.
- 2.28 The chart below clearly illustrates the funding gap. The red dotted line indicates the amount required to fund capital investment, and the black line indicates the General Revenue surplus/deficit. When the black line is above or equal to the red line, sufficient surpluses are being generated to fund capital investment. However, when the red line is above the black line, the only way of funding such investment is through use of reserves and/or borrowing.

⁷ If only OHM Phase 2A is included. With the full scope of OHM Phase 2 (A and B) the gap would be circa £111m.

- 2.29 This portfolio was already planned to be partly funded by new borrowing as well as £160m of the bond proceeds. However, owing to the £65m reduction in funding described above, there are now insufficient funds available to close the funding gap illustrated below.

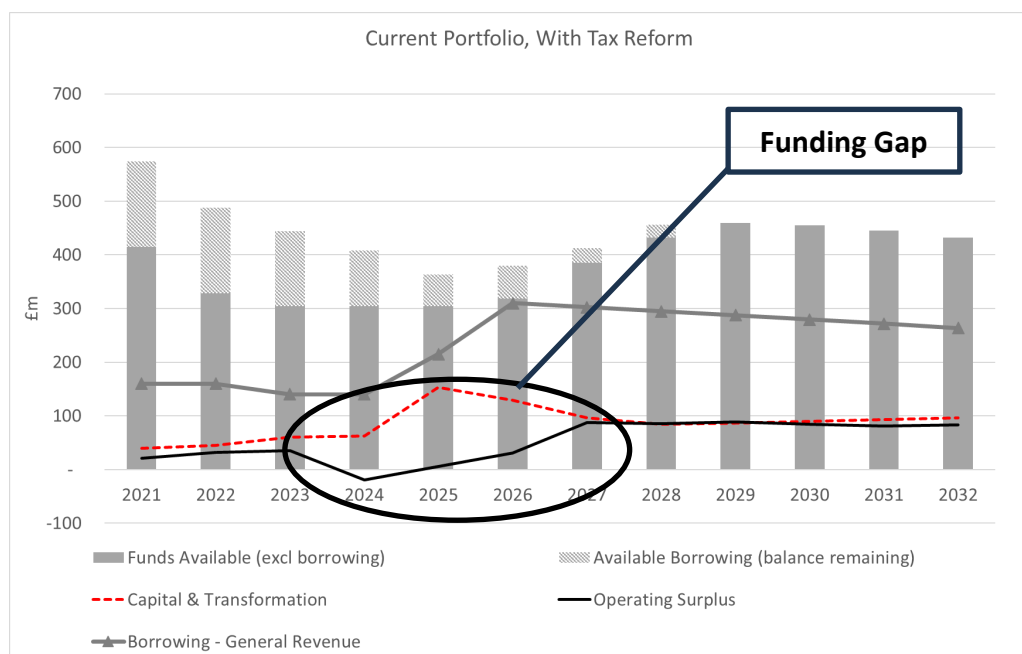


Figure 1: Projection based on Current Portfolio and Tax Reform from 2027.

Borrowing

- 2.30 It has been suggested that borrowing could be increased to continue with the agreed Major Projects Portfolio.
- 2.31 When the States agreed Scenario 1 plus OHM Phase 2 in the October 2023 F&I Plan debate it was recognised that borrowing would be required and estimates at the time indicated this to be in the region of £100m. In addition, through the inclusion of the Transforming Education Programme (TEP) construction projects in the portfolio in the January 2024 Government Work Plan (GWP) debate the States agreed that a further £55m of borrowing would be required.
- 2.32 Therefore, in January 2024 it was estimated that c£155m of new debt was required to fund the current portfolio through to completion. Although the Committee supports proceeding with this debt, it notes that current conditions for taking out new borrowing are at their worst for over a decade. Globally, yields on government bonds have been rising caused largely by concerns over persistent inflation. This has been exacerbated in the UK by worries about an underperforming economy. This has resulted in severe market volatility with a sell off of government bonds leading to further increases in yields and depreciation of the pound exacerbating inflationary pressures. Rather than borrowing now and

committing to high interest costs it would be prudent to only take out the new borrowing when absolutely necessary, and at a time when conditions are less volatile and more favourable.

- 2.33 The States' professional advisors, EY, advised at the time of the 2023 F&I Plan update that the technical maximum for overall States' borrowing without triggering a rating downgrade would be circa 30% debt/GDP. EY further advised it would be better to fully fund this term's portfolio through debt rather than using existing liquid assets which would more likely put pressure on the States' credit rating. It was suggested that, based on the current debt-to-GDP ratio of c10%, Guernsey has comfortable headroom to incur further debt from a credit rating perspective.
- 2.34 However, the technical headroom is only one factor to consider in making decisions on taking out borrowing. It is vital that there is certainty of the future ability to repay, particularly for a small economy such as Guernsey. While the revised estimates for the Pillar 2 tax revenues and the recent decisions of the States on tax reform can give some reassurance over the already agreed borrowing, until such time as the successor States have implemented the proposed tax reform it would not be fiscally responsible to suggest taking out new borrowings in addition to the £155m already agreed. Until tax reform is implemented, there simply are no surpluses to be able to service additional debt.

3 Current Major Projects Portfolio

Current Agreed Portfolio

- 3.1 The current Major Projects Portfolio was originally developed in 2021 through a rigorous prioritisation exercise and agreed by the States later that year as part of the GWP⁸. In 2023, following the decision of the States not to implement changes recommended in the tax strategy, the portfolio was re-prioritised to ensure it was affordable, and was agreed by the States as part of the F&I Plan update in October 2023.
- 3.2 In the October 2023 F&I Plan debate several new projects were added to the portfolio:
- a. Bridge Regeneration (Housing) and associated flood defences;
 - b. Future Harbour Requirements - survey work;
 - c. Community Services - Children and Families Hub - moved to delivery from pipeline; and
 - d. Supply Chain Relocation (Central Stores) - included as a separate but enabling project from OHM phase 2.

⁸ [Government Work Plan 2021-2025](#)

- 3.3 Several projects as listed below were moved from delivery to pipeline (meaning that substantive work would be delayed until the project was agreed to be included as a delivery project in a future portfolio). The total cost of these projects had been planned at £190m.
- a. Territorial Seas and Fisheries Enforcement - on the basis that funding was made available from routine capital to keep the Leopardess in operation;
 - b. Guernsey Tourism Product Development;
 - c. Future Inert Waste Facility;
 - d. Bus Fleet Replacement Phase 3;
 - e. SAP Roadmap;
 - f. SMART Court Phases 2 & 3; and
 - g. Transforming Education Programme (TEP) Construction & The Guernsey Institute (TGI) Digital projects.
- 3.4 Following that debate the States agreed Scenario 1, which was for no tax reform, and - in the original Propositions - a limited Major Projects Portfolio. However, through a successful amendment, the Our Hospital Modernisation (OHM) Phase 2 project was added to the portfolio at a cost of £120m, along with a contingency of £30m. The original proposal for Scenario 1 did not include this project as it was deemed unaffordable without significant revenue raising. Following debate, the States agreed to fund the project by up to £90m from the Guernsey Health Reserve⁹, as well as an unspecified amount of new borrowing.
- 3.5 This left the situation whereby OHM Phase 2 was funded but elements of the TEP were not. In January 2024, following a successful amendment to the GWP policy letter, the States agreed to split the then unfunded elements of the TEP into Phases 1 and 2. Phase 1 covered the TGI build plus the 6th Form foundations as well as the TGI digital project and essential secondary school works (at a cost of £88m).
- 3.6 The States agreed to fund Phase 1, afforded by £55m of borrowing and by using £33m of reserves as well as any capital receipts from a future sale of the released Coutanchez Campus site. This additional borrowing was deemed affordable because of the Pillar 2 revenues for which the estimate had increased from £10m per annum in the original F&I Plan, to £30m per annum. Phase 2 of the project (the 6th Form and sports hall) remains as a pipeline project, and as such could be requested as part of the next political term's Major Projects Portfolio.

⁹ The Guernsey Health Reserve is an earmarked reserve within the General Revenue Reserve used to support the long-term sustainable provision of health and social care services, manage unanticipated health spending pressures on an in-year basis and to manage demographic pressure on the provision of these services. This Reserve was created in January 2022 when the Guernsey Health Service Fund (previously part of the Contributory Funds) was ring fenced and retained within the General Revenue Reserve as the Guernsey Health Reserve (GHR).

- 3.7 Table 2 below summarises the total agreed portfolio cost and funding sources from 1st January 2023 through to completion following the decisions made in the 2023 F&I Plan debate and the subsequent addition of TEP into the portfolio.

Reserves/Borrowing £m	Closing Balance 31.12.22	Available to Use
General Revenue Reserve	348	33
Bond	160	160
Guernsey Health Reserve - project funding	112	90
Revenue Surplus (2023-25)		81
New Borrowing		155
Available Reserves/ Borrowing	620	519
Major Portfolio/Transformation 2023 onwards		441
Routine Capital		63
Funds Required This Term		504

Table 2: Agreed Portfolio and Funding as per the 2023 F&I Plan and GWP debates including OHM Phase 2 and TEP Phase 1.

- 3.8 Since these decisions were taken the estimated cost of some of the portfolio schemes has increased, owing to a combination of higher-than-expected construction tender prices and increases in resource costs owing to extended timelines to complete. The Committee has considered requests for additional funding on a case-by-case basis, and where any increases have been agreed the portfolio contingency has been reduced accordingly.
- 3.9 The Committee has also agreed to separate the Bridge Regeneration (Housing) and associated flood defences project into two separate projects, with no overall funding change as a result.
- 3.10 In addition, in debating the 2025 Budget, the States agreed “that projects to build temporary housing villages are added to the Major Projects Portfolio”. Two separate projects have been added: one for a construction workers village, and one for more general housing villages, with a holding value of £5m each. While the construction workers village project has been assumed to cost £5m, it is expected to reduce the cost of other construction projects, resulting in little or no overall increased cost to the Portfolio.
- 3.11 The latest portfolio summary reflecting these changes is shown in Appendix 3.

Portfolio Forecast

- 3.12 The latest forecast by scheme is shown in Table 3 below and a status update for each project is provided in Appendix 2.
- 3.13 As well as the projects for which the Committee has agreed an increase, several projects are forecast to cost more than the currently agreed funding levels.
- 3.14 In particular, the OHM Phase 2 costs have increased. If the full scope as agreed were to be delivered the cost would be c£60m higher than the £120m allocation in the 2023 F&I Plan. However, as described in Appendix 2 the Committee *for* Health & Social Care is proposing that Phase 2 is further split into phases with Phase 2A of the project projected to cost c£130m, which is still more than the current allocation.
- 3.15 In addition, this forecast assumes that the Alderney Airport runway rehabilitation project is in line with the tender received for the agreed preferred option (option C+), which is c£14m higher than the amount agreed by the States. However as described in Appendix 2, the project is currently being re-scoped and revised estimates for the reduced scope are expected soon.
- 3.16 Overall, and having taken into account the planned rescope of OHM Phase 2 into two further phases, the latest cost estimate of the schemes prioritised within the Major Projects Portfolio from 2023 onwards is £33m higher than the estimates in the 2023 F&I Plan.
- 3.17 This also takes into account a contingency of £20m which represents 5% of the portfolio costs from 2025 onwards. This is a reasonable allowance given the cost uncertainty for many projects, the risk of further inflation increases, and the possibility of unforeseen projects or events.
- 3.18 In summary, not only is the available funding to deliver the agreed portfolio lower than expected, but the costs of the agreed schemes are higher, although work to rescope some projects is underway.

Prioritised Schemes All in £m	Pre 2023 Actuals	F&I Plan 2023 onwards	Changes since F&I Plan	Latest Estimate
Our Hospital Modernisation - Phase 2A	1	120	10	131
Our Hospital Modernisation - Phase 1	11	24	1	36
Transforming Education Construction & TGI Digital	4	88	0	92
Transforming Education Digital (Primary & Secondary)	3	10	(0)	13
Transforming Education - Transformation	6	8	(1)	13
Bridge Regeneration	-	33	-	33
Alderney Airport Pavements Rehabilitation	-	24	14	38
Electronic Patient Record	2	16	6	24
Affordable Housing Development Programme	17	23	0	40
Digital Infrastructure	2	9	0	11
Children & Family Services HUB	-	8	0	8
Replacement of Castle Emplacement Bridge	-	7	(0)	7
Clinical & Animal Waste Solution	-	3	3	6
MyGov Digital	-	3	2	5
Temporary Housing Village	-	-	5	5
Construction Village	-	-	5	5
Guernsey Airport Pavements Rehabilitation - Residual PFOS	-	5	0	5
Supply Chain Relocation/Transformation	-	5	(0)	5
Transforming Revenue Service Programme	9	4	1	14
St Sampsons Flood Defences	-	2	2	4
Offshore wind project	-	-	2	2
Future Harbour Requirements - Survey	-	4	(3)	1
Other Delivery Projects	-	1	(0)	1
Other In Flight Projects	58	13	(0)	71
Pipeline Projects – investigation and development only	1	1	1	3
Savings Resulting from Construction Village Project	-	-	(5)	(5)
Contingency	-	30	(10)	20
TOTAL	114	441	33	588

Table 3: Major Projects Forecast¹⁰

¹⁰ The costs are shown from 2023 to completion as this is directly comparable to the period in the 2023 F&I Plan.

4 Review of the Major Projects Portfolio

- 4.1 Following a review of the status of each project, it is clear that there is no simple solution to reducing the cost of the Major Projects Portfolio. Each of the projects has merit and pausing any of them introduces risks, delays benefits, or causes significant negative consequences.
- 4.2 The States considered a review of the Major Projects Portfolio in the autumn of 2023, supplemented by further consideration early in 2024. Given the portfolio has already been prioritised then reviewed, there are no “nice to do” projects remaining in the current portfolio.
- 4.3 All the projects within the portfolio have merit and should be progressed (notwithstanding that scope may need to be altered for some projects as a result of project cost increases).
- 4.4 Specifically, the OHM Phase 2 is an essential programme, as the investment in the real estate as a strategic asset will enable healthcare for the population to be delivered in the most cost-effective way. As set out in Appendix 2, the Committee *for* Health & Social Care is recommending that this work be split into two phases - 2A and 2B. While both remain vital, Phase 2B will be added to the Pipeline for a future States to consider.
- 4.5 The Alderney Airport runway rehabilitation project was agreed by the States in 2022¹¹. At that time, the States agreed that Option C+ provided the best overall public value for money and a budget for that scheme of £24m. Since then, costs have increased significantly, and the latest estimates are reported as £38m. The Committee considers that it is impossible to justify an investment of £38m in this scheme and alternative scopes are currently being examined with a view to presenting a policy letter on the matter to the States before the end of this term.
- 4.6 In examining and reviewing the whole portfolio, the Committee has concluded that the maximum funding that can be made available for this scheme (should the States decide to continue with it) is £24m and has adjusted the portfolio costings accordingly.
- 4.7 Therefore, given that the anticipated cost to completion of the Portfolio is £405m but that only £357m of funding is available, the continuing the delivery of this portfolio will result in less funding being available to the next States as the surplus in 2026, as well as part of the surplus in 2027, will be needed to fund it. Specifically, this means that the forecast General Revenue surplus for 2026 of £30m and £18m from 2027 will need to be used to complete delivery of this portfolio as shown in Table 4.

¹¹ [Billet D'État XX 2022](#)

Reserves/Borrowing £m	Closing Balance 31.12.24	Available to Use
General Revenue Reserve before 2024 Investment returns	255	(60)
2024 Estimated Investment returns	50	50
Bond	123	123
Guernsey Health Reserve - project funding	98	90
Revenue Deficit 2025		(1)
Revenue Surplus 2026 & Part 2027		48
New Borrowing		155
Available Reserves/ Borrowing	526	405

Major Portfolio/Transformation 2025 onwards		382
Routine Capital 2025		23
Funds Required for Portfolio		405

Table 4: Revised Portfolio and Funding (with reduced cost of Alderney Airport Runway Project)

- 4.8 It should be noted that the risk to delivering a surplus in 2026 in line with that set out in the F&I Plan is high as it depends on additional revenues from increased and new taxation and savings in the cost of public services, as well as a reversal of some cyclical factors currently being experienced. If it does not prove possible to deliver that surplus, then more of the 2027 surplus will be required to complete the portfolio schemes.

5 Next Term's Major Projects Portfolio

- 5.1 There will be significant demand for projects in the next political term. The Committee considers the Assembly should have an indication of the likely level of demand on the Major Projects Portfolio next term to properly understand the size of the remaining funding gap.
- 5.2 **It is important to note that this information is indicative only and should not be considered a definitive view of projects that will be put forward by successor Committees to the new Assembly in the next prioritisation round. Other schemes may emerge over the coming months while some known schemes may not be put forward.**
- 5.3 Notwithstanding this, the data gathering has identified the projects below, summarised as either small (under £10m), medium (£10m-£50m) or large (£>50m) projects:

Large Projects (total cost c>£400m):

- Affordable Housing Development Programme (Committee *for* Employment & Social Security / Committee *for the* Environment & Infrastructure)
- Guernsey Housing Plan Initiatives (Committee *for the* Environment & Infrastructure)
- East Coast Strategic Flood Defence (Committee *for the* Environment & Infrastructure)
- Pathology – Laboratory (Committee *for* Health & Social Care)
- Digital Healthcare (Committee *for* Health & Social Care)
- Pool marina project (intended to be part-funded by Ports borrowing) (States' Trading Supervisory Board)
- Electricity Strategy - Energy Resilience (Committee *for the* Environment & Infrastructure)
- Regeneration/Infrastructure Development (Policy & Resources Committee)

Medium Projects (total cost £170m-£850m):

- Les Ozouets Campus - Phase 2 (Committee *for* Education, Sport & Culture)
- SAP Replacement (Policy & Resources Committee)
- Inert Waste Facility (States' Trading Supervisory Board)
- Guernsey Dairy (States' Trading Supervisory Board)
- OHM Phase 2B (Committee *for* Health & Social Care)
- Adult Community Services Principal Hub (Committee *for* Health & Social Care)
- MyGov Digital (Policy & Resources Committee)
- Digital Infrastructure Refresh (Policy & Resources Committee)
- Home Affairs Estate Rationalisation (Committee *for* Home Affairs)
- Implementing recommendations from the Beau Sejour Review (assumed as a medium project but costs are currently unknown) (Committee *for* Education, Sport & Culture)
- Implementing the recommendations of the Primary Education Review (assumed as a medium project but costs are currently unknown) (Committee *for* Education, Sport & Culture)
- Climate Change adaptation and mitigation /Pathway to Net Zero (Committee *for the* Environment & Infrastructure)
- Future Harbour Requirements (Policy & Resources Committee/Committee *for the* Environment & Infrastructure)
- New Bus Depot Committee *for the* Environment & Infrastructure)
- Major Active Travel infrastructure including Mobility Hubs (Committee *for the* Environment & Infrastructure)
- Electric vehicle charging infrastructure on public car parks/highway (Committee *for the* Environment & Infrastructure)
- Multi-Storey car parking (Committee *for the* Environment & Infrastructure)

Small Projects (total cost £21m-£70m):

- HSC Energy Programme (Committee *for* Health & Social Care)
- Guernsey Dairy Interim Capital Investment (States' Trading Supervisory Board)
- Maritime Museum (Committee *for* Education, Sport & Culture)
- Smart Court Phases 2 and 3 (Policy & Resources Committee)
- Dedicated CBT (compulsory basic training for mopeds or motorcycles) site and driving test off-road manoeuvring area (Committee *for the* Environment & Infrastructure)
- Shared mobility schemes (Committee *for the* Environment & Infrastructure)
- Harbours - QE2 Marina Gates (intended to be funded by Ports borrowing, if possible) (States' Trading Supervisory Board)

- 5.4 While detailed estimates are not yet established, this summary indicates that the demand on the next portfolio is expected to be significant and will be neither affordable nor deliverable in one term.
- 5.5 Based on mid points of the range the seven small projects could cost c£45m and the 17 medium projects £510m. Based on the minimum cost the eight large projects could cost upwards of £400m. While these figures are likely to change when further work is completed it indicates a significant demand in major projects to be discharged by future Assemblies.

Affordability of the Next Major Portfolio

- 5.6 The next term's portfolio will need to be funded from surpluses between 2027-2029, and any additional borrowing which the new States consider affordable.
- 5.7 Table 5 shows that a Major Projects Portfolio of £150m for 2026-2029 would be affordable (without any new borrowing). The funding would not include any surplus from 2026 as this, along with part of the 2027 surplus, will be required to complete the current portfolio.
- 5.8 Even this limited level of funding is dependent on the delivery of the tax reform proposals and the other additional taxes and charges agreed as part of the F&I Plan¹².
- 5.9 A portfolio of £150m would represent approximately 0.9% of GDP for the major

¹² The current F&I Plan model assumes further revenue raising from taxes on motoring from 2027 (£5m) further corporate tax or levy (phase £2m 2026 and £5m from 2027 onwards) and savings (£5.5m from 2026 increasing to £10m in 2029).

portfolio and 1.5% of GDP when Routine Capital is included (as compared to the 2% target in the Fiscal Policy Framework).

Funding Available for the next Major Projects Portfolio (with Tax Reform)	2026 £m	2027 £m	2028 £m	2029 £m	Total £m
Revenue Surplus: part 2027 - 2029	n/a	71	86	88	245
Health Reserve Funding					-
Available funding					245
Routine Capital	23	23	23	26	95
Remaining funding for Major Projects					150

Table 5: Funding Available for the next Major Projects Portfolio (with Tax Reform)

- 5.10 Note: there is ongoing work to refine the forecasting, including the timing of GST implementation, but in Table 5 above an effective start date of January 2027 is assumed. If it is not possible to implement tax reform until 2028, the portfolio funding reduces to £99m.
- 5.11 The successor Assembly could also choose to use any appreciation in the value of investments to fund the Major Portfolio, however these are volatile and uncertain, and it would not be fiscally prudent to plan on the basis that they will be available.
- 5.12 Further consideration could also be given to the affordability of additional debt in excess of that approved by the Assembly this term. However, affordability would need to be carefully considered to ensure the interest and capital repayment, as well as the infrastructure investment, could be covered from the forecast generated surpluses which are dependent on tax reform.

Longer Term Forecasts

- 5.13 It is not yet known what the next States will prioritise, but the charts below show the affordability of a future portfolio limited to 2% of GDP, in line with the current Fiscal Policy Framework.

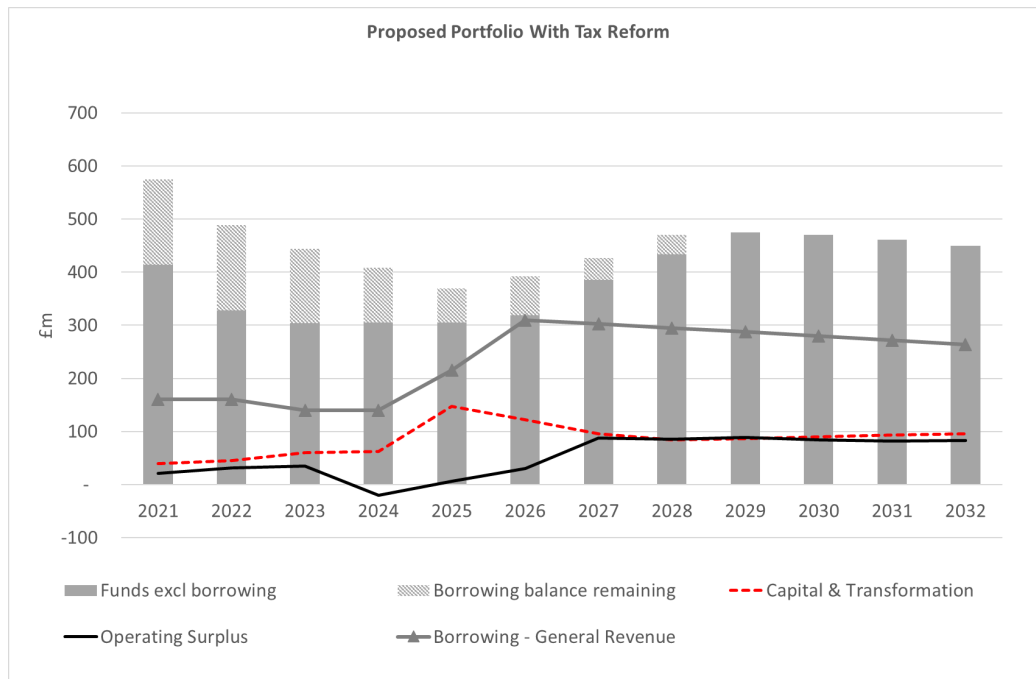


Figure 2: Projections with tax reform from 2027 and a future portfolio cost limited to 2% of GDP.

- 5.14 Figure 2 shows that, with tax reform from the start of 2027 and other measures agreed in the F&I Plan¹³, Major Project and Routine Capital spend at 2% of GDP (the dashed line) would be broadly in line with the operating surplus, indicating that 2% would be an affordable level of capital expenditure.
- 5.15 The agreed tax reform would stabilise the financial position but is not sufficient to replenish depleted reserves, which again underscores the need to preserve those funds now.

¹³ The current F&I Plan model assumes further revenue raising from taxes on motoring from 2027 (£5m) further corporate tax or levy (phased £2m 2026 and £5m from 2027 onwards) and savings (£5.5m from 2026 increasing to £10m in 2029).

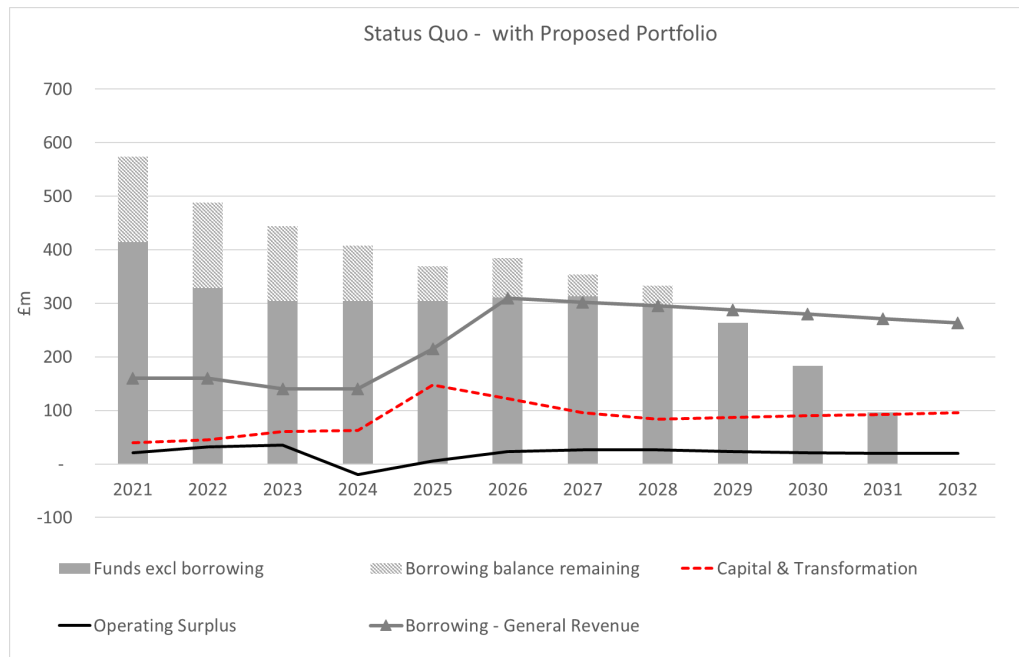


Figure 3: Projections without tax reform and a future portfolio cost limited to 2% of GDP.

- 5.16 Figure 3 shows that the status quo, without tax reform, additional taxes or savings, Major Project and Routine Capital spend (the dashed line) at 2% of GDP would be higher than the operating surplus, indicating that a 2% investment would be unaffordable and not even Routine Capital requirements would be covered. As a result, reserves (indicated by the solid grey bar) reduce and would be exhausted by the beginning of the next decade.
- 5.17 **These graphs clearly show that a portfolio spend in line with the agreed Fiscal Policy is not affordable without tax reform.**
- 5.18 It should be noted that the figures quoted in this policy letter on the affordability of the future portfolio are indicative. They are based on assumptions which are currently under review.
- 5.19 However, it is clear from these indicative figures that the currently agreed additional revenue raising is vital if the States are to invest in infrastructure at the required level.
- 5.20 In addition, some tough decisions will need to be made by the successor Assembly with regards to which projects to prioritise, as it is clear that the requests for investment in infrastructure and projects will far outstrip the available funds. Although 2% of GDP remains a reasonable medium to long term target for capital investment, the lack of investment over the last decade means that the short-term pressures are significantly higher and there is not currently an agreed fiscal strategy to enable such investment to be caught up.

6 Compliance with Rule 4

6.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.

6.2 In accordance with Rule 4(1):

- a) The propositions contribute to the States' objectives and policy plans by stabilising the States' financial position.
- b) In preparing the propositions there has been no consultation with stakeholders.
- c) The propositions 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 to reduce the funding for capital investment available to the next States by £48m to £150m.

6.3 In accordance with Rule 4(2):

- a) The propositions relate to the Committee's purpose and policy responsibilities "to advise the States and to develop and implement policies and programmes relating to fiscal policy, economic affairs and the financial and other resources of the States,"
- b) The propositions have the unanimous support of the Committee.

Yours faithfully

L S Trott OBE
President

H J R Soulsby MBE
Vice President

J P Le Tocq
R C Murray
J A B Gollop

APPENDIX 1: RESPONSE FROM THE FISCAL POLICY PANEL

Policy & Resources Committee
Sir Charles Frossard House
St Peter Port
Guernsey
GY1 1FH

Wednesday, 15 January 2025

Members of the Committee,

High quality and reliable public infrastructure is fundamental to economic prosperity and well-being. Economic evidence strongly supports the idea that well managed public investment will consistently generate benefits that outweigh its costs. The previous Fiscal Policy Panel highlighted that the low level of public investment has been a significant hindrance to Guernsey's economic welfare. It recommended a capital expenditure (CapEx) target of 3% of GDP, a significant increase from the current 2% target - a goal that itself has not been consistently achieved in recent years.

An overall target is not the only important factor in successful capital expenditure. Managing a public investment portfolio is challenging and should be made as steady and predictable as possible so that, amongst other things, the private sector can manage its capacity to bid for and deliver these projects. 'Stopping and starting' large scale infrastructure projects is inefficient and costly. Frequent and unpredictable changes to the public investment pipeline - as experienced in recent years - harms delivery and raises costs.

Project delays and inflationary pressures have increased the costs of delivering the current portfolio of Routine Capital and Major Projects. At the same time, tax policy has failed to generate sufficient revenue, contributing to an increasingly unsustainable fiscal position. The result is that the cost of the current public investment portfolio exceeds available funds by £62m.

Tax reforms currently proposed (but not yet implemented) are an important step towards long-run fiscal sustainability, including the ability to fund Routine Capital and Major Projects portfolios, *if they are implemented*. On the basis that such reforms are implemented and projected surpluses in 2026 and 2027 are realised, then extending the current portfolio is fiscally and economically viable.

However, the Panel stresses that this is a deeply undesirable position and such an extension should be considered the 'least bad option'.

We urge the States to take prompt action both to increase funding to public investment and to put that funding on a surer footing so that a stable and predictable stream of projects can be efficiently commissioned and executed.

Sincerely,

Prof. Matthew Agarwala

Dr. Matthew Bell

Prof. Francis Breedon

APPENDIX 2: STATUS UPDATE – CURRENT MAJOR PORTFOLIO

This Appendix provides a brief update on each Major Project Portfolio project which is planned for delivery in this political term.

Transforming Education Programme Construction of TGI and 6th Form foundations, TGI Digital, Secondary School Changes)

- 1.1 Funding of £3.6m has already been agreed for secondary school changes including remedial work at Les Varendes and La Mare de Carteret (LMDC).
- 1.2 The Les Ozouets Campus (LOC) construction project is well underway with demolition work at the old St Peter Port School now complete, enabling works underway and a prime contractor appointed with a pre-construction agreement in place.
- 1.3 Procurement of sub-contractors is complete with quotes received and approval to enter the substantive contract is scheduled for March 2025, after the States consider this Policy Letter.
- 1.4 The impact of de-funding the project at this critical point would have several negative consequences, including losing the work on the procurement to date, possibly causing a loss of confidence in the construction sector (including a new top tier builder to the market) and negatively impacting the States' overall commercial position.
- 1.5 The project will release La Coutanchez for housing development or capital receipt (estimated at £3.5m). The site provides access to La Vrangue and any delay to the release of the site would also impact the ability of the developer to proceed with plans for La Vrangue.
- 1.6 A delay to the project would result in the continued use of sub-standard buildings for The Guernsey Institute (TGI) students and staff, limiting the ability to deliver educational outcomes: for example, current facilities limit the number of apprentices that can be trained for construction. It would also cause additional disruption to further education which is likely to further exacerbate recruitment and retention issues as well as result in cost pressures due to delayed savings of £0.3m-£0.6m from working on fewer sites and the ongoing requirement for portacabins and maintenance on the existing estate.

- 1.7 TGI Digital design works are nearing completion with a funding request expected in early 2025. To pause or defund the project would risk running on an insecure unsupported IT estate where three separate networks would remain on one campus creating a risk to business continuity as well as cyber security attack. In addition, there would be a risk to ability to run the TGI as one organisation and deliver associated benefits.
- 1.8 The programme is a key part of the GWP Strategic Portfolio 'Housing, Infrastructure & the Economy', particularly the 'skills for work' workstream. Upskilling islanders will facilitate greater productivity in the economy, sustain growth and reduce poverty. It will also integrate with the participation in work workstream to reduce barriers to those looking to be economically active and will promote lifelong learning through the opportunities provided.

Community Services - Children & Families Hub

- 1.9 The inclusion of the Children and Families Hub in the delivery portfolio in October 2023 was to deliver the relocation of health and social care staff from unsuitable accommodation, deliver service benefits and release properties for sale / for developing housing.
- 1.10 This project allows for the exiting of staff at Lukis House, Swissville, Garden Hill, and Perruque House and Carrefour. This therefore releases sites that could be developed for housing, or sold, generating revenue.

The project has received £614k of funding to date plus £49.5k contingency to enable the project to select the preferred option and to reach tender ready stage. The project will need to return to the States for substantive investment decision and this is planned for late 2025.

- 1.11 As part of health and social care transformation, the project will provide benefits to the customer experience by having multiple children & family's community-based services at a single location; in a modern, calming and suitable and fully accessible environment. Additionally, service provision will benefit from co-location through staff knowledge & information sharing, and greater collaboration.

Central Stores - Supply Chain Relocation.

- 1.12 The project's key objective is to provide a single, fit for purpose facility for supply chain, storage, and distribution across numerous services in health and social care services, as well as heritage stores. The project includes the development and enhancement of procurement processes resulting in both operational and financial efficiencies.

- 1.13 The project is also a key dependency for the OHM Phase 2 project as the current Arnold Stores will be demolished and alternative storage facilities will be required for medical consumables along with the relocation of purchasing staff that are located within the premises.
- 1.14 The project has approved funding for project resources to enable the project to progress to a preferred solution with a confirmed design in early 2025. If the preferred design is estimated to cost over £5m, substantive funding approval will be considered by the States.
- 1.15 There is some urgency to the project, not just as an enabler to OHM Phase 2, but to provide alternative location for the Electro-Biomedical Engineering team, temporarily based at King Edward VII site, which is not only unsuitable for long term use, but is also a key site for development.
- 1.16 The OHM Phase 2 project is integral to the 'Sustainable Health & Care Services' strategic portfolio, particularly in terms of increasing service resilience and adaptability against the backdrop of current and future demographic challenges.

St Sampson's Flood Defences

- 1.17 The key objective of the flood defence project is to provide sufficient protection from of overtopping and its attendant risks at St Sampson's Harbour.
- 1.18 The project will provide necessary flood defences for existing homes and businesses in the area and is a critical enabler ahead of wider investment in the regeneration of the St Sampson's area through the redevelopment envisaged by the Guernsey Development Agency (GDA) and the development of new homes.
- 1.19 The project has approved funding of up to £350,000 including contingencies to commission a specialist infrastructure engineering contractor to progress the scope and design.
- 1.20 There is a risk the costs will exceed the originally allocated £2.1m, however this will not be known until the outcome of the current tranche of work.
- 1.21 If the project were to be defunded the Guernsey Housing Association (GHA) would unlikely bring forward Parc Le Lacheur (Kenilworth Vinery) for development.

- 1.22 The project is a key part of the 'Housing, Infrastructure & the Economy' strategic portfolio, particularly the 'housing supply and affordability' workstream. As part of the GWP, the States' Assembly agreed that housing supply and affordability was a critical enabler to each of the strategic portfolios and a main driver of cost-of-living pressures; and therefore, agreed in principle that the States should be prepared to invest to facilitate regeneration of the Bridge through the development of housing and related flood defence work.

Bridge Regeneration

- 1.23 The States have agreed that they will invest to facilitate the regeneration of the Bridge through the development of housing. Several land parcels support this which the States are facilitating either through the GHA (funding is through the Affordable Housing Development Programme); by negotiating with individual landowners/developers; and through the work of the GDA.
- 1.24 In this regard the States are in negotiations for the purchase of apartments and allocated parking within the proposals for the redevelopment of the Leale's Yard site.
- 1.25 The recent withdrawal of the developer's preferred manufacturer from the volumetric construction market has left the developer reviewing other options. This revised construction method will negatively impact a major advantage of the project which was the speed to market for the apartments.
- 1.26 To date, funding of £275k has been secured for technical and commercial due diligence investigations and reports, property development legal expertise and assurance, and independent valuations for the original proposals.
- 1.27 States of Guernsey approval would be required for the release of the substantive funding for proposals that bring forward the regeneration of the Bridge area.
- 1.28 As with the St Sampson's Flood Defences, facilitating the development of additional housing and commercial developments and their associated infrastructure are core to the regeneration of the St Sampson's area, and the Bridge in particular. This investment underpins all three GWP strategic portfolios and the individual workstreams therein which will be very significantly impacted if funding is removed.

Future Harbour Requirements – Survey

- 1.29 The project was included as a major portfolio delivery project in the F&I Plan with a value of £4m. This was in line with States Resolution following the East Coast Development Policy letter¹⁴ which directed the Policy & Resources Committee to include in the Capital Prioritisation debate an option to release the funding required to carry out the survey work necessary to inform a decision on future commercial port provision as set out in the Policy Letter from the States' Trading Supervisory Board of June 2021.
- 1.30 The scheme is still in the pre-project stage. The first phase of the project is expected to commence soon and will consist of commissioning an economic analysis of the harbour development options.
- 1.31 The current allocation is £4m but due to the timeline of the project, it is anticipated that the substantive funding could be considered as part of the next term's prioritisation.
- 1.32 This project is included in the regeneration workstream of the 'Housing, Infrastructure & the Economy' Strategic Portfolio.

Alderney Airport Pavements Rehabilitation

- 1.33 Under the 1948 agreement, the States have an obligation to maintain an airfield in Alderney. In the Government Work Plan in July 2021 the project was categorised as a 'Must Do' project. In 2022¹⁵, the States agreed to progress the preferred option at that stage (Option C+): "restoration of the existing pavement surfaces of the runway, including its re-widening and extension, and the redevelopment of the terminal building and other building alterations".
- 1.34 Given the significant benefit to the island of Alderney that would be achieved through this project, it was agreed that the States of Alderney would contribute to the project and the Alderney Policy & Finance Committee agreed a contribution for Option C+ of up to £3.5m.
- 1.35 The original analysis in the 2022 policy letter had shown that, based on the information available at the time, the preferred option represented the best public value for money owing to the reduction in Aurigny's costs (and corresponding reduction in subsidy from the States of Guernsey) as the longer runway would have allowed for a rationalisation of Aurigny's fleet.

¹⁴ [Billet D'État X 2023](#)

¹⁵ [Alderney Airport Runway Rehabilitation](#)

- 1.36 However, after the tender exercise, cost estimates for the project rose significantly above the £24.1m identified in the policy letter prompting a review of the scheme's affordability. Work is ongoing to review the revised options, and this project will need to return to the States for consideration of the next steps. The contribution from Alderney will also need to be revisited based on any change to the preferred option.
- 1.37 The preparation of a policy letter is currently underway to be considered by the States of Guernsey before the end of this political term.
- 1.38 If, having considered that policy letter, the States decide to proceed with one of the project options then detailed design work, including planning for the significant logistical challenges and procurement would commence. Commitments could be made in Q4 2025, but more likely during 2026 with a commencement date for ground works as soon as practicable thereafter.
- 1.39 Over recent years the runway has been maintained through regular repair work and patching of the existing surface as soon as the need has been identified. Additional funding has been made available for patching work in October 2024 and further patching will be carried out in the Spring 2025. The cost of patch repairs, while they remain required, will be an ongoing cost and will need to be undertaken proactively to maintain a viable landing surface.

Repair/Replacement of Castle Emplacement Bridge

- 1.40 The project aims to repair or replace the Castle Cornet Bridge which is in disrepair and has reached end of life. The bridge provides the only pedestrian and vehicular access to the breakwater and the historic Castle Cornet attraction (a protected monument within the St Peter Port conservation area), and a route for utility ducts.
- 1.41 A States Resolution from 2024¹⁶ confirmed the preferred option to fund the like-for-like replacement with some design enhancements and approved up to £7m inclusive of professional fees and contingencies for the project, delegated to the Policy & Resources Committee subject to business case.
- 1.42 The project has been progressing with the detailed design invitation to tender now underway. Substantive funding is expected to be sought in 2025 to enable contract award.
- 1.43 De-funding the project at this stage would have an impact on contractor confidence since the tender is live and actioned in good faith. The bridge is in a

¹⁶ [Billet D'État 1 2024](#)

state of disrepair and any further delay to progressing the project would risk further bridge restrictions, potentially preventing access to Castle Cornet in the interim. Given that Castle Cornet is a popular destination for visitors, this could have negative economic impacts.

Off-shore wind project/Seabed leasing project

- 1.44 Newly added to the major projects portfolio by the Policy & Resources Committee in March 2024, the objective of the offshore wind project is to establish ways to explore commercial opportunities to enter contracts for developing leasing opportunities for Guernsey's seabed during the remainder of this political term.
- 1.45 Funding to date of £745k incl. contingency of £150k has been agreed to develop a seabed leasing plan for offshore wind. The funds are committed although the contingency is expected to be unspent. The next phase is expected to cost an additional £1.3m and will require approval from the States Assembly.
- 1.46 This project is part of the 'Housing, Infrastructure & the Economy' GWP Strategic Portfolio, under the electricity resilience workstream which will ensure security of supply and the appropriate controls for existing and new technologies.

Guernsey Airport Pavements Rehabilitation (PFOS)

- 1.47 The project aims to safely remove soil contaminated with PFOS which is currently stored in Bunds located at the roadside in front of the airport. PFOS is one of a group of extremely persistent and mobile contaminants (often termed 'Forever Chemicals') that was previously used in firefighting foams. The project is the final element of the Guernsey Airport Pavement Rehabilitation project, approved by the States in 2011¹⁷.
- 1.48 In June 2024, the Policy & Resources Committee agreed to re-categorise the project from 'do but review solution / scope' to delivery. While the upper bound of the cost estimate was higher than originally expected, it remains within the capital vote originally agreed by the States for the Guernsey Airport Pavements Project. A tender process is being run and substantive funding release will be considered when firm costs are known.
- 1.49 Any delay to the project funding would delay dealing with the contaminated soil and potential action by the Office of Environmental Health and Pollution (OEHPR).

Construction Village /Temporary Housing Villages

- 1.50 The new projects of a Construction Village and Temporary Key Worker Housing

¹⁷ [Billet D'État XIII 2011](#)

were proposed in the 2025 Budget and in debate, the States agreed to extend this to “projects to build temporary housing villages”, not restricted to key workers or construction workers.

- 1.51 This has been included as a holding value in the portfolio as two separate projects of £5m each, as the solution for a construction village will be separate to that for temporary housing. The construction village is likely to reduce the cost of existing or future construction projects. Proportionate business cases are currently being developed to initiate funding requests in the near future.
- 1.52 If the projects were to be defunded the States would be unable to increase construction capacity impacting delivery on key projects, and the benefit of easing housing pressures for key workers and other islanders would not be delivered.
- 1.53 The construction village is a critical enabler for each of the GWP strategic portfolios and while the temporary homes model has yet to be tested with potential residents it could bring more immediate relief to the housing supply and affordability problems experienced in the Island by providing some capacity while new homes are built.

Our Hospital Modernisation (OHM) Phase 2 and associated works

- 1.54 The programme aims to deliver a modern acute care campus facility at the PEH which has the capability required to manage known and future service demands in line with all related clinical and safety standards. The programme plans to deliver additional capacity which is key to realising a resilient health and social care service that can meet future demand in an efficient and effective way.
- 1.55 The project has had funding of £1.35m to date for project team resource costs and a value engineering exercise. The value engineering exercise is now complete and a funding request for ongoing project funding to enable the development of a revised OBC is expected in early 2025. The project will be required to return to the States for substantive funding and approval and this is expected to be in Q3 2025.
- 1.56 £120m is allocated in the current Portfolio for this project, however based on current designs the total cost is likely to exceed this. The recently completed value engineering review has recommended that Phase 2 be further split into phases, with the first phase (Phase 2A) of the project estimated to cost £130m, and the second stage (phase 2B) at an estimated cost of £49m, to be considered in the next portfolio.
- 1.57 Phase 2A would be predominantly new build and would deliver the following areas: Maternity; Neonatal Intensive Care Unit/Special Care Baby Unit; Paediatric Ward; Private Ward1; Admissions/Discharge Unit; Outpatients; Main Entrance;

Four new theatres; refurbishment of two current theatres and conversion of one current theatre into two endoscopy suites; Sterile Services; Breast Unit.

- 1.58 Phase 2B consists mainly of refurbishment and would deliver: Emergency Department (ED); New CT Scanner Suite and Reporting Rooms; Fracture Clinic; Orthopaedics; Overnight Accommodation.
- 1.59 If the project were not to be delivered, capacity (which is already a significant challenge) would become an increasing challenge as demand continues to increase due to demographic changes. Waiting list strategies would have to be increased for both on and off island to manage increased demand and there may be a requirement for temporary wards leading to higher revenue costs as well as wasted expenditure. The revenue pressures that are already evident would become more pronounced and there would be a delay to resolving existing clinical risks.
- 1.60 While the project is strategically important for the island, the current expected timescales means that construction expenditure would not begin until 2027, with anticipated completion between 2029-2031 depending on the preferred option.
- 1.61 The OHM Phase 2 project provides essential support to the 'Sustainable Health & Care Services' Strategic Portfolio, particularly in increasing service resilience and adaptability against the backdrop of current and future demographic challenges.

MyGov Digital

- 1.62 The refreshed MyGov Digital Programme has the primary objective of improving the security, reach and quality of public digital services by providing a new secure foundation for digital services centred around compliance, data security, data accuracy and customer access.
- 1.63 The programme is currently in the foundation phase of its development having completed the design phase of works which re-considered and confirmed the optimum solution for the organisation. Funding to date totals £650,000 since 2021 including £100,000 recently approved for independent legal advice.
- 1.64 Following the assessment of tender proposals and negotiations a contract award decision (supported by full business case) is expected imminently. The programme capital costs are estimated at up to £5m and ongoing revenue costs are estimated at £1.3m per year.
- 1.65 Defunding the programme at this point could risk the successful negotiations with the lead vendor, placing the wider programme benefits such as identity fraud risk reduction and compliance, cost avoidance and improved customer satisfaction in engaging with the States at risk.

- 1.66 This project is part of the 'Maintain Public Service Resilience, Security & Governance' Strategic Portfolio, specifically ensuring IT resilience in how public services are provided.

Fermain Wall Repair

- 1.67 In January 2024, the scope of the project was reviewed and reduced from the complete repair of the wall to the re-alignment of the cliff path which is necessary due to erosion. Topographical surveys have been undertaken and discussions with private landowners are currently taking place. To avoid nesting season, the actual works may not commence until Autumn 2025.
- 1.68 Should the project be defunded the pathway would continue to be monitored and if necessary closed with pedestrians being redirected via Fermain Lane.

Electronic Patient Record

- 1.69 This project is in-flight project with funding committed. The project is expected to cost more than the original agreed amount, and the Policy & Resources Committee has recently agreed additional funding of up to £6.4m to complete the project. The expected total cost is £23.7m, including contingency.
- 1.70 The core TRAK Care replacement system is now scheduled to be fully installed and operational in June 2025 and all other programme releases are scheduled to be completed by June 2026.
- 1.71 This project sits at the heart of all health and care systems' IT estates and will address a significant risk to the ongoing provision of health and care services in a manner that allows the States to progress its strategic ambitions for the delivery of these services. The project is integral to the ongoing transformation of health and care services and supports the 'Sustainable Health & Care Services' Strategic Portfolio.

Affordable Housing Development Programme

- 1.72 This is an in-flight project and grant funding for the Guernsey Housing Association (GHA) of up to £20m has been agreed with in principle funding approved for schemes estimated at £22m.
- 1.73 When funding is approved in principle, this gives the go ahead to the GHA to work up the details of the scheme including detailed plans. Once complete the GHA would work up a final grant proposal, based on the detailed designs. At this stage final approval of the grant proposal would be required from both the Committee for Employment & Social Security and the Policy & Resources Committee.

- 1.74 Agreed development sites are at varying stages, some are well underway with formal approval expected shortly while others are likely to take longer due to some sites selected for development depending on proposed rezoning which is expected to be considered by the next Assembly as part of the Island Development Plan update.
- 1.75 The States have articulated a number of times that housing is absolutely critical, with the current GWP stating: "...*housing supply and affordability is a critical enabler to each of the strategic portfolios and a main driver of cost of living pressures*".

Transforming Education Digital (Primary and Secondary)

- 1.76 This project is in-flight, with completion expected in Summer 2025. Most of the funding for the project has been released apart from some remaining team costs and any contingencies required and is almost fully committed.
- 1.77 The project will enable the delivery of ICT transformation across education setting to support high quality teaching and learning, which links to the 'Housing, Infrastructure & the Economy' Strategic Portfolio, particularly the 'skills for work' workstream.

APPENDIX 3: PORTFOLIO ON A PAGE

IN-FLIGHT SCHEMES
Scheme Name
Our Hospital Modernisation Phase 1
Electronic Patient Record
Digital Infrastructure
Funding Affordable Housing Development Programme
IT Transformation
Revenue Services Programme
VME Replacement
Guernsey Registry IT Systems Replacement
Online Passport and Workflow System
Footes Lane Refurbishment
Sarnia Cherie BWMS
Mont Crevelt Breakwater Reinstatement
Transforming Education Digital (secondary and primary)
SMART Court Phase 1
MyGov Programme
Havelet Slipway Repairs
Tetra PSN
Clinical And Animal Waste Solution

DELIVERY
Scheme Name
Property Rationalisation Phase 2
Community Services - Children's & Families Hub
Central Stores - Supply Chain Relocation
St Sampsons Flood Defences
Bridge Regeneration
Future Harbour Requirements - Survey
Alderney Airport Pavements Rehabilitation
Repair/Replacement of the Castle Emplacement Bridge
Our Hospital Modernisation Phase 2 and associated works
Transforming Education Programme - Phase 1
Off-shore Wind Project
Guernsey Airport Pavements Rehabilitation (PFOS)
Temporary Housing Villages
Construction Village
Fermain Wall Repair
MyGov Digital

PIPELINE
Scheme Name
CCTV Replacement
Coastal Flood Defences
Home Affairs Estate Rationalisation
Community Hub (Health and Social Care)
HSC Digital Roadmap
Future Guernsey Dairy
Future Harbour Requirements
Our Hospital Modernisation - Pathology
SAP Roadmap
Future Inert Waste Facility
Transforming Education Programme - Phase 2
Bus Fleet Replacement
SMART Court Phases 2 & 3