Scrutiny Management Committee

Review of the Capital Allocation Process of the States of Guernsey

JULY 2020

1. Executive Summary

1.1. The aim of this Scrutiny Management Committee (the Committee) review was to identify whether the process that the States of Guernsey (the States') currently has in place to process requests for capital funding, is fit for purpose.

1.2. As the review progressed, it quickly became apparent that it would culminate in a wider review than originally thought when initially drawing up the Terms of Reference. Whilst the actual process in place to allocate capital funding remained the primary focus, the delivery of approved projects and the accumulated impact of the lack of capital spend in the last ten years became additional aspects of the review.

1.3. As part of the review, the Committee commissioned an investigation of the impact on the Guernsey economy of the actual investment against the target level of capital expenditure. This work was undertaken by an economist appointed by the SMC. The review considered the type and volume of capital investment made by the States of Guernsey between 2008 and 2018. This element of the review considered the potential impact of achieving the target level of capital expenditure on the Guernsey economy, specifically on GDP growth, tax revenues and consumption.

1.4. This economic analysis examined the levels of States' capital expenditure and GDP, specifically the volatility of capital spending and the amount of the shortfall in capital investment versus the 3% target level of spending over the period in question 2008 – 2018. The review also considered how additional capital investment could have been spent, drawing on the States' 2009, 2013 and 2017 capital prioritisation plans. Finally, it examined the likely impact of the additional investment on key sectors of the economy, and households through multiplier effects, taking into account the impact of using local versus offshore contractors to deliver additional investment.

1.5. The review considered whether the existing mechanism in place to allocate capital funding is working effectively; reviewed whether there has been an appropriate level of support available for Committees during the request process and assessed whether the information supplied to States Members at the initial stage of approval is appropriate.

1.6. The review considered a number of sources of evidence produced by a desktop review of the information available and a consultation exercise which produced evidence from existing government Committees, current States Members, former States Members, relevant professionals and senior government staff working in this area. The evidence was collected via a combination of face to face interviews, questionnaires and a detailed analysis of the documentary evidence generated by the capital funding process.

1.7. This evidence was considered by the review panel which comprised, Mrs Gill Morris, Deputy Jennifer Merrett, Advocate Peter Harwood, Deputy Mark Dorey and Mr James Partridge OBE.

1.8. The review concluded that there is no evidence that the change of approach to capital spending and the process introduced in 2013 and its subsequent iterations, has aided the speed with which the States can allocate capital expenditure. On the contrary, consultees believe that the approach adopted in 2013 has actually created barriers of process that has led to, or exacerbated, delays. Detailed findings and recommendations based on an analysis of feedback from elected members and officers are outlined later in the report.

1.9. The report includes a number of recommendations for future action that the Committee believe will, if adopted, improve the effectiveness of the process of allocating funding for capital projects and, hopefully, lead to a quicker and more efficient method of delivering the capital projects that the Island needs.

1.10. This review indicates that the processes involved are not well understood and together with a lack of strategic direction and political decision making from the States of Deliberation, this has meant that very few sizable capital projects have been started or completed in the last eight years.

1.11. In addition, the expected level of spending on maintenance has often failed to be achieved which has, in the opinion of some of those interviewed, led to an unnecessary level of decay on the existing infrastructure.

1.12. The review also highlights how opportunities for economic growth on Island have been effectively stymied by the limited States-led capital investment in recent years. Given the situation that Guernsey finds itself in as a result of the COVID pandemic, it is vital that the island allocates its resources as effectively and efficiently as possible to rebuild our economy as well as to provide critical infrastructure.

1.13. To this end, the report recommends that there needs to be a prioritised and well-managed portfolio of projects that do more than just replace worn out infrastructure. In view of the economic consequences of the COVID lockdown, the States' should use this once in a lifetime opportunity to begin to shape the economic, social and environmental future for our Island that has often been talked about, but largely not actioned.

1.14. The new pipeline of projects needs to consider the new reality that the Island finds itself in. Projects that might have seemed like an opportunity in the past may well not be so attractive now and others that could be accelerated to improve the Island's resilience such as broadband capability or improving sea and/or flood defences, could replace them.

1.15. One of the key findings is that any selected project needs to be properly resourced and managed effectively. The skills that already exist within the States need to be deployed where they can be most effective with a focus on completing projects, rather than prioritising the oversight mechanism. Where gaps exist in capability, the States should recruit the necessary skills (i.e.: programme and project managers) to ensure that this vital work is delivered efficiently.

1.16. Given that the portfolio will be delivered over a significant period of time, resourcing an in-house team to support implementation should be seriously considered. Larger infrastructure projects will take time to plan so consideration should be given to reviewing the maintenance backlog and accelerating this process to provide local employment and make sure that existing infrastructure is fit for purpose and as efficient as possible.

1.17. The Island is more fortunate than many in the financial resources that it already has available. Whilst resources intended to replenish the Island's infrastructure sit in investment portfolios, they are not providing the boost to the economy for which they were originally intended. Now is the time to use them for that purpose. Conversely, there may be some previous decisions on infrastructure spending made by the States that need to be reviewed to establish whether they are still relevant or appropriate, post-COVID.

1.18. The funds that the States' currently holds, need to be invested intelligently in the Island's future, based on well informed States of Deliberation decisions and using an efficient and effective process that is properly understood by States Members, public servants and taxpayers alike.

2. Background

2.1. The States of Guernsey (the States') Fiscal Framework, introduced in 2009 and revised in 2016, set out *"that the assumed 'norm' for permanent capital expenditure to be 3.0% of gross domestic product"*(GDP)[1], [2]. The main rationale behind this was to:

i) undertake investment required to replace, maintain and develop Guernsey's infrastructure to meet the needs of the community; and
ii) facilitate economic growth.

2.2. For the avoidance of doubt, the target spending on the Fiscal Policy was intended to be ***3% expenditure****,* not creating a 3% saving.

2.3. In order to 'spend' the funds allocated for capital projects, the States' historically operated a prioritisation process based on a four-year cycle around political terms. All major construction projects were subject to 'directives' that defined how projects were run, including a Gateway assurance process[3] together with a post-implementation review (PIR) report after the completion of the project.

[1] The definition of capital expenditure for the purposes of this report is tangible fixed and intangible assets.
[2] Definition of Gross Domestic Product (GDP) attached at Appendix 1
[3] Gateway process definition attached at Appendix 2

2.4. In September 2013 (Billet d'État XIX 2013), the States of Deliberation resolved to support a new capital expenditure process based on portfolio management[4]; an approach used by the UK Cabinet Office and considered to be current best practice at that time.

2.5. The Treasury and Resources Department's Policy Letter to that September 2013 meeting recommended *"that a States Capital Investment Portfolio (i.e. a comprehensive set of projects submitted by Departments which will in due course require a capital vote following approval by the States of Deliberation or the Treasury and Resources Department under its delegated authority), to be managed by the Treasury and Resources Department, is established to provide a unified and consistent approach across the States to delivering capital projects and to safeguard the financial investment by providing a co-ordinating function. It is intended that the Department would provide oversight of the portfolio, producing regular updates (at least annually) for the States on project progress.* ***However, Departments will remain responsible for the delivery of projects, managed through the best practice mechanism of a Project Board structure.***

The potential size and scale of the foregoing projects is such that a co-ordinating function is considered necessary in order to safeguard the substantial financial investment, promote organisation-wide standards and controls and manage interdependencies. Hence the proposal to embrace them into a portfolio – that collection of projects now being called a States Capital Investment Portfolio."

2.6. Under this new process, Departments (Committees since the 2016 political term) of the States were required, as had also been the process previously, to request funding for substantial capital projects from the States of Deliberation for approval. However, going forward, the Policy Letter from the Department/Committee concerned should, as a minimum, include all relevant financial details, identify any tangible benefits the project would deliver and the project should adhere to the Gateway process which would be overseen by Treasury & Resources Department (T&R) (Policy & Resources Committee (P&R) since the 2016 political term).

2.7. The new process was also designed also to allow States Members to be able to make a more informed decision than historically, when funding for a capital project was submitted. Once approved by States Members, the projects would then be included in the Portfolio.

2.8. Following the agreement by the States of Deliberation to the portfolio management process, a new internal States Capital Investment Portfolio team (SCIP) was appointed for the purpose of supporting Committees throughout the Gateway and Portfolio processes. This has evolved into the Portfolio Team which manages the portfolio in addition to providing a finance and procurement resource to support project teams.

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[4] Definition of Gross Domestic Product (GDP) attached at Appendix 1 in line with its strategic objectives and capacity to deliver. The goal is to balance change initiatives and business-as-usual within complex organisations, while optimising return on investment (Association for Project Management – www.apm.org.uk).

2.9. However, during this political term (2016-2020) concerns have been raised that despite the portfolio management processes in place, the information submitted to elected members of the States of Deliberation has been insufficient to make an informed decision, (although approval has still been given in most cases) and additionally that the process itself is causing delays in projects actually coming before the States of Deliberation.

2.10. In order to fund the major capital expenditure as described above, the States has for many years set aside specific monies. Currently, the main reserve that it utilises is the Capital Reserve, in addition to the unallocated Bond Issue[5] monies. However, there has been little movement in the Reserves, or new allocation of Bond monies since 2016.

2.11. The Scrutiny Management Committee (the Committee) has also been aware in this political term of the reliance placed by the States of Deliberation on the delegation of authority to the Policy & Resources Committee (P&R). Whilst at times during debate, some deputies have been critical of this practice, nevertheless the States of Deliberation has generally voted in favour of giving P&R delegated authority over significant capital amounts, for example in relation to the recent capital spending proposals of both the Committees *for* Health & Social Care and Education, Sport & Culture. The scope of such delegated authority without further scrutiny on behalf of the States of Deliberation has been a matter of concern for the Committee.

2.12. The combination of the Committee's concerns with (i) concerns raised by States Members regarding the adequacy of information submitted to States Members in support of capital projects, (ii) the perception by certain States Members of an apparent inability to deliver capital projects despite the availability of significant capital reserves, and (iii) the increased reliance upon delegation of authority to P&R for final approval of capital projects, prompted the Committee to undertake a review to determine whether the current process was appropriate for which it was designed.

2.13. For the purposes of this review, the Committee convened a panel which comprised:
Mrs Gill Morris (Panel Lead) – Non-States Member of the Committee
Deputy Jennifer Merrett – States Member of the Committee
Advocate Peter Harwood – Non-States Member of the Committee
Deputy Mark Dorey – States Member
Mr James Partridge OBE – Non-States Member

2.14. A questionnaire was circulated to all current States Members and a number of former States Members who had been involved in large capital projects.

2.15. The Panel also spoke directly with:
a) the Non-States Members of the States Trading Supervisory Board;
b) the States Treasurer;

[5] The States of Guernsey raised a £330m Bond Issue in December 2014 - https://www.gov.gg/CHttpHandler.ashx?id=93092&p=0

c) the Portfolio Director;
d) the previous General Manager of Property Services;
e) the Deputy Managing Director, States Trading Supervisory Board
f) the Transformation Programme Director of the Committee *for* Education, Sport & Culture;
g) the Head of Capital Projects of the Committee *for* Education, Sport & Culture.

2.16. As the review progressed, it quickly became apparent that it would culminate in a wider review than originally thought when initially drawing up the Terms of Reference. Whilst the actual process remained the primary concern throughout the review, it became apparent that the accumulated lack of capital spend in the last ten years may have had on the Island's economy over the same period. In order to better understand the economic consequences of this lack of spend, the Committee engaged the services of an independent economist.

2.17. To enable clarity for the reader, the Committee has documented its main Findings, Conclusions and Recommendations mostly under the same section headings in each chapter in this report.

3. Covid-19 Pandemic

3.1. This Review was largely completed before the Bailiwick experienced the onset of Covid-19. The evidence obtained by the Panel, its findings, conclusions and recommendations therefore pre-date considerations of post pandemic recovery.

3.2. The Committee considers however, that the work undertaken by the panel and, in particular, the economic analysis undertaken on its behalf is of immediate relevance as the Bailiwick authorities plan the strategy for economic recovery. An understanding of the economic impact arising from the range of capital investment opportunities that will be under consideration will be critical.

3.3. The findings and conclusions of the Committee as to the reasons for the failure of the States to meet its historic baseline capital investment target, must inform the processes that will need to apply to ensure that the additional funding promised for economic recovery, is applied in a timely and effective manner.

4. Findings

4.1. As mentioned in the Background section of this report, the process continued to be of ultimate concern during the review. However, the Committee felt that the findings in relation to economic impact on the local economy over the period reviewed, merited them being prioritised.

Economic Analysis

Evolution of States Capital Spending

4.2. The States of Guernsey Fiscal Framework, introduced in 2009, set out a target of sustaining an average expenditure of 3% of Guernsey's Gross Domestic Product (GDP) on capital expenditure (investment in infrastructure and public works). However, in practice, actual investment levels by the States have fallen short of this level, especially in recent years, and overall have averaged only 1.7% per year over the ten years from 2008 to - 2018. The Committee commissioned an investigation into the likely impact on the Island's economy of this under-investment against the target level of capital expenditure.

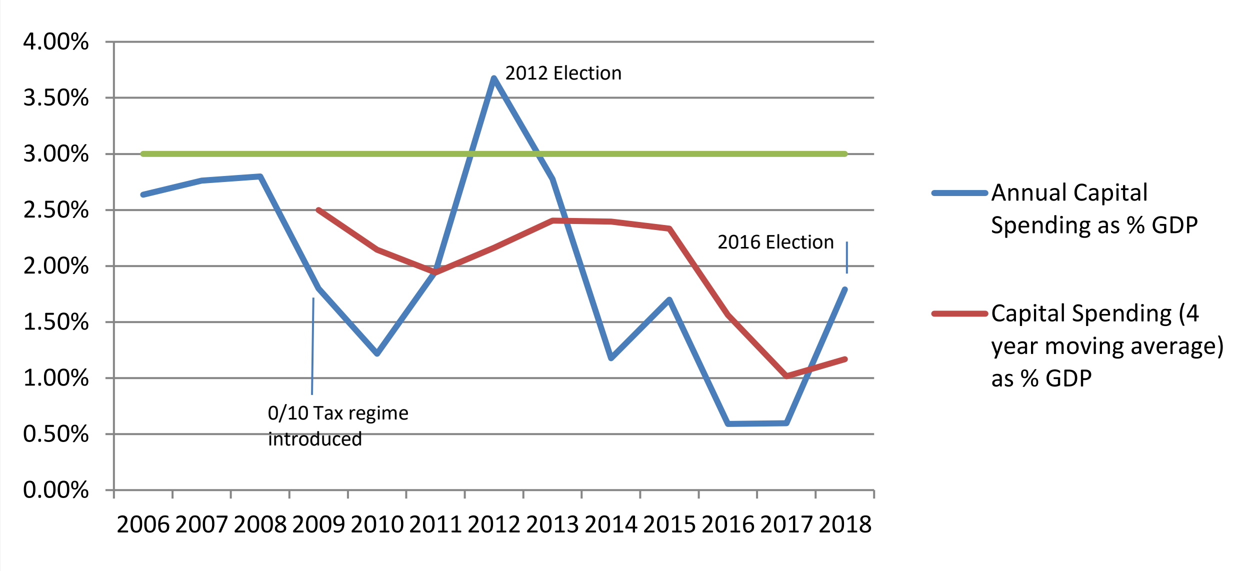
4.3. Figure 1 demonstrates the evolution in the level of States capital expenditure against the target level, noting key economic and political events.

4.4. The first key feature of the data is that, overall, capital expenditure has been below the target level:

- The Fiscal Policy target level of capital spending 3% or more of GDP[6] was exceeded in only one year – 2012 – with an expenditure level of 3.7% of GDP;
- Capital spending was close to the 3% of GDP target level at ca. 2.8% in years 2006-2008 and again in 2013. Overall between 2006 and 2013 spending averaged 2.5%. Again, not far below the target level;
- However, despite rebounding in 2018 to 1.8% of GDP, capital expenditure has markedly declined since 2013 - averaging only 1.2% a year in the 2013-18.

[6] Figures take account of the adjustment in the calculation of GDP in late 2017, and extrapolate capital expenditure and GDP forward from 2016 to 2018 using a consistent (unrevised) definition of GDP.

Figure 1: States Capital Expenditure against Fiscal Policy expenditure target level



4.5. The second key feature of the data is that States' capital spending has been rather volatile. The shortfall in States' capital expenditure against the moving average GDP target of 3% over the 10 years to 2018 has varied from a £15 million excess over the target in 2012, to a £61 million deficit against the target in 2017.

4.6. Overall, in the period 2009 to 2018, spending fell short of the fiscal rule target of 3% by a total of £291 million, with total shortfalls against the target of £306 million in years 2009-2012 and 2014-2018, offset by an excess of £15 million in 2013.

4.7. The shortfall in annual levels of capital spending compared to the 3% moving average of GDP rule is shown in the table below:

Table 1: Shortfall in average spending out of the Capital Reserve and 3% GDP rule

Year	Difference between GDP rule and spending (£ million)
2009	22
2010	34
2011	22
2012	-15
2013	5
2014	42
2015	31
2016	58
2017	61
2018	31
Total spending	**291**

4.8. On average, States total capital spending in 2009-2018, including on routine maintenance, was £38.5 million a year – a little over half of the level of £67.6 million a year if the target for spending had been met. This implies that, to meet the rule, spending would have needed to have been £29 million a year higher than was the case.

4.9. The 2019 Review of the Fiscal Policy Framework confirms that there is a need to aim for an average capital expenditure level above the level achieved over the last 10 years – a level of 1.7% on the historical GDP measure and 1.4% on the revised post-2017 GDP measure. It recognises "the under investment in infrastructure over the last three years in particular".7

Detailed Review of States Major Capital Projects since 2008

4.10. A detailed examination of capital investment spending undertaken by the States over the last ten years is set out in Table 2 below. This examines spending on major capital projects only excluding minor capital spending and rehabilitation and shows that:

- Spending on major non-IT capital projects out of the Capital Reserve was just under £260 million in total over the period 2009 to 2018, an average of ca.£25 million a year;

- In most years, one to three big projects each spending over £5 million account for the bulk (over 80%) of annual spending on major capital projects;

- Total capital spending was only circa £20 million per year in 2009, 2011 and 2014. At its lowest, spending was in the range of £5-10 million a year in 2010, 2016 and 2017;

- In 2010, 2016 and 2017 there was a dearth of large projects[8], with expenditure of only around £1.5 million each on 2 school projects (in 2010 and 2016), the new hospital clinical block (in 2010) and bus replacement (in 2017), together with spending £1 million on the airport pavements rehabilitation (in 2010);

- Except for spending of £27.6 million on the waste transfer station in 2018 and spending of a similar sum on the Belle Greve Wastewater outfalls and Adult Mental Health Centre projects in 2015, spending on major projects has been limited in the last 4 years: £2.9 million, £2.7million, £1.3 million and £4.3 million in total in 2015, 2016, 2017 and 2018 respectively. The bulk of spending in these last 4 years was on relatively small projects, described as 'minor capital';

- In 2016, the appropriation to the capital reserve was reduced by £24 million. This resulted in very low annual spending of £6.3 million, besides the £25.2 million spent on recapitalising Cabernet Ltd to fund accumulated losses by the Guernsey airline. This

[7] Review of the Fiscal Policy Framework and Fiscal Pressures, Policy & Resource Committee, P.2019/142

[8] In 2010, 2016 and 2017, no individual major project expenditure exceeded £2 million

low level of spending was noted in the 2016 Accounts as limiting "*the ability and necessity to invest in the island's infrastructure*"[9].

Possible reasons for lower than planned capital spending

4.11. Successive recent annual Independent Fiscal Policy Reviews have highlighted that the States have consistently struggled to meet the 3% of GDP average spending target[10]. Besides the afore-mentioned reductions in Capital Reserve allocations, other possible reasons behind the under-spending from the Capital Reserve are:

- a slower than anticipated progress in delivering States capital spending projects;
- programmes being managed in silos, resulting in funding not being re-allocated if projects are delayed;
- a lack of political prioritisation of required spending, for example in education, health care and digitisation.

[9] President's Foreword to the 2016 States Accounts, 26 May 2017
[10] Section 5.3, Independent Fiscal Policy Review 2017, January 2018

Table 2: Major Non-Administrative Capital Projects Undertaken[11] since 2008

Major Capital Projects funded from Capital Reserve

Project	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	TOTAL
Education Projects												
Les Nicolles Secondary & Special Needs Schools (£78m)	108	104	14	7	-	-33	94	212	59	395	9,660	10,620
FE College - Les Ozouets Campus / Phase 2b (£3.7m)	-	-	-	7	12	80	621	2,215	54	-	-	2,989
Le Rondin Special Needs School (£13.9m)	-	-	-	-	-	12	-	110	34	82	69	307
Les Beaucamps High School (£36.8m)	16	-	220	45	81	8,219	15,213	9,565	1,661	240	550	35,810
La Mare de Carteret Schools	959	121	1,451	936	892	173	-	-	-	-		4,532
Public Services Department												
Airport Pavements Rehabilitation (£78.2m)	-	25	208	491	3,369	24,679	34,159	6,323	1,112	-	-	70,366
Airport Radar Replacement (£3.25m)	-	-	113	126	374	637	1,746	-	-	-	-	2,996
Belle Greve Wastewater Centre (Phase 5: £11m + Phases 1-3)	-	37	3	-	155	4,751	5,126	629	-	2,116	1,714	14,531
St Peter Port Harbour Crane Strategy (£13.7m)	11	27	-159	1,110	3,419	5,369	2,174	273	825	180	-	13,229
Waste Transfer Station (£29.5m)	27,613	-	-	-	-	-	-	-	-	-	-	27,613
Household Waste Recycling Centre (£2.2m)	1,442	-	-	-	-	-	-	-	-	-	-	1,442
Belle Greve Waste Water Outfalls (£19.9m)	-	-	-	18,325	103	-	-	-	-	-	-	18,428
Environment Department												
Bus replacement (£4.75m)	2,795	1,617	12	84	4	-	-	-	-	-	-	4,512
Health and Social Services Department												
Mental Health & Wellbeing Centre (£24m)	12	-486	835	8,088	8,255	4,386	351	1,375	-			22,816
Clinical Block (£36.1m)	-	-	-	-	36	44	307	1,049	1,550	7,706	12,064	22,756
States of Alderney												
Commercial Quay Renovation	-	-	-	-	-	-	-	-	106	4,259	5,680	4,365
Total Value of Major Projects	32,956	1,445	2,697	29,219	16,700	48,317	59,791	21,751	5,401	14,978	29,737	257,312
Total In-year Capital Reserve Expenditure	37,057	8,236	6,306	32,474	18,212	49,138	61,715	22,118	5,491	17,971	34,059	292,777
Major Projects as % total	88.9	17.5	42.8	90.0	91.7	98.3	96.9	98.3	98.4	83.3	87.3	87.9

[11] Projects with a total value of over £2.5 million

4.12. An analysis of major projects included in the States Capital Portfolio Dashboard reveals that out of a total portfolio value of £106.5 million, total funding Votes amounting to £90.1 million were released up to 31 October 2019, and total Vote expenditure was £80.25 million. This means that actual spending was 20% lower than envisaged at project approval.

4.13. Examples of lower than planned spending on projects include:

- £3.42 million spending versus a planned expenditure of £4.82 million on radiology equipment (scanner replacement);
- £0.11 million spending versus a planned expenditure of £12.2 million on the Alderney Airport runway (this project is still planned to proceed, but has been delayed).

4.14. The States of Guernsey have noted[12] that "*Although a number of projects are in various stages of planning and delivery, there have been significant delays compared to that anticipated when the portfolio was compiled … it has become apparent that there is a general lack of capacity and capability for initiating and developing projects*." Besides capacity constraints, reasons for the slow progress in delivering capital projects have been identified[13] by the Policy & Resources Committee as:

- poorly defined [project] goals and objectives;
- poor [cost] estimates / missed deadlines;
- [project] scope changes;
- lack of senior officer and political sponsorship; and
- a changing environment and requirements.

4.15. However, in addition to the identified technical failings above, there appear to be political choices impeding spending on infrastructure.

4.16. A third key feature of the data is that there is overall a very substantial time lag between the decision by the States to invest in a capital project and the delivery of a project.

Private sector views on capital expenditure patterns

4.17. This assessment of delays in implementing capital expenditure plans has been confirmed through discussions with private sector representatives[14]. Those representatives noted that:

- between 2017 and 2019, the value of infrastructure project tendered, apart from Guernsey Water projects, has been low and with one exception[15] below £100,000;

- although modular building techniques may be reducing the demand for concrete, the volume of ready-mixed concrete produced is nevertheless a bellwether of the state of the construction industry. The level of concrete produced fell 20-30% between 2005-2013 and 2014, and then fell a further 20% between 2014 and 2015-16;

- due to the low value of contracts and to maintain profitability, construction firms have needed to shed permanent workers and rely more on contractors to undertake projects. This situation is confirmed in official figures. Employment in the construction industry across the Bailiwick has reduced from 3,255 in March 2009 to 2,755 in March 2018, i.e. by over 15% in 10 years. The industry noted that it is difficult to reemploy

[12] States of Guernsey 2019 Budget Report
[13] Statement, President of the Policy & Resources Committee, 4 September 2019
[14] Including in particular discussions with Ronez and Geomarine representatives
[15] Repair of damage to Alderney breakwater and seawall repointing works

people in the construction industry in the Bailiwick, once they have found work off-island, or in other sectors in Guernsey;

- although several infrastructure projects are in the pipeline, and some have funding allocated, some of these projects have not moved into the construction phase yet. The principal reason for this seems to be capacity and capability problems in States departments, who are dealing with spikes and troughs in their workload.

Modelling the Impact of Additional Capital Spending

4.18. If the capital investment target had been met, an additional £314 million in total in 2018 prices[16] between 2009 and 2018 would have been spent on capital projects. This additional capital spending would have had two main economic impacts:

Additional income accruing to companies, enabling salary and other payments to staff, contractors and sub-contractors for labour, plant hire, transport and other services

4.19. On the basis that 70% of additional States voted capital expenditure is disbursed by companies in the form of salaries and payments to contractors for services, an additional £220 million in salaries and payments to contractors would have been paid between 2009 and 2018 inclusive.

4.20. In discussion with construction industry representatives, the average project profit margin, after payment of business costs, labour and company overheads, was felt to lie in the range of 8-11%. This implies profits for island construction companies could have been a maximum of nearly £34 million higher. This additional profit would have had an important consequential impact on company valuations, business confidence and skilled staff retention.

4.21. The retention of skilled staff is deemed to be crucial as once this labour has been shed by construction companies, people tend to find employment in other sectors and/or leave the Bailiwick. If these skills are lost to the construction sector, knowledge on local factors affecting construction and rehabilitation, is lost and contractors with these skills are likely to have to be brought in from off-shore at a higher cost to the States, resulting in poorer value for money for Guernsey taxpayers.

"Trickle down" benefits from spending out of additional income to the benefit of other sectors, such as Guernsey wholesale, retail, and hospitality providers

4.22. Taxation, social security and housing costs take around 32% of gross household income in Guernsey. According to survey evidence, household disposable expenditure is 78% of post-tax median income and 65% of mean income, implying that on average around 22% of household disposable income is saved. Other quasi-fixed costs such as schooling, transport, and utilities are estimated to account for 40% of household disposable expenditure.

4.23. The figures above suggest that conservatively around a third of income received from States additional capital spending would be spent on discretionary consumption items and hence "trickle down" into the Guernsey economy.

[16] Nominal expenditure figures uprated to 2018 prices using the Guernsey GDP deflator

4.24. Assuming, that 80% of this spending benefits on-island providers rather than off-shore businesses, the ultimate "trickle-down" benefit to Guernsey-based goods and services providers is estimated at around a sixth of the value (17%) of additional capital spending.

4.25. Modelling the benefits of these additional income payments provides the following estimates:

a) Additional spending through on-island providers of around £52 million over the 10 years 2009-2018, or a little over £5 million a year (in 2018 prices). Given the particularly low capital spend in recent years, this would have translated into additional spending in the Guernsey economy of around £25 million over the last 3 years (2016-2018);
b) If the average retail and service provider profit margin is 20% of gross turnover[17], then this additional spending would have translated into additional profit before business expense of £10.5 million over the period and around £5 million over the last three years.

Projected capital spending from 2019 onwards

4.26. Table 3 sets out the envisaged capital spending levels over the next three years, as set out in the Medium Term Capital Plan:

Table 3: Projected levels of States Capital Investment, 2019-2022

Year	Level of Investment forecast in Medium Term Financial Plan 2017-2021 (£ million)	'Minimum' level of Investment proposed as per Fiscal framework Review (£ million)
2019	52.9	50.5
2020	52.7	51.5
2021	52.5	52.5
2022	N/A	53.6

4.27. A detailed review of 2017-20 Prioritisation projects contained in the States Capital Projects Dashboard has been undertaken to review likely spending in 2019 and onwards. The Dashboard lists a total of 41 projects (excluding minor capital) with a total estimated value[18] of £405.3 million. Nine out of the 41 projects are yet to be formally opened with a Vote allocated. These nine projects account for an estimated value of £213.3 million. Of the remaining 32 projects which are under way, eleven projects valued at £39.9 million have been completed.

4.28 Twenty-one projects are therefore still to be completed and in progress at an estimated value of £152.0 million. Up to 31 October 2019, only £11.6 million had been spent on these projects.

18 Nominal expenditure figures uprated to 2018 prices using the Guernsey GDP deflator
18 Described as 'Portfolio Holding Value' on the spreadsheet provided

4.29. Of these twenty-one projects, six projects concern improving the delivery of States services[19] and have an estimated value of £51.6 million. Only £9.8 million (19% of project value) had been spent on these projects by October 2019. The remaining fifteen infrastructure projects have an estimated value of £100.4 million and have recorded expenditure of only £1.7 million (under 2% of project value).

4.30. If all remaining projects were completed by end of 2020, this implies a total future spending of around £139 million.

4.31. Clearly, given past States spending patterns and the current situation, this is highly unlikely to occur, but an accelerated capital spending programme could see at least 50% of the sum delivered in 2020, namely around £70 million, with a further say £60 million delivered by the end of 2021, on top of projects included in the 2021-2014 Prioritisation List[20].

The Capital Allocation Process

4.32. The Five Case Model is the approach for developing business cases recommended by HM Treasury, the Welsh Government and the UK Office of Government Commerce. It has been widely used across central government departments and public sector organisations over the last 10 years. The aim is to support thinking, evidencing and documenting business cases to allow stakeholders to make evidence-based decisions. The methodology requires that business cases consider the strategic, economic, commercial, financial and management aspects of the proposed investment.

4.33. At the commencement of this review, the methodology for drafting business cases (the 5 Case Model) was explained to the Committee which was also supplied with a diagram of the current capital allocation process by the Portfolio Team. The diagram was circulated to all interviewees and is attached in the appendices for assistance.

4.34. The 5 Case Model is intended to ensure that proposals:

- demonstrate a robust case for change the Strategic Case;
- optimise value for money the Appraisal Case;
- are commercially viable – the Commercial Case;
- are financially affordable – the Financial Case; and,
- can be delivered successfully – the Management Case.

4.35. The 5 elements of the model are inter-linked but should be considered separately. The template can be used for virtually any size of project or programme, but a "one size fits all" should be avoided. When determining the level of detail required, the following should be considered:

- the value of the project;
- the complexity and risk involved;
- whether the situation is novel or contentious;

[19] These projects are: Transforming Transactional and Business Support Services, Future Digital Services, SAP Roadmap, Revenue Services Programme and Cyber Information.

[20] It is noteworthy that these figures of £60-70 million are of the same order of annual spending as implied by the previous 3% of GDP target (using uprated unrevised GDP figures).

- whether procurement is required and the scale of the procurement: and
- whether there are any dependencies, e.g. with business as usual matters or other projects.

4.36. The stages of the States of Guernsey process are, the Committee believes, as follows:
Stage 1 – Strategic Outline Case (SOC) - the scoping stage;
Stage 2 - Outline Business Case (OBC) - the detailed planning phase;
Stage 3 - Full Business Case (FBC) - detailed final phase;
Programme Business Case - For projects involving several different projects as part of one programme.

4.37. The Portfolio Team was introduced to support the application process for capital and provides training/guidance on how to apply using the 5 case methodology. The Portfolio Director and States Treasurer also review policy letters and business cases before they are considered by the P&R Committee.

The effectiveness of the existing mechanism

4.38. The majority of respondents reported that they believed they had a general understanding of the process, rather than detailed knowledge, and as an example, most were unaware of the above-mentioned diagram of the current process.

4.39. The Committee was informed by officers within P&R that the process had evolved since its initial inception in 2013. Whilst the Policy & Resources Committee may be comfortable with this evolution, a number of respondents confirmed that amendments to the process have not always been disseminated to applying Committees, which has led to a material degree of misunderstanding and uncertainty.

4.40. One of the major misunderstandings appears to be the Project Assurance Review (PAR), undertaken by a third-party contractor, once a business case has been prepared. Some respondents said that this review appears to be more about whether the requirements of the 5 case business model have been fulfilled, rather than whether the proposal has merit or provides sufficient information to allow Members to effectively scrutinise the proposal and make an informed decision. The PAR role was not clearly understood by a number of respondents and it is also not clear whether the results of the PAR are always shared with the applying committee **and more importantly the States**. It was also noted that enough time should be built into the programme to ensure these reviews happen on a timely basis.

4.41 The most recurrent dissatisfaction the Committee received from both politicians and civil servants in regard to the process, was that the application requirements were not always appropriate to the complexity (or not) of the project being proposed. Having to supply a similar level of detail for a replacement (the cremator, for example) as when requesting approval for a whole programme of projects (the modernisation of the PEH, for example), was felt to be far too onerous and unnecessary on the applicant Committee.

4.42. A number of respondents suggested that the involvement of the Portfolio Team is actually slowing the process, rather than assisting, as initially agreed when the system was introduced.

Lack of annual maintenance funding

4.43. Maintenance expenditure, sometimes referred to as routine capital expenditure, or minor capital works, is currently included in the overall total of capital expenditure. Over the last 10 years for which separate spending on maintenance was undertaken (2008-2017), the average spend on maintenance was 32% of total capital expenditure or 0.6% of GDP.

4.44. Historically, maintenance spend was the responsibility of individual Committees to organise and a budget allocated. Some respondents highlighted that instances existed where this Budget was utilised for other projects that the Committees wished to pursue, rather than the maintenance of its assets. It can be argued that this has contributed to the deterioration of a number of States' Assets and the build-up of a £30m+ backlog of maintenance projects.

4.45. The Committee was pleased to understand that all States properties are surveyed on a five-year rolling programme (Stock Condition Survey), twenty per cent each year, under the auspices of States Property Services. These reviews are essential to determine the level of maintenance required and that the General Manager, States Property Services is aware of the forecast for required maintenance spending. For clarity, that annual review is different to the one that the States is currently undertaking on the rationalisation of the whole of the States' estate.

4.46. Whilst the Committee is aware that some Committees still have small estates budgets to cover replacement of carpets and small maintenance projects for States assets under their remits, there is also currently a centralised Minor Capital Fund which is split into four categories – Properties; Vehicles & Equipment; Medical Equipment; and IT. This replaces the previous system whereby each Committee had a routine capital allocation to fund projects in all of the categories and would request additional routine capital allocations as part of the annual budgeting process.

4.47. Historically, this fund with a current annual budget of £3m, was held by the General Manager, Property Services to undertake these works. However, with this minimal annual budget, the backlog of £30m would take ten years to deal with, irrespective of any further maintenance that would arise within that period of time.

4.48. The Committee has been informed that there is currently ca.£5.7m of minor capital allocation for Property projects which has not yet been prioritised. This is in addition to an estimated £11m of funding allocated to approved Property projects which are in progress.

4.49. Although the situation has improved since the introduction of the current approach, there is a substantial balance of the allocation for minor Property projects and fewer projects progressed compared to expectation.

4.50. In respect of allocating additional funding to address the £30m backlog, the Committee has been informed that no decisions have been taken on the priorities to receive this funding.

4.51. Disappointingly, the reporting module of the States computer system which covers plant maintenance of States assets does not enable extraction of any useable data to track what maintenance is required at a summary level.

4.52. On a more positive note, the Committee was made aware that maintenance budgets (for example for the maintenance of the Island's roads) which were previously fixed on a year on year basis, have been replaced with rolling three-year budgets. Previously, any projects that were unable to be undertaken during the particular year to which the budget related to, would lose the budget and the Committee had to reapply for it. The Committee has been informed that the new system is a major improvement which has been very successful in cutting unnecessary administrative burdens for States Committees and assisting in smoothing out the ebb and flow of smaller capital projects.

4.53. However, the Committee was also made aware that once funds are approved to be allocated to a maintenance project, there is little evidence to show that there are any mechanisms in place for reallocating those funds if any project is delayed or de-prioritised.

Lack of skilled internal resources

4.54. Previously, the Technical Services team included qualified engineers, architects and quantity surveyors who were involved not only with the States properties, but the Island's roads and drainage too. This continued until 2006 when the architects, engineers and surveyors were transferred to the new Property Services Department together with the responsibility for the roads and drainage

4.55. Unfortunately, this team has been significantly reduced in the last few years. Contributors to this report believe that this does not assist in a smoothly flowing capital programme. In addition, it is doubted whether having to constantly appoint these skills externally for individual projects, provides value for the money in the overall costs of the capital programme of the States.

The Political Process

4.56. Once the Capital Portfolio has been established, a Policy Letter must be produced for debate in the States of Deliberation to support individual projects over £2m. Policy letters should include sufficient detailed information to enable States Members to make a fully informed decision as to whether or not to approve that project.

4.57. In previous iterations of the capital process, following this approval, a political member of the senior committee (Policy Council/Treasury & Resources) was always appointed to the Project Board along with members of the applying committee.

4.58. The Committee was informed during the course of this review that currently, despite the Portfolio Director sitting on Project and Programme Boards, there is no longer any political involvement from members of P&R on those Boards.

Understanding of the duty and role of States Members in relation to capital projects

4.59. States Members are not trained on the capital allocation process during their induction and must rely on the staff of any Committee they sit on, to help them navigate the process. If the staff are not fully aware of the correct procedures, including the previously mentioned recent evolution of the process, this could potentially delay any application the Committee wishes to make.

4.60. Interviewees suggested that the timelines for the various stages of the application process were not fully understood and that many political members of applicant Committees do not understand that they are the principal source of challenge to the detail of each capital project before it is submitted to the States of Deliberation for approval.

4.61 Despite this Committee being advised that the PAR review should provide assurance to both applicant committees and the States regarding the robustness of the proposal, the Committee is not aware of any evidence that the results of the PAR review for any project have previously been included in any Policy Letter submitted to the States of Deliberation.

4.62. Therefore, it is unrealistic to expect other members of the States of Deliberation who have not been so intimately involved in the development of a project, to provide the level of scrutiny, or challenge, required in the Chamber.

Differing levels of information provided to States Members

4.63. There was a perception that, over time, the sheer volume of documents produced meant that States Members, who are generally lay people with respect to infrastructure projects, have some difficulty in effectively scrutinising them to reach properly informed views prior to debate.

4.64. Once the application process has been completed and the Policy Letter scheduled for debate in the States of Deliberation, most respondents believed that it was beneficial for the applicant Committee to provide additional detail to other States Members prior to debate. This opportunity for other States Members to question the detail of the proposals (if necessary) was felt to be essential to inform the debate.

4.65. In the responses the Committee received, opinions differed as to the amount of information that States Members should expect or need to have available to them at the initial point of being requested to approve a project.

4.66. A number of States Members suggested to the Committee that at times they have received too much information (a 500-page business case for example), while others suggested that there were instances where they received too little *relevant* information.

Lack of support/skilled resources at Committee level

4.67. A number of interviewees explained that when requesting resources to assist in the preparation of business cases, they were either insufficient or unavailable to progress the projects as quickly as hoped. The Committee is aware that the Portfolio Team have trained about 80 staff in the preparation of the various business cases required by the process. However, if those who the States' have trained do not have practical experience of writing business cases within a relatively short time of the training itself, that learning is unlikely to be properly embedded.

4.68. The P&R Budget Report for 2019 stated that the Portfolio Team would receive additional budget to recruit Capital Business Partners to support applicant Committees, but the Committee's understanding is that, to date, none are currently in post. In some cases, this has led to the applicant Committee recruiting its own resource to assist with the formulation of policy letters, business cases and managing the programme of works.

The increasing use of Delegated Authority by the Policy & Resources Committee

4.69. Historically, the States of Deliberation has approved the delegation of authority to P&R and its predecessor the Treasury & Resources Department, in respect of specific projects, to allow the release of funds against the progress of certain key stages in the delivery of the project.

4.70. The levels and scope of delegated authority has evolved, especially during the current political term, to include authority over several projects within a programme. Once the overall programme has been approved by the States of Deliberation, the individual projects within that programme do not return for final approval, but are approved under the delegation of authority to P&R.

4.71. The terms of such delegated authority extends beyond the conventional treasury role which would be limited to ensuring that due process has been followed, and that the final terms of the contract for an approved capital project offer value for money.

4.72. In the current term, both the modernisation and the transformation of the Island's educational assets have been subject to votes in the States of Deliberation resulting in financial and, to some extent, strategy and governance decisions being delegated to P&R.

4.73. This relatively new development is not the subject of an agreed States policy and the process for operating this type of oversight seems to be evolving much as the capital allocation process has over the last few years. Some of those interviewed were not clear how the process worked once an outline business case had been agreed.

4.74. Nevertheless, the clear message to the Committee from both politicians and civil servants was that they welcomed this development, specifically the delegation of the final decision making to P&R. The perception from respondents seems to be that this will make the process of delivering new, replacement or transformed infrastructure smoother and less likely to result in changes of direction and unnecessary expenditure.

Lack of accountability for the capital spend of the States

4.75. A number of respondents believed that there are political factors impeding spending on infrastructure. P&R is rightly the guardian of value for money and expenditure control. In most governments, this role is balanced by departments who naturally press for increased expenditure, e.g. on education and health care. In Guernsey, the weight of institutional pressure appears to be less than the Treasury function and P&R, thereby resulting in a tendency for expenditure to be controlled.

4.76. The evidence before the Committee illustrates that there is no one person clearly accountable within the executive of the States, or politically within the States of Deliberation, for the delivery of the agreed fiscal policy for the baseline level of capital expenditure by the States. It can be argued that the absence of such accountability means that there is no effective drive for the States to satisfy that element of its fiscal policy.

4.77. As mentioned previously in this report, currently, the main reserve that the States utilises to fund capital expenditure is the Capital Reserve, in addition to the unallocated Bond Issue[21]

[21] The States of Guernsey raised a £330m Bond Issue in December 2014 - https://www.gov.gg/CHttpHandler.ashx?id=93092&p=0

monies. Table 4 below indicates the movements and balances of both sources of finance available for capital spend, the spending that should have been undertaken to meet the target in the Fiscal Framework and the underspend that occurred, between 2016 and 2018:

Table 4 – Balances, Expenditure and Spend and Underspend relating to capital expenditure

Balances

Fund	Balance End 2016 (£m)	Balance End 2017 (£m)	Balance End 2018 (£m)
Capital Reserve	159.2	240.0	241.0
Bond Issue	208.1	191.6	192.5
Total	367.3	431.6	433.5

Expenditure

Fund	Spend 2016 (£m)	Spend 2017 (£m)	Spend 2018 (£m)
Capital Reserve	31.5*	8.2	46.6
Bond Issue	21.9	12.6	6.2
Total	53.4	20.8	52.8

***Includes £25.7m recapitalisation of Cabernet Limited which is not capital spend in relation to this report**

Annual Spend and Underspend

	2016 (£m)	2017 (£m)	2018 (£m)
3% of annual GDP (new calculation)	88.0	94.3	98.2
3% of GDP (old calculation uprated **)	72.8	76.1	77.4
Underspend new GDP calculation	34.6	73.5	45.4
Underspend (uprated old GDP calculation)	19.4	55.3	24.6

****Uprates the pre 2017 GDP series for GDP changes observed in the revised GDP series (post 2017 upward restatement of GDP)**

5. Conclusions

Economic Analysis

5.1. During the period 2009-2018, there was a significant under-spend amounting to £291m against the target set in the States Fiscal Policy for capital expenditure. This has been recognised regularly in the annual reviews of performance against the States' Fiscal Policy, by P&R itself in its comments in the Foreword to the 2016 States Accounts (that the low level of capital spending limits "*the ability and necessity to invest in the Island's infrastructure*") and again in the 2019 Budget Report. However, there has, to date, been a lack of visible political action to address the situation. Counter-intuitively the only proposal that has been brought forward by P&R in relation to the capital investment programme sought to reduce the target annual level of capital spending (by reducing the targeted percentage of GDP).

5.2. The record of capital spending by the States has also been volatile over the past 10 years with the shortfall in capital spending against the target of 3% over the 10 years to 2018 varying from a £15m excess over the target in 2012 to a £61m deficit in 2017. There is no evidence that the introduction of the Capital Portfolio management approach to capital spending in 2013, has reduced that volatility. With the exception of the Waste Transfer Station Project in 2018, capital investment has fallen to a low level of around £6-10m a year since 2015 with a dearth of large projects. Since 2008, it might even be concluded that as a result of financial transformation initiatives, the Capital Portfolio approach, the dearth of complete projects over the last 12 years and the projects expected to be delivered in the medium term have created a boom and bust situation for the local construction industry.

5.3. Currently the States of Guernsey has adequate reserves to fund a capital investment programme against a fiscal target of 3% of (former) GDP and more than enough to fund investment of 2% of new GDP (currently implying investment of ca. £65-£70 million per year). The estimated economic impact of capital spending at the level of the moving average of 3% of GDP on the Guernsey economy would have been significant – an estimated additional £220m in salaries and payments to contractors; £30m extra in profits to infrastructure providers; £52m more in on-Island consumer spending and £10m additional profits for non-construction businesses over the period 2009-2018.

5.4. However, the evidence shows that the only capital spend over the period reviewed has been used to refurbish or replace existing assets. Therefore, with no new investment, there has been no economic enablement which means no additional economic benefit to the Island over the same period of time.

5.5. The 2019 Fiscal Framework review suggests a minimum level of investment of 1.5% of the revised GDP measure. However, this recommendation does not seem to explicitly take account of the following factors:

a. the construction and allied industries' ability to undertake a higher level of capital works[22];
b. the existence of a sizeable backlog of rehabilitation, equipment replacement and maintenance works;
c. the capital investment required to deliver Guernsey's ten-year forward-looking transformation agenda, and provide a satisfactory standard of living (including health, education, and social care) for Guernsey's resident population;
d. the increased investment required to rehabilitate the economy post the Covid19 pandemic.

The Capital Allocation Process

5.6. There is no evidence that the change of approach to capital spending and the process introduced in 2013 and its subsequent iterations, has aided the speed or effectiveness with which the States can deliver capital expenditure. On the contrary, some respondents believe that the approach adopted in 2013 has actually created barriers of process that have led to delays. In its 2019 Budget Report, P&R noted that "*Although a number of projects are in various stages of planning and delivery, there have been significant delays compared to that anticipated when the portfolio was compiled … it has become apparent that there is a general lack of capacity and capability for initiating and developing projects*".

5.7. There are several possible reasons why the States has been unsuccessful in delivering against its capital spending target and these include:
- a lack of trained staff to assist in writing business cases to support a project;
- a lack of professional staff allocated to projects;
- slower than anticipated progress in delivering capital projects that have been included in the Capital Portfolio;
- changes of policy direction;
- funding not being re-allocated if projects are delayed; **and**
- a lack of political prioritisation of capital expenditure.

5.8. In addition to capacity constraints, reasons for the slow progress in delivering capital projects have been identified[23] by the Policy & Resources Committee as:
- poorly defined project goals and objectives;
- poor cost estimates / missed deadlines;
- project scope changes;
- lack of senior officer and political sponsorship; and
- a changing environment and requirements.

5.9. This would seem to put the onus on the individual Committees rather than acknowledge that P&R also has a role to play through its responsibility to co-ordinate and resource policy development and the accountability for the Capital Portfolio team. However, it is

[22] In justifying a lower 1.5% target, the Policy Review noted that sustaining the exceptional levels of investment made in 2012 "*would be incredibly challenging*". However, 2012 spending was exceptionally over the 3% target, and spending close to the target, of around 2.5%, was able to be achieved over the period 2006-2013.
[23] Statement, President of the Policy & Resources Committee, 4 September 2019

acknowledged by States Members who contributed that at the beginning of a new States term, Committees tend to over-estimate what they can achieve with the resources available to them and under-estimate the existing workload, which results in an over-abundance of potential projects which are then delayed.

5.10. There appears to be no mechanism whereby a regular monitoring report of progress against individual projects and the reasons for delays in the delivery of such projects is brought before the States of Deliberation, or whereby the States of Deliberation can re-allocate funding that is committed to those projects. Bringing forward pipeline projects that are sufficiently well developed for consideration for inclusion in the Capital Portfolio would potentially help to ease the ebb and flow of capital projects being undertaken.

Pipeline/Portfolio projects

5.11. There appears to be a lack of clarity and understanding at political level as to the distinction between pipeline and portfolio, projects and programmes. Some interviewees commented that these terms are used somewhat confusedly and indiscriminately. Greater clarity of the application process is required particularly in the way each project may be presented for consideration and the level of detail required by the States of Deliberation. Furthermore, a better understanding of what is included in the Capital Portfolio at any point in time is important, particularly in the way the same may be presented for consideration and the level of detail required by the States of Deliberation.

5.12. However, the Committee was also made aware by a number of respondents that at this time, once funds have been approved for a project, there appears to be no mechanism for reallocating those funds if the project is delayed or de-prioritised. Whilst the Committee has been advised by an officer of P&R that there is in fact a mechanism for reallocation of funds, the Committee has seen no examples and States Members and internal personnel interviewed are not aware of this mechanism. This is unfortunate as it meant that there appears to be less funds available for investment and some worthy smaller projects could struggle to get funding. Smaller maintenance projects that are essential, but have not yet received approved funding, could be reprioritised, which would further enable the smoothing out of the ebb and flow of smaller capital projects.

5.13. The Committee believes that is important that there should be included in the presentation or construction of the Capital Portfolio, economic analysis of the impact of the Portfolio and its constituent parts.

Lack of Capital Business Partners to support Committees

5.14. Against original expectations, it is disappointing that, those Committees seeking to promote projects within the Capital Portfolio complain that they are often unable to access sufficient budget or resource, to progress those projects through the different stages in the capital allocation process.

5.15. It is also particularly disappointing that despite the commitment made in 2019 to introduce an additional team of “Capital Business Partners” (CBPs) to assist applicant committees through the capital spending process, it has not been possible to appoint to these roles. Whilst it is possible that introducing CBPs as additional resources might offer valuable support to applicant Committees, in their continued absence it is difficult to draw a conclusion as to whether or not they would be effective. Some Committees have stated that it is being left to them to seek assistance from external resources.

Lack of skilled internal resources

5.16. The Committee believe that the lack of a team of skilled internal resources such as structural engineers, architects and quantity surveyors that could assist spending committees, has arguably slowed the flow of capital projects in recent years.

5.17. Whilst the small Property Services team can assist in the production of specifications for projects, the spending committees still need to go through the process of appointing external expertise to support those projects. This takes time and staff resources to accomplish and the Committee believes that projects would flow much more smoothly if that expertise was available in house. A team of experienced project and programme managers is required to drive the States' capital investment programme forward in a timely manner.

5.18. In addition, although the cost of that external expertise is linked directly to individual projects rather than committee budgets, this spending is still included in the overall annual costs of the States' and is possibly more expensive than using internal resources. Any internal resources appointed could arguably be used on multiple projects rather than just individual ones and therefore could be more effective practically and value for money for the States'.

5.19. This Committee believes that there would be some merit in reinstating a small skilled in house team to undertake the tasks that would previously have been borne by the Property Services team that was in place previously.

Maintenance spend

5.20. The Committee remains concerned as to the lack of attention afforded in the past to the level of capital spend on maintenance of the States' physical assets.

5.21. The Committee recognises that steps have recently been implemented to undertake a rolling annual Stock Condition Survey of the whole of the physical assets of the States and that a clearer view of the likely cost of maintenance of the Estate has emerged.

5.22. This will also be assisted by the eventual introduction of appropriate international accounting standards which will include the inclusion of the depreciation of States assets in the annual accounts. The Committee also recognises that an attempt has been made in recent years to bring the whole of the maintenance budget of the States under central control, rather than leave the level of capital spend to the vagaries of the budget considerations of individual Committees.

5.23. Nevertheless, the Committee is of the view that provision should be included in the Capital Portfolio approved by the States of Deliberation, for a significant rolling maintenance programme, in addition to the minor capital programme that is already in place.

5.24. In terms of the record of the significant capital underspend against the historic rolling target of 3% of GDP, a substantial part of that annual underspend could have been applied to reduce the significant maintenance backlog that has been allowed to develop.

5.25. Therefore, the Committee believes that it is extremely important that there is a clear single line of accountability for the delivery of that maintenance programme, possibly within the Chief Executive's Senior Management team.

The Political Process

Understanding of the duty and role of States Members in relation to capital projects

5.26. The Committee was surprised to learn that the induction programme for States Members that was initiated at the beginning of this political term did not include any training on the Capital Allocation Process.

5.27. For such an important aspect of a States Member's role, to not receive guidance on how the process works, what will be expected of them with regard to scrutiny and approval, for example, and the usefulness of project post implementation reviews which detail the lessons to be learned for the future, seems to the Committee to be a major flaw.

Differing levels of information provided to States Members

5.28. In the responses the Committee received, opinions differed as to the amount of information that States Members should expect or need to have available to them, at the initial point of being requested to approve a project for inclusion in the Capital Portfolio.

5.29. The Committee recognises that there will always be a tension between those who argue for as much detail as possible and those who prefer the information to be more focussed on the policy issues supporting the project. It would be difficult for all States Members to interrogate in open debate the amount of detail (much of it highly technical) that might typically be found in a detailed business case. Indeed, there is a not insubstantial cost both in terms of cash as well as human resource that is required to develop a business case. To incur such costs in support of a Policy Letter that may or may not be rejected on policy grounds is questionable. The example of the different approaches adopted by the Committees *for* ES&C and H&SC described earlier in this report and most recently by STSB in presenting a 'strategic outline case' for its proposed replacement of the Airport Baggage Scanning Equipment and ancillary works illustrates the need for the introduction of a consistent approach.

5.30. The Committee considered whether Policy Letters which required capital investment should be presented to the States first and then once the preferred option has been chosen, followed by the business case, or whether they should both be delivered together. It is envisaged that, for specific projects, one approach may be more suitable than the other and vice versa. However, whatever documents are submitted, they should be written in a more user-friendly format with any technical information consigned to appendices.

5.31. The Five Case Model that the States operates would seem to address the need to explain the reason for the proposal, risks, opportunities and benefits, as well as value for money aspects of the proposed investment and provide relevant evidence supporting these. However, the Committee believes that thought should also be given as to whether the model needs to be expanded to include the environmental case for the project.

5.32. The Committee was informed by an officer within P&R that *"Organisations achieve their vision and mission through business strategies, policies, initiatives and targets that are influenced* *and shaped by the political, economic, sociological, technological and legal environment in which they operate (PESTLE)."* They explained that a PESTLE analysis is a key starting point for any scheme meaning that the 'environmental case' is acknowledged from the outset. Therefore, there is no need for a specific environmental case. The 5 case model merely provides the framework for structuring the thinking to develop the business case.

5.33. A States Member consulted (who has been on a Committee who made applications for capital funding this political term), was unaware that a PESTLE analysis was used except for projects with a major environmental element (e.g. Inert Waste) where an Environmental Impact Assessment is completed. They had been informed that "the PESTLE analysis is intrinsic within the risk identification process Management System", but did not recall seeing a PESTLE analysis referred to in any Policy Letter laid before the States'.

5.34. If the project does not fulfil one or more of the five cases then this should be acknowledged in the business case. For instance, HSC acknowledged that there was no discernible financial benefit, i.e. cost saving arising from its plans, but this was outweighed by the non-financial benefits. Alternative options should, the Committee believes, be provided in all Policy Letters for capital proposals, including the option of doing nothing.

5.35. The five Business Case process[24] is a robust and widely-used method for planning and appraising capital projects, but it is complex and a concise summary guidance that is urgently needed to help project managers prepare business cases more effectively and in a timely manner, so that projects are commenced much quicker than the current process allows.

5.36. The Committee also believes, following information received from respondents, that it would be helpful for States Members to be informed when a project/programme approved by the States of Deliberation has been completed. This would assist States Members to understand the current status of the Portfolio.

5.37. A recent addition to the process has been for the applicant Committee to present to States Members prior to the debate on the proposed project, which respondents to this Committee confirmed was very helpful.

Lack of support/skilled resources at Committee level

5.38. It is disappointing that despite a significant amount of States' funding being invested initially in the SCIP team and subsequently the Portfolio team, committees have indicated that they are struggling to access the expertise and resources that are necessary, to undertake the capital programme in a business like, cost effective, way.

5.39. Some committees are still employing external resources to assist when applying for project funds and during the projects themselves when approved. The Committee believes that the Policy & Resources Committee should define what resource capability is available to support all States Committees to justify the total investment made in the internal teams over the last two political terms.

[24] The process requires completion of five separate but interlocking Business Case elements (Strategic, Appraisal, Management, Financial & Commercial cases).

The increasing use of Delegated Authority by the Policy & Resources Committee

5.40. As the increasing use of Delegated Authority would seem to indicate and from feedback received from present and former States Members, presenting detailed business cases involving a plethora of technical and financial detail running to hundreds of pages, is not something which many current States Members find useful. Whilst, more officer time may be required to write succinct Policy Letters and business cases, the benefit to all stakeholders of concise documents, in plain English would ensure that proposals are properly understood and could be scrutinised and interrogated effectively.

Lack of accountability for the capital spend of the States

5.41. The absence of direct accountability means that there is no incentive for the States to satisfy that element of its fiscal policy. The Committee believes that a specific senior officer should be tasked with delivering this target. The Committee also believes that this should include political involvement such that a member of the Policy & Resources Committee, as the senior committee of the States and the committee to which delegated authority is so often given, should also be tasked with the delivery of the baseline level of capital expenditure by the States.

Potential Areas for Capital Investment

5.42. The findings of this review suggest that the speedier processing of projects included in the last three States Capital Investment Plans[25] is vital and the Committee believes that the States should aim to approve a capital vote for at least three major infrastructure projects a year. Especially at this particular time, those projects should be those which are deemed to be most likely to facilitate and drive growth in the Island's economy.

5.43. In order to maximise economic and social gains, States capital spending could be increased in the following areas:

i) **Education.** Table 2 shows that major capital spending essentially dried up after the expenditure on the Les Beaucamps High School finished in 2013, with the exception of around £3 million spending on La Mare de Carteret schools (an underspend against anticipated spending due to adoption of the 2 High School model). The 2001 Education Development Plan specified a significant spend on renovation of the FE Campus in St Sampson's but unfortunately, this never came to pass[26];

ii) **Health and Social Care.** The States could have financed the provision of social care facilities to meet the growing needs of the Island's ageing population. Projects could also have been undertaken, for example, to further develop acute and related facilities as per the envisaged hospital modernisation programme;

iii) **Digital services** beyond the creation of the IT Area Wide Network and relatively small Home Affairs projects (eborders, Project LiSR, etc)**;**

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[25] For example, on the Crematoria project

[26] the Committee is aware that the proposed developments associated with the 'two school model' may be progressed in the near future

iv) **Climate change mitigation,** for example improving sea defences, flood defence works, renewable energy sources and other environment-related capital works to improve the Bailiwick's ability to withstand likely future climate and environment-related shocks;

v) **Routine maintenance, rehabilitation and equipment replacement.** All assessed maintenance needs should be addressed in a timely manner. Stock condition surveys suggest that on average £8 million needs to be spent every year simply to maintain the existing States' property portfolio with a substantial volume of maintenance backlog works estimated at £30 million in September 2014[27]. In addition, there are equipment replacement needs, revenue costs for servicing boilers, alarm systems, etc.

5.44. In discussions, other suggestions for possible additional required infrastructure expenditure included: capital investment in buildings and related infrastructure to create community hubs, as well as capital spending to enable the consolidation of Bailiwick law enforcement facilities.

[27] Data provided by David Parish, former Head, States of Guernsey Property Services

6. Recommendations

The Capital Allocation Process

1. The Capital Allocation Process of the States of Guernsey should be simplified, defined and published. This should include clarity regarding timeframes, roles, areas of scrutiny and responsibilities;

2. The Policy & Resources Committee should produce and publish more concise guidance[28] on approval requirements for capital projects before the commencement of the next political term, to enable capital plans to be realised more easily and to assist Committees in applying for funding and securing value for money;

3. There should be differing levels of application/business cases for capital funding suitable for the level of complexity of project;

4. Policy letters and business cases should be written in plain English providing the required level of information to allow proper scrutiny and informed decision making;

5. Policy letters should set out a range of alternatives including the option to do nothing and the consequences of that choice. The essence of why a project or programme is being proposed should be clear including financial and other benefits. The business case (if included) should cover what and how a project will be delivered including any risks and value for money aspects;

6. Policy Letters should include the result of the PESTLE analysis if that work is undertaken at the outset of a project;

7. Once a policy/programme has been approved and included in the Portfolio, the Policy & Resources Committee should ensure that the appropriate financial and human resources are available to the applicant Committee, to assist in producing a full business case;

8. The Policy & Resources Committee should review the benefits, both financial and practical, of the reinstatement of a small team of internal services such as engineers, architects, surveyors and experienced programme and project managers;

9. The States should, as a matter of urgency, appoint a permanent, full time, professional economist;

The Political Process

10. Induction training for States Members on all aspects of the Capital Allocation Process should be mandatory from the next political term;

[28] The New Zealand government has produced useful documentation on implementing Business Case guidance

11. Policy & Resources Committee should appoint a political member of its Committee to work with the Chief Executive of the States of Guernsey and both should have ultimate responsibility for the agreed spend of 2% of GDP for Capital and Maintenance;

12. There should be, with immediate effect, a review of all projects currently 'approved' by the States of Deliberation to determine:

    a) the current position;
    b) whether the project is still required;
    c) whether the project could be progressed swiftly; and more importantly
    d) whether the project will assist in driving/restoring the local economy of the Bailiwick post the Covid19 pandemic;

13. The results of the Project assurance Review should as a minimum be made available to all members of the applying committee and a summary of the recommendations be included in any subsequent Policy Letter;

14. There should be, with immediate effect, the reinstatement of a political representative of Policy & Resources Committee on each Capital Project/Programme Project Board;

15. The Policy & Resources Committee should report annually to the States of Deliberation with a full assessment of the current position of the Portfolio;

16. The Policy & Resources Committee should ensure sensible prioritisation of large and small projects to assist smooth implementation of the capital programme and minimise the 'boom and bust' culture for the construction industry that has been prevalent in recent years;

17. Government must ensure that expenditure on capital projects and the maintenance of States assets achieves the 2% of GDP baseline as a minimum;

18. The spending Committee should produce a brief end of project report to be laid before the States of Deliberation to formally close major capital projects;

19. The Policy & Resources Committee should ensure that maintenance budgets span a multiple year cycle and not revert to a single annual cycle;

20. The Policy & Resources Committee should publish an annual asset review in the States of Guernsey Accounts, supported by the results of its annual Stock Condition Survey;

21. There should be a defined, published, operational policy for the use of Delegated Authority.

Definition of Gross Domestic product (GDP)

Perhaps the most talked about economic concept. But what is it and how do we measure it? Gross domestic product or GDP is perhaps the most talked about economic concept. It measures the size of a country's economy. This guide explains how GDP is measured, as well as which things GDP doesn't capture.

What is GDP?

Gross domestic product or GDP is a measure of the size and health of a country's economy over a period of time (usually one quarter or one year). It is also used to compare the size of different economies at a different point in time.

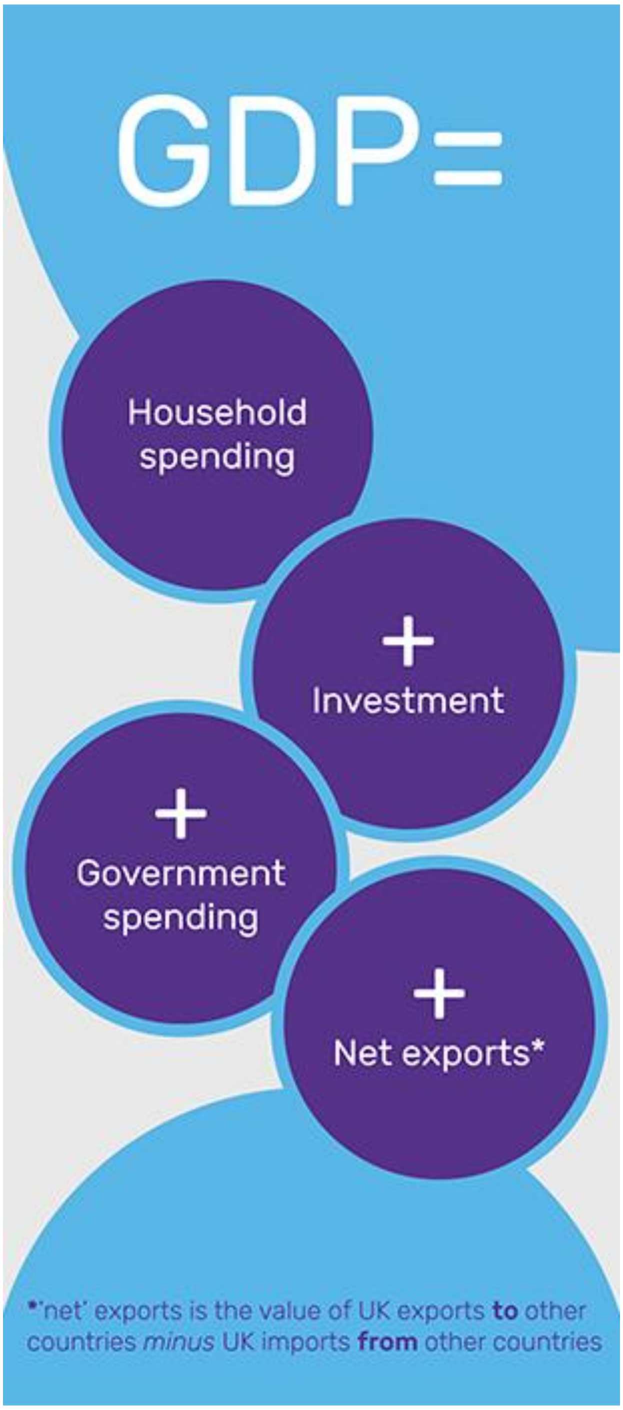
How is GDP calculated?

To measure GDP each quarter, the Office for National Statistics (ONS) collects data from thousands of UK companies. And to complicate matters, there are three ways to measure GDP! You can calculate it by adding up, for everyone in the country:

- The total value of goods and services ('output') produced;
- Everyone's income;
- Or what everyone in the country has spent.

As this ONS guide explains, these are three ways to estimate the same thing. You get different figures depending on which method you use because there's never enough data to build a picture of the economy that's 100% complete.

The last measure, total spending, is perhaps the most familiar and can be broken down as:



Household spending forms the biggest part, accounting for about two thirds of GDP. Meanwhile, a business buying new equipment or a construction company building houses are examples of investment.

So when you hear talk of a country's 'output', 'expenditure' or 'income', these are all ways to measure GDP.

When GDP goes up, the economy is growing – people are spending more and businesses may be expanding.

For this reason, GDP growth – also called economic growth or simply “growth” – is a key measure of the overall strength of the economy.

What’s not captured in GDP statistics?

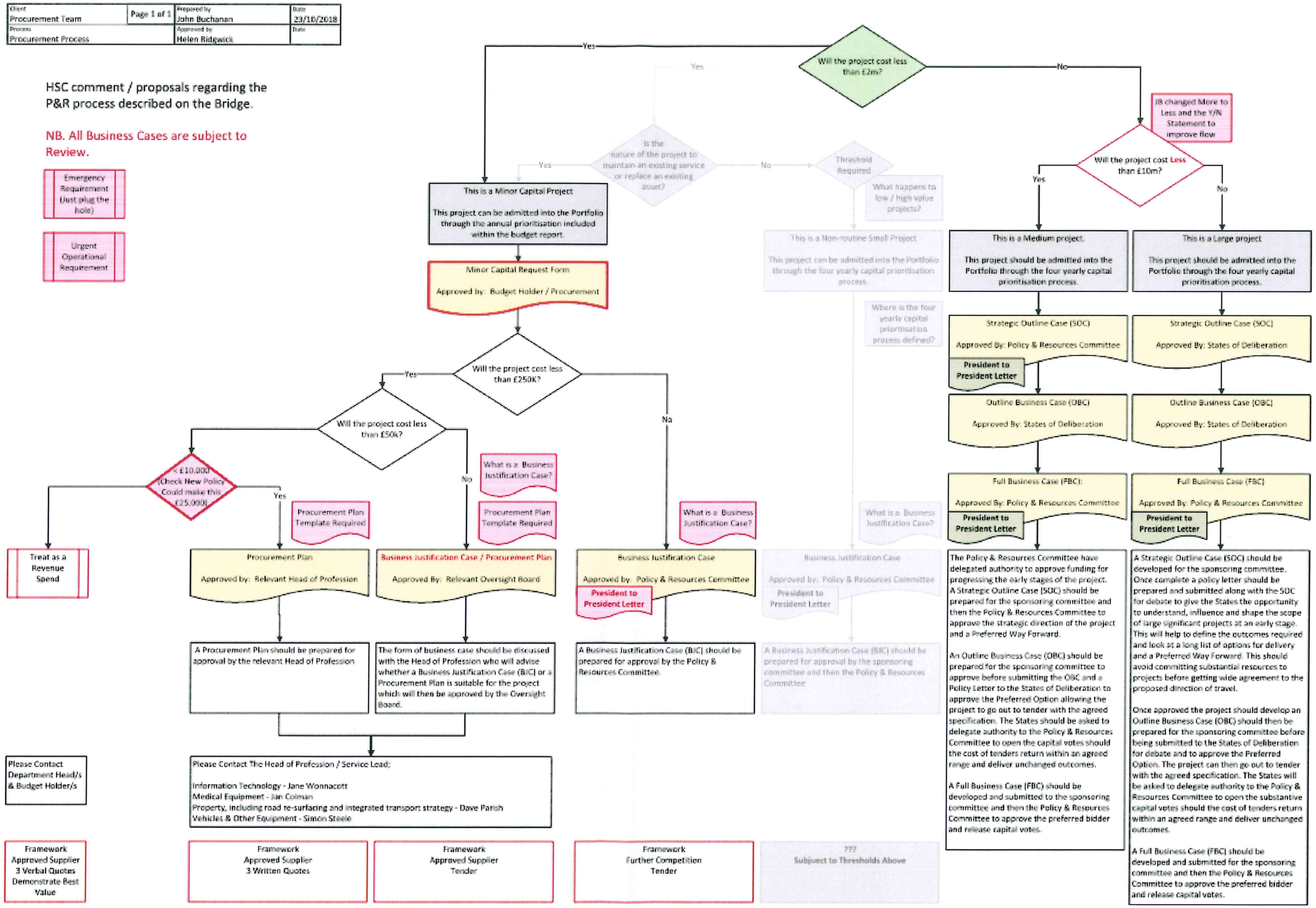
GDP growth, however, is not the whole story when gauging how well economies are doing.

To begin with, some things have a lot of value but are not captured in GDP because no money changes hands. Caring for an elderly relative would be one example of this. As Einstein once said, “Not all that can be counted counts”.

GDP also doesn’t tell us anything about how evenly income is split across the population. Growth could mean everyone becoming better off or just the richest segment getting even richer. In practice it usually lies somewhere between the two.

Next, it helps to bear in mind changes in the size of the population. If UK GDP rose by 2% next year, but the population grew by 4%, then average income per person would actually have fallen.

Finally, there are things which raise GDP that don’t make the country better off. War is one example (a lot of money is spent, so GDP goes up). Or if a large chunk of the Amazon rainforest was cut down in one week, then you’d get a sharp rise in GDP from the sales of timber but at huge environmental cost.


Client
Procurement Team
Page 1 of 1
Prepared by
John Buchanan
Date
23/10/2018
Process
Procurement Process
Approved by
Helen Ridgwick
Date
HSC comment / proposals regarding the P&R process described on the Bridge.
NB. All Business Cases are subject to Review.
Emergency Requirement (Just plug the hole)
Urgent Operational Requirement
Will the project cost less than £2m?
Yes
No
Is the nature of the project to maintain an existing service or replace an existing asset?
Threshold Required
What happens to low / high value projects?
This is a Non-routine Small Project
This project can be admitted into the Portfolio through the four yearly capital prioritisation process.
Where is the four yearly capital prioritisation process defined?
JB changed More to Less and the Y/N Statement to improve flow
Will the project cost Less than £10m?
This is a Minor Capital Project
This project can be admitted into the Portfolio through the annual prioritisation included within the budget report.
Minor Capital Request Form
Approved by: Budget Holder / Procurement
Will the project cost less than £250K?
Will the project cost less than £50k?
< £10,000 (Check New Policy Could make this £25,000)
What is a Business Justification Case?
Procurement Plan Template Required
Treat as a Revenue Spend
Procurement Plan
Approved by: Relevant Head of Profession
Business Justification Case / Procurement Plan
Approved By: Relevant Oversight Board
Business Justification Case
Approved by: Policy & Resources Committee
President to President Letter
A Procurement Plan should be prepared for approval by the relevant Head of Profession
The form of business case should be discussed with the Head of Profession who will advise whether a Business Justification Case (BJC) or a Procurement Plan is suitable for the project which will then be approved by the Oversight Board.
A Business Justification Case (BJC) should be prepared for approval by the Policy & Resources Committee.
A Business Justification Case (BJC) should be prepared for approval by the sponsoring committee and then the Policy & Resources Committee
Please Contact Department Head/s & Budget Holder/s
Please Contact The Head of Profession / Service Lead;
Information Technology - Jane Wonnacott
Medical Equipment - Jan Colman
Property, including road re-surfacing and integrated transport strategy - Dave Parish
Vehicles & Other Equipment - Simon Steele
Framework Approved Supplier 3 Verbal Quotes Demonstrate Best Value
Framework Approved Supplier 3 Written Quotes
Framework Approved Supplier Tender
Framework Further Competition Tender
??? Subject to Thresholds Above
This is a Medium project.
This project should be admitted into the Portfolio through the four yearly capital prioritisation process.
This is a Large project
This project should be admitted into the Portfolio through the four yearly capital prioritisation process.
Strategic Outline Case (SOC)
Approved By: Policy & Resources Committee
President to President Letter
Strategic Outline Case (SOC)
Approved By: States of Deliberation
Outline Business Case (OBC)
Approved By: States of Deliberation
Full Business Case (FBC):
Approved By: Policy & Resources Committee
President to President Letter
The Policy & Resources Committee have delegated authority to approve funding for progressing the early stages of the project. A Strategic Outline Case (SOC) should be prepared for the sponsoring committee and then the Policy & Resources Committee to approve the strategic direction of the project and a Preferred Way Forward.
An Outline Business Case (OBC) should be prepared for the sponsoring committee to approve before submitting the OBC and a Policy Letter to the States of Deliberation to approve the Preferred Option allowing the project to go out to tender with the agreed specification. The States should be asked to delegate authority to the Policy & Resources Committee to open the capital votes should the cost of tenders return within an agreed range and deliver unchanged outcomes.
A Full Business Case (FBC) should be developed and submitted to the sponsoring committee and then the Policy & Resources Committee to approve the preferred bidder and release capital votes.
A Strategic Outline Case (SOC) should be developed for the sponsoring committee. Once complete a policy letter should be prepared and submitted along with the SOC for debate to give the States the opportunity to understand, influence and shape the scope of large significant projects at an early stage. This will help to define the outcomes required and look at a long list of options for delivery and a Preferred Way Forward. This should avoid committing substantial resources to projects before getting wide agreement to the proposed direction of travel.
Once approved the project should develop an Outline Business Case (OBC) should then be prepared for the sponsoring committee before being submitted to the States of Deliberation for debate and to approve the Preferred Option. The project can then go out to tender with the agreed specification. The States will be asked to delegate authority to the Policy & Resources Committee to open the substantive capital votes should the cost of tenders return within an agreed range and deliver unchanged outcomes.
A Full Business Case (FBC) should be developed and submitted for the sponsoring committee and then the Policy & Resources Committee to approve the preferred bidder and release capital votes.