

FUNDING & INVESTMENT PLAN UPDATE

1. Executive Summary

- 1.1. Following a strong financial performance in 2021 and changes to priorities and projects in the Government Work Plan (GWP), the Funding & Investment Plan has been updated. This is a high-level interim update on the five-year financial framework.
- 1.2. The income and expenditure position for 2021 was some £61m better than the estimates included in the Funding & Investment Plan. This, together with a slower rate of investment in infrastructure throughout 2021, meant the balance on the General Reserve was significantly higher than expected throughout the year. Therefore, with higher than anticipated investment returns, this has resulted in an improvement in investment income of approximately £28m which can be added to the overall result.
- 1.3. Together these factors have significantly improved the balance on reserves and uplifted the baseline position for some revenues, notably income tax. Given this improved position, the cumulative projections for 2022 to 2025 have improved by circa £68m. This is due to improvement to income and investment return forecasts, partly offset by forecast increases in expenditure on GWP actions and lower levels of savings overall due to delays in their delivery. This improvement has also been offset by an estimated increased cost of capital and transformation programmes totalling £13m.
- 1.4. Overall, the improvements mean that there is now unlikely to be a need for any new external borrowing in this term to fund the capital portfolio. This is an excellent result which has been driven in large part by the faster recovery in 2021. However, execution of the plan will still result in the majority of the States' financial reserves being exhausted over the remainder of this term.
- 1.5. The revised projections indicate a surplus before capital expenditure over the Plan period which will fall from £25m in 2022 to £5m by 2025. The shrinking surplus comes about because of the demand pressures on public service expenditure, particularly in relation to health and care services, coupled with strain on revenues as a result of a reduction in the working population and the introduction of secondary pensions.
- 1.6. These small surpluses are not sufficient to fund the necessary investment in island infrastructure. They are too small even to fund the everyday replacement of equipment and vehicles, renewal of roads and investment in property assets, classed as Minor Capital.

- 1.7. The underlying position remains a structural deficit beyond this term which, for General Revenue, is estimated to be approximately £50m when the long-term infrastructure funding needs are factored in. In addition, the States are running a deficit on the social security schemes, in particular the States' pension, which have a long-term funding requirement of £34m a year. Therefore, the overall structural deficit remains in line with previous forecasts of £80-90m.
- 1.8. The investment return on the reserves supports capital investment and makes the Plan affordable without any new borrowing in this term. However, the level of return can be volatile (as seen by the movement in investment markets in the first quarter of 2022) and cannot be relied on to support future expenditure since the reserves are being spent to support delivery of this Plan.

2. Background

- 2.1. The Funding & Investment Plan is an integral part of the GWP and sets out the financial planning framework within which the States will operate and resource. The Plan considers all aspects of income and expenditure including business as usual, previous policy decisions and service developments, Brexit, COVID-19, recovery actions and capital investment.
- 2.2. As set out in the 2021 Funding & Investment Plan, the process of building it incorporated all financial matters known at the time of preparation (Spring 2021). This was then augmented by best estimates based on informed assumptions to forecast future outcomes. It is not intended to be a firm plan of what will happen over the period and illustrates a wide range of possible outcomes derived through flexing the key assumptions.
- 2.3. The Funding & Investment Plan was compiled as the financial planning framework for this term of government and therefore spanned the five years 2021 – 2025. However, it is the intention of the Policy & Resources Committee to undertake a periodic review and high-level re-forecast of the plan based on experience in the previous year, any changes in the economic climate or outlook and any changes to the States' priorities.
- 2.4. Therefore, the Plan has been updated to incorporate the financial outturn from 2021, any changes to forecasting assumptions based on economic conditions or changes to the baseline. It also incorporates the financial implications of any proposed changes to GWP workstreams so that these can be budgeted in future years.
- 2.5. The Plan has been updated with 2021 actual income and expenditure and the estimates for 2022 to 2025 updated with the latest projections. All forward projections have been included at 2022 prices apart from the estimates for capital

schemes not yet commenced which have incorporated future years' inflation estimates.

3. 2021 Financial Outturn

- 3.1. The outturn for 2021 was significantly better than had been estimated when the 2021 Budget was compiled in mid-2020 as the financial and economic impacts of the global pandemic were at their most acute; and when the Funding & Investment Plan was compiled in the Spring of 2021.
- 3.2. The table below compares the actual performance in 2021 with that set out in the Funding & Investment Plan. It also contains the equivalent numbers for 2019 (being the last true baseline year ahead of the impact of COVID-19) and 2020 for comparison purposes:

	2019 Actual £m	2020 Actual £m	2021 F&I Plan ¹ £m	2021 Actual £m
General Revenue Income	476.8	473.8	475.0	512.8
Income Tax – Personal	276.6	267.0	279.7	290.3
Income Tax – Other	72.5	61.4	64.6	71.3
Customs Duties	44.5	51.3	42.3	48.1
Document Duty	18.2	23.0	21.5	32.3
Company Fees	11.0	9.9	9.9	10.6
TRP	25.3	29.1	29.3	28.8
Other Income	28.7	32.0	27.7	31.4
General Revenue Expenditure	418.5	517.7	521.6	498.0
Committee Cash Limits	408.8	426.0	468.5	452.3
Business Support	-	51.2	26.8	22.4
Aurigny Loss	9.7	35.2	14.0	14.7
Guernsey Ports	-	5.3	12.3	8.6
Surplus/(Deficit)	58.3	(43.9)	(46.6)	14.8
Investment Income	34.5	22.7	9.6	37.7

¹ The impact of the transfers in respect of the Guernsey Health Service Fund – contribution income, service expenditure and grants to the Committee for Employment & Social Security have been removed from these estimates as these changes did not take place until January 2022

3.3. Revenue income generated an additional £38m against the Funding & Investment Plan estimate. This was driven predominantly by:

- Income tax – Personal

The growth in ETI between 2020 and 2021 was 7% representing a sharp bounce back from reduced revenues during the COVID effected year. Comparing ETI to the last baseline year of 2019 shows growth of 6% indicating that the trajectory has recovered to pre-COVID levels. There were no material changes in the numbers of either employers or employees.

Collections from non-ETI individuals showed a significant bounce back – of 16% - versus 2020 which was heavily impacted by COVID. When compared to 2019, more modest growth of 1.4% is evident.

In total, personal income tax in 2021 exceeded the Funding & Investment Plan estimate by £10.6m or just under 4% and showed 5% nominal growth on 2019 (a real terms reduction of 1.3%).

- Income Tax – Other

Income tax collections from businesses and through distributions exceeded the Funding & Investment Plan estimate in total by some 10%, or £6.7m. Broadly, these revenue streams bounced back to where they would have been expected to be if forecasting pre-COVID nominal levels.

- Customs Duties

2021 was another good year for Customs Duties overall.

Approximately half of the income in this category is derived from fuel duty. Lockdowns in 2020 and 2021 led to a reduction in the volumes of fuel consumed (in addition to the reduction assumed in relation to the transition to electric cars) resulting in a reduction in fuel duty collected. Overall, fuel duty receipts fell by 9% between 2019 and 2021.

The remainder of the duties levied on tobacco and alcohol continued to benefit from the restrictions on travel and resulting lack of access to duty free purchases. This heightened revenue is not expected to continue in 2022.

- Document Duty

The total number of property conveyances in 2021 was 7% ahead of 2020 and 12% up on 2019. However, document duty receipts have grown by 40% against

2020 and 77% against 2019 due to a combination of the mix of properties conveyed and the significant increase in residential property prices over the period (11.8% increase in 2020 and a further 11.7% in 2021).

- 3.4. The improvement against the Funding & Investment Plan estimates on revenue income in 2021 was accompanied by lower than estimated expenditure overall.
- 3.5. Principal Committees collectively spent less than the previous estimates by a total of £11m. The overall pay budget was 1.3% underspent and the non-pay budget was some 4.6% less than budgeted. The large majority of these underspends are attributable to the exceptional conditions resulting from the ongoing pandemic and expenditure is expected to recover to more normal levels in 2022.
- 3.6. A balance of £11m remained unspent in the Budget Reserve at the end of the year. The majority of this can be accounted for by pay awards costing less than had been allowed in the budget and the full amount set aside for COVID related costs (in particular the vaccination and testing programmes) not being required.
- 3.7. Further to this, £6.5m set aside to fund service developments in line with the GWP was not required. The budgeted allowance for such development was £10.2m in 2021.
- 3.8. Largely due to the impact of COVID, many of these developments were implemented later than had originally been planned, meaning that the in-year cost in 2021 was only £3.7m. However, half of the £10m total was to fund NICE drugs and treatments. While the roll out of these drugs and treatments commenced later than planned and therefore saved £4m in 2021, the baseline will still have increased as a result and the funding will be required in 2022 and future years.
- 3.9. These improvements were offset by the delay in the delivery of planned savings through the transformation of public services. There was a shortfall in this area of £6m in 2021 caused by continuing management of the pandemic absorbing critical resources and delaying the delivery of projects. A sizeable proportion of those savings are now expected to be delivered in 2022 & 2023.
- 3.10. As highlighted in the Funding & Investment Plan, 2021 saw significantly higher than budgeted expenditure on business support because of the second lockdown and the decision to support a limited number of sectors throughout 2021. This led to an additional £17m being spent versus the original budget to support the economy, which has contributed to very low levels of unemployment and the sharp recovery of industry, as demonstrated by the positive Income Tax results and low number of business failures. However, the ultimate expenditure was £4.4m less than was set out in the Funding & Investment Plan due to those sectors being supported performing better than anticipated in the second half of 2021.

- 3.11. All these factors resulted in what had been budgeted as a deficit of £33m and a Funding & Investment Plan forecast deficit of £47m, becoming a surplus for the year of £15m. The improvement against the estimates set out in the Plan was therefore £61m meaning that the General Reserve balance has increased accordingly.
- 3.12. The improvement above and a slower rate of investment in infrastructure throughout 2021 meant the balance on the General Reserve was significantly higher than expected throughout the year. 2021 was also an excellent year for investments with the portfolio in which the General Reserve is invested achieving a return of 9.7%. When this is added to the fact that the return was achieved on higher than anticipated balances, an improvement in investment return of £28m can be added to the overall result.
- 3.13. In total then, the improvement in 2021 amounts to £89m for general revenue. This has had a significantly positive impact on the overall position and resulted in additional reserves being available to support necessary investment in national infrastructure. However, it is not expected that the full value of this improvement will persist and become part of the baseline. The economic recovery was faster than anticipated and the exceptional circumstances experienced in 2021 are considered to be temporary, particularly in relation to the high levels of document duty receipts as a result of the exceptionally strong housing market; and customs duties which have benefitted from reduced access to duty free products as a result of travel restrictions.

4. Changes for 2022-2025

4.1. The Funding & Investment Plan financial model has been updated taking into account the 2021 outturn, bringing all figures to 2022 prices, and incorporating the latest projections around the GWP initiatives. The revised financial position over the period to the end of 2025 is shown in the table below and explained further where there have been changes:

<u>£m</u>	MIDDLE CASE				
	2021	2022	2023	2024	2025
General Revenue Income	541.9	541.8	545.4	545.5	546.4
Income Tax - Personal	290.3	302.1	303.5	303.1	303.8
Income Tax - Other	71.3	70.6	71.0	71.4	71.7
Contributions (GHSF)	29.1	29.1	31.1	31.3	31.5
Customs Duties	48.1	47.8	47.2	46.7	46.1
Document Duty	32.3	23.0	23.3	23.5	23.8
Company Fees	10.6	10.8	10.9	11.0	11.1
TRP	28.8	32.8	32.8	32.8	32.8
Other Income	31.5	25.8	25.6	25.8	25.6
General Revenue Expenditure	(505.3)	(516.6)	(528.4)	(532.0)	(537.4)
Committee Cash Limits	(482.9)	(509.7)	(527.5)	(531.1)	(536.5)
COVID-19 Management	(22.4)	(8.0)	(2.0)	(2.0)	(2.0)
Unallocated Savings	-	1.1	1.1	1.1	1.1
Baseline - surplus/(deficit)	36.6	25.2	17.0	13.5	9.0
States Trading Assets*	(23.4)	-	-	-	-
Capital Income		3.0	1.0	1.0	1.0
Adjusted Baseline Position	13.2	28.2	18.0	14.5	10.0
GWP Revenue Impact					
Brexit	-	(0.9)	(1.0)	(1.1)	(1.1)
Recovery (on-going)	-	(2.0)	(6.1)	(5.7)	(5.5)
Transformation Savings	-	-	0.9	1.8	2.6
RICE	-	(0.8)	(1.3)	(2.4)	(3.6)
Budget Measures	-	-	1.0	2.0	3.0
Overall Surplus/(Deficit)	13.2	24.6	11.4	9.2	5.3
Net Investment Return	37.7	46.1	26.6	16.0	10.2
Position after Investment Return	50.9	70.6	38.0	25.2	15.5

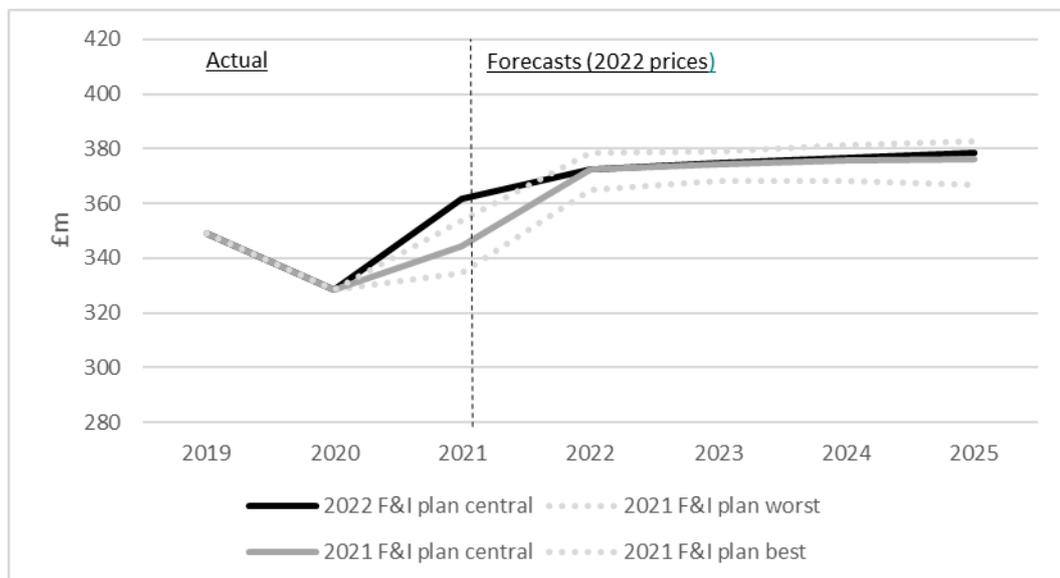
Baseline

4.2. The 2022 to 2025 baseline projections have improved by circa £68m in aggregate.

4.3. All revenue income baselines have been updated to the 2022 starting position and growth assumptions applied. The main assumptions have remained largely unchanged.

4.4. However, the projections in the 2021 Funding & Investment Plan relating to income tax receipts assumed a more gradual recovery than has occurred. As a result, whilst income tax receipts were significantly higher in 2021 than anticipated, they are expected to grow considerably more slowly through 2022 to 2025 and return to more usual growth patterns. In particular, it should be noted that high levels of inflation may suppress real growth in incomes during 2022 if wage growth does not keep pace with RPIX.

4.5. The chart below illustrates the difference between income tax forecasts in the original Plan and following this update. It shows that there is expected to be a £2m improvement in the 2025 baseline position when adjusted for inflation.



4.6. Although Committee expenditure was lower than budgeted during 2021, it is expected that this will now bounce back to budgeted levels. However, the net position on expenditure has worsened slightly due to the impact of a delay in the delivery of savings and those achieved to date being lower than planned.

4.7. Although it is anticipated that expenditure in relation to COVID (largely testing and vaccinations) will be lower than budgeted in 2022, this budget was higher than the amount assumed in the last version of the Funding & Investment Plan and therefore this has been adjusted accordingly.

GWP Impact

- 4.8. As part of the refresh, the financial implications of all changes to priorities have been captured and the costs of the existing priorities refreshed. This has resulted in a total net increased cost impact of £7.5m over the period 2022-2025. This is made up of a combination of one-off and ongoing funding which is set out in the table below:

GWP Priorities - Recovery - Revenue Expenditure (one-off and on-going) £'000	F&I Plan 2021	Refresh 2022	Change	Ref.
Invest in the Finance Sector	3,000	3,000	-	
Accelerate the digital economy	-	-	-	
Unlock enterprise	1,700	1,650	- 50	1
Invest in the Visitor Economy	-	-	-	
Invest in Nature and the Natural Economy	711	1,539	828	2
Enable opportunities for regeneration	975	1,075	100	3
Secure future energy requirements	-	350	350	4
Secure transport connectivity and infrastructure	3,200	3,200	-	
Promote Education, Skills and Learning	4,400	9,409	5,009	5
Meet Housing Needs	-	332	332	6
Keep the Island safe and secure	3,908	4,088	180	7
Promote responsive population measures	-	-	-	
Support healthy living	8,550	8,050	- 500	8
Enable Accessible and Affordable 21st Century Health and Care Services	150	1,410	1,260	9
TOTAL REVENUE SPEND	26,594	34,103	7,509	

1. Delayed start to “Explore opportunities for further development of the general and commercial aviation sectors”.
2. This is comprised of new actions: "Statutory review of the IDP" (£400k one-off), "Establish path to net zero" (£250k one-off) and "Prepare and implement updated animal welfare legislation" (£50k pa on-going, £200k in plan to 2025).
3. This is an additional cost in respect of an existing priority: “Determine future use of Les Vardes Quarry” for an environmental impact assessment (£100k one-off).
4. This one-off funding supports updating the Electricity Strategy and developing a business case for energy generation mix (£350k).
5. This comprises new action “Education Recovery” (£1.3m one-off across 2022-24 plus £1m per annum on-going from 2023) plus £640k funds to implement nasen SEND provision, £160k to invest in Ofsted inspection response and £75k to support Education Law review. These have been part offset by lower funds expected for action “Agree plan to skill our community to meet its needs (£300k).

6. An increased one-off cost to “implement housing market intervention options” (2022-23 £250k one-off) plus “Develop, legislate and implement housing standards” (£82k).
7. New actions “Evaluate and appraise learning from COVID response” (£40k one-off) and “Review of Public Health Law/legal status of cannabis review” (2024 £100k one-off), plus an increase of £40k for the implementation of updated domestic abuse strategy.
8. This reduced cost is the net impact of a £900k reduction in funding for the waitlist initiative by part offset by the cost of a new action “Tier 3 & 4 healthy weight strategy” (£150k pa on-going, £450k in the plan to 2025).
9. This is comprised of:
 - a. New actions:
 - i. “Design and implement a scheme for the Funding of Medical Treatment for Guernsey and Alderney Residents travelling in the UK” (£300k pa, £900k in plan)
 - ii. “Review funding options for long-term care” (£150k one-off)
 - b. Changes to funding requirements:
 - i. “Enhanced mental health pilot” (£150k one-off)
 - ii. “Determine proposals to increase affordability of primary care appointments and aids & adaptations and establish whether to explore the introduction of a compulsory insurance scheme (including an update on the Bailiwick Social Prescribing Pilot) ” (£60k one-off).

4.9. The total impact of these changes across 2022-2025 is £7.5m with an ongoing increase in the baseline expenditure of £2m per annum by 2025.

4.10. The forecast costs accompanying the listed recovery actions are best estimates only at this stage. It is recognised that ultimate funding requests may be higher or lower than the figures provided and some of the priorities which currently show no funding required might, in due course, need to be funded. There will be appropriate review and challenge undertaken prior to any funding being recommended or released.

Capital & Transformation Programmes

4.11. The funding requirements of the portfolio of programmes – both capital and transformation – have been reviewed and updated and the changes from the original Funding & Investment Plan are captured in the table below:

Capital & Transformation Spend (2021 to 2025) £m	F&I Plan 2021	F&I Plan Refresh 2022	2022 vs 2021	Ref.
Major Capital	433	439	(6)	1
Minor Capital	123	95	28	2
Contingency	13	35	(23)	3
Transformation	26	39	(13)	4
Total Capital & Transformation	594	608	(13)	

1. £14m of costs have been moved between capital and transformation due to the nature of the spend. When comparing to the 2021 Funding & Investment Plan, this means there is an actual **increase of £20m** in major capital expenditure projections.

Estimates for capital projects have been inflated in each year assuming the following inflation rates: 2023 – 3.5%; 2024 – 2.5%; 2025 – 2.5%. It is acknowledged that there is a risk that the inflationary impact on capital projects may be significantly more which has been allowed for through increased contingency (3 below), and covered in the section on Risks & Opportunities.

2. The expenditure in 2021 was £13m less than anticipated and the ability to complete minor capital projects continues to be constrained by limited resources. Therefore, projections have been reduced by circa £4m per annum in this update from £24m to circa £20m per annum.

3. The contingency has been increased due to uncertainty around inflation.

4. The increase is due only to the transfer of programme running costs which were previously categorised as capital.

4.12. The net impact of the updated position in respect of capital and transformation programmes is increased cost of £13m over the plan period.

Investment Income

- 4.13. As set out in section 3 above, the combination of a surplus in 2021, slower expenditure on capital programmes than planned and good investment return resulted in investment income of £37.7m in 2021 which will be used to fund future expenditure.
- 4.14. Given that the starting position is now £93m improved, the benefit of higher investment returns (which are assumed at inflation plus 2.5% throughout the plan period) persists throughout the period.
- 4.15. It had previously been assumed that investment income would be available to service borrowing costs. Given the improvement in the overall position over the period and the likely removal of the borrowing requirement, investment income will no longer be needed for that purpose which further improves the position and the amount available to fund capital expenditure.

5. Funding & Financing

- 5.1. The 2021 Funding & Investment Plan ensured that all the priorities for this term of government were fully funded through use of a combination of reserves and borrowing.
- 5.2. The table below summarises the funding required for one-off activities over the remainder of the period (that is having factored in the expenditure which has already taken place in 2021). This shows that it is now expected that £583m will be required between 2022 and 2025:

Funding Required 2022-2025	£m
Major Capital	410
Minor Capital	84
Contingency	35
Total Capital	528
Recovery (one-off)	18
Transformation	37
Total One-Off Spend	55
Total Capital & One-Off	583

- 5.3. The Policy & Resources Committee had previously recommended that a minimum balance be retained on the General Revenue Reserve of £150m to provide resilience, guard against future shocks and ensure that limited reserves are available for the next States. The Committee also recommended that the Health Service Reserve be used to fund the implementation of the changes to the availability of NICE approved drugs and treatment and to cover the cost of

reducing the backlog of elective procedures because of COVID-19, as prioritised in the GWP.

5.4. The Committee has retained the same assumptions in this update.

Existing Reserves/Bond £m	Balance 31.12.21	Available to Use
General Revenue Reserve	587	437
Health Service Reserve	120	41
Surplus 2022-2025		149
Available Reserves	707	627
Funds Required		583
Borrowings required		nil

5.5. The table above also includes the annual estimated surplus from 2022 to 2025. This was not included in the 2021 Plan since it was assumed that any surpluses would be accumulated to service and/or repay the borrowing. Given the improved position overall, these surpluses are now available to support the required investment.

5.6. This means that sufficient reserves are now available to support the desired investment over the remainder of this term without any recourse to borrowing which compares to the borrowing requirement of £200m previously identified. The table below explains the attribution of this improvement:

F&I Plan Movement	£m
2021 net result	93
2022 - 2025 net result	68
Assumed servicing of borrowing in F&IP	79
Capital & Transformation forecast spend	(13)
GWP one-off	(3)
Higher transfer from bond reserve	10
Increase use of Health Service Fund	7
Other	8
Total Movement	249

5.7. This is an excellent result which has been driven in large part by the faster recovery in 2021. A Resolution from the debate on the GWP in 2021 allows the Policy & Resources Committee to enter into new external borrowing facilities up to a total maximum of £200m. According to the latest update, it is not anticipated that such borrowing will now be required. However, due to the continued uncertain economic conditions, the Committee does not wish to ask at this stage that the

Resolution is rescinded. When the Funding & Investment Plan is reviewed in 2023, the forecast will be re-evaluated again. If it is still estimated that no new long-term borrowing will be required, the Committee will ask the Assembly to rescind that Resolution.

- 5.8. Although it is not now anticipated that new long-term borrowing will be required to fund the Plan, its execution will still result in most of the States' financial reserves being exhausted over the remainder of this term.

<u>£m</u>	MIDDLE CASE				
	2021	2022	2023	2024	2025
Net Result Surplus/(Deficit)	13.2	24.6	11.4	9.2	5.3
Investment Return	37.7	46.1	26.6	16.0	10.2
Net Result (incl. investment return)	50.9	70.6	38.0	25.2	15.5

- 5.9. The table above shows the estimated overall surplus before capital expenditure over the Plan period. The baseline position shows a surplus of £24.6m in 2022 falling to £5.3m by 2025. The shrinking surplus comes about because of the demand pressures on public services, particularly in relation to health and care services, coupled with strain on revenues as a result of changes to the working population and the introduction of secondary pensions.
- 5.10. These small surpluses are not sufficient to fund the necessary investment in Island infrastructure. They are too small even to fund the everyday replacement of equipment and vehicles, renewal of roads and investment in property assets, classed as Minor Capital.
- 5.11. The investment return on the reserves supports capital investment and makes the Plan affordable without any new borrowing in this term. However, the level of return can be volatile (as seen by the movement in investment markets in the first quarter of 2022) and cannot be relied on to support future expenditure since the reserves are being spent to support delivery of this Plan.
- 5.12. The only usable reserves remaining after delivery of this plan would be £150m in the General Revenue Reserve, £80m in the Health Service Reserve and an assumed £197m in the Core Investment Reserve (£179m at the end of 2021 with return assumed at inflation plus 2.5% each year thereafter). This would give a total reserves balance of £427m against an annual turnover of approximately £540m. This is a total reserves ratio of only 79% whereas the States have a policy of the Core Investment Reserve alone having a balance of 100% of revenues.
- 5.13. The best- and worst-case scenarios set out in Annex 1 illustrate the range of possible likely outcomes and that the surplus by 2025 could be higher at around £28m or be converted into a deficit of £29m. However, the trend remains the same with surpluses shrinking/deficits growing. With the continued and essential need

to invest in infrastructure both to maintain and replace current assets and develop new ones, there remains a significant underlying structural deficit which must be addressed.

6. Risks & Opportunities

Inflation

- 6.1. During 2021 and the first quarter of 2022, worldwide inflation has been increasing because of the economic disruption caused by the pandemic and the disruption it has caused to global shipping and, latterly, the impact of the conflict in Ukraine. RPIX is currently well above recent averages (5.9% in March 2022) and is expected to increase further through the second and third quarters, before reducing in 2023. This represents a real risk to the States' financial position. Should inflation increase both revenues and expenditure equally, then the impact will be minimal. However, should price inflation increase sharply and revenues do not keep pace in real terms, then it could result in a significant deterioration in the financial position.
- 6.2. One very real risk around inflation is centred on capital investment, particularly given the extent of the current price pressure on construction costs resulting both from the strength of demand and the difficulty in obtaining supplies. The States have started to observe significant increases, especially in the price of certain raw materials. Although inflation assumptions have been factored into the capital requirements, these might prove to be insufficient.

COVID-19

- 6.3. The Plan update has continued to assume no further lockdowns, travel restrictions or business support. Based on the levels of immunity in the population and current policy, these are reasonable assumptions. Any changes to the current approach, as a result of a new variant or other similar developments, could have a cost risk.

Public Service Transformation

- 6.4. A risk adjustment has already been made in this Plan in relation to the delivery of savings from Public Service Transformation. The middle case assumes that 60% of the savings forecast will be achievable. However, there is still a notable risk that savings will not be fully realised and that there will be a shift in the cost of delivering transformation activity. Conversely, there is an opportunity overall should the level of projected savings be delivered which would considerably strengthen public finances.

Financial Implications of the GWP Priorities

6.5. The GWP actions have been costed using the best information available. However, many actions continue to be in the early stages of development with many unknown factors about how they might be delivered. Experience over the last year has revealed that some workstreams have costed more than indicated or that costs were simply not foreseen. As set out in this update, additional actions with cost have been identified and costs relating to other actions have increased. There is a significant risk that costs will be higher or lower than the financial estimates included in this Plan.

General Cost Pressures

6.6. There is a risk that when preparing the budget each year further cost pressures or service developments not included in the Plan are identified

Housing Stock Transfer

6.7. A project to explore the transfer of all States' housing stock to the GHA has been initiated. The preferred model would be that the housing stock would be sold to the GHA which would take ownership and day to day responsibility of its management. If such a transfer did happen then this would result in a negative net impact to general revenue of approximately £12m per annum although this would be compensated by a capital receipt for the sale.

Guernsey Waste

6.8. The States have agreed a waste strategy which is being implemented by Guernsey Waste. The original expectation was that over the life of the strategy, it would break even with the overall costs of collection and processing balanced by various charges. However, largely because of the significant reduction in the number of black bags being disposed of, Guernsey Waste currently has an accumulated deficit of circa £3.5m with ongoing deficits forecast in the range of £1.1-1.5m per annum. Should a self-funding solution not be found which does not run counter to the strategy, then this cost pressure could fall to general revenue.

Conflict in Ukraine

6.9. The conflict in Ukraine is having and will continue to have far reaching implications. Inflation has already been highlighted as a risk which could be (and already has been) exacerbated by the situation in Ukraine. Any escalation of the conflict will only intensify these risks.

6.10. In addition, the Bailiwick is also welcoming refugees from the war through the Family and Homes for Ukraine schemes. There will be consequential costs although it is too early to estimate the extent of these.

Economic Factors

6.11. The economic environment is both a risk and an opportunity to the Funding & Investment Plan. As experienced in 2021, recovery and economic growth rates can have a significant impact on general revenue income. The measures prioritised in the GWP to enhance and encourage growth of the Bailiwick's economy, if successful, could present a sizeable boost to both the economy and general revenue income.

6.12. However, the availability of suitable labour and the increasing cost of housing have been widely cited by industry representatives as limiting factors on economic expansion.

ANNEX 1

£m	WORST CASE					MIDDLE CASE					BEST CASE				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
General Revenue Income	541.9	527.7	529.4	529.4	530.3	541.9	541.8	545.4	545.5	546.4	541.9	560.0	561.8	561.9	562.8
Income Tax - Personal	290.3	294.5	295.9	295.5	296.2	290.3	302.1	303.5	303.1	303.8	290.3	309.6	311.1	310.7	311.4
Income Tax - Other	71.3	67.1	67.5	67.8	68.1	71.3	70.6	71.0	71.4	71.7	71.3	74.1	74.6	74.9	75.3
Contributions (GHSF)	29.1	29.6	29.8	29.9	30.1	29.1	29.1	31.1	31.3	31.5	29.1	32.7	32.9	33.1	33.3
Customs Duties	48.1	46.6	46.0	45.5	45.0	48.1	47.8	47.2	46.7	46.1	48.1	49.0	48.4	47.8	47.3
Document Duty	32.3	20.7	20.9	21.2	21.4	32.3	23.0	23.3	23.5	23.8	32.3	25.3	25.6	25.9	26.1
Company Fees	10.6	10.8	10.9	11.0	11.1	10.6	10.8	10.9	11.0	11.1	10.6	10.8	10.9	11.0	11.1
TRP	28.8	32.8	32.8	32.8	32.8	28.8	32.8	32.8	32.8	32.8	28.8	32.8	32.8	32.8	32.8
Other Income	31.5	25.8	25.6	25.8	25.6	31.5	25.8	25.6	25.8	25.6	31.5	25.8	25.6	25.8	25.6
General Revenue Expenditure	(505.3)	(531.3)	(542.4)	(546.1)	(551.6)	(505.3)	(516.6)	(528.4)	(532.0)	(537.4)	(505.3)	(514.2)	(527.2)	(530.9)	(536.2)
Committee Cash Limits	(482.9)	(522.4)	(540.7)	(544.4)	(549.9)	(482.9)	(509.7)	(527.5)	(531.1)	(536.5)	(482.9)	(509.7)	(527.5)	(531.1)	(536.5)
COVID-19 Management	(22.4)	(9.6)	(2.4)	(2.4)	(2.4)	(22.4)	(8.0)	(2.0)	(2.0)	(2.0)	(22.4)	(6.4)	(1.6)	(1.6)	(1.6)
Unallocated Savings	-	0.7	0.7	0.7	0.7	-	1.1	1.1	1.1	1.1	-	1.9	1.9	1.9	1.9
Baseline - surplus/(deficit)	36.6	(3.6)	(13.0)	(16.6)	(21.3)	36.6	25.2	17.0	13.5	9.0	36.6	45.8	34.5	31.0	26.6
States Trading Assets*	(23.4)	-	-	-	-	(23.4)	-	-	-	-	(23.4)	-	-	-	-
Capital Income	0.0	3.0	1.0	1.0	1.0	0.0	3.0	1.0	1.0	1.0	0.0	3.0	1.0	1.0	1.0
Adjusted Baseline Position	13.2	(0.6)	(12.0)	(15.6)	(20.3)	13.2	28.2	18.0	14.5	10.0	13.2	48.8	35.5	32.0	27.6
GWP Revenue Impact															
Brexit (on-going)	-	(1.0)	(1.2)	(1.2)	(1.2)	-	(0.9)	(1.0)	(1.1)	(1.1)	-	(0.8)	(0.9)	(0.9)	(0.9)
Priority Actions (on-going)	-	(2.2)	(7.1)	(6.6)	(6.5)	-	(2.0)	(6.1)	(5.7)	(5.5)	-	(1.8)	(5.0)	(4.7)	(4.6)
Baseline after GWP	13.2	(3.7)	(20.3)	(23.5)	(28.0)	13.2	25.3	10.9	7.8	3.4	13.2	46.1	29.6	26.4	22.1
Savings	-	-	0.6	1.2	1.7	-	-	0.9	1.8	2.6	-	-	1.5	3.0	4.3
RICE	-	(0.8)	(1.4)	(2.6)	(4.0)	-	(0.8)	(1.3)	(2.4)	(3.6)	-	(0.7)	(1.2)	(2.2)	(3.3)
Budget Measure	-	-	0.5	1.0	1.5	-	-	1.0	2.0	3.0	-	-	1.5	3.0	4.5
Overall Surplus/(Deficit)	13.2	(4.6)	(20.6)	(23.9)	(28.8)	13.2	24.6	11.4	9.2	5.3	13.2	45.4	31.4	30.3	27.6
Investment Return	37.7	43.9	21.9	9.1	0.4	37.7	46.1	26.6	16.0	10.2	37.7	47.9	30.8	22.1	18.8
Position after Investment Return	50.9	39.4	1.2	(14.8)	(28.4)	50.9	70.6	38.0	25.2	15.5	50.9	93.4	62.1	52.4	46.4

ANNEX 2

(a) RICE Forecast – Revenue Impact of Capital Expenditure

Cumulative RICE Forecast (net spend) £'000	2022	2023	2024	2025
	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Revenue Service	-	1,204	1,204	1,204
Our Hospital Modernisation				
SAP Roadmap	-			
Transforming Education Digital	-	-	200	600
THSC Programme		-	-	-
Guernsey Registry IT Systems Replacement			250	1,000
SMART Court	-	-	500	500
Budget 2022 RICE	700			
Total RICE (not in Baseline)	700	1,204	2,154	3,304

(b) Transformation Expenditure Forecast

Transformation Costs £'000	2022	2023	2024	2025	Total
	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	
MyGov T2 - Revenue spend	4,402				6,612
MyGov T3 - Next phase		5,000	5,000	5,000	15,000
Organisational Restructure	390	2,000	2,000	2,000	6,390
Transforming Health & Social Care	800	1,000	1,000	1,000	4,178
Transforming Education	2,340	1,980	1,730	1,120	7,170
Total Transformational Spend	7,932	9,980	9,730	9,120	39,351

(c) Brexit Expenditure Forecast

MANAGING BREXIT & MEETING INTERNATIONAL STANDARDS £'000	2022	2023	2024	2025
Health & Safety and Trading Standards -Capacity & Expertise	109	109	109	109
Trading Standards - software license	10	10	10	10
Sea Fisheries - Services	15	15	15	15
Revenue Service - Capacity	98	98	98	98
Revenue Service - Software license	20	20	20	20
Economic Development - Delivery of trade obligations	200	200	200	200
Borders, Law Offices - Project support	30	30	30	30
Borders, Law Offices - Capacity & Service Development	147	155	163	171
Customs & Excise - Service Development	180	210	210	210
Immigration - Capacity & Service Development	75	75	75	75
SPS/border control - Consultant retainer	8	8	8	8
Environmental Health - Capacity & Expertise	50	50	50	50
General provision	100	100	100	100
TOTAL ADDITIONAL FORECAST REVENUE SPEND	1,042	1,080	1,088	1,096
Amount built into baseline via budget 2022 cash limit	(250)	(250)	(250)	(250)
INFLATED TO 2022 PRICES (Less amount included in baseline)	£ 833	£ 873	£ 881	£ 889

ANNEX 3
RECOVERY ACTIONS

Accelerate the Digital Economy (£'000)	New/Funding change	On-going/ One-off	2022	2023	2024	2025	Total
Digital framework and action plans - invest in and develop the local digital economy	-						-
Establish regulation and legislation to enable the digital sector	-						-
Continued Support for digital skills and pathways	-						-
Promote and support innovation, transformation and entrepreneurial growth into the digital sector (scale-ups)	-						-
Establish Future Telecoms Strategy	-						-
Implement a universal fibre broadband network	-						-
Establish 5G licensing framework	-						-
SUB TOTAL			-	-	-	-	-

Invest in Nature and the Natural Economy (£'000)	New/Funding change	On-going/ One-off	2022	2023	2024	2025	Total
Carry out sea-bed survey	-						-
Develop a Natural Capital Atlas for our marine and terrestrial environment	Change	One-off		72			72
Blue economy – conduct a marine biodiversity net gain pilot	-	One-off					-
Blue economy – fully develop marine biodiversity net gain	-	One-off		40	40		80
Develop a Blue Economy Supporting Plan	-	One-off			215		215
Develop a Marine Biosecurity Plan	-	One-off					-
Carry out habitat mapping	-	One-off	82				82
Develop a Natural Capital Atlas for our marine and terrestrial environment	New	One-off		82			82
Green economy - carry out a biodiversity net gain feasibility study	Change	One-off		50			50

Green economy - develop and transition to biodiversity net gain	New						-
Green economy - develop a green economy supporting plan	New	One-off				100	100
Carry out Statutory Review of the Island Development Plan	New	One-off		250	150		400
Update the Environmental Pollution Law	New	On-going	2	2	2	2	8
Establish climate change expert panel and scope a proportionate and pragmatic path to net zero	New	One-off	250				250
Prepare and implement updated animal welfare legislation	New	On-going	50	50	50	50	200
SUB TOTAL			384	546	457	152	1,539

Enable Accessible and Affordable 21st Century Health and Care Services	New/Funding change	On-going/One-off	2022	2023	2024	2025	Total
Implement NICE TA Drugs - Tranche 1 <i>(cost built into baseline)</i>	-	On-going					-
Implement NICE TA Drugs - Tranche 2 <i>(cost built into baseline)</i>	New	on-going					-
Review practical application and next stages [of NICE TA Drugs]	-	One-off		150			150
Review funding options for Long-term Care and develop proposals	New	One-off	50	100			150
Develop and implement proposals to extend Long-term Care benefits to include care in people's own homes	New						-
Explore a higher rate of benefit for complex cases with exceptional needs in care homes	New						-
Develop a digital care needs assessment model to address increased demand and variety of benefit rates	New						-
Determine proposals to increase affordability of primary care appointments and aids & adaptations and establish whether to explore the introduction of a compulsory insurance scheme (including an update	Change	One-off		60			60

on the Bailiwick Social Prescribing Pilot)							
Implementation and ongoing review of the primary care model	New						
Develop and run an enhanced mental health service pilot	Change	One-off	150				150
Commence the Human Tissue and Transplantation Law							
Review operations of health benefit funding following transfer to the Committee for Health & Social Care	-						-
Enable indemnity insurance for health and care providers	-						-
Deliver out Hospital Modernisation - Phase 1	-						-
Deliver out Hospital Modernisation - Phases 2&3 (including PEH Energy and Pathology and Laboratory services)	New						-
Design and implement a scheme for the Funding of Medical Treatment for Guernsey and Alderney Residents travelling in the UK	New	On-going		300	300	300	900
SUB TOTAL			200	610	300	300	1,410

Enable Opportunities for Regeneration £'000	New/Funding change	On-going/ One-off	2022	2023	2024	2025	Total
Conclude appraisal of government involvement in developing Leale's Yard	-						-
Implement agreed aggregate supply solution	-						-
Conclude decision making on the future inert waste facility	-						-
Determine the future Strategic use of Les Vardes quarry	Change	One-off	100				100
Agree preferred direction for future harbour requirements & seek approval	-						-
Continue harbour planning and investigation as required. Carry out essential and time dependent work	-						-
Establish Development Agency & develop strategic framework for States approval	-	One-off	975				975
Prepare for and implement a long-term development plan	-						-

Complete local planning briefs for the Harbour Action Areas							
Amend the Land Planning and Development Ordinances to provide for further planning permission exemptions							
Develop and agree a Bridge Strategy (excluding St Sampson's Harbour)	-						-
SUB TOTAL			1,075	-	-	-	1,075

Meet Housing Needs	New/Funding change	On-going/ One-off	2022	2023	2024	2025	Total
Housing Action Group: scope and deliver urgent measures to relieve pressures in current housing market	-						-
Implement the General Housing Law - improving Housing Standards (phase 1)	New	On-going	73	3	3	3	82
Implement the General Housing Law – Rent protection deposit scheme (phase 2)	New						-
Progress proposals to the States on the potential transfer of the States' social housing stock to the GHA							-
Progress proposals to the States on the States Strategic Housing Indicator	-						-
Respond to housing indicator requirements, specifically developments and funding to, in partnership with the GHA, to provide more affordable housing to meet requirements	-						-
Evaluate and implement interventions to address private housing market capacity and affordability	-						-
Implement long-term housing market intervention options	New	One-off	100	150			250
Review availability, provision and funding of accommodation for elderly people							
Evaluate and implement interventions to address key worker housing capacity and affordability	-						-
Review the provision of emergency accommodation in Guernsey	-						-

SUB TOTAL			173	153	3	3	332
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Invest in the Finance Sector £'000	New/Funding change	On- going/ One-off	2022	2023	2024	2025	Total
Continued investment in promoting Guernsey's finance sector (2022 built into baseline)	-	One-off	1,000	1,000	500		2,500
SUB TOTAL			1,000	1,000	500		2,500

Invest in the Visitor Economy £'000	New/Funding change	On- going/ One-off	2022	2023	2024	2025	Total
Finalise Tourism Product Development Plan							
Implementation of Tourism Product Development Plan							
SUB TOTAL			-	-	-	-	-

Keep the Island Safe and Secure £'000	New/Fund ing change	On-going/ One-off	2022	2023	2024	2025	Total
Conclude primary legislation for regulation of health and care	-						-
Introduce secondary legislation & implementation for the regulation of health & care	-	On-going		194	165	140	499
Implement Capacity Law	-	On-going		100	100	100	300
Develop justice framework	-	One-off	1000				1,000
Review the grounds governing the Appeals Law	New						-
Enhance domestic abuse services in line with the updated domestic abuse strategy (including a Sexual Assault Referral Centre (SARC) three-year pilot)	-	On-going	382	589	589	589	2,149
Reform the Adoption Law - Primary Legislation	-						-
Conclude Children's Law legislative development	-						-
Implement agreed changes to the Children's Law							-
Develop policy and introduce Phase 1 of Discrimination Ordinance (incl. grounds of	-						-

religious belief and sexual orientation)							
Develop policy and introduce Phase 2(A) of the Discrimination Ordinance: Age and Sex Grounds (preparation for Phase 2 will need to commence ahead of Phase 2)	-						-
Rescope Vetting and Barring scheme and revisit legislative requirements	-						-
Update sexual offences legislation - secondary legislation	-						-
Update parole legislation	-						-
Explore options for alternative and non-punitive approaches to the possession and use of small quantities of illegal drugs	-						-
Scope and commission review of Legal Aid	New						-
Conclude & implement Matrimonial Causes Law Reforms incl. amendments to Domestic Proceedings Law	-						-
Advance legislation re: requirement to pass theory test prior to driving on road as provisional licence holder							-
Review of Public Health Law or review legal status of cannabis	New	One-off		50	50		100
Evaluate and appraise learning from the Bailiwick's COVID response	New	One-off	40				100
Review Health & Safety legislation	New						
Consideration of further employment protection measures	New						
Prepare a new Credit and Finance Law	New						-
SUB TOTAL			1,422	933	904	829	4,088

Enable Responsive Population Measures £'000	New/Funding change	On-going/ One-off	2022	2023	2024	2025	Total
Review population policy and set out a pathway to address the challenges faced by the economy							-

Deliver actions necessary to implement the population review recommendations agreed by the States	New							-
SUB TOTAL								

Promote Education, Skills and Learning £'000	New/Funding change	On-going/One-off	2022	2023	2024	2025	Total
Implement the reorganisation of secondary and post-16 education							
Agree a plan to skill our community to meet its needs	Change	On-going	400	700	500	500	2,100
Repeal and replace the Education Law - Project and policy development	Change	One-off		75			75
Replace the Education Law - Ordinances							
Implement the Education law	New						
Implement the recommendations of the nasen Report on SEND provision (2022 included in ESC cash limit)	Change	On-going	600	770	670	600	2,040
Support inspection response	New	One-off		80	80		160
Strategic Investment in continuous education improvement	Change	On-going		1,040	1,040	1,040	3,120
Education recovery - address the areas where COVID-19 has negatively affected learning and the school environment	New	One-off	393	625	296		1,314
Plan and deliver the Guernsey Institute							
Plan and deliver digital transformation for schools							
SUB TOTAL			793	3,290	2,586	2,140	8,809

Secure Future Energy Requirements £'000	New/Funding change	On-going/One-off	2022	2023	2024	2025	Total
Update Electricity Strategy – including consideration of renewable energy sources	Change	One-off	350				350
Implement electricity strategy changes	New						

Develop a licensing framework to support on-island renewable energy							
SUB TOTAL			350				350

Secure Transport Connectivity and Infrastructure £'000	New/Funding change	On-going/One-off	2022	2023	2024	2025	Total
Support air route connectivity		On-going	800	800	800	800	3,200
Upgrade the airport baggage handling system - stage 1							
Upgrade the airport baggage handling system - Phase 2							
Conclude Guernsey Airport runway extension decision							
Create a proportionate licensing regime for Roll On/Roll Off ferry services	New						
Update Investigation of Air Accidents & Incidents legislation	New						
SUB TOTAL			800	800	800	800	3,200

Support Healthy Living £'000	New/Funding change	On-going/One-off	2022	2023	2024	2025	Total
Scope and deliver improvements to occupational health and wellbeing services post COVID-19		On-going		250	250	250	750
Plan and agree the structure and location of a Community Hub							
Design and deliver a Community Hub (including consideration of children and family services and a wellbeing centre)							
Tier 3 and 4 healthy weight strategy	New	On-going		150	150	150	450
Implement a system to reduce backlogs and waiting times in HSC	Change	One-off	1,000	1,950	1,950	1,950	7,800
Conclude Foote's Lane Refurbishment	New						
Conclude review of minimum income standards in the context of improving living standards	New						
Follow on actions to implement the Review recommendations as agreed by the States	New						

Improve access to personalised health and care information							
SUB TOTAL			1,000	2,350	2,350	2,350	8,050

Unlock Enterprise	New/Funding change	On-going/One-off	2022	2023	2024	2025	Total
Scope requirements for an Enterprise Plan		One-off		417	417	417	1,250
Explore opportunities for further development of the general and commercial aviation sectors		On-going	100	100	100	100	400
Support emerging economic opportunities							
Scope the options for Enterprise Investment Schemes							
Introduce investor/entrepreneur visas							
Amend Guernsey's approach to Limited Partnerships and update the Law	New						
SUB TOTAL			100	517	517	517	1,650

TOTAL SPEND £'000	2022	2023	2024	2025	TOTAL
ON-GOING TOTAL	2,407	5,048	4,719	4,624	16,798
ONE-OFF TOTAL	5,490	5,151	3,698	2,467	16,805
GRAND TOTAL	7,897	10,199	8,417	7,091	33,603