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WEDNESDAY 25th SEPTEMBER 2013

TREASURY AND RESOURCES DEPARTMENT
CAPITAL PRIORITISATION

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BILLET D'ÉTAT

TO
THE MEMBERS OF THE STATES
OF THE ISLAND OF GUERNSEY

I hereby give notice that the item contained in this Billet d'État which has been submitted for debate will be considered at the Meeting of the States of Deliberation already convened for **WEDNESDAY,** the **25th September, 2013**.

R. J. COLLAS
Bailiff and Presiding Officer

The Royal Court House
Guernsey
16th August 2013

TREASURY AND RESOURCES DEPARTMENT

CAPITAL PRIORITISATION

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

23rd July 2013

Dear Sir

EXECUTIVE SUMMARY

1. Having invited bids from Departments at the beginning of 2013 and following a scoring process to assess these proposals, the purpose of this States Report is to recommend a States Capital Investment Portfolio for the delivery of capital projects during the period 2014 – 2017 based on the outcome of that process.

2. The capital proposals are varied including proposals to address the life expiry of existing facilities, those enabling improved and more cost effective service provision, responses to legislative requirements, technological advances and demographic changes.

3. It is important that an appropriate level of investment is made to maintain and enhance the Island's infrastructure in order not to adversely impact on its economic competitiveness with other jurisdictions.

4. Based on the proposals submitted and scored, it is recommended that £225million of projects are funded from the Capital Reserve during 2014 – 2017. However, this can only be done if the current funding arrangements are amended through additional annual appropriations to the Capital Reserve. The Treasury and Resources Department recognises that capital funding decisions cannot be made in isolation and, when considered in the context of the overall States financial position and other priorities, it may not be possible or desirable to make this level of investment. Therefore, it is intended that the 2014 Budget Report will include a recommendation as to the 2014 appropriation to the Capital Reserve and indications as to the 2015-2017 appropriations. The longer term funding will need to be considered alongside the ongoing Personal Tax, Pension and Benefits Review in order to develop a sustainable future funding model.

5. It is also 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.**

BACKGROUND

6. In 2006 and 2009, the States undertook capital prioritisation processes. The October 2006 capital prioritisation process was a simple allocation of Capital Reserve Funds to projects for the period up to 2009.

7. The 2009 capital prioritisation arrangements introduced a strategic review process that enabled the Treasury and Resources Department to advise the States on the relative merits of each proposal. The process was designed to be a rigorous, consistent, transparent and objective method of assessing the relative merits of a large number of diverse capital proposals.

8. In Billet D'État XXIV (September 2009), the States approved eighteen projects to comprise the 2009 – 2013 Capital Programme at a total cost of £204million plus a £12million inflation allowance. Projects included within the Capital Programme were then able to be progressed by the individual Departments concerned through the Guernsey Gateway Reviews which provide assurance that the project continues to have merit and that it can be justified on a business needs basis with an assessment of the likely costs, risks and potential for success compared with the original brief. Having passed through the Gateways, projects could seek States approval for a capital vote before moving onto delivery of the project.

9. Appendix A details progress on each of these projects and includes the current estimated cost. Whilst the overall cost is anticipated to be within the total of £216million, there have been significant slippages in the timing of delivery of the Programme and it is possible that this has not resulted in the States obtaining best value for money and optimising the impact on the local construction industry and the economy. Slippage on capital projects is common, especially those of a complex nature, and to be expected. However, the fixed nature of the Programme meant that the opportunity to incorporate additional projects into the Programme was not taken.

10. Therefore, as set out in paragraphs 34 to 42, it is recommended that an overarching States Capital Investment Portfolio is established, overseen by the

Treasury and Resources Department, which would provide a co-ordinating, scrutiny and assurance role designed to improve governance, achieve better value for money and provide a more flexible approach to delivery of the States' capital requirements.

TIMING OF THIS REPORT

11. In the 2012 Budget Report a timetable for the 2014-2017 Capital Programme was outlined with bids for new projects to be submitted during quarter 1 – 2013 and the States debate to determine the firm capital programme during quarter 3 – 2013.

12. However, subsequently work began on two projects to determine States long-term strategic planning for assets:

    i. The Strategic Asset Management Plan, which was due to be finalised during the first part of 2013 and which represented the first step in identifying the overall corporate needs of the States in terms of land and property, both now and for the next 5-20 years;

    ii. The Island Infrastructure Plan was being developed, the primary objective of which was to facilitate decision-making in respect of essential public infrastructure investment by the States and the private sector over the next 5-20 years.

13. Henceforth, the outputs from these projects were to form the inputs into the process of determining capital priorities and programmes. Therefore, in the 2013 Budget Report, the Treasury and Resources Department advised the States that it considered it appropriate for the 2014-2017 Capital Programme to be compiled and considered by the States in 2014. However, an amendment was agreed by the States which set the timetable as that outlined in the 2012 Budget Report.

14. During January 2013, guidance notes and templates for the submission of capital prioritisation bids were developed. These were issued to Departments in February 2013. During February, several training courses were run on preparing a business case in accordance with best practice with a specific section on Capital Prioritisation bids. Capital Prioritisation bids were requested for all projects over £250,000 in value other than routine replacements where the minimum bid level was £500,000.

15. Capital Prioritisation bids were submitted at the end of March 2013 and were then scored and moderated, reviewed by the Capital Prioritisation Project Team and the Executive Leadership Team, before being submitted to the Treasury and Resources Department.

16. It was particularly difficult to compile and assess the bids which were designed to deliver the Strategic Asset Management Plan since, although the plan was being drafted, it had not been finalised or presented to the States. Therefore, in assessing the bids submitted it was assumed that the States would approve the propositions contained within the Strategic Asset Management Plan States Report which was due for consideration at the July 2013 meeting.

REVIEW OF CAPITAL PROPOSALS

17. This review process adopted for Capital Prioritisation is designed to be a rigorous, consistent, transparent and objective method of assessing and prioritising capital proposals including construction projects, information and communication technology and major equipment purchases. The capital proposals are varied including proposals to address the life expiry of existing facilities, those enabling improved and more cost effective service provision, responses to legislative requirements, technological advances and demographic changes.

18. The process built on the multi-criteria analysis framework (detailed in paragraph 19 below) which has been used to successfully review and assess service development bids submitted as part of the States Strategic Plan process.

19. The bids, a summary of which are contained in Appendix B, were evaluated by a senior staff team using a clear and consistent methodology which lead to each proposal being given a score from 0% to 100% when considered against the following criteria. The criteria are designed to assess whether the proposals take forward government policy, can be practicably implemented, achieve benefits and represent good value for public money:

- Fit with States' objectives
    - Interaction with the States' objectives as set out in the States Strategic Plan;
    - States have previously agreed the proposal 'in principle' as part of a strategy, programme or other work stream;

- Overall impact of not proceeding
    - Including (but not limited) to people and costs, reputational damage and non-compliance with legal obligations;

- Breadth and depth of beneficiaries
    - What proportion of the population will benefit and to what extent;

- Achievability and Risk Management
    - Assessment of whether options have been considered and the suggested proposal is realistic and deliverable;
    - consideration of the high level risks ;

- Sustainability and Value for Money
    - Length of time in which benefits will be realised;
    - Impact on ongoing revenue budgets.

20. This objective process to assess each project was undertaken by civil servants on behalf of the Treasury and Resources Department Board and serves as a tool to help them in assessing and comparing the projects.

21. During the scoring process, it became apparent that there were a number of bids which appeared to be 'must do' projects for operational continuing service delivery reasons (predominantly high value replacement items). It was identified that they should probably progress in order to maintain service levels and critical services, but not all necessarily achieved a high score when objectively assessed, especially in the fit with States' objectives section due to their operational nature. Due to the need to maintain services these bids have been placed into Category A, irrespective of the score awarded.

22. Therefore, following the scoring process, bids have been placed into four groups as follows:

    - Category A – 'must do' projects recommended to progress to the next stage, funded from General Revenue by way of the Capital Reserve;

    - Category B (scoring a minimum of 75%) - other projects recommended to progress to the next stage, funded from General Revenue by way of the Capital Reserve, listed by score;

    - Category C (scoring less than 75%) – projects funded from General Revenue not recommended to progress at this stage, listed by score;

    - Category D – projects not funded from General Revenue (i.e. through a trading entity or loan arrangement).

23. Consequently it is intended that the routine capital allocation process is reviewed and refined so that replacement projects are, as far as possible, defined, identified, planned and funded through routine capital allocations instead of from the Capital Reserve. This is linked to the development of rolling replacement programmes to ensure States assets are effectively managed and replaced. The Treasury and Resources Department has delegated authority to increase a Department's routine capital allocation, funded by a transfer from the Budget Reserve, which can be used for managing flexibility in the routine programme and dealing with urgent or unexpected requirements.

24. The Treasury and Resources Department also has delegated authority to approve, without financial limit *"Capital votes for straightforward replacements"*. Projects where, on the basis of the information contained in the capital

prioritisation submission, the Treasury and Resources Department would use this delegated authority are identified in the tables in paragraphs 28 to 33.

BID COSTINGS

25. Ideally, there would be robust information about the estimated costs of individual projects to assist in consideration of this States Report. However, as a result of the short timescale in which capital prioritisation bids had to be prepared and submitted, it became apparent that the estimated costs of some projects were indicative only and in need of significant further development. Many of the proposals were at a very early stage of development and had not yet undertaken detailed option appraisals. This made project costing impossible with any degree of accuracy.

26. There were also a large number of assumptions made in preparing the bids which now need to be reviewed and refined including those relating to project scale and scope. There is also the matter of contingency amounts, allowances for the uplift for Guernsey construction costs and optimism bias[1]. All of these factors add significantly to the overall outline project cost and the Department is concerned that they may lead to over-statement of the likely spend. It is therefore anticipated that, in some cases, and following rigorous option appraisals the capital votes actually requested will be lower than the indicative costs included within the capital prioritisation bid.

27. **Therefore, in order not to unfavourably prejudice obtaining tender prices for projects which could lead to the States paying more than necessary, this States Report does not include the estimated cost for individual projects at this stage.**

SCORING PROCESS OUTPUTS

28. There are ten projects at a total indicative cost of £45-55million which are considered to be Category A - projects which need to proceed as a result of the need to maintain critical service delivery, (the project outlines for these are included in Appendix B) and where funding is requested from the Capital Reserve:

[1] Optimism bias influences forecasts in policy, planning, and management. The costs and completion times of planned decisions tend to be underestimated and the benefits overestimated as a result of optimism bias and therefore a contingency to offset this is often applied to projects at their early stages of development.

Category A	Department	Delegated[2]
Replacement Fisheries Protection Vessel	C&E	Yes
Replacement and upgrade of Sterile Services facilities and equipment	HSSD	Yes
Replacement Radiology equipment	HSSD	Yes
Replacement Island-wide Public safety CCTV and security systems	Home	Yes
Alderney Airport runway rehabilitation	PSD	Yes
Belle Greve Wastewater Outfall	PSD	No
Recapitalisation of Cabernet Ltd	T&R	No
Replacement Cremator and Emissions Equipment and associated building works	T&R	Yes
Replacement corporate ICT Data Centre infrastructure	T&R	Yes
Replacement Income Tax Electronic Document and Records Management System	T&R	Yes

29. There are nine Category B projects with an indicative value currently totalling £155-165million which scored a minimum of 75%, where funding has been requested from the Capital Reserve:

Category B (listed by score)	Department	Delegated
College of Further Education site rationalisation	Education	No
Replacement contributions system	SSD & T&R	No
Strategic Improvement of Coastal Defences	Environment	No
Deep Water Berth investigations	PSD	No
Rebuilding of La Mare de Carteret Schools	Education	No
Strategic Asset Management Plan – Phase 1	PC & T&R	No
Strategic Asset Management Plan – Centralisation of HSSD Community Services onto one site	PC & T&R	No
Replacement Bus Fleet - phase 1	Environment	Yes
Strategic Asset Management Plan - Rationalisation of property	Home	No

30. The Treasury and Resources Department has made an allowance for the above projects and added an allowance for inflation, variations in budgeted costs, and portfolio management expenses. It has also made a small allowance for any unanticipated projects (emergency or strategic opportunities) to ensure that there

[2] Meets current criteria for T&R to use delegated authority

is flexibility within the Portfolio to deal with matters which are currently not planned. It is therefore estimated that, if the Category A and Category B projects progress, the Capital Reserve would be required to provide funding in the order of £225million.

31. It is not recommended that the following Category C projects totalling £50-60million are progressed during the period 2014 – 2017 unless their circumstances change substantially or they can be accommodated as a result of the budgeted value of Category A or B projects changing or being delayed or removed:

Category C (listed by score)	**Department**	**Delegated**
Commercial Solar Photovoltaic project	C&E	No
Bus Depot	Environment	No
Re-profiling of PEH wards and departments	HSSD	No
Police and criminal justice ICT development	Home	No
Transport infrastructure	Environment	No
Major refurbishment of Grammar School	Education	No
Roman Ship and Maritime Centre display	C&L	No
Ladies College redevelopment Phase III	Education	No
Off road manoeuvring area	Environment	No
Rebuilding and repointing of boundary walls	Environment	Yes
Motorcyclists compulsory basic training area	Environment	No
Surfacing of coastal car parks	Environment	Yes
Study Centre at Priaulx Library	Education	No

32. Although it is not recommended that the Category C projects are progressed during the period covered by this capital prioritisation process, it is recognised that the requirement for these projects to be undertaken will likely remain and that funding for them will be requested as part of the next capital prioritisation process at which time their relative priority may change.

33. In addition to the projects funded from the Capital Reserve, the following projects are also planned, directly funded either from fees and charges raised by the entity responsible for the provision of the service, from reserves currently held or potentially through loans. These have an indicative value of £100-110million:

Category D	Department	Entity
Housing Stock Modernisation Programme	Housing	Corporate Housing Programme Fund
Housing Development Programme	Housing	Corporate Housing Programme Fund
Water Resource	PSD	Guernsey Water
Water Treatment	PSD	Guernsey Water
Water Distribution	PSD	Guernsey Water
Sewerage	PSD	Guernsey Water
Airport – Equipment	PSD	Ports
Harbours – Commercial Operations	PSD	Ports
Harbours – Fish Quay refurbishment and enhancement	PSD	Ports
Harbours – Master Plan implementation	PSD	Ports
Harbours – Leisure	PSD	Ports
Harbours – Marinas	PSD	Ports
Harbours – Safety at Sea	PSD	Ports
Waste Strategy[3]	PSD	

MANAGING THE CAPITAL INVESTMENT PORTFOLIO

34. 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 inter-dependencies. Hence the proposal to embrace them into a portfolio – that collection of projects now being called a States Capital Investment Portfolio. **However, Departments will remain responsible for the delivery of projects, managed through the best practice mechanism of a Project Board structure.** The underlying idea behind this is not to 'take over' individual projects; rather for Treasury and Resources to have a duty to monitor the whole portfolio of capital spending and work with all Departments to ensure the successful conclusion and most cost effective delivery of the whole programme.

35. Past experience has been that, for a large number of projects, they have not proceeded in accordance with the original plans anticipated in the Capital Prioritisation States Report and therefore the benefits to both the States and local industry, in terms of both the management of human and financial resources and of a planned and consistent programme of projects, may not have been achieved. For example, of the existing Capital Programme projects, four have not been

[3] Already given States approval in principle.

undertaken at all with only three of those having re-submitted proposals for Capital Reserve funding; a further two have not yet commenced delivery; one has only been part delivered within the original allocation; and four have experienced slippage of in excess of a year. A total of £177million is now forecast to be spent, versus the original allocation of £216million meaning that £39million could have been used in a different way.

36. Projects can fail to deliver as planned in respect of time, cost and quality for numerous reasons. States capital projects are frequently large scale, innovative and reliant on complex relationships between diverse stakeholders which mean that delays and slippage are likely to continue to occur. An enhanced control environment with proportionate scrutiny and assurance deployed at the right times is a sensible way of reducing financial risk, increasing the delivery of value for money and being able to maintain flexibility to substitute or accelerate projects as required.

37. Therefore, in order to co-ordinate the totality of the capital programme, the Treasury and Resources Department proposes, subject to States approval, to establish a States Capital Investment Portfolio which it would manage to achieve a more unified and consistent approach across the States in delivering capital investment. This would allow a more strategic approach to be taken to managing the programme of capital projects and, importantly, enhance and demonstrate value for money.

38. This is being proposed as an evolution to our process and in order to build on the lessons learned from the previous programme with a view to managing the *entirety* of the Capital Reserve investment in a more coherent and co-ordinated way. The *individual* project management structures, already tried and tested, must be retained but may be capable of improvement. However, the key difference would be the Department actively monitoring the whole portfolio with the key benefits being:

- Governance

  An efficient and effective scrutiny and assurance process will provide an independent assessment of whether the elements fundamental to successful project delivery are in place and operating correctly. Information will be provided to Departments and those that sponsor, govern and manage a project to make informed decisions, promote the conditions for success and put in place a disciplined project delivery mechanism. This will be with a view to developing the structures already in place now.

- Planning

  By master planning the portfolio as a whole there will be some opportunities to reduce overheads, identify and exploit shared project benefits (e.g. combined procurement, the sharing of resources to deliver

similar projects, temporary facilities), as well as opportunities for combined solutions, creating a central consultant framework to engage appropriate consultancy expertise, and fostering greater shared use of lessons learnt.

- Programming

  By working with Departments and Project Boards to phase approaches to the market as far as possible, to ensure States projects avoid peaks in on-island activities – e.g. to avoid simultaneous planning applications or tendering of large public works to a small number of contractors at the same time. These specific capacity issues could otherwise lead to delays or increases in project costs.

  This should also enable the capital portfolio to be accelerated or decelerated to suit peaks in construction activity.

  Finally, overall programming should inform decisions about priorities and plans by identifying necessary funding requirements to deliver the portfolio which would avoid costs arising from re-phasing or delaying projects.

- Funding and Value for Money

  Option appraisals will be enhanced and improved to ensure that the most suitable projects are progressed to deliver their stated aims. This should also help provide better information about costs, timescales and intended benefits at the early stages of projects, which will help give more clarity about value for money.

  This approach would also allow for the tracking of programmes and budgets as they are developed by the individual Departments so as to regularly assess the affordability of the capital portfolio and provide the opportunity for projects to be brought into the portfolio should the funding requirements allow it – e.g. due to savings or delays;

- Reporting

  Tracking project performance against timetable and budgets once contracts are awarded will provide greater transparency and oversight to the States on portfolio progress, cash flow and outcomes.

39. The Treasury and Resources Department would provide oversight for the States Capital Investment Portfolio. It would produce regular updates (anticipated to be on at least an annual basis) for the States on project progress and changes in the timing of projects. It would provide guidance and assistance to Departments in

the planning of projects, progression through Gateway Reviews and the preparation of States Reports.

40. It is intended that projects in Categories A and B are classified as pipeline projects. This means that further work will need to be undertaken to develop each project's specification and its costs in more detail following a rigorous option appraisal. (An option appraisal is a technique for setting objectives, creating and reviewing options and analysing their relative costs and benefits. It is an important step in helping to develop a value for money solution that meets the stated objectives of the project.)

41. In the case of Category A projects, there would also be an immediate requirement to confirm their status as preferred projects due to continuing service delivery reasons, i.e. that they are in fact 'must do' projects.

42. It is intended that, each pipeline project would progress through an initial Gateway Review process and then (unless the Treasury and Resources Department intends to use its delegated authority '*to approve capital votes for straightforward replacements'*), a States Report would be submitted which would fully detail its scope. The States would be asked to approve the project progressing, with delegated authority being given to the Treasury and Resources Department to accept tenders and open a capital vote, unless the States directs that a further States Report is submitted. It is at that stage that the project would be considered to be within the States Capital Investment Portfolio.

43. The Treasury and Resources Department has delegated authority to approve capital votes for expenditure on progressing to tender stage those projects that have been included in the capital portfolio, funded by transfers from the Capital Reserve. It is recommended that this delegated authority is extended to cover all costs incurred up to the request for a capital vote for the substantive project.

44. In respect of projects classified as Category D, it is intended, whilst fully recognising the commercial environment in which these entities operate (including, in some cases, having unlimited delegated authority to open capital votes), that in order to give appropriate assurance as to their governance and value for money, these projects should follow the same Gateway process and be admitted into the States Capital Investment Portfolio at the appropriate time.

NEXT STEPS

45. The Treasury and Resources Department intends to review and, where appropriate, revise existing processes (such as the Gateway Review process) and will issue guidance on the next steps to be undertaken in developing the pipeline capital projects. It will work closely with Departments in order to review and refine the specification and scope of projects within the pipeline in order to obtain more certainty as to their alignment with States strategic policy objectives,

viability of favoured options, likelihood of successful completion, cost and timing. It is fully recognised that these processes need to be proportionate and facilitate achievement of successful projects.

46. Following the 2014 Budget debate which should set out an anticipated funding profile for the 2014-2017 appropriations to the Capital Reserve (as set out in paragraphs 59 - 61 below), a timetable for the States Capital Investment Portfolio would then be developed based on the optimum delivery model taking into account the availability of funding and the impact on the local construction industry.

47. The Treasury and Resources Department intends to submit a States Report, for consideration before the end of the second quarter of 2014, to request States approval of the Capital Reserve funded States Capital Investment Portfolio (revised if necessary due to availability of funding) along with a timetable for its delivery. The States Report would also set out, in detail, the recommended framework for the planning and delivery of capital projects through the States Capital Investment Portfolio including the governance and financial approval arrangements for projects not funded from the Capital Reserve (Category D projects).

48. Milestones for the development of the States Capital Investment Portfolio are shown below:

24 September 2013	Capital Prioritisation States Report debate
October 2013	Guidance issued to Departments on next steps for pipeline projects
30 October 2013	Budget Debate
October 2013 – January 2014	Work with Departments to develop pipeline projects
Q2 2014	States Capital Investment Portfolio States Report
Q2 2014	Personal Tax, Pension and Benefits Review Report
2014	Projects develop Strategic Business Case, undertake Gateway 1 Review and then seek States approval to continue
Q3/Q4 2014	Annual States Capital Investment Portfolio Report
29 October 2014	Budget Debate

49. It would be the intention of the Department to firm up the next stages of the process in the States Report proposed for consideration by the end of the second quarter of 2014.

CAPITAL RESERVE POSITION

50. In 2009, the States resolved that the 2009 – 2013 capital programme would be funded by:

- The additional operating surplus for 2008 of £22 million,
- Appropriations from General Revenue in the years 2009, 2010, 2011, 2012, 2013 and 2014;
- The operating surplus before depreciation of the Ports Holding Account from 2010;
- An additional surplus from the Ports Holding Account from 2011 of £1.775million per annum at 2009 values (adjusted and maintained in real terms) [4];
- Receipts from property sales and investment income.

[4] In March 2011, the States considered a Report entitled *"Raising Income at the Airport and Harbours"* from the Public Services Department (Billet d'État IV) and resolved that, instead of the Ports Holding Account providing an additional surplus of £1.775million per annum at 2009 values (adjusted and maintained in real terms), the Treasury and Resources Department was directed to *"establish the optimum mechanism, excluding external borrowing, for increasing the capital reserve by a further £1.88m (at 2011 values) per annum"*. As part of the 2012 Budget Report, the States approved that the annual transfer from General Revenue to the Capital Reserve be increased by £2million with a corresponding reduction in the amount available to be allocated as Cash Limits.

51. The following table shows the anticipated balance of the Capital Reserve at the end of 2014:

	£'000	£'000
Balance at 1 January 2009		42,000
Additional 2008 surplus		22,000
General Revenue Appropriations		
2009	20,000	
2010	20,600	
2011	21,300	
2012	23,850	
2013	24,550	
2014 (estimated[5])	25,300	
		135,600
Ports Holding Account surpluses (2010 – 2013)		15,000
Investment Return		14,000
Guernsey Post Limited buy-back of shares		8,500
Other (Property Sales, underspends / returns from previously opened capital votes, etc.)		6,500
2009 – 2013 Capital Programme		(176,600)
Anticipated Unallocated Balance at 31 December 2014		**67,000**

52. It was previously estimated that approximately £21million would remain unallocated within the Capital Reserve at the end of 2014 to be used towards funding the 2014 – 2017 capital programme.

53. However, this is now estimated to be £67million, an increase of £46million mainly due to:

£16million - some projects not commencing (Cabernet Limited Recapitalisation, Social Security / Income Tax IT System, part of the Belle Greve Waste Water Disposal Facility and Sarnia Workboat) and have now been submitted for consideration as part of the 2014 – 2017 capital prioritisation process;

- £6million – the Home for Adults with a Learning Disability Project to be

[5] The States approved an appropriation of £24.55m to the Capital Reserve in 2013. Assuming that the same level of appropriation is maintained in real terms, the Treasury and Resources Department will be recommending an appropriation of £25.3million in 2014, assuming current inflation levels.

delivered through an alternative approach and St Peter Port Harbour Pontoons funded through the Ports' routine capital expenditure;

- £16million - the overall existing capital programme is estimated to cost less than anticipated, largely due to the full inflation and contingency allowance not being required;

- £8.5million[6] – additional funding from the buy-back of shares by Guernsey Post Limited.

FUNDING MECHANISM

54. If transfers from General Revenue to the Capital Reserve continue at the current rate up to the end of 2017, estimated funding of £155million would be available for the States Capital Investment Portfolio in respect of projects to be funded from the Capital Reserve (i.e. excluding Category D projects):

	£'000	**£'000**
Balance at 1 January 2015		67,000
General Revenue Appropriations:		
2015	26,000	
2016	26,800	
2017	27,700	
		80,500
Other Income (incl. property sales and investment return)		7,500
Total estimated funding up to 31 December 2017		**155,000**

55. There is therefore currently a funding shortfall of approximately £70million on the estimated total cost of £225million of projects categorised as A or B.

56. Funding the shortfall of £70million by increasing the appropriation from General Revenue would require an additional £17million per annum over the four year period 2014 – 2017. The following table shows the effect of this on the balance of the Contingency Reserve – Tax Strategy after allowing for forecast investment returns. This is based on the 2013 budget deficit of £13m (before the one-off transfer to the Strategic Development Fund). It assumes that the remainder of the FTP target is attained in 2014 and all other income and expenditure remains at 2013 levels (i.e. there is no change in real terms):

[6] This comprises £5m paid at the beginning of 2013 and a further buy back of £3.5m scheduled for the end of the year.

	2013	2014	2015	2016	2017
	£m	£m	£m	£m	£m
Income	372	372	372	372	372
Expenditure	(348)	(348)	(348)	(348)	(348)
Balance of FTP	-	10	10	10	10
Revenue Surplus	24	34	34	34	34
Routine Capital	(13)	(13)	(13)	(13)	(13)
	11	21	21	21	21
Capital Reserve	(25)	(42)	(42)	(42)	(42)
Deficit	**(13)**[7]	**(21)**	**(21)**	**(21)**	**(21)**
Balance on Contingency Reserve – Tax Strategy	***66***	***49***	***31***	***12***	***(9)***

57. Whilst the 2014-2017 States Capital Investment Portfolio can be largely funded by an increased appropriation to the Capital Reserve from the Contingency Reserve – Tax Strategy, this is not sustainable in the long-term. This is only possible in the short term while there is a balance remaining in the Contingency Reserve – Tax Strategy and because of the unallocated balance on the Capital Reserve. In order to fund future capital requirements at this level, further measures to increase income or reduce expenditure would be required in order to eliminate the structural deficit.

58. One option to fund the current gap would be through borrowing. It may seem attractive to fund the £70million gap through a loan repayable over 20 years which would cost approximately £5million per annum. However, it is not recommended that the States considers this next four-year period in isolation but rather that a long term view must be taken when considering capital investment. Over the long term, the cost of funding capital investment through annual appropriations or through the servicing and repayment of loans is more or less the same.

59. In addition to the need to take a long term view on capital funding, the Treasury and Resources Department does not consider that funding the capital portfolio can be considered in isolation, but should form part of the overall States budget deliberations. The States financial position is presently in deficit and experiencing a high level of uncertainty, particularly in respect of expenditure, with current and future cost pressures in several areas including those resulting from economic conditions and demographic change.

[7] Rounded

60. The financial position will be updated in the 2014 Budget Report and, inter alia, will include the effect of any initial proposed changes arising from the Personal Tax, Pension and Benefits review. It will be necessary to balance a number of issues in order to recommend the optimum budget for the Bailiwick including:

- Elimination of the deficit;
- Potential to raise additional income;
- Potential for further real terms reduction in expenditure;
- Ensuring the Contingency Reserve – Tax Strategy is sufficient to fund the deficit until budget balance is achieved.

61. **Therefore, notwithstanding the recommendation in this Report that some £225million of new projects are funded from the Capital Reserve in 2014 – 2017, the alternatives for funding this level of investment may simply not be possible, desirable or acceptable to the States of Deliberation. This will be considered further as part of the 2014 Budget Report which will include a recommendation on the 2014 appropriation to the Capital Reserve and indications on the 2015-2017 appropriations to fund the capital portfolio.**

OTHER MATTERS

Fiscal Policy Framework

62. The Fiscal Policy Framework approved by the States in July 2009 (Billet d'État XVIII) provides *"that the assumed 'norm' for permanent capital expenditure to be 3.0% of gross domestic product"*. This equates to approximately £60million per annum and would be achieved wholly from General Revenue by the recommended capital programme funded from the Capital Reserve of £225million over four years (averaging £56million per annum) and routine capital allocations of at least £7million per annum.

63. Against this background, it is recommended that the Policy Council is asked to clarify whether capital investment through the Corporate Housing Programme Fund, Social Security Funds or by the trading entities (Ports, Guernsey Water, Dairy, and States Works) should also be taken into account when assessing compliance with the Fiscal Policy Framework or whether the Fiscal Policy Framework target itself needs to be amended.

64. The draft Island Infrastructure Plan, which is currently subject to consultation across States Departments, predicts an infrastructure investment requirement of £1.5-£1.9billion over 20 years (averaging £75-£95million per annum). This includes all infrastructure provided through entities which are either owned or

significantly underwritten by the States in addition to General Revenue funded projects and is therefore not directly comparable with the numbers in this report.

Link to Government Service Plan

65. The States' revenue and capital planning is currently undertaken separately. This report seeks to align the capital funding requirements identified through the capital prioritisation process with the overall General Revenue budgeting process by recommending that funding the States Capital Investment Portfolio be considered alongside all other funding requirements through the Annual Budget Report.

66. The 'Developing a Government Service Plan' report (Billet D'État XV, 2013) stated that one of the aims of the Government Service Plan was to "*integrate capital and revenue planning which are currently undertaken in a disjointed fashion*." While it is possible to continue to conduct a separate planning process for capital and revenue, the Treasury and Resources Department supports the Policy Council's recommendation that all planning is done through one mechanism and that this should be the Government Service Plan.

Routine Capital

67. As approved in the 2008 Budget Report, all States Departments have delegated authority to *"Approve capital votes up to £250,000"* if they have funding available in their routine capital allocation. In addition, the Treasury and Resources Departments has delegated authority to approve, without financial limit *"Capital votes for straightforward replacements"* either funded from routine capital allocations or the Capital Reserve.

68. As part of the annual budget process, Departments submit requests for additional routine capital allocation for the following financial year. The Treasury and Resources Department assesses all requests and the Budget Report includes recommended Departmental routine capital allocations. In addition, the Budget Reserve includes an additional allowance to permit transfers to Departments' routine capital allocations in recognition that there are a number of capital projects where their timing or cost is not known with any degree of certainty when budget planning is undertaken.

69. For 2013, additional Departmental routine capital allocations totalling £4.5million were approved, plus provision of £2.5million within the Budget Reserve. In addition, Departments carried forward £7.3million of routine capital allocations from previous years which had not yet been allocated to projects (mainly due to timing delays).

70. It is recommended that the Treasury and Resources Department be given delegated authority to approve all capital votes, without financial limit, for projects funded from routine capital allocations.

71. The Treasury and Resources Department has undertaken condition surveys on buildings that the States are responsible for maintaining, including protected buildings and monuments. A sizeable backlog of maintenance liabilities has been identified and it is intended that this will be managed through the routine capital allocation process although, in future years, funding may be required from the Capital Reserve.

Ports

72. As part of the 2009-2013 capital programme funding model, the States agreed that *"the operating surplus before depreciation shall be transferred to the Capital Reserve from the Ports Holding Account from 2010 until such time as the Ports Holding Account may be discontinued."* The surpluses transferred were £2.64million in 2010, £3.84million in 2011 and £4.12million in 2012.

73. In March 2012 (Billet d'État V, 2012), the States agreed that the Public Services Department should conduct further detailed investigation into, and consultation concerning, the option to establish a Guernsey Airport States Trading Company and a Guernsey Harbours States Trading Company. It is understood that the Public Services Department will shortly be submitting a Report to the States concerning the future trading status of the Ports and Guernsey Water.

74. Therefore, pending the submission of the States Report concerning the possible establishment of States Trading Companies, it is recommended that, since forecasts suggest the balance on the Ports Holding Account will be exhausted shortly, as an interim measure, from 2014, the operating surpluses before depreciation of the Ports Holding Account are retained to fund capital expenditure of the Ports. The Public Services Department will fund its capital programme within available resources in the Ports Holding Account with any shortfall being met either by improving the trading position (increasing income or reducing expenditure) or reprioritising projects. The only exception to this is the strategic project of Deep Water Berth investigations which, if progressed, is recommended should be funded from the Capital Reserve.

Cabernet Limited

75. In 2009, the States agreed to include the recapitalisation of Cabernet Ltd within the Capital Programme. At the time, the estimated cost was £6million. However, following an amendment to the funding model for this programme, the States subsequently agreed to defer the recapitalisation until the first quarter of 2014. In doing so, the States noted that the Company would continue to operate through debt financing, which would result in a need to continue increasing the size of the

facilities available to it. Cabernet Ltd has a £10million loan and overdraft facility from a local financial institution and the latest cash flow projection is that this will be fully utilised during September 2013.

76. Against the above background, the Treasury and Resources Department had intended to submit a Report to the States towards the end of 2013 with proposals for the recapitalisation of the airline. It was the Department's intention that this Report would also examine the objectives that should be set for the airline, a review of routes and requirements for aircraft replacements and the future funding arrangements for the airline.

77. However, following the announcement that Flybe is to withdraw its services to Gatwick Airport, Aurigny has been focused on planning an expansion of its services on this strategically important route. This is a potentially very significant opportunity for the airline, which would have considerable implications for its future.

78. The Department is therefore unlikely to be in a position to submit its aforementioned Report to the States on the longer-term arrangements for the airline and its recapitalisation until the early part of 2014. Therefore, it is recommended that, pending States consideration of a recapitalisation proposal, Cabernet Limited is authorised to borrow from the States General Investment Pool to fund its operating expenses.

PRINCIPLES OF GOOD GOVERNANCE

79. In preparing this Report, the Department has been mindful of the States Resolution to adopt the six core principles of good governance as defined by the UK Independent Commission on Good Governance in Public Services (Billet d'État IV of 2011). The Department believes that all of the proposals in this Report comply with those principles.

RECOMMENDATIONS

80. The States are asked to:

a) Approve that Category A and B projects, as detailed in this Report, are classified as pipeline projects for Capital Reserve funding and direct that further work be undertaken by Departments to develop each project's specifications, following an option appraisal, and refine their costs.

b) Approve the establishment of a States Capital Investment Portfolio as set out in paragraphs 34 - 44 of this States Report and direct the Treasury and Resources Department to submit a States Report, for consideration during the second quarter of 2014 as set out in paragraph 47.

c) Authorise the Treasury and Resources Department to approve expenditure on progressing to capital vote request stage those projects that have been categorised as pipeline projects funded from the Capital Reserve.

d) Direct the Treasury and Resources Department to include, within the 2014 Budget Report, a recommendation as to the 2014 appropriation to the Capital Reserve and indications as to the 2015-2017 appropriations to fund the States Capital Investment Portfolio.

e) Direct the Policy Council to consider and determine whether capital investment through the Corporate Housing Programme Fund or by the trading entities (Ports, Guernsey Water, Dairy, States Works, Social Security Funds) should be taken into account when assessing compliance with *"… the assumed 'norm' for permanent capital expenditure to be 3.0% of gross domestic product…"* in the Fiscal Policy Framework.

f) Delegate authority to the Treasury and Resources Department to approve capital votes, without financial limit, for projects funded from routine capital allocations.

g) Agree that from 2014, the operating surpluses before depreciation of the Ports Holding Account are retained to fund capital expenditure of the Ports as an interim measure as per paragraph 74 of this report.

h) Authorise Cabernet Limited to borrow on a short-term basis from the States General Investment Pool until such time that the Treasury and Resources Department has reported to the States with proposals for the recapitalisation of and future funding arrangements for the company in 2014.

Yours faithfully

G. A. St Pier
Minister

J Kuttelwascher	A H Adam	R A Perrot	A Spruce
Deputy Minister	Member	Member	Member

APPENDIX A

Education Department – College of Further Education Phase 2b "Les Ozouets Campus"	
Project Update: All the facility sections were in use for September 2012 and currently are progressing through the twelve month defect liability periods for each section. The current estimate is a total predicted saving of £800,000 to be returned to the Capital Reserve	
Capital Programme Estimate	£2,700,000
Capital Vote Approved (Billet d'État XIII, 27 July 2011) Capital Reserve funding £2,800,000 Education EDP1 Routine Capital Allocation funding £900,000 Total Project Budget £3,700,000	£2,800,000
Current Estimate	£2,000,000
Education Department – Les Beaucamps School	
Project Update: The main school was in use from September 2012 and the sports facilities are due for completion at the end of 2013 with commissioning and handover in the first quarter of 2014. No significant savings are anticipated.	
Capital Programme Estimate	£38,100,000
Capital Votes Approved (Billet d'État XXIII, 24 November 2010) Les Beaucamps High School £36,800,000 Education Development Plan Programme One Project Implementation Costs * £1,950,000	£38,750,000
Current Estimate	£38,750,000
*A balance of £1,600,000 of the Education Development Plan Programme One project costs from 2010 to 2015 has subsequently been returned to the Capital Reserve.	
Environment Department – Cobo Bay Bunker / Sea Wall Repair	
Project Update: This project was completed at the end of 2012 with no outstanding financial liabilities.	
Capital Programme Estimate	£290,000
Capital Vote Approved (Treasury and Resources Department, 31 March 2009)	£290,000
Current Estimate	£214,000

Health and Social Services Department – Adult Acute Mental Health Facilities	
Project Update: The contract for the construction of the new Mental Health and Wellbeing Centre was signed in May. Work is now well underway with a projected completion date of the end of 2014, as per the contract schedule.	
Capital Programme Estimate	£25,420,000
Capital Vote Approved (Billet d'État III, 27 February 2013)	£24,000,000
Current Estimate	£24,000,000
Health and Social Services Department – Homes for Adults with a Learning Disability	
Project Update: Discussions are being held with the Housing Department and the Guernsey Housing Association to agree an alternative approach to the development of this project.	
Capital Programme Estimate	£5,600,000
Home Department – eBorders, eCustoms and Passport IT system	
Project Update: The Next Generation Passport System (Project Gipsy2) is currently in negotiation with the Foreign and Common Wealth Office Services by all Crown Dependencies and Gibraltar. Expected go live date is early 2015. The eCustoms is at the early stages of being ready for the gateway review process and the expected commencement date is the 4th quarter 2013. There is to be no expenditure in relation to further eborders within this project as the UK Government has slowed progress in this matter and actions taken here are directly related to UK progress.	
Capital Programme Estimate	£1,000,000
Current Estimate	£1,000,000
Home – Police core IT system	
Project Update: The project proposal is at Gateway 3 stage and a States Report is to be submitted for debate at the September 2013 States Meeting.	
Capital Programme Estimate	£1,200,000
Current Estimate	£1,500,000

Home Department – Tetra Radio	
Project Update: This project is in the final stages of completion. The main radio system went live on 30 March 2011. There has been some delay on the final stage for the voice recording system which is integrated with the new telephone system.	
Capital Programme Estimate	£1,800,000
Capital Vote Approved (Treasury and Resources Department, 17 August 2010)	£1,800,000
Current Estimate	£1,800,000
Public Services Department – Belle Greve Wastewater Disposal Facility	
Project Update: Phase V - The project is progressing on time and on budget with no unexpected significant risks or issues materialising. Handover occurred in August 2013 and the facility is now operational. Phase IVb (Long Sea Outfall Refurbishment) has not been progressed under this item and hence a bid has been submitted for the 2014 – 2017 Capital Prioritisation process. (estimated cost is £15 million, see Appendix B)	
Capital Programme Estimate (Phases IVb and V)	£15,500,000
Capital Vote Approved Phase V, only (Billet d'État XXI, 15 December 2011)	£11,030,000
Current Estimate (Phase V)	£11,030,000
Ports – Airport Pavements	
Project Update: The project is progressing on time and on budget with no unexpected significant risks or issues materialising. Completion is expected in the second quarter of 2014 as planned.	
Capital Programme Estimate	£81,000,000
Capital Vote Approved (Billet d'État No XIII, 28 July 2011) Capital Reserve funding £78,200,000 Ports Holding Account funding £2,200,000 Total Project Budget £80,400,000	£78,200,000
Current Estimate	£77,500,000

Ports – Airport Radar	
Project Update: The radar was commissioned in July 2013 and the project is within programme and budget.	
Capital Programme Estimate	£3,500,000
Capital Vote Approved (Billet d'État No XXI, 15 December 2011)	£3,250,000
Current Estimate	£3,250,000
Ports – St Peter Port Harbour Crane Strategy	
Project Update: This project remains on time and on budget.	
Capital Programme Estimate	£10,000,000
Capital Vote Approved (Billet d'État No IV, 22 February 2012)	£13,675,000
Current Estimate	£13,600,000
St Peter Port Harbour Pontoons	
Project Update: This has been funded from Ports routine capital.	
Capital Programme Estimate	£1,000,000
Ports – Sarnia Work Boat	
Project Update: This project has not yet been progressed and hence a bid has been submitted for the 2014 – 2017 Capital Prioritisation process.	
Capital Programme Estimate	£1,000,000
Social Security / Income Tax IT System	
Project Update: This project has not yet been progressed and hence a bid has been submitted for the 2014 – 2017 Capital Prioritisation process.	
Capital Programme Estimate	£5,730,000

Treasury and Resources Department – Cabernet Limited Recapitalisation	
Project Update: This project has not yet been progressed and hence a bid has been submitted for the 2014 – 2017 Capital Prioritisation process.	
Capital Programme Estimate	£6,000,000
Treasury and Resources Department – Corporate Asset Management IT System	
Project Update: This project is now completed and was incorporated as part of the SAP STSC project.	
Capital Programme Estimate	£600,000
Capital Vote Approved (Billet d'État No XVII, 26 October 2011)	£840,000
Current Estimate	£840,000
Treasury and Resources Department – IT Wide Area Network	
Project Update: The Wide Area Network and Telephony project is already well advanced and continues to receive support from across States Departments.	
Capital Programme Estimate	£3,600,000
Capital Vote Approved (Billet d'État No III, 26 January 2012)	£1,090,000
Current Estimate	£1,090,000
TOTAL CURRENT ESTIMATE	**£176,574,000**

Appendix B

Summary of Proposals Submitted by Departments

Department	Proposals	Category
Commerce and Employment	Replacement Fisheries Protection Vessel	A
	Commercial Solar Photovoltaic Project	C
Culture and Leisure	Roman Ship and Maritime Centre Display	C
Education	College of Further Education Site Rationalisation	B
	Rebuilding of La Mare de Carteret Schools	B
	Major Refurbishment of Grammar School	C
	Ladies' College Redevelopment Phase III	C
	Study Centre at Priaulx Library	C
Environment	Strategic Improvement of Coastal Defences	B
	Replacement Bus Fleet – Phase 1	B
	Bus Depot	C
	Transport Infrastructure	C
	Off Road Manoeuvring Area	C
	Rebuilding and Repointing of Boundary Walls	C
	Motorcyclists Compulsory Basic Training Area	C
	Surfacing of Coastal Car Parks	C
Health and Social Services	Replacement and upgrade of Sterile Services facilities and equipment	A
	Replacement Radiology Equipment	A
	Re-Profiling of PEH Wards and Departments	C
Home	Replacement Island-Wide Public Safety CCTV and Security Systems	A
	Strategic Asset Management Plan - Rationalisation of Property	B
	Police and Criminal Justice ICT Development	C
Public Services	Alderney Airport Runway Rehabilitation	A
	Belle Greve Wastewater Outfall	A
	Deep Water Berth Investigations	B
Social Security and Treasury and Resources	Replacement Contributions System	B
Treasury and Resources	Recapitalisation of Cabernet Ltd.	A
	Replacement Cremator and Emissions Equipment and Associated Building Works	A
	Replacement Corporate ICT Data Centre Infrastructure	A
	Replacement Income Tax Electronic Document and Records Management System	A
Strategic Asset Management	Strategic Asset Management Plan – Phase 1	B
	Strategic Asset Management Plan – Centralisation of HSSD Community Services Onto One Site	B

Commerce and Employment: Replacement Fisheries Protection Vessel

The Commerce and Employment Sea Fisheries Section is responsible for operating and maintaining the Fisheries Protection Vessel Leopardess. As the vessel approaches the end of her 20 year working life, she is an expensive asset to maintain and the risk of significant equipment failure due to age with the associated substantial replace and repair costs increases annually.

It is anticipated a new vessel with a replacement rigid inflatable boat will give the States of Guernsey the most cost effective strategy offering long terms savings over the lifespan of the replacement vessel, manageable maintenance costs and service reliability.

Commerce and Employment: Commercial Solar Photovoltaic (CSPV) project

Guernsey Airport is well placed to benefit from an investment in a CSPV project. CSPV relies on using Solar Photovoltaic (PV) panels to convert light energy directly into electricity and is a proven commercial technology.

The potential of this project is at the airport an initial project of 500kW can provide electricity that can be utilised predominantly by the airport, which has the effect of a long term saving in costs on electricity, and providing insulation for the potential of electricity rate rises. In addition the project will help to reduce the carbon footprint of the Airport and be a flagship project for renewables in the island.

This ties in with the work that Commerce and Employment is undertaking, through the Renewable Energy Team, as part of the 2013 business case:

"Renewable Energy Team (RET) to develop and implement strategy to progress local macro renewable energy and work with CI authorities."

Culture and Leisure: Roman Ship and Maritime Centre Display

To put Guernsey's unique Roman ship on public display within a 'Maritime Centre' that includes other key objects from Guernsey's maritime past. This reinforces our identity as 'People of the Sea' and creates a new and exciting attraction for both visitors and locals. It forms a 'must see' attraction at a time when tourists are coming to the island for relatively short holidays and cruise ship passengers have only a few hours ashore. In consolidating some of Guernsey's museum galleries it will also enhance the long-term viability of the museum sector.

This is an 'empty box' plan, in that there is no presumption that the ship or the larger Maritime Centre will fit into any particular building. There have been the best part of two dozen proposals about where the ship could be located and there are a number of current proposals into which this project could fit. The logic of this approach is that the Department needs to be ready to take advantage of opportunities which arise to house the ship; if a suitable site is identified, but the Department then has to begin the capital bidding process,

the opportunity is likely to have been lost by the time the Department is in a position to deliver the project.

Education: College of Further Education Site Rationalisation

The aims of the proposal are:

- To further develop the College of Further Education Les Ozouets Campus in order for the College to move from three sites to two (in accordance with the long-term aim to move to one site), and thereby improve the efficiency of the College's operational delivery, in line with the financial transformation programme;
- To improve facilities for students of all ages at the College of Further Education and, in particular, to increase the ability of the College and the Island to offer vocational courses for 14-16 and improved facilities for apprenticeships that meet health and safety standards;
- To release land of strategic importance by vacating one of the College of Further Education's sites;
- To further move towards one tertiary institution in line with the Education Department's vision.

Education: Rebuilding of La Mare de Carteret schools

Aims and Scope of the Proposal

Until the completion of this project, the cohort of school pupils who attend La Mare de Carteret Schools will continue to be seriously disadvantaged against their peers.

- The educational facilities and condition of the buildings in which they are educated are poor and are no longer of equal standard with the other schools maintained by the Education Department.
- The schools are not able to provide the "equality of educational opportunity" which is a fundamental tenet of the Education Department's vision.
- The facilities are hindering the educational outcomes offered to these pupils
- Non-completion of the project will be contrary to the vision of the Education Board that "all learners should expect to spend their formative years in buildings with resources that enhance their learning experience, provide and encourage excellence in teaching and provide a safe and secure learning environment for all".
- The condition of the buildings is affecting the reputation of the schools
- Non-completion will be contrary to the instruction of the States in 2002 and to the expectation of successive Assemblies that the Education Development Plan Programme 1 (EDP1) will be delivered in accordance with the 2002 instruction.

The concept for this penultimate project in the EDP1 Programme is to use the site in accordance with the States Strategic Plan and the Strategic Land Use Plan to promote the development of local centres by providing community facilities and sports facilities with spectator access alongside educational facilities.

The brief, at its current feasibility stage, is to provide the following:

High School and Primary school facilities with possible nursery, sports, autistic spectrum and community centre facilities for families and the older generation.

Education: Grammar School – Major Refurbishment

The Grammar School building was constructed during the early 1980s and became operational as a school in July 1985. The Education Department has sought to follow an appropriate maintenance regime as best it can to support the continued effective and efficient use of the facilities. However, after nearly 30 years of operation the number and extent of areas of the building which now require attention are significant and sources of funding from revenue or routine capital are no longer sufficient or sustainable and the building is in need of a major refurbishment in order to ensure it remains operational and fit for purpose for at least the next 20 years.

This proposal outlines the major elements of the building fabric and services which require repair, replacement or upgrading in order to meet the current and anticipated future educational needs and learning strategies. The aim is to secure appropriate funding to enable the various works to be undertaken in a co-ordinated, efficient and cost-effective manner whilst seeking to minimise disruption to normal school activities.

The scope of the project applies predominantly to the main Grammar School building. It is not anticipated that any significant expenditure will be required on the recently-constructed Sixth Form Centre. However, limited works may be required within the Sixth Form Centre in order to ensure commonality or compatibility of building and communication systems across the whole site.

Education: The Ladies College Redevelopment – Phase 3

The building occupied by the Ladies College was built in 1962 by the States when the College was restructured under the 1962 Ladies College Law. From that time until 2005/6 the College operated under a deficit funding model which resulted in the College not being in a position to retain any surpluses, nor build up reserves for any replacement or upgrading of the buildings. Implicit in an arrangement which prohibited the College from building any capital reserves was an understanding that the States would fund such capital expenditure when required.

Since the initial build, the States has not made any investment into the buildings and all routine general maintenance has been undertaken by the College.

The change of funding arrangement during 2005 allowed the College to build capital reserves and the Board of Governors decided to proceed with a project to upgrade the College's facilities. Phases 1 and 2 have been completed.

Phases 3 is to continue to upgrade the facilities, in particular to re-clad and re-roof the main building, replace the port-a-cabin type huts with classrooms and a purpose built music centre, and build new canteen facilities, this will extend the buildings life making the College facilities serviceable for the next 30 years.

The fund-raising process has not started yet, the previous campaign, “a gift for learning” raised £1m and it is hopeful that this success can be repeated.

Education: Study Centre at the Priaulx Library

The Priaulx Library Council, in its developed strategy to extend access to the building (Candie House) and to improve the type and quality of services provided, seeks funding to construct a dual-purpose two-storey extension for the purposes of:

- Providing an unencumbered public space for educational, community and cultural purposes: visiting groups (children and adults), lectures, seminars, tours, etc., with accommodation for large groups of people. The public space to be as accessible as possible, and flexible in use, with the advantage of a high-specification IT infrastructure for digital provision and development. In addition, with access to an extension in the Library courtyard, the space would be available out of hours, or hired for that purpose, without compromising the security of the main library buildings, whilst providing an income stream
- Enlarging and improving the current limited environmentally controlled area for the extensive rare and valuable collections, and further storage for the large-format collections, to provide better conservation and therefore easier access to the collections for all library users.

The proposal to extend the building in this way arises out of the recognition that the aims and objectives of the Priaulx Library cannot be fully achieved without larger physical space and greater facilities. The Council, acknowledging that the collections and services of the Priaulx Library are analogous to those of a National Collection, due to the size, importance, scope and rarity of the collections, has used best practice from a number of notable libraries (particularly the British Library) to identify its aims, vital to maintaining relevance and high quality of service to all users.

The successful development of services to further the aims identified above depends largely on the size, structure and geography of Candie House – and eighteenth century town house, redeveloped and refitted in the 1880s. An extension to the building of the nature detailed would further the aims identified by providing space and facilities in a flexible, highly sustainable and cost-effective way.

Environment: Strategic Improvement of Coastal Defences

Guernsey’s island status and geography including its location and development of population and associated infrastructure near and around coastal margins has meant coastal defences have always been a fundamental consideration. With climate change come predicted increases in storm surge frequency as a result of rising sea levels and the need to ensure that the island’s sea defences meet increasingly onerous conditions on what are, in many cases, defences that were built 150 years or more ago. Many of the defences are a heterogeneous mix of fortifications, walls and other structures which have been added to over many decades and which were built to the standard of the time.

For these reasons flood risk from the sea is now regarded as the number 1 risk on strategic risk register

Following the publication of the Haskoning report in March 2007 on Guernsey's Coastal Defence Strategy a series of flood studies were done in 2011 which identified the need to strengthen, upgrade and enhance a number of key defences. The Flood Studies Report, published in 2012, identifies options for each key defence with a priority and broad time scale.

Environment: Bus replacement Phase I

An effective and efficient public bus service which delivers the policies and directions of the States requires certainty over continuity and reliability of service. Such certainty is dependent on provision of a reliable fleet that meets the needs of the required routes and service frequency. The current fleet is between 9 and 11 years old and major components are now failing on a regular basis. Engines are now 2 developments behind the latest European standards (CAT 5), the buses are considered too large for many of the routes that should be serviced including older peoples housing developments recently constructed, and are becoming substantially more expensive to service year on year (an increase in revenue costs of over 100% in the last 5 years).

It is acceptable industry practice to manage the age of the fleet rather than simply renew the whole fleet. This is achieved by part renewal, part refurbishment and part maintenance on a rolling basis.

This project seeks to provide an effective fleet and enable continuation and development of a public bus service through ensuring the essential key infrastructure is in place.

Environment: Bus Depot

An effective and efficient public bus service which delivers the policies and directions of the States requires certainty over continuity and reliability of service. Such certainty is dependent on provision of garaging, servicing, fuelling, cleaning and maintenance facilities. Fleet and driver scheduling including changing facilities, rest periods, training, cash handling etc is only effectively managed alongside the vehicle servicing and maintenance facilities. Any separation of these functions leads to inefficiency and escalating revenue costs. An operator unable to control their own servicing, garaging, fuelling etc will price in the additional risk and inefficiencies. Running empty buses from one service facility to another is extremely wasteful of assets as well as staff and revenue costs.

In the absence of a States controlled facility the current operator is engaged with 3 separate leases and outsources maintenance and engineering works. Lease periods are short and not aligned and hence long term certainty does not exist.

Any desire to enhance the fleet (smaller buses, electric buses, school buses) is currently prohibited due to the constraints imposed by the present inadequate and fragmented essential support facilities.

This proposal not only fits with departmental objectives, it also furthers the States' aims as set out in the draft Strategic Asset Management (SAM) Plan.

The overriding objective of the SAM Plan is "the efficient and cost-effective use of property to best enable and deliver services and Government functions in accordance with States' strategic objectives". Key principles to achieve this are to put corporate service delivery ahead of what may be more narrow departmental aims and to deliver common services from common locations. This proposal will help achieve the SAM objective by delivering services that are shaped to suit residents, from better locations. It will also enable the rationalisation of property so that leases can be terminated again in furtherance of strategic objectives.

Environment: Transport infrastructure

The States directed the preparation of a sustainable transport strategy. This is predicated on the hierarchy of walk-cycle – public transport – car share – car drive.

Delivering such a change requires incentives and disincentives and part of the mix is the provision of an effective alternative to the private motor vehicle. In particular cycle infrastructure including cycle lanes, bus lanes and park and ride, car sharing schemes, enhanced bus stops and bus information, safer walking routes, better traffic management, improved facilities for pedestrians and specifically disabled pedestrians and disabled public transport users are all probable elements of the transport infrastructure.

The one way and contraflow system around the new St Sampsons School has, despite initial resistance from residents, been a resounding success in delivering safer access and calming roads in the area. Expansion of these facilities to other schools is an essential part of reducing the effects of the morning "school run".

Further improvements to school bus service could also assist in this regard.

Environment: Off-road manoeuvring area

As part of the Driving Test for HGVs the Environment Department is required by law to provide for off-road manoeuvres. This is currently carried out adjacent to Le Murier School, along the access road to Fontaines Vinery, opposite St Sampson's Douzaine Room. Safety at the site has been a major concern for several years necessitating the closure of the main access road to Fontaines Vinery (opposite St Sampson's Douzaine Room) for a short period between the hours of 2.30pm and 3.30pm on weekday afternoons. This requirement to formally close the road during testing periods became a necessity following significant increases in vehicle movements in this area and increased risks to learner drivers and the instructors.

Under any normal circumstance the use of the site for these tests would cease but should the Department not keep its driving test standards in line with the UK and other European countries, then there is the probability that we could lose our reciprocal agreement to exchange licences. In addition HGV drivers would not be able to complete their tests resulting in inability to fully train ambulance, fire, police and other HGV drivers.

Environment: Rebuild and repointing of boundary walls

Several areas of land that the Department manages are bounded by walls including Saumarez Park, Candie Gardens and several other land parcels. Many of these walls act as retaining walls as well as forming an integral part of Guernsey's landscape and identity.

Several sites have been identified by the States Property Services condition survey as holding walls which require repointing, repair or in some case rebuild.

Environment: Compulsory Basic Training Area for Motorcyclists

For many years, the Environment Department had the use of playground areas at Les Beaucamps School for Compulsory Bike Training to be conducted. When the development work on the new school commenced at this site, the Department made an extensive search across all States owned land and could not find anything that was of the same suitable size or was available at the times it was required. The site also required toilet, small teaching facilities and an area where bikes could be left secure overnight. Eventually, the Department was forced to accept the use of a much smaller area at La Mare de Carteret School, which was not ideal because only 4 or 5 candidates could be accommodated on the site rather than the 10 or 12 at Les Beaucamps. Due to the small site, the candidate waiting list reached very high levels and significant criticism was received from GMTS, the motorcycle traders, candidates and their parents and in the media.

Environment: Coastal car parks – installation of year-round surfacing

The installation of heavy duty plastic cellular matting, filled with aggregate, to provide a durable, low maintenance surface at fifteen car parks: Bordeaux, Cobo/Saline, Cobo La Mare, Fort Doyle, Fort Hommet (Lower), Grande Havre, Grande Rocques, Jerbourg, Les Pequeries, Pembroke, Pleinmont, Rousse North and Fishermen and Saumarez Park (North).

The aim of the installation is to:

- significantly improve the surfaces at the busiest car parks to enable level and well drained conditions for car drivers and pedestrians all year round,
- reduce the risk of injury to pedestrians,
- reduce the risk of damage to vehicles,
- improve amenity and access to more coastal areas.

The car park surfaces are currently soft surfaced with rolled stone chippings or recycled road planings and are subject to damage in wet weather. During winter months a proportion of car parks are not fit for purpose. During summer months even with repair and maintenance car

parks will quickly degrade to an unsatisfactory condition in wet weather with attendant increase in risk of injury to pedestrians and risk of damage to vehicles. Local traders such as cafes and kiosks lose business due to poor car park conditions as drivers choose to avoid the damaged surfaces and visitors gain a poor impression of the Island's management of its most iconic tourist attractions.

Subject to the project's approval, detailed plans would be prepared by the Environment Department and submitted for planning consent.

HSSD: Sterile Services Department (SSD) & Theatres

Enabling Works – Temporary relocation of SSD whilst department being re-furbished

Phase 1 - Replace the existing washer disinfectors and autoclaves which were installed in mid 2000 and introduce a motorised handling system to meet current regulations and reduce work related injuries. The development will include the following:
• Provide adequate staff changing facilities,
• Improve storage facilities thus reducing damage to sterile equipment packaging,
• Upgrade general facilities to meet current regulations.
Phase 2 – Remove all asbestos residues in theatre void, followed by theatre upgrade & routine annual maintenance and replace windows. Note: should theatres need to be closed for longer than 3 weeks alternative facilities will need to be provided on the PEH site. This could involve mobile theatre units.

HSSD: Replacement Radiology Equipment

Straight forward replacement of medical imaging equipment (CT Scanner, MRI Scanner and Nuclear Medicine camera)

HSSD: PEH Re-Profiling of Existing Wards and Departments

This scheme must be consistent with the wider strategic context in which the service functions and provide opportunities to improve the strategic fit of the HSSD and the local community. Improved clinical quality is consistent with the HSSD aim to be a centre of excellence. The introduction of multi disciplinary clinics and multi–professional support clinics would promote multi-professional dialogue at all stages of treatment and care. The development should also meet the needs of Guernsey, which have already and still are being strongly demonstrated by the public's support of recent healthcare improvements.

Overall this would enable the hospital to develop in line with national standards and best practice and provide the most appropriate configuration of services.

Home: Island Wide Public Safety CCTV & Security Systems Replacement

The key strategic objective of the CCTV and Security Systems upgrade and replacement proposal is to bring the Island Wide Public safety CCTV systems up to date with CCTV technology and reduce the risks of this important tool failing to deliver the service required. It is intended that this project would replace existing analogue cameras and recorders with the latest digital HD/IP (High Definition/Internet Protocol) cameras and network video recording (NVR's) solutions.

The scope of this proposal will address the needs of the Guernsey Harbour Authority, Airport Authority, Guernsey Police, Guernsey Border Agency, Prison Service, Courts and Culture & Leisure. The proposal will also explore the feasibility of utilising dedicated wireless network links which will remove reliance on a third party network provider as well as reduce ongoing revenue of line rental. This approach has been successfully achieved in towns and cities in other jurisdictions.

The project objective is over a four year period starting in 2014, replacing all existing camera equipment with HD/IP cameras. This includes replacing storage and recorder technology and will be delivered in accordance with the CCTV Strategy.

Home: Property Rationalisation

The Home Department is currently located over a large number of sites, most of which are rented from the private sector at a total cost of over £500K per annum. The Department is seeking to remove this rental liability and to co-locate as many of its Services as possible (mainly Law Enforcement and Blue Light) at one States owned site. This will also result in significant operational efficiencies in the provision of support services and reduced running costs. The only Home Department Service considered to be out of project scope is the Guernsey Prison as to relocate this facility would be cost prohibitive and publicly unacceptable. Although not part of the Home Department, the Ambulance Service works very closely with the other Home Department Emergency Services and has indicated a desire to consider co-locating with them if feasible.

Aims/Project Objectives:

1. Reduce the rental paid by the Home Department to the private sector;
2. Maximise the use of States owned property;
3. Increase efficiencies by sharing support services;
4. Co-locate services that have a commonality;
5. Achieve a saving of at least £900k per annum;
6. Achieve a solution that has flexibility to incorporate future changes in working methods

Home: Police and Criminal Justice ICT development

Since 1992, Guernsey Police's operational and support activities have been underpinned by a central IT system - "Linkworks". In 2009, it was identified that the system had reached end of life and the current support and maintenance arrangements left the organisation, and

potentially the wider criminal justice system, at considerable risk. Following a successful Capital Prioritisation Request, a replacement project was commenced - Project LiSR1 with clear objectives to:-

- Secure efficiencies;
- Maximise resilience;
- Achieve value for money; and
- Provide an improved quality of service.

In 2012, it was decided, as part of the Home Department FTP workstream to develop a JESCR to accommodate the Bailiwick's Blue Light Services and Coastguard with the following objectives:-

- To consolidate existing Emergency Service Control Rooms into one;
- To introduce a single Command & Control system;
- To improve Emergency Service inter-operability;
- To utilise all Emergency Service resources in the most efficient and cost effective manner,
- To provide a foundation for future cost avoidance and income generation opportunities.

This proposal incorporates the costs of:-

- Interface scoping & design
- Procurement of all hardware and associated training
- Infrastructure & storage requirements
- Programming & implementation
- Project Management

PSD: Alderney Airport – Runway Rehabilitation

Following recent CAA audit reports, an engineering inspection was undertaken on the three runways at Alderney Airport. This indentified a number of solutions and scopes of work that would realise improvements in the vertical undulations and an existing propensity for water-logging on the two grass runways. In addition, the report identified issues with spalling of edges on the asphalt runway and proposals to deal with this have been identified. PSD has approved two packages of work which are being costed by Mott Macdonald. The work would realise the installation of improved groundwater drainage on up to two grass runways, with re-grading and re-seeding of those runways and a second package of work to relay the edges and improve drainage on the existing asphalt runway.

PSD: Belle Greve Wastewater Outfalls

Guernsey is totally reliant on the Belle Greve Wastewater Centre (BG Centre) for screening, grit removal, storm storage and disposal of virtually all of its liquid (sewage) waste from the Island (this will increase to 100% once the Fort George outfall is intercepted and diverted into the BG Centre catchment).

As part of the assessment of the proposals that concluded the approval of this scope and rejection of the full sewage treatment option, it was deemed essential that adequate treatment and dispersal of flows via a long sea outfall (LSO) was critical to the success of this strategy.

Studies subsequently undertaken on the condition of the existing outfalls (the LSO and the complimentary Short Sea Outfall (SSO), which is used during extreme storm conditions), has concluded that refurbishment of the LSO is now unfeasible due to its location in a permanently submerged tunnel. Additionally, a study on the dispersion characteristics of the LSO recommended that the discharge point needed to be extended approximately 350 metres further off shore (to prevent discharges being potentially washed back onto shore during all tidal conditions).
Hence a new LSO is now required, however refurbishment of the SSO, which forms part of the overall operational disposal capability under all weather and tide conditions, is still capable of being refurbished and is included within the scope of this project.

PSD: Deep Water Berth Investigations

To meet a principal objective of the Ports Master Plan.

The proposal is to assure the long term secure delivery of hydrocarbon fuels to the Island through provision of an 'always afloat' berth. Whilst the shortcomings and risks associated with current delivery arrangements are understood, and reluctantly accepted, the most effective solution that will be both appropriate to the Island context and represent value for money, is not yet clear. The proposal will cover the site selection, berthing options and storage requirements.

The scope of the work required is still at a very preliminary stage and therefore the capital costs required could alter very significantly (reduction or increase). The expenditure is for further development work to be undertaken to narrow down the options and provide a robust and high confident scope proposal and associated costs.

SSD and T&R: Income Tax and Social Security Contributions Systems Replacement

In 2009 the Treasury & Resources and Social Security Departments made a bid (part funded by Social Security fund) for the replacement of the existing Income Tax and Social Security Contributions systems, and their combination into a single new solution based on more current technology. This was in line with Priority 4 of the Government Business Plan ("Distribute wealth wisely in the community") which highlighted the strategy of the Treasury and Resources and Social Security Departments working more closely together to "Consider how savings might be achieved by merging and consolidating the collection, payment and treasury systems which, at times, overlap."

This project was approved as part of the Capital Programme but has not yet been progressed and hence has been submitted for the 2014 - 2017 Capital Prioritisation process.

T&R: Cabernet Ltd - Recapitalisation

Recapitalise Cabernet Ltd (holding company of Aurigny Air Services Ltd and Anglo-Normandy Aero-Engineering Ltd) for its accumulated losses as at 31 December 2012 and its anticipated losses for 2013 – 2015.

The company currently has a borrowing facility of £10m which is guaranteed by the States of Guernsey – it is estimated that the limit of this facility will be reached during 2013. There is no realistic prospect of the company returning profits in the coming years which would be sufficient to repay this borrowing facility and any extension to it. [Note: The borrowing limit relates to cash flow. The accumulated losses are higher due to non-cash write-downs and significant accruals/forward sales].

This proposal is based on the assumption that there will be changes to the existing operations and aircraft mix of Aurigny Air Services. The Department has recently established a number of Shareholder Objectives for the airline which will:

• Where necessary, result in the introduction of a system of transparent "revenue subsidy" financial support for the agreed lifeline routes that Aurigny is required to operate by the Department;

• Require the Group to ensure it breaks-even after the provision of any agreed route support.

Those routes that are not deemed by the Department to be "lifeline" will have to be operated on a commercial basis and, in the event that they cannot make a positive contribution to the Group's financial results and overheads, will have to be withdrawn. Subject to the approval of the States, the Department anticipates that any route support would be paid as a revenue subsidy, thereby eliminating the need for further capital injections after 2015.

It should be acknowledged that Aurigny Air Services currently anticipates a need to invest in replacement aircraft for both its regional services to the UK and its inter-island operations. These requirements are subject to a re-assessment of the existing operations and aircraft mix arising from the introduction of the Shareholder Objectives. The capital requirements for these replacements do not feature in this proposal. It is anticipated that any such aircraft will be funded by borrowing arrangements, with guarantees provided as necessary by the States of Guernsey.

T&R: Cremator and Emissions Equipment Replacement and Associated Building Works

• By 2017 the current cremator (which was installed in 2002) will be reaching the end of its design life.

• The existing cremator is obsolete and sourcing spares is becoming problematic.

• Demand for cremation continues to increase year on year.

• The existing cremator is restrictive in the size of coffins that it can accept. A larger cremator is therefore now required.

• Reliability and continuity of service is critical.

• Environmental emission standards, which evolve over time, must continue to be met [DEFRA Process Guidance Note 5/2 (12) and amendments]

• There is a need to manage and reduce energy use.

• The Foulon is the only cemetery on-island that is available for multi-faith burials/ceremonies.

T&R: ICT Corporate Data Centre Infrastructure

The purpose of this proposal is to refresh and build upon the corporate infrastructure that is currently housed in Sir Charles Frossard House and on the Social Security site, Edward T Wheadon House. The proposal is to refresh the hardware that is already in operation and will come to end of life over the next 4 years as well as to provide room for the growth in States owned systems and, in particular, data requirements. This proposal covers the servers, operating software, storage and core switches. It builds upon the infrastructure purchased over the past 18 months to replace both SAP and other aging equipment.

T&R: Income Tax Electronic Document and Records Management System Replacement

The aim of the proposal is the essential replacement and upgrade of the core electronic document management system used by the Income Tax Office as a means to assess and collect tax revenues for the States and interface with the public. It is now 10 years since the system was conceived and support for one of the components of this system, Metastorm, is only guaranteed until the end of 2014. There are serious concerns that the current system may not be compatible with necessary future technical upgrades to the hardware and operating software platform on which it runs. These technical upgrades need to proceed in order that the underlying infrastructure is secure, supportable and maintainable.

It is proposed that the replacement / upgrade is achieved by taking advantage of knowledge of newer and more up to date technology used elsewhere within the States. The replacement system will provide a fully integrated, flexible, secure and robust system to meet future business needs and achieve long term savings and efficiencies for government.

The Income Tax Office also introduced an automatic assessing facility in 2012, as part of a move to reduce workloads through automation. Taxpayers are being encouraged to file their returns online, by eforms being assessed in priority to paper returns, so that the benefits of this system can be fully felt. It is therefore essential that eforms are uploaded without delay, to enable the 10 working day turnaround of either assessing or informing taxpayers that their return is to be processed manually, to be met.

Strategic Asset Management: Strategic Asset Management Plan – Phase I

The Financial Transformation Programme includes the Strategic Asset Management (SAM) project. The imperative for a strategic approach to the States' property assets was driven by the need to reduce ongoing costs and generate capital receipts, by consolidating the stock of property. The SAM review has been concluded and is in two parts: the first phase aims to

garner resources over the next two years to deliver some big wins, as quickly as possible – the subject of this proposal. The second phase is to deliver a range of other projects, with linkages to the first phase. Those second-phase projects with capital implications are the subject of a number of Capital Prioritisation bids from departments.

Strategic Asset Management: Centralisation of Community Services onto One Site (KE VII & Perruque House Sites)

Proposal is to relocate existing Children's and Community services currently located in Lukis House, Swissville and the adult Community Service Teams at the Castel Hospital to the KEVII and Perruque House sites (which are adjacent to each other). This will require either major refurbishment work or new build on the KEVII and Perruque sites to change the building infrastructure from a hospital and Children's Care Home to a social services/office facility. It is proposed that savings accruing due to vacating properties (Swissville and Lukis House) form part of the HSSD's savings target. Time frame 2014/15.

This proposal not only fits with the departmental objectives it also furthers the States aim as set out in the draft strategic asset management (SAM) plan. SAM is part of the Financial Transformation Programme and although it is yet to formally be approved by the States it has been agreed in principle by the Policy Council.

The overriding objective of the SAM plan is 'the efficient and cost effective use of property to best enable and deliver services and government functions in accordance with the States Strategic Objectives'. Key principles to achieve this are to put corporate service delivery ahead of what maybe more narrow departmental aims and to deliver common services from common locations. This proposal will help achieve the SAM objectives by delivering services that are shaped to suit residents from better locations. It will also enable the rationalisation of property so that leases can be terminated and States owned property can be sold or re-used, again in furtherance of strategic objectives.

The SAM plan and this proposal are also consistent with the guidance to the Environment Department set out in this Strategic Land Use Plan.

(NB The Policy Council supports this coordinated approach to capital expenditure and notes the improvements in the oversight of capital projects that were undertaken during the last term. In particular, it welcomes the creation of a States Capital Investment Portfolio in such a way as to ensure the proper scheduling of capital expenditure as a whole while maintaining Departmental control over individual projects.

The Policy Council also supports the principles outlined in the Report of maintaining flexibility within the Portfolio to respond to changing needs or political priorities through accelerating or introducing new projects should circumstances change.)

The States are asked to decide:-

I.- Whether, after consideration of the Report dated 23rd July, 2013, of the Treasury and Resources Department, they are of the opinion:-

1. To approve that Category A and B projects, as detailed in that Report, are classified as pipeline projects for Capital Reserve funding and direct that further work be undertaken by Departments to develop each project's specifications, following an option appraisal, and refine their costs.

2. To approve the establishment of a States Capital Investment Portfolio as set out in paragraphs 34 - 44 of that States Report and direct the Treasury and Resources Department to submit a States Report, for consideration during the second quarter of 2014 as set out in paragraph 47 of that Report.

3. To authorise the Treasury and Resources Department to approve expenditure on progressing to capital vote request stage those projects that have been categorised as pipeline projects funded from the Capital Reserve.

4. To direct the Treasury and Resources Department to include, within the 2014 Budget Report, a recommendation as to the 2014 appropriation to the Capital Reserve and indications as to the 2015-2017 appropriations to fund the States Capital Investment Portfolio.

5. To direct the Policy Council to consider and determine whether capital investment through the Corporate Housing Programme Fund or by the trading entities (Ports, Guernsey Water, Dairy, States Works, Social Security Funds) should be taken into account when assessing compliance with *"… the assumed 'norm' for permanent capital expenditure to be 3.0% of gross domestic product…"* in the Fiscal Policy Framework.

6. To delegate authority to the Treasury and Resources Department to approve capital votes, without financial limit, for projects funded from routine capital allocations.

7. To agree that from 2014, the operating surpluses before depreciation of the Ports Holding Account are retained to fund capital expenditure of the Ports as an interim measure as per paragraph 74 of that report.

8. To authorise Cabernet Limited to borrow on a short-term basis from the States General Investment Pool until such time that the Treasury and Resources Department has reported to the States with proposals for the recapitalisation of and future funding arrangements for the company in 2014.