**REPLY THE PRESIDENT OF THE POLICY & RESOURCES COMMITTEE
TO QUESTION ASKED PURSUANT TO RULE 14 OF THE RULES OF PROCEDURE
BY DEPUTY MARK DOREY**

Question

The decision to borrow up to a maximum of £250 million is a significant decision for our community. The points I made in my speech last week did not lend themselves to debate and were not answered so please can the following be answered:

The resolution of COVID-19 PANDEMIC – INITIAL ECONOMIC AND FINANCIAL RESPONSE P.2020/58 included the following:

“1. To delegate authority to the Policy & Resources Committee to approve measures that give direct financial assistance to companies or individuals, at a maximum cost of £30million, to be funded from the General Revenue Account Reserve.

2. To increase the existing authority for the Policy & Resources Committee to make available a temporary overdraft facility to Aurigny or guaranteeing external facilities by £27million to a maximum of £52.7million in 2020.”

The resolution of COVID-19 PANDEMIC – FUNDING OF FINANCIAL RESPONSE P.2020/91 included the following:

“1. To delegate authority to the Policy & Resources Committee to approve financial support measures for businesses and individuals as a result of the Covid-19 pandemic, of up to £100million, to be funded from the Core Investment Reserve, and to direct the Policy & Resources Committee to report, on a quarterly basis, on how such funding has been spent.”

From the above it can be understood that there is the following available:

£100million from the Core Investment Reserve.

£30million from the General Revenue Account Reserve.

Also, Deputy Le Clerc said the Social Security Funds has an investment worth £122m maturing in July.

The policy Letter FUNDING OF FINANCIAL RESPONSE P.2020/91 included the following:

4.2 However, there will be immediate financial pressures in 2020 in a number of areas across the States as summarised in the following table which is based on an assumption of a thirteen week lockdown period:

	Lower range		Higher range	
	£m	**£m**	**£m**	**£m**
General Revenue				
Direct Financial Support Measures for Business	50		50	
Reduction in States' revenues	60		70	
Increase in States' expenditure	6		6	
Reduction in States' operating income	6		6	
		122		132
Trading Assets				
Aurigny Group	23		27	
Unincorporated entities	8		8	
Total Trading Assets impact		31		35
Social Security Funds				
Additional benefit payments		3		3
Social Security Funds cash-flow impact provision		16		20
		172		**190**

4.11 As set out in the policy letter considered in March 2020, the estimated range of Aurigny's additional cash requirement is between £23million and £27million should the current travel restrictions remain in place for the remainder of the year. The States agreed to increase the existing authority for the Policy & Resources Committee to make available a temporary overdraft facility to Aurigny or guaranteeing external facilities by £27million to a maximum of £52.7million in 2020.

In 6.3, the balance of the Core Investment Reserve at the end of 2019 was £195.7m.

During debate it was said the value of the funds were down 8.5% on the start of the year. Therefore the approx. value of the Core Investment Reserve is £179m.

There is no need to borrow £250m using the higher range column from the table in paragraph 4.2 when:

The States have agreed to guaranteeing external facilities for the £27million that Aurigny require.

Social Security Funds have the money from July and if there is only a need for additional money from now to July, this could be covered by the funds in the Core Investment Reserve.

Therefore, the money needed for 2020 is:

	£m
	190
less Aurigny Group	-27
less Social Security Funds cash-flow impact provision	-20
	143

The £143m can be funded from the £100m available in the budget reserve and the £30m the General Revenue Account Reserve plus if the maximum is needed, £13m from the remaining £79m in the Core Investment Reserve. Therefore, there is no need to borrow this year and the States can wait to find out more information about the performance of the economy as lockdown is lifted and any saving in States expenditure before deciding about borrowing and can use the Core Investment Reserve to fund the deficit for this year.

Please can you comment on the above and explain why it is necessary to borrow up to £250m at this time when there is sufficient money available to meet the needs of the island?

Answer

Resolution 1 is the authority to spend up to £100million on financial support measures for businesses from the Core Investment Reserve. There was no agreed budget for these measures and, therefore specific States' approval was sought to cover making all such payments.

The initial modelling indicated that the other effects on General Revenue in 2020 is in the range of £72-82million - this is not resulting from specific financial decisions made by the States or the Policy & Resources Committee but is the impact on the budgeted position as a result of Covid-19. This comprises £60-70million reduction in States' revenues (income tax, fuel duty, document duty, etc); £6million increase in income support scheme payments; and £6million decreasing operating income (private patient fees, Beau Sejour, etc).

Whilst the States did give authority for Aurigny's additional liquidity requirements (originally estimated to be £23-27million in 2020) to be provided either through a temporary overdraft facility from the States or by guaranteeing additional external facilities, Aurigny's bank was not prepared to increase the amount of the facility it made available to the airline. Therefore, the States are providing an overdraft facility which needs to be accommodated within the short-term borrowing facility.

Resolution 2 concerns liquidity to obtain the funds to actually make all payments; compensate for income not being received as a result of Covid-19; and provide facilities, if required, for Aurigny, unincorporated trading entities and Social Security Funds. This means entering into a short-term borrowing arrangement instead of liquidating assets within the Consolidated Investment Fund or the Common Investment Fund (Social Security Funds).

The Core Investment Reserve and General Revenue Account Reserve are invested within the Consolidated Investment Fund, they are not separately invested with liquid funds immediately available. There is not liquidity immediately available to fund the up to

£190million requirement estimated in table 4.2 of the policy letter, which could increase by a further £50million if increased business support measures are required beyond the £50million provided within that table.

During preparation of the second policy letter, the President of the Committee *for* Employment & Social Security sought assurance that the calculations of the short-term facility requirements included provision of liquidity for the Social Security Funds. The Committee *for* Employment & Social Security is considering whether it will use part of its structured equity position to cover its liquidity requirements.

For the avoidance of any doubt, whilst the States gave authority for a short-term borrowing facility of up to £250million, this is a maximum amount and the actual facility will be for the amount necessary to cover forecast requirements and appropriate provisions.