

THE STATES OF DELIBERATION

of the

ISLAND OF GUERNSEY

21st July, 2021

Proposition No. P.2021/71

Policy & Resources Committee

Government Work Plan 2021-2025

AMENDMENT

Proposed by: Deputy S Kazantseva-Miller

Seconded by: Deputy G St Pier

In Proposition 15, to replace “To agree” with “To direct the Policy & Resources Committee to include propositions in the annual Budget Report, the Tax Review or at another appropriate time”

In Proposition 16, to insert after “1 May 2020” “to direct the Policy & Resources Committee to include propositions in the annual Budget Report, the Tax Review or at another appropriate time”

In Proposition 17, to replace “To agree” with “To direct the Policy & Resources Committee to include propositions in the annual Budget Report, the Tax Review or at another appropriate time”

In Proposition 18, to replace “to agree” with “to direct the Policy & Resources Committee to include propositions in the annual Budget Report, the Tax Review or at another appropriate time”

Rule 4(3) Information

There are no financial implications.

Explanatory Note

This amendment simply allows for full consideration of these propositions as part or in the context of the Tax Review due in September 2021, which is required to ensure that the States of Guernsey maintains a sustainable finance position within the Fiscal Policy Framework.

The borrowing proposals set out in the Finance and Investment Plan will breach the Fiscal Policy Framework. Paragraph 7.34 (of Annex) specifies that:

“The States’ total debt should not exceed 15% of GDP:

- Any project or acquisition supported with resource to government debt must be able to generate enough revenue to meet the repayment of that debt.”*

The plan will increase the level of borrowing to 18% of GDP while the profile of the capital projects will not comply with the requirement of the Framework that debt can only be used for those projects with a defined revenue stream (paragraph 7.35 p.178).

The Financing and Investment Plan further notes that while the States are likely to generate surpluses in 2021-2025 that will be sufficient to service the borrowing in the short-term, they will only be able to repay the debt at maturity if the States manages to generate surpluses in excess of £15 million per annum (paragraph 7.30).

Paragraph 7.31 elaborates further saying that even if the above surpluses did materialise post 2025,

“it should be noted that this does not enable sufficient funds to be accumulated for future government priorities to investment in delivery of future infrastructure and systems beyond this period. It will be necessary for the States to increase the annual surplus further through a combination of economic growth, restrictions on public sector expenditure and/or increase in taxation”

*In other words, the Financing and Investment Plan of the GWP is asking the Assembly to commit to a level of capital expenditure and additional borrowing of £200 million that will put the island in an unsustainable financial situation, breaking the agreed Fiscal Policy Framework and leaving future governments without recourse to funding **unless** further measures are taken such as increase in taxation, public cuts and accelerated economic growth.*

In addition, the Core Investment Reserve would have been further depleted in 2021 leaving it at a net position of about 35% of General Revenue Income, whereas the States have a policy for the target balance to be 100%. Paragraphs 7.20 and 7.21 make it clear that rebuilding the Core Investment Reserve would only be possible through taxation, which is going to be considered as part of the Tax Review policy letter in September 2021.

*Therefore, it would be financially imprudent for the States to enter into any further borrowing **until** it makes a decision on taxation in September 2021. Otherwise, members are being asked to approve in principle to breach the Fiscal Policy Framework, plunging the island into an unsustainable financial position that can affect future political terms and generations of islanders, without any clear path out.*

This amendment seek to defer the decision on the additional borrowing of £200 million until it is clearer what direction the Assembly wants to take with regards to taxation, which will inform how much additional revenue and surpluses may be available to service the new borrowing and repay the debt in a sustainable manner without jeopardising the financial position.

*It's important to note that the deferral of the decision to borrow **will not** affect the ability of the Assembly to execute on the GWP priorities for the foreseeable future. Up to £418 million of funds is currently available via the General Revenue Reserve, Guernsey Health Service Fund and the Bond (Figure 26, p.171, excluding the Bond Reserve). If this sum is spent alone, it would represent the highest level of capital expenditure for at least a decade.*

This amendment highlights the need for prudent financial considerations and scrutiny to take place at a time of significant financial difficulties and when the Assembly operates under the mantra of "no money available". It is, therefore, considered inappropriate to make such significant and unprecedented financial commitments with full delegated authority to Policy and Resources when the States is just two months away from debating the Tax Review.