

Oxford Economics' Report - Review of Guernsey's Economic Profile and Assessment of Future Opportunities

The Policy Council's Fiscal and Economic Policy Group wish to build upon the broad strategies set out in the Fiscal and Economic Plan. In September 2011, following a tender process, the Policy Group in partnership with the Commerce and Employment Department, commissioned Oxford Economics to undertake research on "*Guernsey's current economic profile, potential future opportunities and overall strategic direction in relation to economic policy*".

It was anticipated that the report resulting from that research would inform, but not dictate, the development of a draft Economic Development Strategy which would be subject to consultation before a final version was adopted. Relevant parts of the strategy could then be incorporated into the Fiscal and Economic Plan when it is reviewed by the States in October 2012. The Strategy could also guide the Commerce and Employment Department in its economic development activities.

Both the Policy Group and the Department consider that it is appropriate for the development of a draft Strategy and consultation process to be undertaken after whatever changes result from the April 2012 General Election. At that stage the specific conclusions and recommendations in the Oxford Economics' Report will need to be assessed and commented upon. However, they also both agree that the report is a comprehensive independent review of the island's current position and the challenges it faces.

The Policy Group and the Department have agreed therefore that the report should be published immediately without political comment other than expressing satisfaction that it generally endorses the current policies that are being pursued and which have put the island in a strong position to weather the current global economic turmoil.

The report has been published on the States' website at www.gov.gg and will be presented by Oxford Economics at an open public meeting details of which will be announced.

We hope that the report will give much food for thought to the community as a whole and to the new States Assembly.



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OXFORD ECONOMICS

Towards An Economic Development
Strategy for Guernsey:

Review of Guernsey's Economic Profile and Assessment of Future Opportunities

February 2012

A report prepared for the States of
Guernsey, Commerce and
Employment Department



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Executive Summary

Guernsey – building from a position of strength

In relative terms, the Guernsey economy remains one of the most prosperous in the world. High employment rates, high wages and an enviable quality of life are characteristics few other economies enjoy. Unsurprisingly, the global recession has had an impact on the island and there are significant economic and social challenges to face. But at its core, the Island is a fundamentally successful place.

Meeting the emerging challenges, and even supporting success, demands a sound strategic framework, since resources on the Island are limited. Complacency now could lead to greater problems in the future that would be much more difficult, and expensive, to fix. Against this backdrop, Oxford Economics carried out research to lay the foundations for a revised economic development strategy for Guernsey.

This report summarises the work carried out by Oxford Economics in late 2011 to put in place the research which will help form the evidence base upon which the locally-produced economic development strategy will be built. The purpose of the research has been to:

- Set out the economic conditions on the Island and how they might evolve;
- Determine the key strengths upon which the economic strategy should be built;
- Identify threats which may impact on the Island in the near future;
- Identify strategic lessons from elsewhere in economic development policy; and
- Draw out specific sectoral lessons and broader policy recommendations.

To inform the study, we consulted extensively with local stakeholders across the public and private sectors, and undertook extensive desk-based research on both local and global economic trends.

Endorsement of current strategic direction

There is no ‘silver bullet’ in economic development; analysis of comparable jurisdictions shows a high degree of similarity in approach and policy. Diversifying away from one dominant sector is a focus for many economies, and developing niche specialisms, such as the space industry in the Isle of Man, reflects this strategic drive towards a broader sectoral offering.

Our research has broadly endorsed the strategic direction already in place in Guernsey, and re-iterated many of the messages already stated in previous strategic economic plans. This highlights that although the world is a different place than it was before the global recession in 2008-2009, there are many

principles that remain unchanged. As such, radical shifts of direction are not required. Core drivers of growth such as skills, infrastructure, R&D and entrepreneurship remain crucial to economic growth.

The over-riding finding from the consultation phase and the analysis was to re-assert the role that the States and the strategy can play. The track record of sector-based interventionist economic development policy is at best patchy, but there is a clear role for the public sector in promoting a prosperous, sustainable and inclusive strategic direction (see Chapter 5). It can help to prepare the 'fertile soil' in which firms can grow and address market failures, but it should not attempt to dictate the decisions of the private sector.

The need to diversify is very evident when the scale of Guernsey's dependency upon the financial services sector is measured (21% of direct employment and 39% of GVA, with strong additional supply-chain linkages). However, diversifying does not necessarily mean radical shifts to entirely new sectors, or areas to which the skills of the workforce are not well matched. The financial sector is already very internally diversified, with different specialisms and niches within the broad category reported in official statistics. Ensuring the strategy is supportive of the Island's key global strength – recognising its subtleties and ensuring it is not downplayed as a result of the less favourable associations with the finance sector post-recession – remains essential even within an overarching aim to broaden the business base.

Meeting the challenges

The research draws out a number of challenges which will impact upon Guernsey's short-term economic future, including:

- A challenging fiscal position, which can only be resolved with a higher tax take or a lower spend;
- High average costs of doing business, which demand a focus on higher-value skills and activities to build a viable investment proposition;
- Regulatory changes and global tax policy, both of which bring uncertainty and damage business confidence;
- Labour supply and specific skills shortages, linked closely to a challenging but necessary housing and population management system;
- An ageing population, putting pressure on dependency ratios and public services;
- Rising welfare costs, including from a small but seemingly entrenched core of worklessness;
- Technology and infrastructure channels (primarily the airport and ICT) which need to be optimised to provide vital links to the outside world;
- Marketing and brand awareness of the Island, which are currently of a significantly poorer quality than they should be.

Assessing sectoral opportunities

Our report assesses the prospects for a number of separate sectors, each of which offers potential growth in Guernsey (Chapter 6). On balance, we feel the sectors best positioned to drive future competitiveness are:

- **Professional Services** – a strategy based on professional services development appears favourable to Guernsey for a variety of reasons, not least its potential to support and promote the established financial services sector, its complementarity with the existing skills profile and its smaller spatial requirements in comparison to other global growth sectors such as high-tech manufacturing.
- **Renewable Energy** – the States have, and are playing, an important role in the development of a renewable energy sector for Guernsey. Exploration of the technical feasibility and economic opportunities of such a development should continue, taking into account the potential knock-on effects on fisheries and tourism. Renewable energy's impact is not likely to come in the form of large-scale, high-value job creation – at least not for many years – but there are important strategic benefits of energy security, export earnings and research spin-offs that are well worth promoting.
- **ICT** – Guernsey has a relatively strong ICT infrastructure and can probably be considered, at present, the leading player in the Channel Islands. We recommend the encouragement, where possible, of diversification into new ICT sub-sectors with major global growth potential, such as e-security and e-finance. Jersey has recently announced bold plans to develop a fibre-led business cluster around 'gigabit connectivity', and Guernsey needs to consider its response to avoid being overtaken by its rival.
- **Tourism** – this is, and will remain, an important economic sector for Guernsey, even though labour and infrastructure constraints mean that attention should initially focus on growing value over volume. The market is undoubtedly competitive, and we are not suggesting that tourism will be able to generate the levels of GDP per worker that the professional services industry achieves. But we do advocate a general policy of greater ambition and optimism, since Guernsey's is a strong product and will have international appeal in a number of growing segments across the leisure and business markets.
- **Aviation** – Guernsey is well placed internationally to develop a greater presence and generate greater income from the incessant growth of private aviation. There are practical issues around its physical capacity to deliver on-island services, but we have set out a threefold policy to understand and explore this opportunity further.
- **Creative** – economic growth can be promoted across the creative and digital industries, including in higher-value digital sectors, and there are strong potential synergies with ICT, finance and tourism. We suggest a re-think on film production policy and an expansion of promotional activities to cover the digital industries and cultural and events tourism. Given the

importance of finance to creative business growth, we suggest promoting links to start-up capital and support via the local financial industry.

- **Health** – internationally, health and social care are amongst relatively few sectors which can reliably be predicted to grow over the coming years. There are numerous opportunities for Guernsey to exploit this growth commercially, perhaps most notably through medical tourism, small-scale specialist research activities and high-end residential care.

The strategy challenge – from theory to practice

Our research focused on providing evidence to form the backbone of the new economic strategy. Though the currently constrained fiscal position did provide a backdrop and did of course influence our thinking, it did not constrain any views or curtail any suggestions of longer-term opportunities. It is unwise to identify budgets first and then develop strategy, as this approach tempers vision.

The recommendations in their current form are not defined precisely, and thus no costs are associated with their implementation. To make the final strategy effective, it is important to recognise that successful implementation will come at a cost – not just in terms of any new monies invested directly, but also in terms of staff time spent on design, delivery and monitoring. To this end, a review of current economic development spending on a ‘line by line’ basis is recommended. It is important to ensure current spending supports the desired strategic direction, and that current resources are used as effectively as possible.

Across the world, there have been many ambitious, bold and ultimately desirable economic strategies that have struggled to move off the page and into practice. We draw some broad implementation observations to close our research:

- 1) **Clarity**: there are many complex issues, and it is important that the strategy is easily articulated to a wide audience and is not an unwieldy and complex document. Consultation revealed confusion over existing policy in many areas, so clarity of message is important.
- 2) **Honesty**: it is often the case that facts are obscured from the public and the business community for various complex political and governmental reasons. It is important that the strategy is framed in the simple language of what taxes the States raise and what the costs of running the economy are, so that any policy direction or changes in spending can be justified. Opponents should be encouraged to debate sensible alternatives rather than simply objecting.
- 3) **Presentation**: as with all policy documents, the way it is marketed and ‘sold’ to the people directly impacted (primarily residents and the business community) will be vitally important. Determining how to present the report, how to engage with the media and how to consult with a wider audience are all crucial in both stimulating debate and ultimately in changing policy and spending priorities, if that is what is required.

4) **Flexibility:** the world is a dynamic place and the economy ebbs and flows, but occasionally, significant world events alter the validity of certain policy directions. This is thankfully rare but it requires an ability to re-visit and refresh strategic choices in a way that not often happens during the lifecycle of a strategy document. An annual statement of progress and amendments or modifications to the strategy may be a useful way to build in this approach.

5) **Importance:** it is vital that the strategy has 'teeth' and can genuinely make a material influence. Not only does this matter for the current strategy, but it will be vital in gathering support for the strategic process and making people more engaged with future documents. One possible approach is to have a small sub-committee of people named as the 'Economic Development Strategic Implementation Group' or similar. Meeting quarterly, they could deal with matters of strategic economic importance that have arisen during the previous quarter. It might be a delay in a planning decision, a decision on funding support for a new air route, or a decision on improved port docking facilities. This would not replace the existing processes but would rather bring urgency to key decisions and keep pressure on actions that need to take place to allow key economic activities to flourish. This might be considered a form of real-time monitoring of the strategy.

Not wasting the opportunity

'Not fixing the roof when the sun was shining' is a critique often made with regard to economic policy. Tough decisions over spending and taxation are more easily made when the economy is in rude health than when it has reached a point of crisis. At present, Guernsey still has broadly favourable economic conditions, although the fiscal imbalance will become a major concern should it persist. It is important that decisions are taken at this time, rather than when the situation becomes more perilous.

The analysis suggests the economic strategy can be developed on sound foundations in Guernsey, but the challenges facing the economy are mounting, and a sound strategy will help to mitigate the potentially damaging effects. Guernsey has much to sell and great success to build on, but the challenge to grow whilst protecting identity, to diversify yet protect core strengths, to supportively intervene whilst letting the private sector work efficiently, are complex issues of balance that require a sensible, light-touch but clear economic strategy.

Strategic recommendations

Our strategic recommendations for Guernsey, across a number of key policy areas such as infrastructure, sectors, planning, skills, enterprise and marketing, are set out in Chapter 7 of this report. We draw out 13 main policy recommendations, and these are replicated in the table on the following pages:

Summary of main recommended action points for Guernsey economic development strategy

Recommendation	Further action points	Key partners
1. Ensure an internationally competitive ICT infrastructure	Work with private telcos and the regulator to build competitive infrastructure; promote Guernsey as a world-class ICT destination; diversify the ICT business presence into new sectors such as e-security or e-finance; set up a focused sector promotion body to promote Guernsey to key individuals and react to new opportunities; develop specialist ICT workspace facilities	C&E, OUR, private sector
2. Improve the co-ordination of commercial marketing and investment promotion messages	Link separate channels of external marketing activity; develop unified InvestGuernsey brand; utilise innovative, modern communication channels; develop sub-brands for emerging opportunity areas (e.g. environment, media or image)	C&E, States members, Guernsey Finance, GEA, private sector
3. Finalise and implement an Island-wide skills strategy	Promote lifelong learning; utilise new population management mechanism to support skills requirements through imported labour; support the GTA model at all levels of post-16 education; address weaknesses in pre-16 education system	C&E, SSDG, Education, GTA, private sector
4. Optimise the commercial property offer to encourage business growth and investment	Review commercial property needs; set up a register of vacant buildings and firms seeking new premises; use tax incentives to encourage re-use of existing stock; ensure planning system supports appropriate development; grow stock of and start-up space	C&E, Environment, private sector
5. Improve the co-ordination of enterprise and business development support	Promote and signpost business angel activity; grow the availability and quality of mentoring and enterprise advice; support and incentivise spin-outs from finance to other professional sectors	C&E, GEA, private sector
6. Maximise the size of the economically contributing population to reduce fiscal pressures	Develop the 'silver economy' and tap into the experience, know-how and capital of older residents, including through enterprise promotion; review and consult on options for pension reform, including eligibility criteria, multi-tiered systems and means-testing; explore innovative third-sector approaches to tackling worklessness, and evaluate the success of all schemes; create strong incentives to work through the welfare system	C&E, SSD, Housing

Recommendation	Further action points	Key partners
7. Diversify key trading markets towards emerging economies, in finance and beyond	Target business growth markets in Asia, the Middle East, Latin America and beyond; grow tourism arrivals from Europe, US and Asia; directly promote Guernsey as a business destination more actively in key emerging markets	C&E, Guernsey Finance, Marketing & Tourism Unit, private sector
8. Lightly support the continued growth of financial and professional services as the primary economic engine	Engage with and arbitrate the debate on financial regulation; co-ordinate targeted investment and branding initiatives in niche growth areas where relevant; maintain a strong skills and training offer through the GTA and other local providers; incentivise high-value spin-outs from experienced finance sector professionals; develop and effectively market a leading ICT and intellectual property infrastructure; work to grow the stock of: a) high quality office accommodation and b) technology-focused and start-up workspace	C&E, Guernsey Finance, GFSC, IPO, private sector
9. Promote sustainability and environmental efficiency at all levels	Pursue renewable energy goals, including on-island research centre and carbon financing specialism; use public procurement to stimulate local activity; explore opportunities within professional services, e.g. carbon trading administration	C&E, GRET, Environment, Housing, Guernsey Finance, private sector
10. Grow value in the tourism sector, focusing on upmarket growth segments and new markets	Focus marketing on key target segments, and make more direct; explore new markets in Europe and Asia; capitalise on film tourism potential; grow boutique and eco offers; promote new high-end hotel development; ensure marketing materials focus on what makes Guernsey unique	Marketing & Tourism Unit, C&E, Guernsey Airport, private sector
11. Enhance the retail offer for the benefit of locals and visitors	Develop and implement a retail strategy; create a vacant property register; encourage local independent traders with more favourable leasing arrangements; improve premises portfolio in and around St Peter Port; incorporate high-end offer in visitor marketing	C&E, Environment, private sector
12. Promote a thriving creative and digital sector showcasing the best of Guernsey, new and old	Optimise ICT offer and promote Guernsey as a leading digital business destination; re-consider film location policy; develop creative incubation space and promote business angel and spin-out activity; improve local events offer and their visitor appeal	C&E, Arts Commission
13. Explore, develop and promote a competitive medical tourism offer	Define organisational roles and responsibilities; identify suitable high-value service niches; develop supporting infrastructure of skills and facilities	C&E, HSSD, MSG

Source: Oxford Economics recommendations based on research undertaken in late 2011

1 Guernsey's Competitiveness

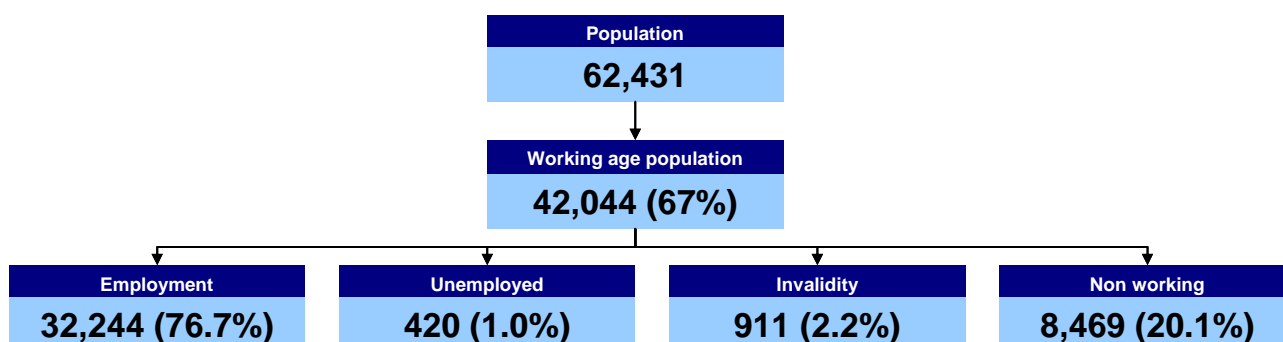
This section provides an overview of Guernsey's competitive advantage in 2011, and how it came into being.

1.1 Guernsey Today

For a small, densely populated island formerly dependent on horticulture and still partially reliant on tourism, Guernsey has developed an effective economy, providing high average living standards for its population. Fundamental to this modern prosperity is a high employment rate, with calculations suggesting that almost 77% of the working-age population¹ are in employment. By contrast, the unemployment rate² in Guernsey stands at just 1.1% of the working-age population, low by any international standard.

Figure 1.1 provides an overview of the population structure in Guernsey (in 2010):

Figure 1.1: Population structure, Guernsey, 2010³



The proportion of non-working⁴ people in Guernsey (20.1% of the working-age population) is also below the comparative UK figure (24%). The data show that

¹ Working-age population defined as those between the ages of 16 and 64.

² The unemployment rate refers to the Guernsey measure as opposed to the ILO measure.

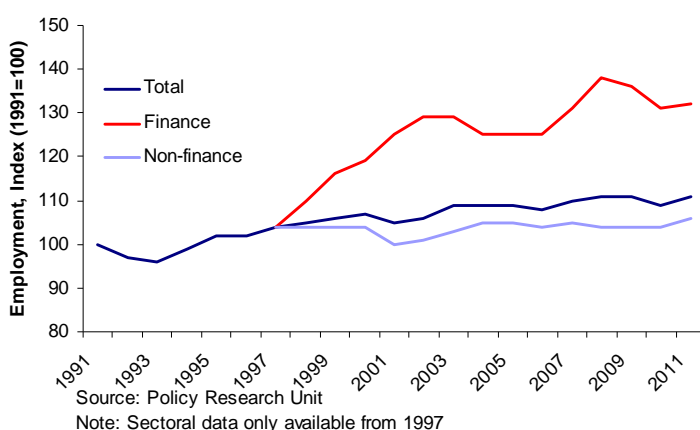
³ Great care has been taken to ensure the accuracy and consistency of the population structure diagram. The sources and reference dates of the data follow: population and working age population – Q4 2010, Guernsey Facts and Figures 2011; employment – Q4 2010, Labour Market Bulletin September 2011; unemployment – 25th December 2010, SSD; invalidity – 5th June 2010, SSD Benefit and Contribution Rates for 2011, States Report, Billet D'Etat XX

⁴ In economic terms, the 'non-working' population can also be referred to as the economically inactive.

2.2% of the working age population were receiving long-term invalidity benefit (i.e. unable to work for six months or more) in 2010, with evidence suggesting this figure has been increasing steadily since 2008. Given Guernsey's affluent society, it is likely that a significant proportion of the non-working population are self sufficient but the figure will include a small number of people on benefits other than unemployment and inactivity. The 2001 census suggests that 59% of the non-working population were either retired or looking after the family/home (self sufficient), and it is difficult to assess how willing these cohorts would be to re-enter the workforce. It is worth noting that a significant proportion of the non-working are in UK-based tertiary education and are likely to enter the Guernsey workforce – though in many cases, based on prevailing trends, after an extended spell working in the UK. This is important because the tendency for young people to return to Guernsey, for lifestyle reasons, after gaining work experience and internationally relevant skills elsewhere can be of significant benefit to the local economy.

Guernsey is globally recognised as a leading offshore financial centre. Latest data (Q2-2011) suggest the finance sector directly employs 6,900 people on the Island, directly accounting for 21% of total employment (in comparison to 7.5% in Greater London⁵); the most recent output⁶ data (2009) suggest finance directly contributes 39% to GVA (17.8% in Greater London). Figure 1.2 below shows how finance has driven employment growth on the Island since 1997 (the earliest available sectoral data), though what the data do not emphasise are the many indirect jobs created and sustained by its presence, or indeed its own internal diversity, as discussed later.

Figure 1.2: Employment (finance, non-finance and total), Guernsey, 1991- 2011



⁵ Greater London refers to the London region; employment figures refer to 2010 and output refers to 2009 for direct comparison purposes. We compare Guernsey to Greater London, rather than the City of London where the share of financial employment is much higher, for illustrative purposes.

⁶ GDP and output data is particularly volatile in Guernsey, due to the income measure used to calculate it; some caution must be applied when using it.

The Guernsey of today also has a considerable 'non-finance' sector, with niche activities from e-gaming to plant nursery flourishing on the Island along with a still-important leisure tourism sector, drawing its customers largely from the UK, that provides Guernsey with an important source of income. The largest private sector employer is Specsavers, which has its corporate HQ next to Guernsey airport with 510 staff working across numerous corporate functions from marketing to legal services. Overall, Guernsey is perhaps less reliant on merely 'finance and tourism', the modern pillars of the Channel Island economies, than its neighbour Jersey, with the most closely comparable⁷ data suggesting that 38% of Guernsey's employment is found in the professional services and tourism sectors, compared to 45% in Jersey.

Fiscally, though, the Guernsey of today is more vulnerable than its economic success and average living standards might outwardly suggest. General Revenue income has fallen year-on-year since 2007, while General Expenditure has increased and capital expenditure has remained consistent over the period. The overall General Budget deficit was £37m in 2010 and is estimated to be at least £30m in 2011, both on a previously uncharted scale for the Bailiwick. Added to this problem, which is driven by the low corporate tax take since the introduction of a Zero-10 taxation regime⁸ in 2008, is a Social Security Budget under pressure from rising expenditure, particularly from sources such as growing pension costs driven by a rapidly ageing population. A recent independent fiscal review noted the '*unsustainable long-run position*'⁹ of Guernsey's public finances.

Box 1.1: Guernsey and the Global Recession

Given the financial market roots of the 2008-10 global recession, it is not surprising that Guernsey has felt (and is continuing to feel) its effects. GDP contracted by 2.6% in 2009, a relatively modest fall in comparison to many Western economies. Employment grew marginally over the initial recessionary period before declining in 2010.

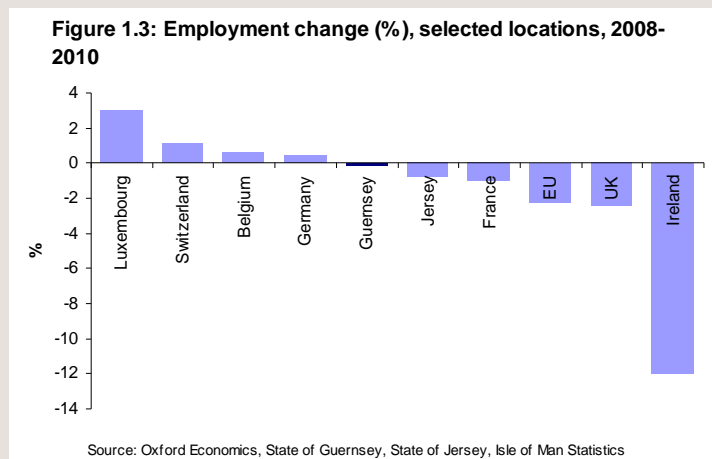
Figure 1.3 highlights Guernsey's employment change between 2008 and 2010 versus that of key comparators and other Western economies. The data suggest that Guernsey's employment levels have remained steady when compared with those of Jersey, France, the UK and the EU. However,

⁷ For comparison purposes, the data refer to 'hospitality, finance, real estate, professional business activities and admin / support' in Guernsey and 'finance and legal, miscellaneous business activities and hotels and restaurants' in Jersey.

⁸ Under the Zero-10 regime, corporation tax is set at zero with the exception of certain banking activities (where it is set at 10%) and regulated utilities (20%).

⁹ Professor Geoffrey Wood, *Annual Independent Fiscal Policy Review*, October 2011.

Guernsey has not experienced the growth over the period that some other important offshore financial centres, such as Switzerland and Luxembourg, have enjoyed.



The latest *Guernsey Labour Market Bulletin* quarterly series tentatively suggests that employment levels on the Island have returned to growth, with 2011-Q2 employment levels around 1% above the 2010-Q2 position. (Nevertheless, that is still 1% below the 2008-Q3 peak.) Throughout the period of uncertainty, the data suggest that population growth has remained stable, with net natural change and migration increases of 131 and 558 people respectively over the four quarters to 2010-Q1..

Guernsey is an affluent society. The 2010 median wage of £27,400 is relatively high (especially considering that it includes part-time workers) and is some 29% above the comparable UK figure. Previous research undertaken by Oxford Economics¹⁰ found that the cost of living in Guernsey was 9% higher on average than the UK, and there is a significant chance this gap has increased over time, as the continued expansion of the finance sector has created an earnings gap between those who work in the sector and those who do not. Evaluating the two figures together suggests, in very simple net terms, that the average Guernsey employee is some 20% better off than his/her UK counterpart.

But Guernsey residents pay for their economic success with a high cost of living. Oxford Economics previously identified that the cost of living in Guernsey was particularly high for the poorest 10% of the income distribution, despite the higher wages they receive than their UK counterparts, with a gap of 14% on the UK as a whole. More recent research in 2011 to develop a 'minimum income standard' for Guernsey, based on various essential components of spending (including a modest amount of leisure travel), has found that this minimum requirement now exceeds its UK equivalent by some 20-30% for working-age

¹⁰ Oxford Economics, 2003, *The Cost of Living in Guernsey Relative to the UK and London*, prepared for the CoL Group.

households and by over 40% for pensioners¹¹. It therefore remains important that Guernsey recognises the need to alleviate the affordability challenges facing many of its residents across all age groups.

The difference between Guernsey and UK quartile wages shows that Guernsey's lower quartile was 45% above UK levels in 2010 but the upper quartile a more limited 24% above (Table 1.1). This emphasises the higher cost of labour in Guernsey at the lower end of the skills spectrum, to offset the cost of living expenses, but it possibly also hints at further potential to increase wage levels in the upper percentiles through a move towards even higher-value added activity – which is what Guernsey generally aspires to achieve. However, due to market forces driving a 'wage ceiling', it is unlikely that the spread of the upper quartile wages would diverge to the 45% levels evident at the lower end of the spectrum. (However, due to market forces driving a 'wage ceiling', it is unlikely that the spread of the upper quartile wages would diverge to 45%.)

Table 1.1: Wages spread, Guernsey and UK, 2010

	Lower quartile	Median	Upper quartile
Guernsey (£)	18,700	27,400	40,300
UK (£)	12,900	21,200	32,700
Spread (%)	45%	29%	23%

Source: Policy Research Unit, ASHE, Oxford Economics

1.2 The Evolution of Guernsey's Competitiveness

As a small island, Guernsey is fundamentally a policy 'taker' rather than a policy 'maker'¹², but separate jurisdiction has allowed it to set its own legislative framework and has certainly helped to influence its competitive position:

- Like other offshore financial centres, Guernsey has historically used its corporation tax regime to gain a competitive advantage over larger nations;
- Other recent growth sectors, such as ICT, have been built on policy responsiveness to the regulatory leadership of other jurisdictions;
- Looking ahead, Guernsey's new intellectual property (IP) laws surrounding image rights could again help it to carve out a competitive niche through policy innovation.

Box 1.2: Significant change

In 1973, horticulture accounted for 36% of Guernsey exports, with finance just 11%. By the mid-1900s, finance accounted for over 50% of exports and horticulture just 4%.

Source: *States of Guernsey, 1998 Economic and Statistical Review*

¹¹ Loughborough University, *A Minimum Income Standard for Guernsey*, 2011.

¹² Guernsey has relatively few autonomous policy levers, and is therefore restrained in its direct policymaking ability. It must instead 'take' policies from others, for example UK monetary policy in relation to interest rates.

The attractive corporation tax regime is certainly a major catalyst in stimulating international business and economic growth, but in a globally competitive world, it is not enough on its own. Guernsey's judicial independence has stretched beyond a competitive tax regime, with one commentator emphasising *'imaginative use of state legal resources in effective public policy that has been absolutely central to our [Guernsey's] economic transformation over the last 30 years'*.¹³ This refers to the ability to respond quickly to new opportunities and implement facilitating legislation.

But while the flexibility of the legal system is a key factor, the internal resilience of the Bailiwick must not be overlooked. That the Guernsey economy has managed to evolve away from the horticultural sector (which dominated the economy prior to the 1960s and now employs just 300 people, many of whom are seasonal workers), to a successful finance-led economy shows the ability of its people, in little over a generation, to react and re-skill.

It is also important not to overlook Guernsey's social and environmental offering as a key element of its evolution. Guernsey offers a high quality of life, in a largely tranquil, scenic environment with low crime rates. This characteristic has been evident in Guernsey's ability to attract entrepreneurs who have in turn created business and wealth.

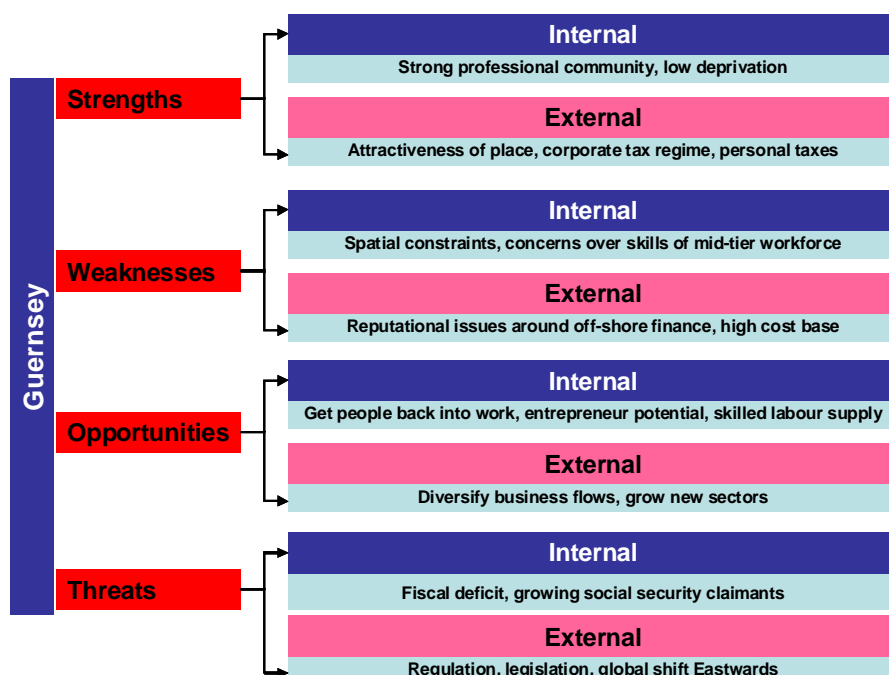
Guernsey's entrepreneurial spirit has also evolved through the ages. A modern example is the business Vets4Pets, set up in 2001 by Peter Watson, formerly a director at Specsavers and managing director at Vision Express. The company has seen rapid growth – it is now present in 70 locations across the UK and Channel Islands – and is a classic example of an experienced industry professional finding commercial application for an innovative business model, in this case a franchise-based system, and exploiting a growing market.

This re-affirms the importance of Guernsey maintaining its attractiveness to key entrepreneurs. Trading at a 30-40% cost premium to mainland UK and with obvious land and property restraints, Guernsey may not naturally support rapid on-island business and employment growth. But it has developed a spirit of innovation capable of building internationally-relevant experience and generating wealth and value added through tapping into growth elsewhere.

The evidence presented so far suggest that Guernsey's economy is generally healthy. But there are some concerns. Figure 1.3 provides a summary SWOT analysis chart of the Guernsey economy:

¹³ Tony Gallienne, *Guernsey in the 21st Century*, 2009.

Figure 1.3: Summary SWOT of Guernsey economy



The global recession has led to a significant evaluation of legal and regulatory ‘weaknesses’ in the developed economies; this, in turn, is likely to lead to additional regulation in the financial sector and a tightening of laws that could potentially pose a threat to Guernsey’s external competitiveness.

Box 1.3: External threats to Guernsey

During the consultation phase of our study, a number of business interviewees suggested that heightened EU regulation was the most significant threat to Guernsey’s economy going forward.

It was noted that although Guernsey is not part of the EU and would in theory not be directly required to implement EU directives, the threat of trading sanctions from EU countries ensures this remains a very real threat.

Other business consultees were keen to emphasise the potential to mitigate against the negative impacts of increased legislation. They felt it was important the States reacted quickly and sensibly to any new external regulation, and that this could also present opportunities, rather than simply threats, for Guernsey.

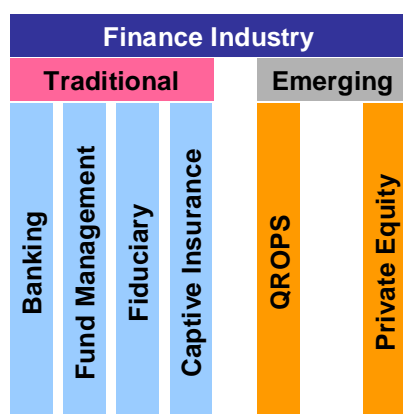
1.3 Sectoral Specialisms

Guernsey’s specialisms in niche areas of finance are well recognised, with analysis at a broad level suggesting the Island is more ‘specialist’ in the core financial services sector than even the City of London (location quotients of 5.9

and 5.4 respectively vis-à-vis the UK¹⁴). Guernsey is home to the Channel Islands Stock Exchange (CISX), which commenced operations in October 1998. Internationally recognised and approved, including by the UK Financial Services Authority and and US Securities and Exchange Commission, the exchange has grown rapidly, with over 4,000 securities having been approved since inception for a total market capitalisation of US\$50 billion¹⁵.

It is important to recognise the internal diversity of Guernsey's financial sector – both the range of sub-sectors it represents and the multiple tiers of operations. Although data are limited at the more detailed level, qualitative analysis identifies 'four traditional pillars' with two new areas of expertise developed in recent years. Figure 1.4 summarises these:

Figure 1.4: Finance specialisms in Guernsey



Recent data indicate that Guernsey is enjoying significant success in its fund management sector, with the total net asset value of funds under management and administration reaching a record peak of £275 billion in June 2011, fully a quarter up from a year previously. Similarly, a recent survey of captive insurance practitioners confirmed that Guernsey remains the world's leading domicile in the area¹⁶. All in all, Guernsey's core finance sector appears to be going from strength to strength. But while the established pillars (and emerging ones) appear to represent solely higher-value activities, it is also worth noting their

¹⁴ Location quotients express the share of employment in a particular sector in one location versus the share of employment in the same sector in another location. In this case, the share of financial services employment in Guernsey is 5.9 times higher than the corresponding share across the UK. The share of financial services employment in the City of London is 5.4 times higher than the corresponding share across the UK – still very high but less concentrated than in Guernsey.

¹⁵ Source: CISX.com.

¹⁶ Source: *Strategic Risk* magazine, review of captive insurance market.

reliance on high quality on-island support functions. This includes retail banking to service domestic demand and many middle-to-back office functions; one senior representative of the finance sector was keen to recognise the skilled *'functionaries'* that support higher-value activity across the sector.

The new areas of specialism in finance have developed through market forces, demonstrating Guernsey's ongoing international competitiveness in the industry. For instance, Qualifying Recognised Overseas Pension Schemes (QROPS) were established in April 2006 following a change of UK law on the movement of UK pension funds overseas. Data suggest Guernsey is now among the global leaders in QROPS, receiving a greater share of outward fund transfers from the UK in the first half of 2011 (32%) than any other location. The reasons for the success are likely to be familiar: physical and cultural proximity to the UK, a favourable tax regime and existing financial expertise.

The scope for further development in QROPS may be limited in light of recent UK Treasury legislation¹⁷. Nevertheless, over time Guernsey has developed and maintained a strong reputation in the offshore finance industry through high quality regulation and tax transparency codes that have earned respect and trust from investors, with amendments to income tax legislation relating to pension schemes imminent¹⁸. The Island's recent global recognition as one of the leading jurisdictions for private equity administration outsourcing also reflects this point. Such characteristics and the Island's recognised *'fleet of foot'* approach to regulation will be important to both maintaining competitiveness in QROPS and encouraging new market-driven specialisms.

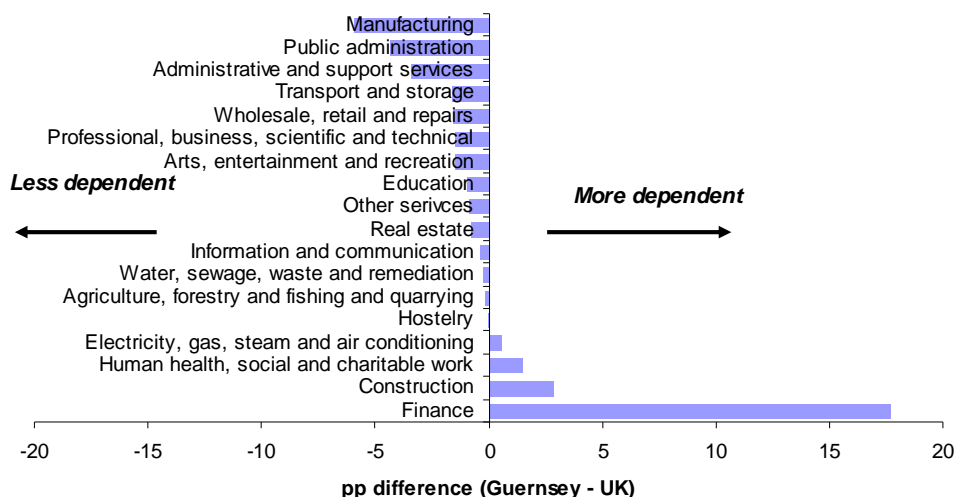
Looking beyond the finance sector suggests that in comparison to the UK, Guernsey relies more heavily on the construction, human health & social work and utilities (electricity, gas, steam etc) sectors for employment, and is broadly equal in terms of hospitality and agriculture. Multiple consultees identified the housing control system in Guernsey as one driver of above-UK average construction employment, with suggestions that renovation work on properties is

¹⁷ Leading industry professionals believe this legislation – which forms part of the Treasury's *Tax Avoidance Strategy* – *'will make the Island less attractive to investors'*.

¹⁸ . The Treasury and Resource Department has recently outlined three potential courses of action for the Bailiwick on the issue (Amendments to income tax legislation relating to pension schemes – establishment of new category of scheme, States Report, Billet D'état V, 6th March 2012). These options are: 1) Take no action, allowing the QROPS sector to dissipate over time; 2) Extend taxation of pension benefits to non-residents, bringing Guernsey in line with regulations but at a significant loss of competitiveness; 3) Extend exemption of pension benefits to Guernsey residents, potentially reducing the overall tax revenue to the State but allowing some revenue to be collected earlier in the process. It is Oxford Economics' understanding that option 3 has been endorsed by Treasury and Resource Department, alongside a set of recommendations to minimise tax leakage.

more frequent in Guernsey than in the UK, Figure 1.5 outlines Guernsey's employment concentrations in comparison to those of the UK:

Figure 1.5: Relative employment concentrations, Guernsey and the UK, 2010



Source: Oxford Economics, Policy Research Unit

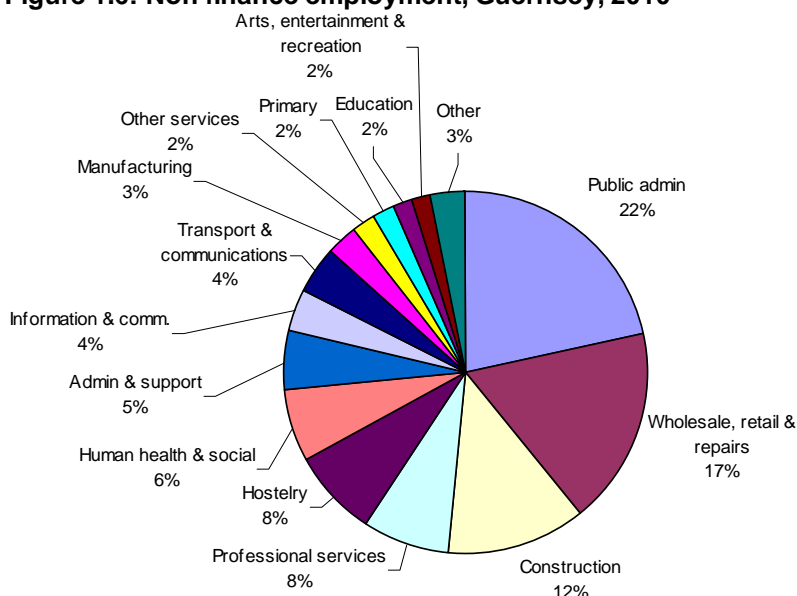
In employment terms, public administration¹⁹, wholesale & retail and construction account for over 50% of the non-finance employment, and in total these sectors account for almost three quarters of Island employment (Figure 1.6).

Analysis of future development potential for other sectors needs to take into account the fact that Guernsey is already very close to full employment, meaning that any significant job growth in a new sector would potentially come at the expense of an existing one, unless new labour is imported to the Island. Based purely on the data, the Island's characteristics and natural resources, 'under-developed' sectors might possibly include the tourist economy (in various formats), ICT, education and the creative industries – but labour constraints make for tough decisions in recommending how these may be best promoted.

As would be expected for a small island economy, Guernsey has only very small manufacturing and production industries. This means that it imports almost all of its goods, and even some of its services. The restricted ability to produce physical goods locally, given the small population, has fundamental implications for economic development and means that high-value exported services are generally seen as the most desirable strategic path to follow.

¹⁹ The 'public administration' sector refers to all public services. The 'education' and 'human health & social work' sectors refer exclusively to private sector activity.

Figure 1.6: Non finance employment, Guernsey, 2010



Source: Labour Bulletin

Note: Other = real estate, households and utilities

1.4 Guernsey's Offer to Business

In consultation it was suggested by some that Guernsey's offer to business is somewhat confused. Put simply, according to one senior interviewee, *'the Island does not know what it is selling'*. In broad terms, Guernsey's offer to business can perhaps be summarised as:

1. A competitive corporation tax regime;
2. 'Light touch' direct public sector involvement in business;
3. A flexible pool of skilled, English-speaking but internationally-oriented labour;
4. A strategic location in central Europe, close to major international business centres;
5. A physically attractive place to live and do business.

The internationally competitive corporation tax rate on the Island is the most obvious competitive offering to business offered by Guernsey. However, in order to remain competitive with other 'low tax' centres, Guernsey has developed and must continue to promote a wider offering.

The traditionally minimal level of direct States interference in business affairs on the Island was cited by some consultees as a key part of the offering: many described the States' optimal role as ensuring *'fertile soil'* for business, as opposed to direct intervention. Summarising Guernsey's ideal offer to business, one consultee described the concept of the *'serviced office'*, with a strong

availability of skills, connectivity, administrative support and quality office accommodation combining to generate investment appeal.

Certain less tangible characteristics, it is argued, are equally important, such as the *'diverse professional community'*. A member of the Institute of Directors told us that when a new business is considering Guernsey, it is easy to offer a quality and diverse range of supplementary professional services – legal, accountancy, ICT and so on – and this has important benefits for the Island. Beyond its attractiveness as a place to do business, Guernsey's social characteristics and relative privacy also make it an attractive place for high net worth individuals (HNWIs) to live.

The Guernsey economy will need to continue to focus on niche, high quality products and services across all sectors – a scale offer would not be effective due to high costs and obvious spatial constraints; as one interviewee told us, *'no-one is going to build a call centre in Guernsey'*. The need for quality over quantity spans the majority of sectors, including finance, agricultural exports, tourism and developing 'spatially light' segments of the economy, both industry and services. As such, Guernsey's offer to business needs to evolve in line with these objectives.

2 Guernsey's Competitors

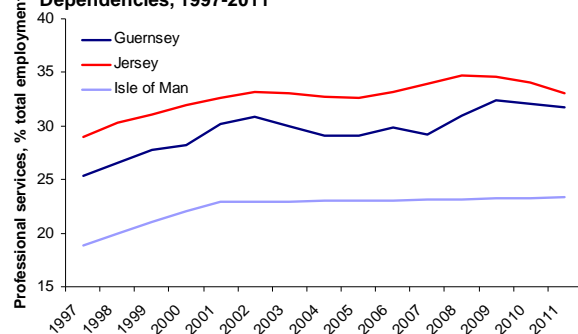
This section looks at Guernsey's economic competitors, both familiar and emerging.

2.1 Crown Dependencies

The Crown Dependencies (Jersey, Guernsey and the Isle of Man) are amongst the most prominent offshore financial centres in the world. Though available data for each location point to a large financial and professional services industry, each Island has its own niche specialisms within and beyond finance. Clearly, Jersey and the Isle of Man share many of the same characteristics that have helped develop this sector in Guernsey: favourable corporation tax regimes (though each has subtle differences), proximity to London, cultural similarities with the UK and of course the English language.

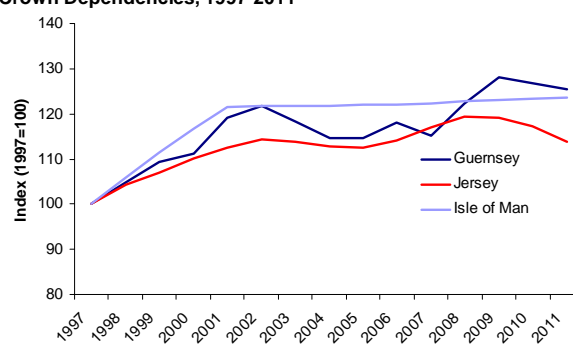
Figures 2.1 and 2.2 map the growth of each Crown Dependency in the broad professional services industry²⁰ since 1997; the analysis suggests that the sector is largest in Jersey (33% of total employment in 2011), marginally ahead of Guernsey (32%), with the Isle of Man (24%) having a slightly smaller concentration of activity. The data in Figure 2.1 also suggest that this relative balance has not changed significantly over time, with Jersey historically having the highest overall professional services concentration. However, Figure 2.2, indexed to show the growth in concentrations, suggests that over the past 14 years, the growth of professional services in relative terms (i.e. based on its share of total employment) has been fastest in Guernsey, driven by a strong increase between 2007 and 2009. The Isle of Man's professional services concentration increased strongly between 1997 and 2001 before leveling out; Jersey's concentration has increased more steadily.

Figure 2.1: Professional services employment, Crown Dependencies, 1997-2011



Source: States of Guernsey, States of Jersey, Isle of Man Statistics, Oxford Economics

Figure 2.2: Professional services employment growth, Crown Dependencies, 1997-2011



Source: State of Guernsey, State of Jersey, Isle of Man Statistics, Oxford Economics

²⁰ The wider definition of the professional services sector (incorporating finance, legal and business services) was used in order to make the data comparable. This process included some data manipulation by Oxford Economics; a methodology note is available upon request.

Box 2.1: The Guernsey Training Agency University Centre (GTA)

The GTA is a unique feature of the Guernsey economy in relation to its main competitors. An employer-led training and skills brokerage service – and increasingly a direct provider of training courses – the facility allows for a range of services, both general and bespoke, to be provided on the Island.

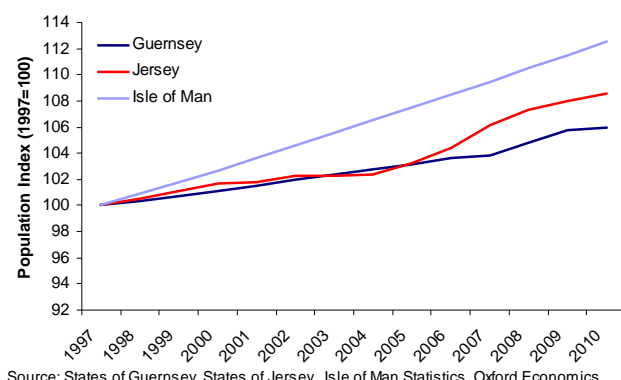
The course offering generally focuses on shorter programmes, but from January 2012, the GTA will be offering Guernsey's first on-island undergraduate degree course. The BA (Hons) Business and Management programme will be delivered in partnership with Bournemouth University, and will take three and a half years to complete on a part-time basis.

It was asserted in various consultations that the GTA's model of tailoring its services to evolving industry needs made it the *'jewel in the crown'* of Guernsey's economy, and *'the envy of Jersey and the Isle of Man'*. Its staff and services are clearly held in very high general regard across the island.

Whilst there is perhaps scope for refinement of the GTA's role, most notably to ensure it fully complements the role of local private sector providers within the training market, it should be recognised as a comparative advantage for Guernsey vis-à-vis other jurisdictions. The concept of a high quality education and training centre tailored directly to local business needs is frequently discussed in economic development strategies across the world, but rarely achieved.

Over the period 1997-2010, Guernsey's population grew by 6%, compared with 9% and 13% in Jersey and the Isle of Man respectively (Figure 2.3). Jersey's population began to rise more rapidly after 2006 as its government relaxed immigration laws and allowed a controlled expansion of the population from 85,000 towards a 'capped' level of 100,000. Data suggest the Isle of Man's population also grew considerably between 1997 and 2010, with almost 10,000 additional people now resident on the island.

Figure 2.3: Population, Crown Dependencies, 1997-2010



Jersey's recent economic development strategy (summarised in Box 2.2) highlights strategic aims to *'develop a more diverse financial sector'* and *'decrease the size of government'*. Its promotion of productivity growth and new, high-value sectors and markets, including renewable energy, show its commonality of interest, in the global context, with Guernsey itself.

Box 2.2: Summary of the Economic Development Strategy for Jersey



Jersey has developed three strategic objectives to profit from the global economic recovery. These are:

1. Developing a flourishing and more diverse financial sector;
2. Creating opportunities for new, high productivity sectors;
3. Raising the productivity of existing sectors.

In order to achieve these objectives, Jersey has introduced new regulations in areas such as e-gaming and e-commerce, enhanced broadband connectivity and introduced plans to take advantage of its natural resources in the form of renewable energy. Jersey also plans to expand its tourism market.

In order to maintain existing business, Jersey has vowed to maintain its current corporate tax rates, maintain fiscal stability in the face of significant infrastructural investments and invest in the rural economy. In addition, Jersey plans to reduce the overall size of the government to produce a more business-friendly environment.

Notably, Jersey has developed ambitious plans for a fibre-led cluster of ICT businesses. Its Treasury and Resources Minister made the following speech in November 2011:

"I have carefully analysed the case for going further than just speeding up the copper networks and have concluded that, without doubt, fibre networks are the future...Perhaps even more exciting are the potential economic spin-offs in a whole host of areas that could mean Jersey is one of the first truly Gigabit economies; lighting up Islanders lives with fibre optic could create a cluster of world class ICT businesses that will come to Jersey because of the legal

framework, tax benefits, expertise and lifestyle.... This investment in infrastructure is just the beginning of Jersey's ICT strategy. But to do this, we must move and move quickly. I would like to see funding for an independent ICT representative body, which will provide consultation, industry representation and promotion, in a similar way that Jersey Finance does for the finance industry."

Philip Ozouf, Jersey Treasury and Resources Minister, 8th November 2011

This development appears to be an effort to strengthen the business case for Jersey's £40 million, five-year 'Gigabit Isles' programme of investment in fibre connectivity, which aims to roll out 1,000MB broadband speeds – the fastest anywhere in the world outside South Korea – across the island following initial deployment in St Helier's flagship Castle Quay mixed-use development. A number of small island locations, from Malta to Singapore, are now actively marketing themselves as ICT destinations with strong links to tax competitiveness and indigenous financial expertise. Jersey potentially has a strong supporting offer in these areas capable of promoting similar investment, although this offer is still arguably weaker than that of Guernsey, whose telecoms market has been much more effectively opened up to competition and regulation and now boasts greater capacity, resilience and efficiency than its rival.

Beyond sector development, Jersey is currently reviewing its 1(1)k housing law for HNWIs; Withers and Panopticon's²¹ 2010 study estimated in broad terms the law's economic impacts, suggesting a conservative figure of £50-70 million in income, and offered suggestions for raising more direct income from HNWIs. The report confirms that *'the stability and reliability of the tax regime is one of the most important factors'* when a HNWI is selecting a jurisdiction in which to reside and do business.

As Jersey is Guernsey's most significant comparator and competitor, references to both in relation to each other often arose during our consultations. For illustrative rather than definitive purposes, we summarise some of the main opinions expressed in Table 2.1:

²¹ Withers LLP and Panopticon Policy, 2010, Review of 1(1)k regime for the States of Jersey, States of Jersey

Table 2.1: Common perceptions of Guernsey and Jersey economies, based on consultation responses (not necessarily Oxford Economics' opinions)

Issue	Guernsey	Jersey
Planning	It was argued that the system in Guernsey was ' <i>open and logical</i> ' but perhaps perceived as ' <i>a bit slow</i> '.	It was noted that the planning system in Jersey was more complex and perhaps perceived as more ' <i>politicised</i> '
Population	The States' current policy is to limit population levels at approximately 61,000 (March 2007 levels, as quoted in <i>Managing Guernsey's Population</i>).	Jersey recently implemented a controlled population expansion from 80,000 to 100,000.
Economy	As a positive, it was suggested that the Guernsey economy is ' <i>discreet and conservative</i> ', but as a downside risk, the Bailiwick is perceived as perhaps ' <i>a bit slow</i> ' to react to new opportunity.	It was felt that in comparison to Guernsey, Jersey is perceived as ' <i>quicker to react</i> ' to new opportunity and is a ' <i>more proactive</i> ' economy.
Financial sector	It was consistently noted that the finance sector is ' <i>diverse</i> ', with four established pillars and significant emerging sectors.	It was noted that Jersey's finance sector is less diverse, with greater exposure to ' <i>exotic</i> ' financial services.
Tourism	It was argued that tourism could be marketed more strongly on the international stage; views on budget effectiveness varied.	It was generally felt that Jersey is more proactive in marketing tourism overseas.
Air connectivity	Guernsey's air movements are restricted by runway capacity, both for business and tourism; there is ' <i>no policy</i> ' on private business aviation.	Jersey's airport is larger and ' <i>less restrictive</i> '; it can land jet aircraft, particularly beneficial to the tourist market; there is an active provider of private/business jet services.
Housing licences	It was argued that the housing licensing system is ' <i>restrictive</i> ' and that the recent population consultation has caused ' <i>confusion</i> ' in the open market, dissuading potential investors.	It was felt that a relaxing of housing controls in recent times has improved business conditions (although the system was arguably more restrictive than Guernsey's prior to that).

In relation to the other Crown Dependencies, the Isle of Man is less dependent on financial services overall, but its finance sector is heavily dependent on banking, with a small presence in captive insurance and fund management. The island perhaps lacks Guernsey's attractive surroundings and climate which have helped it to build and maintain a more diverse range of financial services activity. The Isle of Man government has been proactive in developing a diverse range of niche sectors in the past decade, most notably space commerce (see Box 2.3), and continues to generate publicity from hosting the internationally recognised TT motorcycle races annually.

Box 2.3: The Isle of Man space commerce industry

One of the world's leading space entrepreneurs, Chris Scott is a Manx native, and through his company the Isle of Man commenced its development of the 'space commerce' sector in 2000.

The achievement of orbital slots was quickly followed by the introduction of zero corporation tax for space activities. A range of government grants, business-friendly legislation and strong telecoms infrastructure has assisted early development. At present, the space commerce industry's profile on the Isle of Man is significant, with numerous global firms present and the Google Lunar X Prize being hosted in 2010.

Economically, the industry provides significant high-value added activity on the island, with the Manx Business Development Agency estimating the industry benefits the exchequer by over £4 million per year. But despite its high profile and high-value nature, it is estimated that the industry supports only 16 full-time employees on the Isle of Man.

Nevertheless, wider benefits in terms of attracting visitors and potential future investors via the Lunar X prize (and potential future events) will help to build the island's competitiveness and attract global publicity.

Going forward, the Isle of Man aims to consolidate its position as a global leader in space commerce and further develop the specialisms associated with its telecommunications infrastructure. Its service delivery plans also note e-business development and continued promotion of the finance sector, both of which will compete with the aims and strengths of Guernsey. Some key strategic aims of the island's government in relation to economic development are summarised in Box 2.4 on the following page.

Box 2.4: Summary of the Economic Development Strategy for the Isle of Man

The latest Economic Development Strategy for the Isle of Man was published in 2004. It is felt that this is no longer relevant, so we have reviewed the latest Service Delivery Plans for the Isle of Man Treasury and Department of Trade and Industry to gauge strategic direction.

The Isle of Man is recognised for its specialisms in space commerce and one of the aims of the government is to promote the Isle of Man as a 'centre of excellence' in the sector. The government also seeks to continue to promote the island as an international finance sector, raise its profile as '*a leading jurisdiction for basing e-business developments*' and support domestic manufacturing, which has '*been a hidden success story in recent times, growing at more than twice the rate of financial services (based upon National Income data)*'.

The Isle of Man also hopes to promote its aircraft registry, through continued work with the private sector to ensure it remains successful in the face of growing international competition, notably from the British Virgin Islands and Malta. Guernsey has also developed plans for an aircraft registry, and will add further to the offshore competition when this is implemented.

2.2 Europe

Within Europe, Switzerland and Ireland represent two of Guernsey's main competitors, given their reputations for global finance, technology and tourism. Data from our partners Tourism Economics suggest that Switzerland receives the highest tourism spend per visitor of any country (\$950 in 2010), based on trips unadjusted for length of stay. In terms of the finance sector, data from Oxford Economics' Global Model suggests that Switzerland and Ireland overall rely much less on professional services in employment terms – as both have a much larger industrial base than Guernsey – with the sector accounting for around 19% of direct employment in Switzerland and 15% in Ireland.

The recent agreement between Switzerland and the UK on tax transparency highlights Switzerland's role as a leading centre for banking deposits from UK HNWIs. Potentially, the agreement to apply modest rates of tax to deposits held may present an opportunity for Guernsey's private banking sector as their Alpine rival becomes marginally less competitive, though the pressure to close other so-called 'loopholes' will continue to be exerted by the UK Exchequer.

Figure 2.4: Tourism spend per visitor, selected countries, 2010

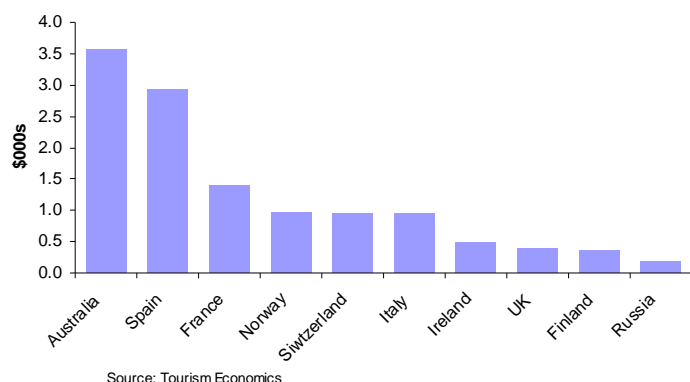
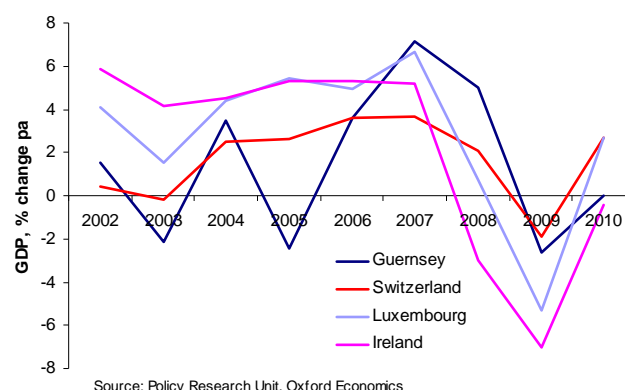


Figure 2.5: GDP, selected countries, 2002-2010

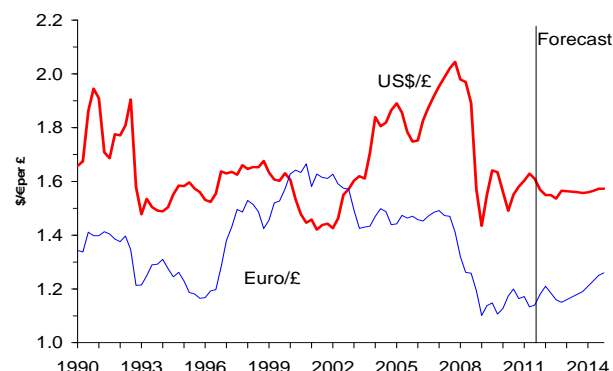


In GDP terms, Switzerland's growth over the 'boom period' of the early 2000s was more modest than its established European competitor Luxembourg and the emerging Ireland, but in turn Switzerland suffered less in the global recession, with GDP falling by 1.9% in 2009. Growth in both the Swiss and Luxembourg economies is forecast in the near future, with GDP forecast to rise by 1.9% in Switzerland and 2.0% in Luxembourg in 2011, although the former is currently suffering from an extremely strong and almost certainly overvalued currency which is placing severe pressure on its export competitiveness. The forecast for Ireland is more constrained due to the housing bubble and severe public sector cuts, but it is envisaged that Ireland's competitive corporation tax rate will remain intact, keeping it towards the forefront of financial activity in Europe.

It seems likely that Switzerland, Luxembourg and Ireland will remain amongst the more prominent financial centres in Europe; what is more difficult to gauge is the potential for emerging 'offshore' centres, such as Liechtenstein and Malta, to become significant competitors for Guernsey. However, at a time when investor confidence is low, international reputation will be paramount, and the evidence suggests Guernsey ranks amongst the top destinations in the world in this regard.

The depreciation of sterling over the recessionary period (Figure 2.7), and rising long-haul airfare costs, will have grown Guernsey's tourism competitiveness in both its core UK market and across the Eurozone countries. Forecasting exchange rates is an almost impossible task, but on balance it appears unlikely that sterling will fall any further against the euro over the medium term; an eventual return to the long-term average of around £1:€1.4 would be the most likely prospect for most analysts, dependent on eurozone stability. This means in part that Guernsey needs to capitalise on its current relative cost advantages in growing its share of inbound European tourism, focused of course on those markets to which transport connectivity is already or can realistically be put in place. But it also suggests that price-sensitive markets are unlikely to hold long-term strategic appeal.

Figure 2.6: Exchange rates, £ sterling, 1990 - 2015



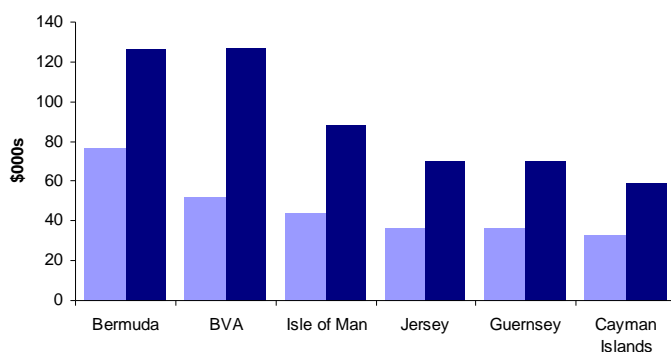
Source: Oxford Economics

2.3 International

Globally, the Cayman Islands, British Virgin Islands and Bermuda rank amongst the main competitors to the Channel Islands and the Isle of Man, again largely through their financial services status – which in the case of the former British colonies was actively promoted by the UK Government to help them diversify away from tourism.

The Cayman Islands have historically been an attractive offshore centre for US businesses, with the CIA²² estimating that ‘*more than 93,000 companies are registered in the Cayman Islands as of 2008, including almost 300 banks, 800 insurers and 10,000 mutual funds*’. This amounts to almost 1,800 companies per square kilometre. It is estimated that there were 430,000 active international companies on the British Virgin Islands in 2008, with the majority not employing anyone on the islands themselves.

Figure 2.7: GDP per head and per worker, International off shore centres, 2010



Source: State of Jersey, State of Guernsey, Isle of Man Stats, Oxford Economics

²² Central Intelligence Agency, World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/>, accessed 7th November 2011

Despite the high concentration of business registrations, data suggest the Cayman Islands are less productive and generate less GDP per capita than Guernsey or other offshore centres. Bermuda, by contrast, ranks amongst the top five most productive economies in the world, benefiting from a large re-insurance industry: GDP per capita is £65,000, more than double the comparative measure in Guernsey (£31,000). Jersey's productivity and GDP per capita figures are similar to Guernsey's, while the Isle of Man is overall £6,700 more productive per worker, perhaps partly the result of the high-value but low employment space commerce industry. However, it is important to remember that GDP is a reflection of wages and profits and not necessarily the best measure of living standards, as it is likely that the majority of profits generated in offshore financial centres are quickly repatriated elsewhere.

The international offshore centres will provide stiff competition in attracting emerging market business, with a leading Guernsey financier suggesting to us that the international centres (notably the Cayman Islands) may already be attracting more offshore activity from the East. In this context, it is vital for Guernsey to maintain a competitive advantage over its rivals:

- In terms of regulation, Guernsey is ranked amongst the best of offshore centres, with Bermuda, the British Virgin Islands and the Cayman Islands only substantially implementing internationally agreed standards in 2009/10; Guernsey has maintained this status since 2000.
- Beyond regulation, a recent study by Long Finance²³, based in part on an online executive survey, ranks Guernsey as the 31st most prominent financial centre globally (in comparison to cities as opposed to countries) and second amongst offshore centres behind Jersey. In comparison, Hamilton (Bermuda) ranks 41st, the British Virgin Islands 45th, and the Cayman Islands 46th. The top three global financial centres in the study are London, New York and Hong Kong.

The Long Finance study recognises the 'reputational damage' to the offshore financial centres over the previous three years, but cites an improvement in perceptions in recent months and notes that the Channel Islands have remained the leading offshore centres over time. The report also notes how the Channel Islands '*are working to change perceptions and to rise above the status of offshore specialist centres by being seen as more diversified*', but suggests '*they still have some way to go*' in this regard.

The strategic development aims of the Cayman Islands and Bermuda are summarised in Boxes 2.5 and 2.6. Both strategies note '*diversifying the economy*' amongst their key aims, perhaps suggesting that they are likely to remain competitors to Guernsey beyond financial services.

²³ Long Finance, 2011, *The Global Financial Centres Index 10*, Financial Centre Futures Programme sponsored by Qatar Financial Centre Authority.

Box 2.5: Summary of the Economic Development Strategy for the Cayman Islands

The Cayman Islands' *Future of Cayman* development plan is delivered through a public-private partnership. The plan is focused on improving quality of life and business climate and also creating new jobs and business opportunities.

The economic growth plan has five main aims;

1. Developing talent;
2. Creating a business friendly environment;
3. Diversifying the economy;
4. Enhancing the quality of life;
5. Building a smarter infrastructure.

To meet the aims of the strategy, the partnership hopes to implement a number of objectives that will improve the Caymans' economy and society. Some of these aims include improving educational performance, improving government efficiency, improving the islands' infrastructure, promoting diversity and healthy living amongst the population and attracting and developing globally competitive businesses.

Box 2.6: Summary of the Economic Development Strategy for Bermuda



The key aims of Bermuda's sustainable development plan are to:

1. Reduce inequality on the island through improving the public school system, improving investment in human resources and skills and increasing opportunities for entrepreneurship;
2. Diversify the economy through improved government reaction, expanding the island's economic zones and loosening foreign exchange controls;
3. Ensure business contributes to the island's social and environmental needs by ensuring a stronger government partnership with the private sector on the key issue of developing a sustainable economy.

In a globalised world, where attracting new business from the emerging East is key, it will not only be the other Crown Dependencies and established offshore centres that Guernsey will be competing against; Hong Kong and Singapore, the established financial centres of the East, are likely to remain as market leaders, due to their proximity, cultural similarity and international recognition (both rank highly in financial regulation standards). To attract emerging market business, Guernsey will need to remain globally competitive, selling itself on effective regulation, a skilled professional community and established expertise.

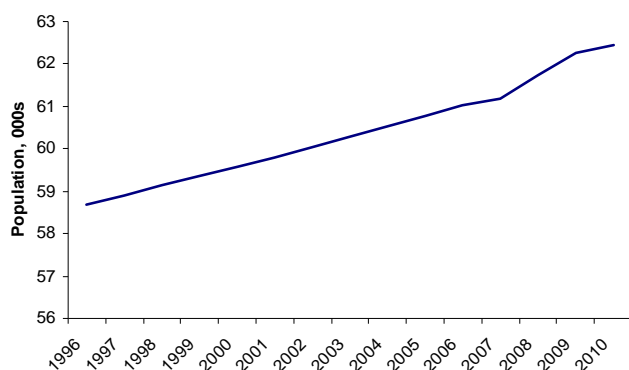
3 Internal Influences and Policies

This section reviews the ‘internal’ influences on Guernsey’s economic performance, focusing on how they are likely to evolve in the medium-term future and their economic implications.

3.1 Population

Guernsey’s population (62,431 in March 2010) has increased by an average of 0.5% per year since 1996, with growth fastest between 2007 and 2009. As a result, Guernsey’s population density has increased to almost 900 people per square kilometre, significantly higher than in the UK and other Crown Dependencies. For illustrative purposes, with no constraints on its growth and based on recent trends, projections show that the population of Guernsey might be expected to reach 80,000 within the next 50 years – although this is unlikely to happen in reality given the States’ population management policies.

Figure 3.1: Population, Guernsey, 1996-2010



Source: States of Guernsey, Oxford Economics

With such a dense population, managing numbers to avoid over-stretching resources and protecting the quality of life in Guernsey has long been a priority. The States have recently expressed a desire to cap the population at ‘approximately the same level as it was in March 2007 (61,175)’, according to the *Managing Guernsey’s Population* consultation document, published in January 2011.

In order to control the population it has been recognised that a new mechanism will be required, as the Housing Control system that previously acted as a ‘proxy’ for population control – and still does, in effect – has a number of noted flaws. Specifically, in the absence of strategic direction from the States, the licencing system is overly reliant on discretion inherent within the law and struggles to incorporate modern legal standards (for example European Human Rights laws). Furthermore, as the system was introduced to preserve the Island’s limited

housing stock in the post-World War II era, and is primarily concerned with the occupation of housing and not the size and make-up of the Island's population, it is unable to deliver against the States' population policy. A perceived lack of transparency in decision-making is also cited as a potential barrier to business investment.

As noted by Guernsey's Population Policy Group (PPG), one option for reform would be an employment permit system, allowing entry into Guernsey based on the skills and potential value an applicant could bring to the economy. Such a system is perceived to work well in Australia (the Skilled Migration Programme), and many other nations are now aiming to replicate this model. An employment permit system allowing residency in Guernsey based upon economic merit could in theory allow the States to tailor migration to the needs of the economy, which would help maximise the long-run benefits for the Island. It will clearly be important to promote transparency and information during the implementation of any new system, to mitigate against concerns from the business community that complexity and uncertainty could create negative impacts on business and investment.

One important issue surrounding population control mechanisms is the length of stay on the Island that entitles migrants to remain resident in Guernsey even when they do not have a job. Following extensive research and public consultation, the PPG currently proposes two key milestones: a length of stay of eight and fourteen years respectively²⁴ which would mean workers could remain permanently in Guernsey (the difference being a right to leave and return again with the latter, which would lead to Qualified Resident status). This proposal is based on extensive research into a number of complex and emotive issues and there is little scope to dispute its validity. We would only echo the sentiment of the PPG's analysis which calls for greater clarity, transparency and an ability to base decisions on solid legal ground.

3.2 Demographics

Population projections in Guernsey are currently estimated using two different models: a best-fit model based upon recent trends, and an alternative model that allows for different levels of migration. Figures 3.2 and 3.3 show the population projections under each model for Guernsey. Both models suggest a similar outcome, with an ageing population set to significantly increase the dependency ratio on the Island²⁵. Though an ageing population is not unique to Guernsey,

²⁴ The eight-year proposal is contained within the Policy Council document *Guiding Principles for the Development of a Population Management Regime*, Billet d'état I, 2012. This is revised from a seven-year proposal in the previous *Managing Guernsey's Population* consultation report.

²⁵ The *Managing Guernsey's Population* document shows how the number of residents aged over 60 will double between 2009 and 2039, lifting the number of non-working age residents for every 100 residents of working age from 48 to 75.

spatial constraints on the Island limit the potential to import working-age migrants to expand the workforce.

Figure 3.2: Population by age band (current best fit model), Guernsey, 2010-2070

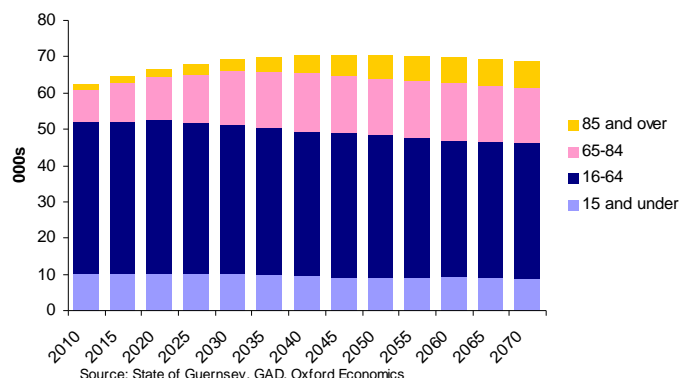
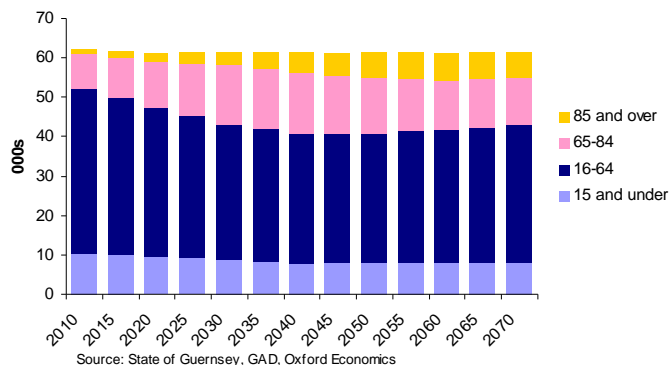


Figure 3.3: Population by age band (alternative varying migration model), Guernsey, 2010-2070



Box 3.1: Contrasting views on Guernsey's population constraint

The ageing population was a popular topic of debate with economic stakeholders throughout the consultation phase. Two alternative schools of thought on how Guernsey should seek to manage the issue are summarised below:

Option A) Some emphasised the need for Guernsey's economy to grow at higher rates, perhaps up to 5% per year, to generate sufficient revenue to support the rising dependency ratio. This should be achieved through focusing on high-value added sectors and reclaiming land to develop new commercial space.

Option B) Others feel it is unrealistic for a mature economy to seek 5% annual growth, and instead the emphasis should be on a controlled expansion of the population, focusing on attracting younger workers and entrepreneurs who could potentially contribute to the economy over the longer term.

On balance, we share the view that average annual growth rates of 5% are likely to be unfeasible in the future for a mature economy such as Guernsey – particularly one with such acute internal resource constraints that also needs to manage its environmental sustainability in a very careful manner. Demographic change will pose an ongoing challenge, as in most Western economies, but it seems unlikely that higher economic growth rates, *per se*, will provide the solution.

In order to quantify the scale of the potential demographic problem, Oxford Economics illustratively modelled the impact of the decline in working-age residents on the island. This process considered both the 'best-fit' and 'varying migration' projections. Figure 3.6 shows that if the employment rate was to remain at 76%²⁶ (the average over the past four years), employment levels would decline given the smaller number of working-age people and the resulting smaller size of the labour force. The best-fit model suggests a modest decline of 900 jobs, but the alternate model projects a more acute decline of 5,800 jobs. The implication is that with less people working, the tax base will shrink and this will place a significant squeeze on government finances, as welfare demands rise from an ageing population. This could potentially be mitigated by changes in taxation policy, but such a move might not be equitable.

Figure 3.4: Employment under population forecasts, Guernsey, 2007-2030

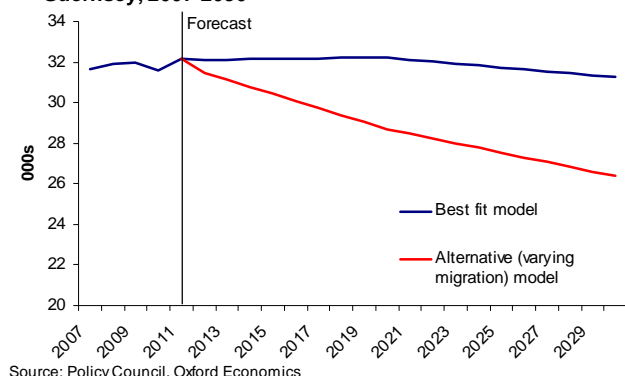
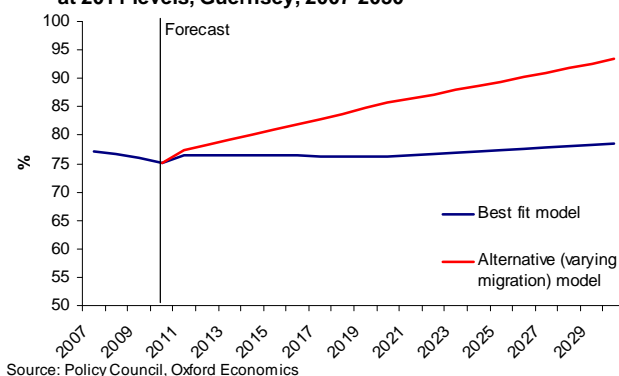


Figure 3.5: Employment rate required to keep employment at 2011 levels, Guernsey, 2007-2030



In an alternative scenario, Oxford Economics calculated the employment rate required to keep employment at March 2011 levels; the best-fit model suggested an employment rate of 78.6% in 2030, a modest increase of 2 percentage points from the current rate. Under the alternative model, the employment rate would need to reach 93.4% of the working-age population in 2030 to keep employment levels consistent. An employment rate this high is almost certainly unrealistic, although the increase in retirement age should mitigate the problem somewhat.

The outcome of this analysis suggests that if the States wish to cap the population level (as suggested in the alternative model), they may need to coerce or support the older population to remain in, or re-join, the workforce. Achieving such an aim would be difficult, as the majority of people work to enjoy their retirement and, in Guernsey, largely enjoy the wealth to do so. One feasible route may be to target sectors that may appeal to the older population out of personal interest as opposed to financial gain (such as strands of arts and tourism) or encouraging them to start small businesses.

²⁶ The employment rate of 76% includes those receiving invalidity benefit; recent trends suggest this ranges between 2.5% and 3% of total employment in Guernsey.

But this approach would be challenging. A public sector interviewee highlighted that although a prolonged working life might appeal to some, it is unlikely to mobilise the non-working population in any great numbers, partly due to Guernsey's already significant voluntary sector. Using tax controls to encourage the older population to work would threaten a significant element of Guernsey's social attractiveness and would also be challenging.

Box 3.2: Potential for the 'silver economy'

The ageing population is often considered to be an economic problem. However, there is significant potential in what has been named the 'silver economy'. The current generation of retirees and near-retirees are largely wealthy, thanks in part to significant rises in property prices throughout their generation.

There is significant economic potential in serving their needs, through the provision of care facilities, arts and entertainment facilities and medical technology. Tapping into their expertise, know-how and indeed capital to promote local enterprise and to maintain economic success may also become important for the Island.

Finally, it is likely that Guernsey could benefit from larger numbers of older tourists, who naturally seek high-end attractions such as luxury hotels and restaurants, golfing, creative arts or leisure boating. The market potential for Guernsey here is significant, with over two million additional over 65s forecast in the UK over the next decade, creating a group of approximately 13 million over-65s by 2022, according to the latest 2010-based ONS UK population projections.

3.3 Skills

The finance sector in Guernsey employs almost 22% of the workforce, while almost a third of the 32,591 total employees (at June 2011) work in the wider financial and professional services sector. GDP per worker was almost £60,000 in 2010 (amongst the highest in the world), and the evidence suggests Guernsey's workforce is generally highly skilled and productive. Guernsey generally has a strong on-island skills and training infrastructure serving its professional community, led by a core of private providers and the GTA University Centre. The recent decision of Specsavers to base its Chartered Institute of Management Accounting (CIMA) programme for on-island staff at the GTA, rather than its UK training base in Nottingham, emphasises the point.

The specialisation analysis previously shown in Figure 1.5 also highlights Guernsey's prominent construction sector, suggesting a solid demand for practical and trade-related skills; qualitative evidence suggests these are provided to a high standard through Guernsey College of Further Education

(GCFE), although we did encounter some opinion that practical project management capabilities were occasionally lacking in the construction sector²⁷. The importance of basic literacy and numeracy skills throughout all levels of the economy must not be overlooked, as a lack of basic skills can erode competitiveness, even at the higher end of the spectrum. Indeed, improving adult basic skills was one of 13 priorities identified by the Guernsey Skills Strategy Development Group (SSDG), with Frontier Economics, in their 2011 report *Towards A Skills Strategy for Guernsey*.

Frontier Economics, in their previous skills intelligence report (*Strategic Review on Upskilling Guernsey's Workforce*), ran a survey which found that 69% of local employers felt their employees were adequately skilled. But while this overall message was positive, it also revealed that 31% saw gaps in skills. In terms of particular skill areas, the most prominent gaps were perceived to concern 'soft skills' such as customer handling, communication and leadership.

Box 3.3: Guernsey preferable to a second-tier UK city

A leading finance sector representative noted the '*strong professional community*' in Guernsey as a key characteristic and a potential comparative advantage over other jurisdictions, with highly proficient staff in a wide range of professional areas.

The consultee felt that the Frontier Economics research on skills was interesting, but that the conclusions were '*general*' and '*difficult to prove one way or the other*'. The issues raised, in terms of customer and leadership skills gaps, had not been personally experienced.

It was noted that whilst Guernsey's professional skills profile was below central London standards, it was preferable to that of a second-tier UK city, such as Manchester. This is an important message for Guernsey in positioning its competitive offer to business.

The lack of soft skills was in part attributed by some consultees to the concept of 'over-promotion', which is common in small island economies. This is driven by the difficulty in importing the required labour, resulting in technically proficient staff being promoted quickly, without the time to fully develop the softer skills gained through experience.

In relation to this view, evidence presented in Lord Hunt's review on banking and by senior business leaders in our consultations suggests that Guernsey is '*not a career destination*'. It was noted that a high proportion of people leave the Island to pursue higher education and only return home after multiple years of

²⁷ According to some, this may be due to the fact that many local construction companies have expanded rapidly in a relatively short space of time, and have retained some of their 'small family business' characteristics.

experience, placing them at a senior level; this results in lower and middle management positions being amongst the most difficult to fill, and could result in the early promotion of junior staff, who have yet to develop the soft skills required.

Oxford Economics' understanding is that there was an increased provision of soft skills training in light of Frontier's findings. However, there is little substitute for experience, and it is felt that a key element of progression will be to ensure there is a suitable skills hierarchy on the Island, with a supply of middle management staff. This will help promote Guernsey as a career destination and ensure a 'well rounded' workforce. To what extent the increased provision of undergraduate courses through the GTA University Centre, or the rise of tuition fees in the UK, will naturally drive this change remains to be seen.

The main policy recommendation of the Frontier report suggested creating a Skills Agency and promoting a skills strategy on a year-by-year basis (key overarching aims, as set by the SSDG, are summarised in Table 3.1). Despite much effort on the part of key personnel, we understand this has yet to be fully introduced. We echo the recommendation from Frontier, and suggest that a skills strategy will be a key element of a successful economic policy for Guernsey. It is vital that on a small island operating at near-full employment, the workforce is appropriately skilled to ensure effective employment and increased productivity. **Guernsey cannot afford to be complacent on skills provision, as its growing number of international competitors – including the emerging market nations – are investing heavily in education, skills and training to equip their workforces with a competitive advantage.**

Table 3.1: Summary of Guernsey Skills Strategy's Four Key Aims

	Description	Underlying Priorities
Strategic Aim 1	Increase participation, including improving the skills of those not in employment or in danger of becoming unemployed	Develop a strategy for those not in education, employment or training Improve adult basic skills Readiness for work Adult guidance
Strategic Aim 2	Improve the education and training opportunities available in Guernsey	Widen the States Apprenticeship scheme Review higher education provision Coordinate on-island skills delivery
Strategic Aim 3	Improve the skills of those in work	Develop a greater understanding of the needs of specific sectors Encourage those in work to improve their skills Promote training opportunities Support small businesses
Strategic Aim 4	Improve information and evidence on Guernsey's skills	Gather information on Guernsey's skills Gather information on Guernsey's skill needs

Source: SSDG

Whilst increasing productivity will be a key strategic aim, it is important to consider the full skills profile of Guernsey in an economic development strategy. For an economy to be successful, not all jobs can be high-value added nor require degree-level skills. It is important to ensure that the employment opportunities available match the skills available on the Island, and this will include lower-skilled employees, many of whom could potentially remain out of work for long periods should suitable employment not be available. As a related point, it is important to note that even for lower-skilled workers, there will be opportunities to earn a 'good living' from middle-tier professions on the skills ladder, even if the highest-earning roles remain inaccessible.

Box 3.4: A finance sector 'brain drain'?

The emergence and growth of a strong financial sector over recent years, and the increase in earning potential it has provided, has led to concerns of a finance brain drain: skilled employees moving towards the finance sector to increase their earnings.

This is not entirely surprising, given Guernsey's high costs of living. As one consultee told us: *'Guernsey is not a great place to be in your twenties, unless you work in finance'*. But the potential drain on resources extends across all age groups. More than one business owner told us of the difficulty in sourcing and maintaining high quality management-level staff in a non-finance environment, and claimed that this problem had become particularly acute in recent times.

Others understandably had a different take on the issue, citing the role the finance sector plays in training staff. Many employees join the finance workforce in their early career, gain experience and professional qualifications and then depart for management positions in other sectors. The role of the finance sector in training the majority of employees who now operate the e-gaming sector was specifically noted.

The skills profile of Guernsey today is well served at the majority of levels, but it will be important to consider the potential changes in skills requirements for the future. For example, with the emergence of a renewable energy sector likely over the decade ahead, it may be important for Guernsey to ensure an adequate supply of talent in relevant areas such as scientific inspection, light engineering and carbon finance. Throughout the consultation phase it was noted that Guernsey had an adequate engineering skills base, but that it had potential to increase that base to meet rising future demand, with key science and mathematical subjects amongst the highest A-Level entries.

3.4 Welfare

Socially, unemployment and invalidity claimants have been rising in Guernsey over the past four years (Figure 3.6). While some of this can be attributed to the global recession, views were expressed in many of our stakeholder interviews that the underlying issues may be internal. Notably, the increasing demands of the labour market were raised as a barrier to entry for low-skilled workers, resulting in many being classed as unemployed as they sought the relevant skills to enter the market.

Figure 3.6: Unemployment and invalidity claimants, Guernsey, 2008-2011

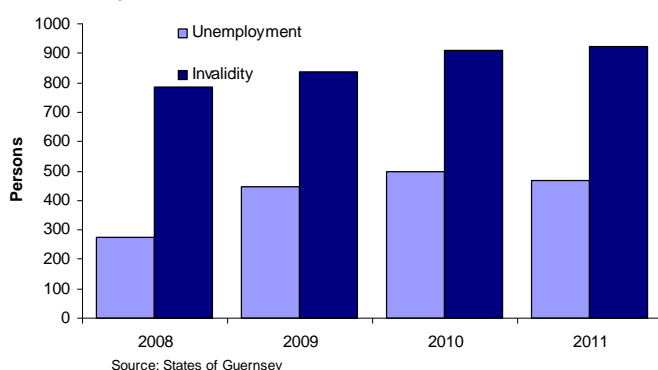
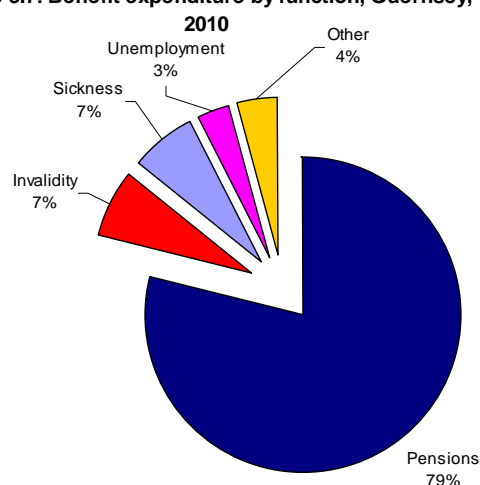


Figure 3.7: Benefit expenditure by function, Guernsey, 2010



Source: Social Security Department
Note: Other includes administrative expenses

This view emphasises the importance of 'back-to-work' schemes in helping the unemployed develop work-readiness. The Social Security Department's *Benefit and Contribution Rates for 2012* report lists 13 established back-to-work initiatives on the Island, ranging from the general *Work Trial* scheme to *Kick Start*, aimed at practical trade skills, *Job Start Expenses* to encourage entrepreneurship, the *Gradual Return to Work* scheme for the long-term sick and the *Recruitment Grant* to incentivise employers. It was also noted that there are a range of informal events to encourage people back into work, such as career and open days. Whilst these schemes are potentially very beneficial, and should be integrated into future skills strategies for the Island, we understand that while perhaps two thirds of unemployment benefit claimants could be described as 'employment-ready', the remaining core of inactivity is somewhat entrenched and could prove difficult to tackle through light-touch initiatives alone.

We understand that there has been no formal 'return on investment' analysis carried out to test the overall success and value-for-money of these programmes, but anecdotal evidence suggests the success rates are often high. It is important to ensure these programmes are formally evaluated in the future, to help optimise the deployment of scarce government resources.

The basic welfare payments in Guernsey (invalidity, sickness and unemployment, along with pensions) are drawn from the Guernsey Insurance Fund. The Guernsey Insurance Fund operates through a 'pay-as-you-go' mechanism, whereby the existing contributors are paying for the benefits of existing beneficiaries. Recent trends show that the number of contributors to the Fund is decreasing, whereas beneficiaries are on the rise. While the Fund itself can – and does – act as a buffer in times of 'welfare deficit', it is estimated that the buffer could only withstand four years of benefits at current rates.

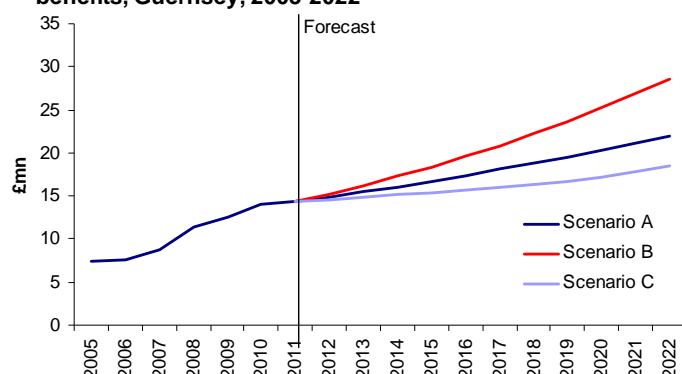
Trends in welfare payments are likely to be further challenged in the coming years by a rapidly ageing Guernsey population. The Government Actuary Department's (GAD) review of the Insurance Fund also highlighted these pressures, putting forward a range of challenging options that could potentially be introduced in the longer term. In order to ensure a sustainable welfare system in the long run – and seek to actively counteract recent welfare trends – the States may ultimately need to consider unpopular policies such as tightening eligibility criteria for benefit recipients over the working life.

Further to the pension challenge presented by GAD, we have illustratively modelled the potential impact of increasing welfare costs in the future²⁸. It is important to note that this modelling does not take into account the full range of complex issues related to benefit claimancy, and should be taken as indicative only. The forecasts assume that benefit rates will continue to increase in line with policy, at RPI plus 1%. Scenario A highlights the welfare cost if invalidity claimants, sickness claimants and unemployment claimants remain flat at 2011 levels. Scenario B assumes total claimants increase broadly in line with recent trends, and Scenario C assumes a gradual decrease in claimants, returning to 2008 lows before the end of the period.

Scenario A suggests an £8m increase in welfare payments from 2011 levels and the spread between the 'best case' (Scenario C) and 'worst case' (Scenario B) outcomes is a substantial £10m in 2022, emphasising the importance of decreasing the welfare burden at a time of constrained public expenditure.

²⁸ This modelling was undertaken using data from the *Benefit and Contribution Rates 2012* report. A cost per head figure was calculated for invalidity benefit, sickness benefit and unemployment benefit. Published data were used for the benefit rates for 2010, 2011 and 2012, and the forecasts and backcasting rates were calculated using the assumption that growth is RPI + 1%. The number of claimants was forecast in an illustrative manner and the scenarios are outlined in the main text.

Figure 3.8: Cost of unemployment, sickness and invalidity benefits, Guernsey, 2005-2022



Source: Social Security Department, Oxford Economics

Note: Figures are presented in nominal terms

The issue of increasing welfare spend, along with an increasing dependency ratio and a narrow tax base, suggest that welfare will have a considerable influence on an economic development strategy for Guernsey. Easing welfare commitments on the Island through the delivery of suitable employment and publicly-funded schemes should be an important goal of an economic development strategy, in order to both reduce welfare expenditure and increase tax receipts. To decrease welfare expenditure by significantly altering benefit rates could increase the risk of deprivation on the Island and erode Guernsey's attractiveness of place.

Box 3.5: Social housing

The waiting list for social housing in Guernsey, which had been decreasing over much of the previous decade, has increased back to 2000 levels since 2009. This has been due to a combination of delays in some major projects coming forward, the reduced availability of mortgage finance, stagnation in house building and high demand for private rental properties pushing those rentals ever higher.

Previously, the reduction in demand had been achieved through a sustained new build programme, the rationalisation of the social housing stock and the introduction of tenancy reviews, and the introduction of a joint-ownership programme.

There is some (anecdotal) feeling locally that recent increases in demand for social housing, which have coincided with the global economic slowdown, partly reflect an intentional '*lifestyle choice*' by some individuals. The introduction of tenancy reviews will help to counter this phenomenon by requiring occupiers to vacate when they are no longer eligible. An alternative view suggested that the rising cost of home ownership had made it an '*unrealistic ambition*' for lower-paid employees to own a property. Therefore, the demand for social housing has increased, and recognition of the unrealistic ambition has lead to a decrease in off-flows.

Solving the issue of housing affordability is potentially complex: with limited space and little desire to develop mass-market properties, it is difficult to envisage a decrease in house prices on the Island. If rising demand for social housing and slowing off-flows are perceived to be an unacceptable long-term drain on the public finances, government intervention may be required to further develop joint-ownership schemes.

3.5 Land-Use Planning

Data from the Environment Department suggest that 13.4% of land in Guernsey is developed. For illustrative purposes, this compares to 11.5% in England (both 2010 figures). The unique pattern of residential development on much of Guernsey (e.g. tight rows of bungalows on either side of many roads, masking green space behind them) sometimes gives the impression of the Island being more developed than it actually is. Pressures to restrict development are therefore driven primarily by a widespread desire for the Island to maintain its traditional 'rural' image, rather than any realistic land capacity constraints.

Maximising the effectiveness of land use in Guernsey will be a vital component in ensuring both efficient economic development and harmonious social development. From our research for this study, it seems there are a number of noted gaps in the supply of property, both commercial and residential:

- The lack of primary office space was raised as an issue throughout the consultation phase, with a leading figure in the property industry suggesting that *'if 100,000 square feet of office space became available, it would be filled instantly'*. This lack of office space is an obvious constraint to economic development on the Island and needs to be addressed to ensure potential investors are not lost to other jurisdictions.
- On the residential side, Guernsey remains perhaps over-dependent on the traditional 'bungalow and farmhouse' stock. (The *Annual Housing Stock Bulletin 2010* reports that 40% of all domestic property units on the Island are bungalows, 37% houses and 22% apartments. More than half of all apartments have just one bedroom²⁹.) A lack of two and three-bedroom apartments is cited by agents as the obvious gap in supply – we understand that recent developments of this type around St Peter Port have been filled largely by older residents moving for lifestyle reasons, to the detriment of younger working couples who remain frozen out of the market by high costs.

²⁹ Guernsey Policy Council, April 2011, *Annual Housing Stock Bulletin 2010*. Each individual apartment is classed as one unit. A house with separately let rooms and shared cooking/living facilities is also classed as one unit.

Box 3.6: Private sector views on planning

Property industry representatives noted that the Guernsey planning system was *'not easy but it is logical'* and was well supported by *'very knowledgeable civil servants'*. It was also suggested that there is relatively little politics involved in the planning system in Guernsey.

Generally, it was noted by consultees that the planning process is *'a bit slow'* and that the Planning Department could be more proactive regarding the shortage of office space on the Island.

The recently published *Strategic Land Use Plan* (SLUP) for Guernsey does provide for some further development of new office space within the main centres (Policy SLP1) but the main focus appears to be on the refurbishment of existing office stock (Policy SLP2). This would appear to be a sensible starting point as it was raised in the consultations that there are a number of inactive buildings in Guernsey that could be used more effectively.

The aim to limit large-scale office developments to the main centres should not impede economic development, as international professional services firms embrace the agglomeration effects of situating within the largest available hub. But whilst promoting the efficient use of existing stock is sensible, the policy needs to ensure that refurbished older stock are fit for purpose as potential office space for international business.

Beyond office space, the *Strategic Land Use Plan* offers coherent plans to support the diversification of the Guernsey economy, with Policy SLP3 stating that there will be a provision of land *'for a comprehensive range of land opportunities for employment uses'*. The SLUP encourages development in the tourism sector, with the potential to build a new high quality hotel on the Island being noted as potentially *'complimentary to the approach'* on tourism development; this plan supports the views of a prominent investor who noted that the development of a high-end hotel resort on the Island would significantly boost the visitor economy.

Planning policy in Guernsey, as elsewhere, will by nature follow population policy – although there are no formal links between the two locally. If population policy changed, it is felt that planning policy could quickly adjust accordingly. This flexible approach to planning is to be welcomed, and we would encourage a wider consideration of economic development aims within the decision-making process. The themes of the SLUP appear suitable to support economic development, with aims to:

- Concentrate development in the main centres of St Peter Port, Admiral Park, St Sampson and the Bridge;
- Encourage brownfield development throughout the Island;
- Promote tourism development;

- Allow limited commercial development outside the main centres aimed at the small business.

This approach appears to support diverse economic growth whilst seeking to maintain the attractive 'Guernsey image', a key element of the Island's competitiveness. To try and encourage better use of existing buildings – particularly derelict buildings – Guernsey could also aim to establish a vacant buildings register and apply appropriate taxation mechanisms to boost the re-use of existing stock.

3.6 Housing

With a limited supply of houses and a relatively low average occupancy rate (2.4 in 2010), and with the occupation of over 90% of the Island's housing managed by the Housing Control system, it is not surprising that Guernsey's house prices are significantly above the UK average. House price data³⁰ shows the steadily increasing trend in house prices since 2005, with only modest falls of 2.6% experienced between 2008 and 2009, in stark comparison to the house price bubble experienced in parts of the UK.

House prices in Guernsey have traditionally been considerably higher than the UK, with homes made affordable through higher multiple mortgages (the current house price to earnings ratio³¹ is 14.7). Despite the high prices, data suggest that local market house prices in Guernsey have more than doubled since 2000, causing real affordability issues for many now seeking to buy. This issue was raised in various discussions and is considered particularly acute when high house prices prevent Guernsey-born people from returning to the Island. It was also noted that unexpectedly high housing costs (for both rental and purchase) can deter skilled non-native employees from moving to the Island, even after they have been granted a housing licence.

³⁰ The house price data presented are mix-adjusted prices published historically to 2009. To create the longer series, Oxford Economics applied the growth rate of the previous median house price data to the new mix-adjusted series. The series only accounts for the local market houses.

³¹ Oxford Economics calculate the house price to earnings ratio using the median wage; this may be different from other published sources. The ratio only accounts for the local market houses.

Figure 3.9:

House prices in Guernsey, 2005-2011

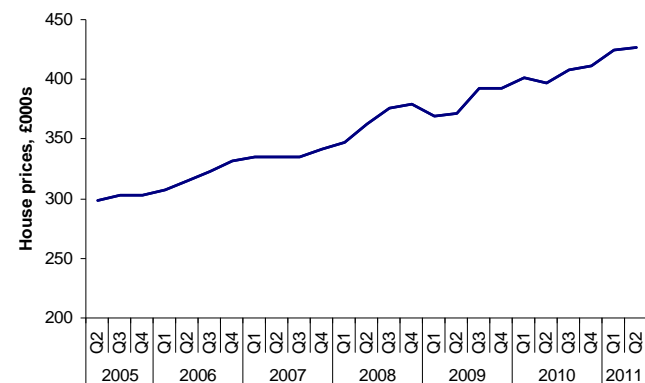
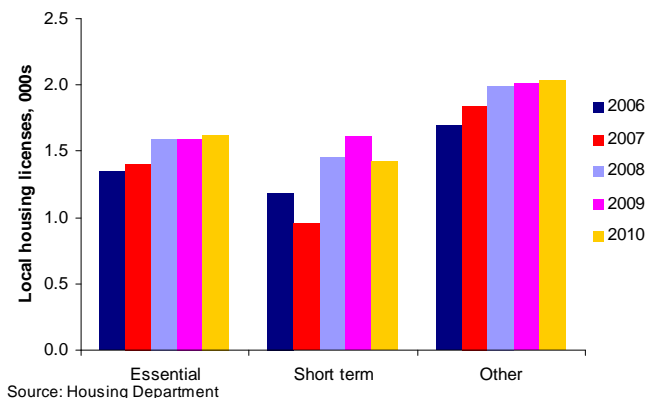


Figure 3.10

Housing licences in Guernsey, 2006-2010



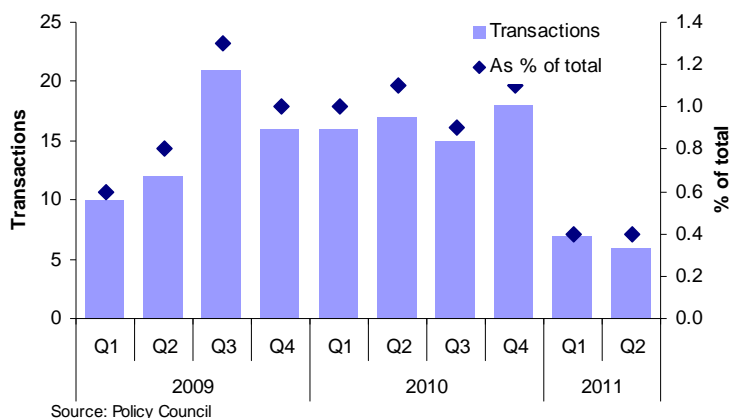
The Housing Control system in Guernsey is the closest available option to a population management tool, with people unable to move onto the Island to work without gaining a housing license or living in an open market property. Figure 3.10 shows the steady growth in live housing licences over the past four years, including in the ‘essential employment’ category which relates to skills not readily available – or where demand for the skills outstrips supply – on the Island. The licensing system was noted by some business consultees as being ‘restrictive’ and potentially hindering economic growth on the Island; a lack of consistency on the granting of housing licences was also noted in some cases.

It is widely considered that the Housing Control system requires reform and is no longer capable of delivering States strategic objectives relating to population management. The *Managing Guernsey’s Population* consultation document discussed new population control mechanisms that could eventually supersede the Housing Control system.

The document also discussed the future of Guernsey’s existing open market system (which accounts for 6% of the total housing stock on the Island), although it did not produce any firm proposals. It is noted in the document that there has never been a formal States policy that sets out the purpose of the open market. While the economic contribution of many open market residents is noted, it is questioned whether it is still viable to allow people to live on the Island who are potentially not suitably skilled to meet employment needs nor have family connections. Data presented in the report suggests that the median earnings (including wage income and other investment income) of an employed open market resident is £18,000 per year, significantly below the £27,000 Island average, potentially providing evidence to support the anecdotal theory that many open market properties have been used by business owners to house their staff on a multi-occupancy basis – including migrant workers in the hospitality sector, for example.

Figure 3.11:

Open market property transactions in Guernsey, 2009-2011



Many business consultees spoke out in favour of the open market, noting its promotion of ‘fluidity’ in the housing system and its attraction to potential High Net Worth Entrepreneurs (HNWEs), many of whom then invest significantly in Guernsey and create employment. Given the key role HNWEs have played in the Guernsey economy in the past, and the fact that the open market accounts for less than 10% of the overall market, a system that continues to permit this fluidity is perhaps desirable. A reduction in the uncertainty currently surrounding the open market, and the negative impacts this has had on transaction volumes (Figure 3.11) and the potential interest of HNWEs who may have been considering relocating to Guernsey, certainly appears to be in the interests of all.

3.7 Infrastructure

3.7.1 Transportation

The most important point of access to and from Guernsey is of course the airport, whose total volume of passenger movements³² of around 900,000 per year has been fairly stable for some years. Over three quarters (76%) of passenger movements into and out of Guernsey are on UK routes (Figure 3.12), while 22% are to and from the Channel Islands and just 2% are international (with almost half of these to Dinard in France).

Accessibility to the UK market is critical to Guernsey’s economy and to the living standards of Island residents. Almost exactly half of all passengers using the airport for UK routes are travelling between Guernsey and London Gatwick (Figure 3.13); frequent links to the UK capital underpin the Island’s business and

³² A passenger movement refers to a single journey leg, for example ‘Guernsey to London Gatwick’ or ‘Southampton to Guernsey’.

trade. A direct service to Heathrow was lost in 1998, though Stansted also provides some connectivity with London, as does Southampton, the second most popular route to and from Guernsey.

Figure 3.12:

Guernsey Airport: Passenger Movements by Route, 2010

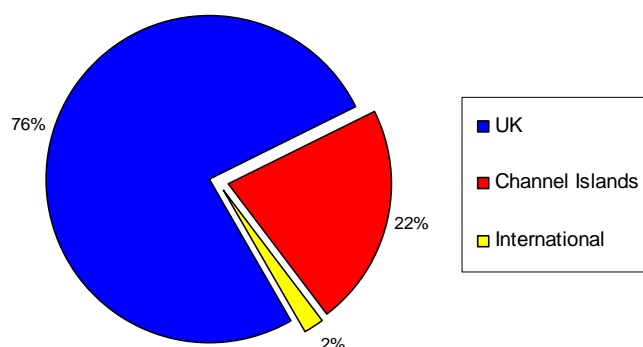


Figure 3.13:

Guernsey Airport: UK Passenger Movements, 2010

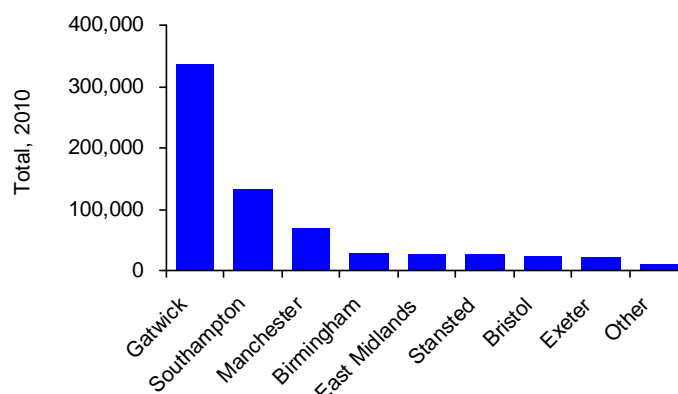
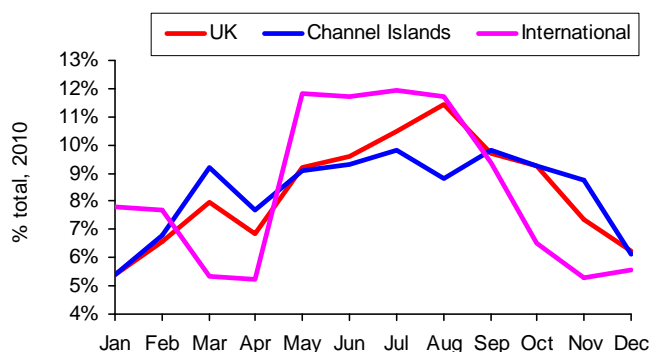


Figure 3.14:

Guernsey Airport: Seasonality of Passenger Movements



Passenger movements through the airport show an element of seasonality, 60% occurring during the six-month period from May to October inclusive, and 21% during July and August (Figure 3.14). But year-round demand from local people and business travellers mean there is a fairly steady flow of airport activity throughout the calendar year.

Guernsey airport also handles a significant volume of private jet movements, including a large general aviation (GA) market and business jets, preferred by HNWIs. While it was noted that Guernsey airport has a positive reputation for GA activity, it was argued that there is a need for investment to support the movements of business jets. Business jet movements (and GA) do not generate significant revenue for the airport, but the knock-on effects for the wider economy are likely to be significant. One consultee argued that Guernsey has to reject a significant proportion of larger business jets due to a lack of apron space

at the airport. Rejecting the movement of these jets portrays a message that *'Guernsey is closed for business'*, according to some.

An £80m programme of essential maintenance work has recently been approved at Guernsey airport, including apron resurfacing, drainage improvements and movement of the runway to allow for a greater safety zone at its end. There is continuing debate on the need for a runway extension (from 1463m to perhaps 1700m), at a potential cost of £25m or more, to enable larger 'mainstream' commercial aircraft (such as Boeing 737s or Embraer 195s) to operate from Guernsey. This, it is argued, could offer the potential benefits of supporting growth in business and tourism activity and reducing average fares for Guernsey residents.

There are some concerns that uncertainty over certain aspects of the operation of Guernsey Airport – from runway length to airline licensing policies – are having the effect of making Jersey the favoured hub for Channel Island connectivity. This is a sensitive issue, and it will remain important to ensure that both physical infrastructure and contractual relationships with airlines are conducive to Guernsey maintaining a position of strong economic competitiveness.

Sea connectivity for foot passengers and cars is provided from Guernsey by Condor Ferries, a lone operator in the market, which offers frequent routes to Weymouth, Poole and Portsmouth in the UK as well as to Jersey and St Malo. The majority of passenger movements are serviced by high-speed catamarans. The importance of sea connectivity could increase in the future as aviation costs rise, and it is worth Guernsey exploring in more detail how ferry services can and do contribute to the Island's economic development.

3.7.2 Technology

The main telecoms provider in Guernsey, Cable and Wireless (trading under the brand name Sure) has offered home broadband packages of up to 16MB since early 2011. Just two years ago, maximum speeds on the Island were around a quarter of their present level, so the infrastructure has undergone fairly rapid improvement. However, as in the UK, actual speeds received by consumers vary significantly, largely based on distance from the exchange. Average consumer prices are higher than those in the UK for comparable services, but considering the small size of the local population and the challenges this creates in making private investment commercially viable, it is not obvious that current price levels in Guernsey could be considered excessive.

Significant bandwidth has been put in place through the growth of the e-gaming sector in Guernsey, and most large private companies use privately leased lines rather than commercially available broadband services. We understand that bandwidth is not considered a constraint to business growth in Guernsey, although Wifi connectivity is limited in public areas and plans for fibre deployment are in their infancy. Both wholesale and retail telecoms prices were found to be below those of neighbouring Jersey by a 2010 market review – reflecting the increased levels of competition present in Guernsey.

There is strong international evidence linking ICT infrastructure with economic growth, enterprise and productivity. A lagging broadband infrastructure will do Guernsey no favours in terms of economic development, and indeed the plans recently articulated by Jersey for gigabit connectivity across the island – whether or not these may rely disproportionately on public subsidy – would appear to risk Guernsey being overtaken by its rival in ICT sector development.

3.8 Taxation

Guernsey fundamentally changed its corporate tax regime in 2008, with the introduction of the Zero-10 system. While the system was largely altered to adhere to the EU's Code of Business Conduct, internally the introduction of the Zero-10 system was seen as an open invitation to the finance industry to drive the growth required to sustain it.

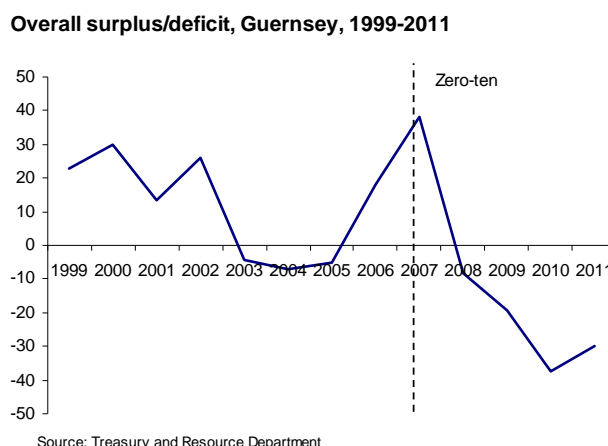
To what extent Zero-10 has helped further stimulate growth is debatable, although it should be noted that Jersey operates a similar system and employment figures suggest Guernsey's finance industry has remained comparatively robust throughout the recession. What the new system has certainly done, however, is shifted the tax emphasis away from the company and onto the individual, with the data suggesting that personal taxes accounted for 62% of total revenue income in 2010, compared with under half in 2007 (Figure 3.15).

The introduction of Zero-10 has led to sharp falls in revenue income (revenue expenditure has continued to rise and capital expenditure has remained largely consistent), with Guernsey experiencing an overall deficit in government spending since 2008 (Figure 3.16). Originally, it was intended that the States' contingency reserves would plug the gap in the short term, but with three years passing and limited evidence to suggest an imminent return to surplus, the internal sustainability of Zero-10 in its present form may be subject to debate.

Figure 3.15:



Figure 3.16:



We have not been asked to comment on other forms of taxation (such as taxes on goods and services). However, to provide background context that may be useful to inform future debate in Guernsey, we have illustratively considered the

effects of introducing such an 'indirect' tax as an alternative means of raising revenue. In 2010, Jersey raised £51m revenue from a 3% rate of GST.

Considering a simple pro rata model - based on population - Guernsey might be expected to raise approximately £30m from a 3% GST rate, which would have a significant impact on the fiscal balance. However, the implementation of a GST would reduce Guernsey's competitive position – although it must be noted that Jersey imposed a GST in 2007 – which could potentially result in a loss of existing business, a reduction in the demand for and consumption of goods and increased leakage to off-island providers.

The future of the taxation regime in Guernsey will be subject to continued debate. The Island is certainly not alone in facing fiscal pressures, and many jurisdictions around the world are actively evaluating the possibility of tax reform to raise much-needed revenue. If the corporate tax system is to remain unaltered, there will be ongoing pressure to attract banks and financial institutions eligible to be taxed at the 10% rate, in favour of other potential investors. The ability to create and sustain high-value (and high-paying) jobs will also be important, while any decision to alter the regime will need to consider the valuable role that tax arbitrage plays in Guernsey's competitive offering.

4 External Influences and Implications

This section looks at the 'external' influences on Guernsey's economy, how they are likely to evolve and their economic implications for the Island.

4.1 Today's Global Economy

The global economy, which showed great promise towards restored growth in 2010, has experienced a more uncertain 2011, with deepening Eurozone crises, sluggish growth in the US and low confidence levels all contributing to market volatility.

Figure 4.1 reflects the differences in Oxford Economics' world GDP forecast; the short-term outlook has been revised down from start-of-year expectations, but a double-dip recession is not expected. The longer-term outlook remains optimistic, with world GDP growth forecast to average 3.3% per year over the latter half of the decade.

Figure 4.1 World GDP, % growth, Jan 2011 outlook and current, 2005 - 2015

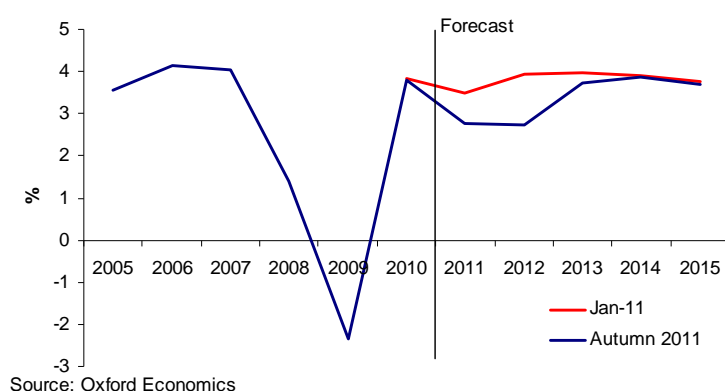
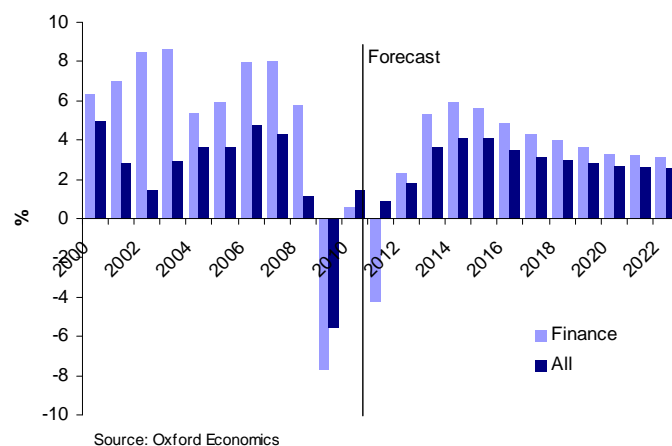


Figure 4.2: GVA growth, London, 2000 - 2022



Guernsey's traditionally strong links to London and the UK mean that its own economic outlook is likely to correspond to that of London, particularly in the financial services sector. Figure 4.2 displays the GVA forecasts for London's financial sector and overall economy. The outlook for London finance is fairly robust, despite the nature of the recession and pressures to rebalance the economy.

Nevertheless, London represents a small fraction of the overall economic potential for Guernsey – the Chamber of Commerce suggest that the Island is reliant on the UK for just 30% of its financial services business, much less than competitors such as Jersey. Globally, output in the professional services sector is forecast to grow by over £3,500 billion over the next decade; if Guernsey

could attract just 0.001% of this growth, it could directly contribute £36m to the economy, or 2% of 2010's GDP.

Table 4.1: GDP growth (%), selected countries, 2010 - 2022

	2010	2011	2012	2013	2014	2015-22 (avg)
USA	3.0	1.8	2.3	2.7	3.1	2.8
UK	1.8	0.9	1.0	2.6	2.8	2.2
Eurozone	1.8	1.6	0.2	1.6	1.9	1.7
France	1.4	1.6	0.3	1.6	2.0	1.6
Germany	3.6	2.9	0.9	2.0	2.1	1.6
Italy	1.2	0.6	-0.7	0.2	0.9	1.4
China	10.4	9.1	8.2	9.0	8.8	7.2
India	8.9	7.1	7.4	9.4	9.2	7.4
World	3.8	2.8	2.7	3.7	3.9	3.4

Source: Oxford Economics

Table 4.1 outlines the GDP growth expectations for selected major economies; the debt crises are set to constrain Eurozone growth over the decade, with the UK's limited exposure only hampering growth on a limited scale. China and India are set to remain the powerhouses of growth, albeit not at the circa 10% per year scale experienced in the last decade. Expanding towards the emerging Eastern economies represents a significant opportunity for Guernsey; the emerging markets are discussed in more detail in the next section.

In light of financial instability in the EU, increased financial regulation is a certainty. As an offshore financial centre, still dubbed a 'tax haven' by some,, Guernsey is perhaps more acutely at risk as governments seek to maximise tax income by closing loopholes allowing the transfer of assets overseas. While prudent regulation and supervision remain crucial to a smooth-functioning financial sector, there is a significant risk that a heavy-handed approach to regulation, based on the perceived 'fault' of the finance sector for the recession, could lead to excessive regulation (if not through any particular policy, but through collective policies) that could prove a significant burden on the EU's financial services industry.

Oxford Economics recently undertook analysis evaluating the need to balance growth and stability within EU financial reform³³, citing *'the important role of the financial system in fostering innovation and growth'*. The report also highlights the fact that, as of yet, the full scope of forthcoming regulatory reform remains unclear, perhaps causing undue volatility in the markets, with the threat of additional regulation potentially worse than the regulation itself. In conclusion, the study highlights the need for *'international consistency in the regulatory reform agenda'* and suggests that at a time when the EU economy is struggling, regulation should not unduly restrict economic growth.

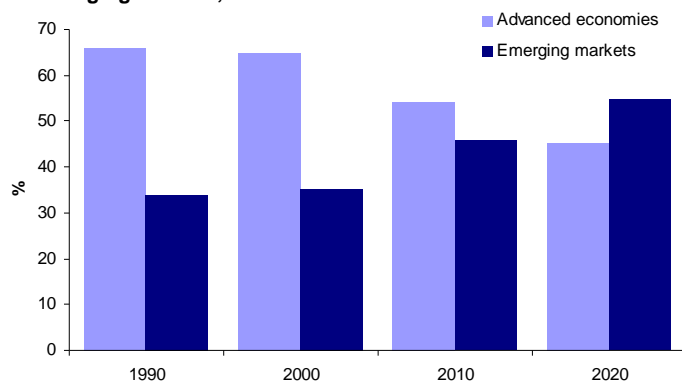
³³ Oxford Economics, 2011, "Balancing growth and stability in EU financial reform", prepared for TheCityUK

Though regulation is unlikely to severely weaken Guernsey's finance-based economy in the short run, the greater picture highlights the significant potential of diversifying trading partners toward the emerging markets – which also encourages diversification into other wealth creating sectors with a high-value-added per job.

4.2 The Rise of the Emerging Markets

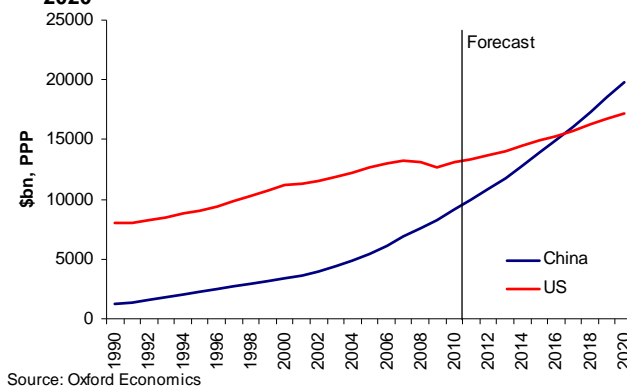
The rise of the emerging markets has been pre-eminent over the past decade. Figure 4.3 maps how the balance in the global economy has changed over the past 20 years; in 1990, the advanced economies³⁴ accounted for 66% of the world's output, but by 2010, this figure has dropped to 55%, due to significant export lead growth in the emerging economies, notably China and India. Oxford Economics' forecasts suggest that by 2020, the emerging markets³⁵ will be the larger collective economy, contributing 56% to world GDP. The switch in economic power away from the West is having and will continue to effect global geopolitics; for example, Oxford Economics forecast that China will overtake the US as the world's largest economy in 2017 (Figure 4.4), after a converging of the gap over the past 10 years.

Figure 4.3 World GDP share, Advanced economies and emerging markets, 1990 - 2020



Source: Oxford Economics

Figure 4.4: GDP (US\$bn and PPP), China and the US, 1990 - 2020



Source: Oxford Economics

³⁴ These economies include: USA, Japan, Germany, France, Italy, UK, Australia, Austria, Belgium, Canada, Denmark, Finland, Greece, Hong Kong, Ireland, Israel, Korea, Netherlands, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, Taiwan, Cyprus, Iceland, Luxembourg, Malta, New Zealand, Slovenia.

³⁵ These economies include: China, Argentina, Brazil, Bulgaria, Chile, Croatia, Czech Republic, Egypt, Hungary, India, Indonesia, Jordan, Malaysia, Mexico, Philippines, Poland, Romania, Russia, Saudi Arabia, Slovakia, South Africa, Thailand, Turkey, Venezuela, Botswana, Ghana, Kenya, Mauritius, Namibia, Nigeria, Bangladesh, Pakistan, Sri Lanka, Vietnam, Colombia, Ecuador, Jamaica, Peru, Trinidad and Tobago, Bahamas, Estonia, Kazakhstan, Kuwait, Latvia, Lebanon, Lithuania, Morocco, Qatar, Oman, Tunisia, UAE, Ukraine.

The global emerging market powerhouses such as the BRICs (Brazil, Russia, India and China) are well recognised for their trading potential, but a series of recent research has suggested alternative growth economies in the future. A recent PwC³⁶ report on the global economic shift suggests that Vietnam, Nigeria, Indonesia, Turkey, South Africa, Saudi Arabia, Argentina and Mexico will be amongst the top 10 most expansive economies over the next 40 years, highlighting the need to think not only of the emerging economies of the past decade, but the emerging markets of the next few decades.

The emerging markets represent significant trading and investment opportunities for all economies, large and small. A recent report by Accenture and Oxford Economics³⁷ identifies *'the Southern surge in financial services'* as a potential growth opportunity, noting increasing levels of demand for mobile banking, finance and insurance services in Southern Asia. The research also highlights that demand is currently outstripping the supply of *'citizen services'* such as education and health in many emerging markets that combined with *'the burgeoning middle class'* in these economies, represent significant export potential for other nations.

The potential for Guernsey within these identified areas is significant, given its pre-existing financial expertise and other emerging specialisms, from ICT to medical services. The significant growth in the middle classes in emerging economies will also create a new wave of demand for overseas tourism, in which Guernsey's 'quaintness', cultural ambiguity³⁸ and proximity to London and Paris should position it strongly to enjoy success. In order to deliver this potential, Guernsey will need to ensure it reinforces its existing comparative advantages, continually innovates to remain competitive and successfully *'builds new bridges to the emerging world'*.

4.3 Technology and Connectivity

In a 'new normal' world (particularly in the West) with more constrained resources and diverse problems, technology will be key to providing new solutions to energy supply and delivery, transport management, healthcare provision and national security, as well as improving living standards and

³⁶ PwC, *The World in 2050: Accelerating Shift of Global Economic Power: Challenges and Opportunities*

³⁷ Accenture (with contributions from Oxford Economics), *New Waves of Growth – Unlocking Opportunity in the Multi-Polar World*.

³⁸ By cultural ambiguity we are primarily referring to the blend of English and French language and culture which help to make the Channel Islands unique, but also, in strategic terms, the wider opportunities to position the islands as a natural, outward-looking gateway between the UK and Europe. These are both valuable aspects of the islands' brand differentiation, in both investment and visitor terms, and should not be underplayed.

transforming public service delivery. Technological advances can and will have a significant role in increasing productivity, which will be important for stimulating increased output at a time with limited employment growth in the West. In emerging economies that perhaps have yet to fully embrace technology, technological advancement in cutting-edge mobile technologies and cloud computing is likely to be a significant driver of growth; for example, according to the World Bank, every 10 additional mobile phones per 100 people in a typical developing nation results in GDP growth of roughly 0.8%.

The emergence of mobile technologies, cloud computing and social media as key megatrends over the past decade have helped significantly improve connectivity across the globe. Recent Oxford Economics research³⁹, which surveyed over 350 global business executives, found that mobile technology was rated as having the most positive impact on business, and that over 50% of respondents expected to invest heavily in mobile technology over the next decade. Whilst the role of product and systems innovation will be driven by the private sector, the government has a key role to play in ensuring appropriate supply side factors are in place, notably the skills base, infrastructure, appropriate regulation and policies to encourage innovation.

Technological developments will be important factors in Guernsey's economic growth in the future, as increased global connectivity will open up new markets to small island economies and allow Guernsey to enhance its international business connectivity without incurring proportional growth in air travel. It will also help to bridge the physical distance between Guernsey and the emerging economies. Overall, technology's role in boosting productivity and service exports represents a significant opportunity for Guernsey.

4.4 Environmental and Resource Efficiency

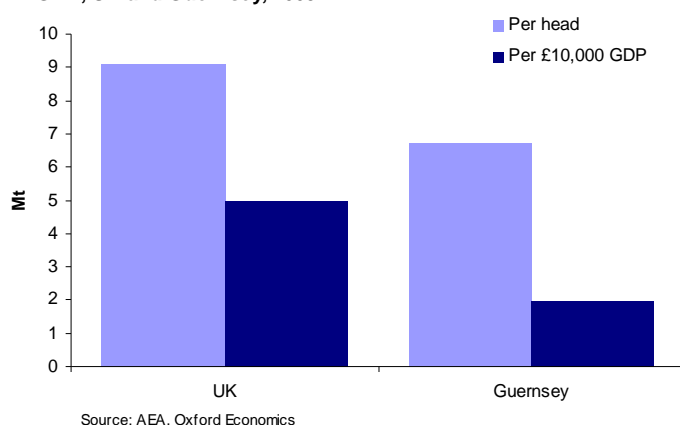
Increasing global demand on resources and the scarcity of non-renewable energy has pushed the world to seek to maximise resource efficiency. This is being achieved through innovation into renewable and alternative sources of energy, and regulation on externalities that are affecting climate change. The push towards efficiency has provided significant growth opportunities in the 'green sector', with further opportunities likely to be abundant in the decade ahead, from creating greener infrastructure to researching alternative energy sources. The world's consumers are also becoming more aware of the need to be environmentally friendly, and Accenture and Oxford Economics estimate that *'European sales of green products are expected to double in value, from €56 billion in 2009 to €114 billion by 2015'.*

Due to the nature of the services-led economy, Guernsey is already a low carbon economy by global standards. Figure 4.5 displays Guernsey's carbon

³⁹ Oxford Economics, *Digital Megatrends 2015: The Role of Technology in the New Normal Market*

emissions per capita and per £10,000 of GDP in comparison to the UK⁴⁰. It is estimated that Guernsey currently produces 2Mt of carbon per £10,000 of GDP, 60% lower than the UK, strongly highlighting Guernsey's carbon efficient economy. The difference in emissions per capita is slightly lower at 26%, highlighting more than anything else how much Guernsey punches above its weight on GDP.

Figure 4.5: Carbon emissions per capita and per £10,000 GDP, UK and Guernsey, 2009



Although the evidence suggests Guernsey is already relatively carbon efficient, there are significant resource challenges facing the Island. Most notably, the vast majority of energy is currently imported. The preference for energy security through self-sufficiency is evident and the situation is perhaps more volatile when considering that the majority of Guernsey's energy is sourced from France, which itself is generated from nuclear power. The Japanese crisis of March 2011 has raised serious questions about the sustainability of nuclear energy, with Germany announcing a plan to phase out its nuclear operations by 2022, partly in response to the Japanese crisis (though also due to Germany's leading position in the renewable energy sector).

Despite the evident risks, Guernsey has a significant opportunity to seize the initiative and invest toward a self sufficient, green energy supply. Guernsey has notable advantages in developing a renewable energy sector, and the opportunity extends beyond energy generation, with potential synergies between its existing financial expertise and the emerging carbon finance and investment industries.

⁴⁰ Guernsey's figure is calculated based upon a Crown Dependency figure.

4.5 Economic Policy Developments

4.5.3 UK Economic Policy

As a Crown Dependency, Guernsey is significantly affected by the economic policies of the UK. Most fundamentally, Guernsey is within the sterling area and is therefore forced to 'take' policies on interest and exchange rates rather than being able to 'make' them internally to adjust its economic position. Recently, Guernsey and the other Channel Islands have also come under increased scrutiny from the UK in the context of unprecedented fiscal challenges on the mainland. In particular, there is pressure to ensure the islands' economic models do not generate growth and income at the direct expense of the UK Exchequer.

The Foot Review⁴¹ of offshore financial centres was generally positive towards the Crown Dependencies, citing their comparatively high regulatory standards and positive contribution to the UK banking industry. However, Foot did apply pressure to the Crown Dependencies by making recommendations for potential tax amendments, notably recommending diversification of the tax base to maximise sources of revenue, placing pressure on Guernsey's Zero-10 regime. He cited Deloitte's⁴² findings that *'the Crown Dependencies' industry bases were sufficiently diverse that they had the potential to raise worthwhile levels of revenue from a CT system more aligned with international best practice than the regimes currently in place'*. It is our understanding that some of Foot's recommendations have already been implemented in Guernsey, notably the separation of the promotion of the finance industry from the regulator, Guernsey Financial Services Commission (GFSC) through the Guernsey Finance promotional body.

In November 2011 the UK announced plans to end Low Value Consignment Relief (LVCR) for mail sent from the Channel Islands, subjecting all mail order items to VAT from 1st April 2012. While not entirely unexpected given the UK's need to raise public revenues and sustained pressure from lobby groups, this ruling could have significant impacts for Guernsey, with some businesses likely to threaten to relocate away from the Island to other non-EU locations such as Switzerland or Cyprus, or simply move back to the UK.

4.5.4 European Union Policy

Whilst Guernsey is not part of the EU, it is within the single market and thus benefits from free trade with the EU and EEA, which is Guernsey's most significant trading partner. As a result, any changes to EU law have a real impact on the Bailiwick, which also comes under pressure to accept key EU

⁴¹ Foot, Michael, 2009, *Independent Review of British Offshore Financial Centres*, HM Treasury

⁴² Deloitte, 2009, *Understanding Corporate Usage of British Crown Dependencies and Overseas Territories*, HM Treasury

initiatives. For example, Guernsey was pressured into accepting the EU Savings Tax Directive in 2005.

The European Commission has recently launched proposals to reform corporate tax income in the EU. This system would address 'cross-border profit shifting' through requiring multinational companies present in the EU to only submit one set of accounts and therefore pay one corporate tax rate across the EU. As a non-EU member, Guernsey would not be eligible for the reform (if it came to practice), but given that the incentive behind it would be an increase in equality across countries⁴³, it is unlikely that the potential for increased profit shifting to non-EU offshore centres such as Guernsey, as opposed to mainland EU competitive tax locations such as Ireland, would be considered acceptable. It is possible that pressure would be applied on Guernsey to accept the reform and apply an EU corporate tax rate or face significant sanctions.

More positively, a recent EU review broadly approved the Zero-10 corporate tax regime in Jersey, following a lengthy investigation, with only relatively minor amendments required. In principle, this removes the majority of concerns over the EU's basic stance towards Zero-10 in the Crown Dependencies, including Guernsey.

Some EU members are now also promoting an additional tax on financial transactions taking place within European states, to help curb short-termist trading instincts. This issue has become highly politicised across the EU, but if implemented its potential impacts on Guernsey could be twofold: firstly, a decline in the global importance of London as a financial centre increasing the need to 'look East' for business, and secondly an opportunity to directly increase levels of trading activity as transactions are forced offshore. (However, the UK has openly rejected such a tax, vetoing an EU-wide treaty in December 2011).

On social policy, as a non-EU state, European Human Rights laws do not explicitly apply in Guernsey. Nevertheless, compliance with international Human Rights programmes is sensibly considered an essential part of a prosperous and equitable modern society by the States: Guernsey is a signatory to the European Human Rights Convention (EHRC) and has its own law based on the UK Human Rights Act. As such, the increasing tendency for EU courts to consider a seven-year timeframe indicative of cultural integration and deserving of residency rights is one of the factors driving Guernsey's ongoing review of its own residency laws.

4.5.5 International Policy

International policy on offshore financial centres, which has been largely driven by the OECD's Global Forum on Tax Transparency, has been seeking to achieve 'financial fairness' throughout the world on tax matters by reducing tax avoidance. Although the evidence suggests Guernsey is amongst the leaders

⁴³ Bettendorf, Leon, Michael P Devereux, Albert van der Horst, and Simon Lortez, *Corporate Tax Reform in the EU: Weighing the Pros and Cons*, 2011.

when it comes to regulatory standards and tax transparency, further initiatives regarding offshore financial centres are imminent. Angel Gurría, OECD Secretary-General, spoke at the G20 summit⁴⁴ (November 2011) about how *'the veil of bank secrecy has been pierced'* with an *'irreversible change towards a more transparent tax environment'* underway. Nevertheless, Gurría noted that *'the battle is not over'* and through future OECD initiatives, the world needs to move *'from bilateral to multilateral actions, and from exchange of information on request to automatic exchange'*.

Any impending move towards a multi-lateral system is likely to allow more cohesive global pressure for offshore centres to adjust their competitive tax regimes to an international standard. However, private market forces will react to any changes in legislation; the clear demand for offshore services removes any probability of a complete global shutdown. If the States remain flexible and can adjust in a timely manner, with the pre-existing regulatory regime there would be confidence that Guernsey can remain at the forefront of offshore financial activity.

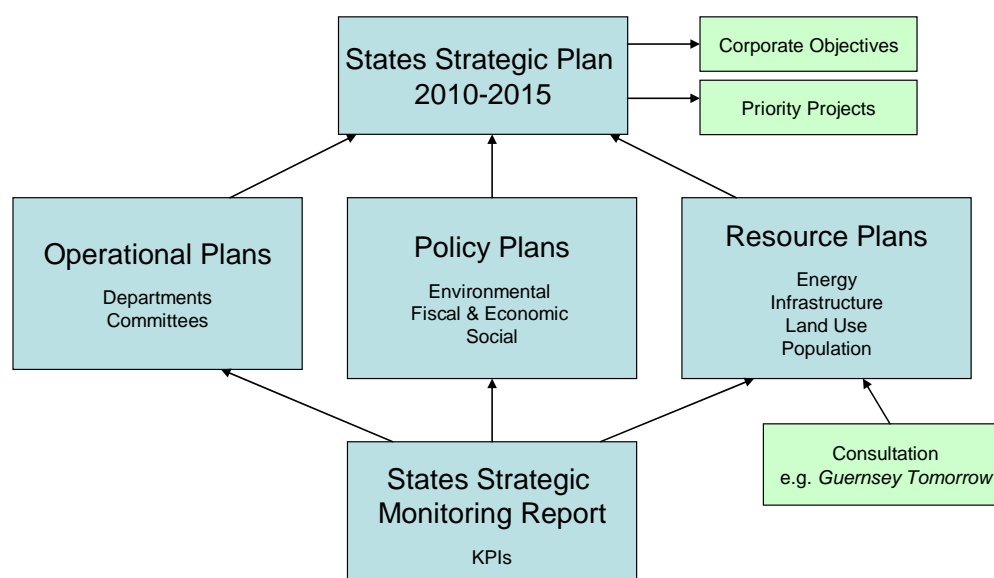
Beyond the longstanding threats to offshore finance, one of the major upcoming international developments will be the re-negotiation of the Kyoto Protocol in 2012. The renewed Protocol will set carbon emissions targets for the next decade and represents a significant opportunity for first movers; the high-profile nature of the convention should ensure the world is drawn back to green issues after a lull during the global economic crisis. A binding deal could bring significant growth in worldwide markets for carbon trading and carbon-efficient products and infrastructure, and Guernsey should be ready to exploit them.

⁴⁴ OECD, G20 Leaders Summit: Financial Regulation Session (November 2011)

5 Guernsey's Economic Policy

This section looks at the development and implementation of economic policy in Guernsey, in light of the issues highlighted in previous chapters and more general policymaking concerns.

5.1 Strategic Framework



The overarching framework guiding public policy in Guernsey, including economic growth and development, is the *States Strategic Plan 2010-2015* (SSP). This document, which aims to serve as ‘a *comprehensive context in which to make decisions*’ for States Members – in an environment where the absence of political manifestoes can potentially lead to a fragmentation of policy direction – sets out a commitment to a ‘*diversified, broadly-based economy*’ for the Island.

The SSP’s opening line describes the States’ primary objective as ‘*promoting the well-being of the people of Guernsey*’, as defined by a ‘*vibrant economy*’ and ‘*good quality, appropriate public services*’. Overall, the document is particularly notable for:

- Its commitment to maintaining and promoting **international linkages** to Guernsey, and growing the island’s global standing;
- Its clear determination to balance economic growth with sound **environmental and resource management**, and to avoid negative impacts on quality of life;

- Its policy of promoting a diverse, flexible and competitive economy whilst retaining Guernsey's **unique sense of identity** and culture.

These policies have strong implications for the direction of supporting economic growth plans, including the *Fiscal and Economic Plan* (FEP), which is one of three core policy plans (the others being Environmental and Social) which sit directly beneath the SSP. The FEP, which was produced in 2009 and received its latest update in 2011, summarises Guernsey's key macroeconomic policy objectives:

- Long-run economic growth averaging at least 2% per year;
- Low and stable inflation no higher than 3% per year (according to the RPIX measure);
- Modern and effective infrastructure supported by public investment averaging 3% of GDP;
- A long term fiscal balance of public sector revenue and expenditure (supported from 2010 by a four-year freeze on real terms States expenditure in light of declining corporate tax revenues);
- Continuing full employment and a flexible, highly skilled labour market;
- Continuing OECD Tier One Status in relation to the tax regime, indicating high levels of transparency and international co-operation.

Box 5.1: Strategic aims of the Fiscal and Economic Plan

The FEP sets forward four key strategies to promote private sector-led, sustainable economic growth for Guernsey. These are:

Fiscal framework: maintaining a 'permanent balance' on fiscal policy, so that expenditure broadly matches income and the public finances reach a sustainable long-run position.

Anti-inflation: ensuring that rising costs, prices and wages do not threaten Guernsey's external competitiveness as a place to do business, particularly important in the post-credit crunch era.

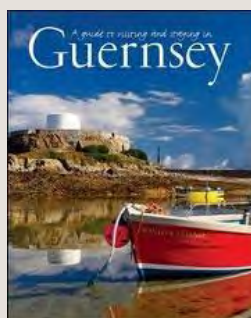
Supply-side development: boosting the productive potential of the economy by raising skill levels, supporting innovation and diversification, and helping residents access employment.

Infrastructure investment: maximising the quality of transport and telecoms connectivity to improve economic competitiveness, through both investment and effective regulation.

All of these aims remain highly relevant today, and they deserve to attain prominence in any new economic development strategy for the Island.

Key to economic development is the way a society chooses to use its available resources, both natural and man-made, to create social well-being. Guernsey has four core *Island Resource Plans* which cover policy on the themes of land use, energy, infrastructure and population. As a small island keen to engage in and benefit from the rapid growth in globalisation and trade, debate on the most desirable way to use and develop local resources is often intense, and these documents tread a fine line balancing the interests of local stakeholders.

Box 5.2: Economic development spending in Guernsey



As of 2011, the main elements of public sector spending to promote economic development in Guernsey are as follows:

1. International promotion of financial sector (via Guernsey Finance): £800k
2. Tourism marketing and promotion: £2.5m
3. Employer-focused skills brokerage and training (via GTA University Centre): £470k
4. Small business support and investment promotion (via Guernsey Enterprise Agency): £72k
5. Per-ticket subsidies for UK and European (£1.05 each way) air routes. In addition, new routes receive additional subsidies, paying no airport tax for the first two years of service.

Guernsey's Fiscal and Economic Steering Group also produced a *Strategic Economic Plan* (SEP) in 2007 to inform development of the evolving Government Business Plan. This contains many valuable perspectives on economic development in Guernsey and the role of the States in promoting that development. The document notes that:

"It is generally not the role of the States to identify brand new areas of business activity or individual businesses and proactively seek to attract them to Guernsey. The States is not best placed nor sufficiently experienced nor skilled enough to identify such "winners".

What it has done successfully in the past is to create conditions conducive to economic activity and recognised home-grown winners, or sought to attract and retain winners from off-Island when they show an interest in Guernsey.”

The SEP set out 32 action points covering different aspects of economic development, calling for both additional research and a number of reforms to legislative and regulatory policy. Following our review of the Guernsey economy in late 2011, it is clear that many of the recommendations made retain their relevance, and indeed several of the suggestions we make in this report will echo their sentiments. **We feel it is important that the messages of both the *Strategic Economic Plan* and the *Fiscal and Economic Plan* – like those of other key documents such as the emerging skills strategy for Guernsey – are brought together, emboldened and communicated to local stakeholders via a new, cohesive economic development strategy for the Island.**

5.2 Specialisation versus Diversification

One of the most important issues in the development of any local economic strategy is the management of potential conflict between the specialisation and diversification of economic activity. On the one hand, economic theory suggests specialising in activities an economy is well positioned to deliver efficiently compared to elsewhere, and importing the rest of the goods and services needed for domestic consumption. The gains from this specialisation, it is suggested, will outweigh the benefits of producing a broader range of goods and services domestically – with the risk of the latter strategy being a failure to achieve international competitiveness and therefore export potential in any individual area.

This theory still holds to a certain extent, and indeed it remains the foundation of the relentless expansion in global trade. But there is a fine line between specialisation and over-reliance on a particular sector, as recent world events have shown. In particular, those economies with a very high dependence on financial services have been amongst the hardest hit by the global recession, and those with a more diversified economic base, from Germany to Australia, have recovered the fastest.

In Guernsey, there is some debate as to the true extent of the reliance on financial services. For certain, the sector is itself relatively broad-based, with relatively low (if any) dependence on core financial trading activities, and clear competence in a range of professional services from administration to legal to accountancy and beyond. Indeed, it is true that labelling this industry ‘finance’ is something of a misnomer, as the relatively modest impacts of the global financial crisis in Guernsey have illustrated. However, it is equally true that Guernsey has developed an economic structure which is vulnerable to external events, such as:

- A significant reduction in the relative size of the global financial sector as a whole;
- A decrease in the relative importance of London, to which Guernsey is closely linked (though perhaps less so than Jersey), as a global financial centre;
- A clampdown on the scope for tax differentiation in offshore financial centres, led by a broad coalition of international support.

With all of these risks currently seeming very real, the potential vulnerability of Guernsey's economic model poses tough questions for local economic development practitioners.

It may also be insightful to review Guernsey's current sectoral structure in the context of other world economies. Using a number of statistical techniques previously employed in a study on global economic diversity for Forbes magazine in the US⁴⁵ (Table 5.1), the sectoral diversity of Guernsey's economy is shown to be relatively low by international standards – much closer to the least economically diverse countries than the top performers such as Australia, Canada and the US.

Table 5.1: Diversity metrics for international economies

	Herfindahl		Ogive		Entropy		Hachman		Diversity average rank
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	
Australia	0.09	51	0.29	51	2.48	51	0.93	44	49.3
Canada	0.09	48	0.33	48	2.46	50	0.94	47	48.3
United States	0.10	46	0.37	46	2.42	46	1.00	51	47.3
Brazil	0.12	13	0.69	13	2.26	10	0.37	9	11.3
Guernsey	0.13	10	0.78	10	2.25	9	0.48	11	10.0
United Arab Emirates	0.13	8	0.85	8	2.25	8	0.59	15	9.8
Indonesia	0.20	3	1.85	3	1.98	4	0.10	2	3.0
Thailand	0.21	2	1.89	2	1.96	2	0.10	3	2.3
Pakistan	0.25	1	2.56	1	1.81	1	0.08	1	1.0

Source: Oxford Economics, 2011

Overall, in the context of world events – and indeed without them – it would seem prudent for Guernsey to continue to promote a policy of economic diversification, to help mitigate against the potential negative impacts of a loss of competitiveness in its current key industries. Critically, this process needs to

⁴⁵ For more details on methodology or findings, please contact Oxford Economics directly. The different techniques are all used to provide measures of internal variation, in this case relating to the size of different sectors in an economy. For Ogive, Herfindahl and Hachman, a lower score indicates greater diversity. For Entropy, the opposite is true. Most indicators measure diversity internally within a single economy, with the exception of Hachman, which is a relative measure: for the purposes of this analysis, we created a theoretical 'perfectly diverse' economy to compare each country against.

complement the existing financial and professional services industry rather than compromise it.

A specialist high-end employment structure also creates a number of wider economic and social pressures. In the absence of some fairly radical social engineering, for example, it is probably unfeasible that the trend towards an ever higher proportion of local employees working in high-skilled, high-earning professions can continue indefinitely. Guernsey certainly needs to build new high-value industries to generate prosperity and income – not least to help manage growing demographic challenges – but the *'diversified, broadly-based economy'* needs to incorporate skills, social inclusion and well-being, not simply financial contribution.

5.3 The Case for Intervention

There is a common aversion to industrial policy in both the UK and its Crown Dependencies, probably inspired by the failed legacy of the 'picking winners' era on the mainland in the 1970s. In Guernsey, there are somewhat diverse attitudes to the optimal role of the States in economic development, but a common refrain amongst the business community is *'let the market decide'* which new industries are created.

Formulating an economic development strategy for Guernsey involves discussing, agreeing and setting out priorities for the way the Island's economy should develop, to help maximise financial performance and social well-being. It does not necessarily mean 'picking winners' in any specific sense of the term. Such a policy remains ineffective and wasteful, particularly in a climate of limited public resources. Nor does a strategy mean creating lots of additional regulation, or somehow seeking to get in the private sector's way.

Attitudes towards a careful, supportive and light-touch industrial policy have significantly mellowed, even on the political right, as powerful international evidence has emerged of successful collaboration between business and the public sector in developing and nurturing high-value industries, enhancing prosperity and 'laying the conditions for growth' in terms of infrastructure, skills and legislation. To cite three examples of market intervention to promote wider economic development goals:

- **The EC and EU** have supported development of the European renewable energy sector with a combination of compulsory emissions regulation, new market platforms for emissions trading, and a package of direct industry subsidies – including €60 million of research and skills support to the marine energy sector (wave and tidal power) since 2002. It believes, rightly according to the evidence of recent decades, that without this market intervention, the public good will not be served and the energy mix will remain fossil fuel-intensive;
- **The UK Coalition** has now launched the second phase of its £1.4 billion Regional Growth Fund, which aims to create jobs and wealth across the UK. Though a substantially watered down industrial policy compared to its

predecessor, and heavily reliant on private sector match funding, the scheme represents an acknowledgement that without financial support, strategic guidance, modern infrastructure and competitive regulation, the natural course of economic development will benefit only a small proportion of the population and could see the UK lose its international competitiveness;

- **The Government of Malta** launched a 'Smart Island National IT Strategy' to pull together the various complementary drivers of industry growth. These included investment in technology-focused education and skills, tax breaks for ICT companies, competitive regulation, the provision of information and data on global growth sectors, an international marketing and promotional plan, and most importantly significant investment in advanced ICT infrastructure – much more than a small, globally peripheral island would naturally demand through market forces alone. The result is recognised international competitiveness and an economy transformed from its previous dependence on traditional maritime activities.

The role of public policy in economic development should generally focus on eradicating market failures. These usually occur in the form of under-investment in desirable goods and services (such as renewable energy installations or modern transport and technology infrastructure) or the over-production of undesirable goods and services (such as inappropriate building developments or 'externalities' like pollution). Another common problem are informational failures, when a market transaction would have taken place if only the parties involved knew about the opportunities it presented.

It follows that obvious areas for public sector involvement in economic development will include:

- **Land-use planning**, where intervention is required to ensure physical developments are in the interests of the wider public good. Guernsey's planning system appears generally well regarded, at least in terms of logic and strategy, if not always speed and responsiveness.
- **Environmental protection**, where intervention is fundamental to achieving energy security, preserving the many valued aspects of the physical environment and creating a marketplace where an appropriate value is placed on such activities by private companies.
- **Employment and welfare**, where regulation is necessary to protect workers and ensure equality of opportunity, and a programme of skills, training or job brokerage may be needed to help some elements of the unemployed, or other benefit claimant groups, back towards the labour market.
- **Infrastructure**, where the market itself is unlikely to make the large investments necessary to develop and maintain the transport and technology connectivity associated with an internationally competitive place to do business.
- **Marketing and promotion**, where the many advantages of visiting and doing business in Guernsey need to be communicated to prospective customers in

an increasingly crowded and 'noisy' market environment where both choice and competition continue to rise.

There is an additional role in promoting business and enterprise through development of a competitive regulatory framework and, potentially, through providing support and information where required to prospective local entrepreneurs.

5.4 Creating the Conditions

As noted in the *Strategic Economic Plan* in 2007, Guernsey needs to 'create the conditions' for private sector-led economic growth. To do this, it must develop a business-friendly environment with appropriate infrastructure, and provide support and information to prospective customers and investors where required. There is general agreement amongst stakeholders – including almost all representatives of the business community consulted for this study – that the role of the States should include:

1. Maintaining a modern, competitive connectivity infrastructure for Guernsey capable of linking the Island efficiently and effectively with key international destinations, notably London;
2. Setting an efficient, forward-looking regulatory framework capable of attracting and retaining high-value business, including by engaging in intelligent debate on financial regulation with the GFSC;
3. Promoting Guernsey internationally in key growth markets and to key individuals, to raise awareness of the Island's advantages and opportunities.

There is predictably less agreement across the various stakeholder groups about other aspects of public policy, such as the land-use planning system, employment regulation and the States' potential role in promoting new areas of business activity to support diversification. Nevertheless, it is positive that all stakeholders appear to see the States as having an important role to play in at least some aspects of economic development.

A successful Guernsey economy in the future will depend, as it has in the past, upon the private sector's capacity to innovate. The ultimate aim of the States should be to create an environment in which innovation is encouraged and promoted through the natural workings of market forces, but where the outcomes of such activity are channelled towards the public good and the maximisation of social well-being for Guernsey residents. Environmental and cultural preservation can and should be at the heart of this approach, since without it, business growth will be to the detriment of the Island.

5.5 Measuring Success

Central to the effectiveness of any economic policy or strategy is the ability to measure its effectiveness over a period of time. Guernsey already produces a detailed *States Strategic Monitoring Report* which uses a range of indicators to measure the success or otherwise of the core policy goals set out in the SSP, including both economic and non-economic ambitions.

The availability of economic performance data on Guernsey is improving, although some notable gaps still remain. These include fairly mainstream and essential policymaking data on trade, consumer spending, housing occupancy and the economically inactive population. In general terms, there is significantly less data available for Guernsey than there is for local areas in the UK or in other large countries, and so there is a higher than usual premium, both in economic policy development and subsequent monitoring, on qualitative or even anecdotal sources of evidence. Clearly, the more robust data that is available, the better will be Guernsey's toolkit for identifying problems and implementing robust solutions to fix them. **Data development is an ongoing process and needs to be supported.**

There is an additional, fundamental issue concerning the measurement of economic development in Guernsey. For both financial and social reasons, GDP is of limited value in measuring economic success in Guernsey – it does not effectively predict the tax take, it is almost certainly skewed heavily towards a small number of companies and business activities, and a significant proportion is probably not retained locally. Furthermore, there is also an explicit strategic commitment to social and environmental goals in Guernsey, set out clearly within the SSP, for which GDP and even high-skilled employment are at best only marginally relevant as measurement tools.

There is a strong case for alternative measures to be given greater consideration, if not central weight alongside GDP, in the core measurement of economic performance in Guernsey. These alternative measures should probably include the scale and distribution of employment income, as well as affordability, quality of life and environmental indicators.

6 Developing Sectors

This section considers a number of potential growth sectors for Guernsey and the possible degree of opportunity present in each. Since there is no intention to 'pick winners' in the form of completely new business sectors, there is a focus on industries already present in Guernsey in some form, or those where development of an expanded local presence would be a realistic medium-term goal.

Again, it is important to note that successful economic development in Guernsey could involve growth in other, completely unrelated sectors to these – indeed, it almost certainly would. This analysis simply considers alternative development trajectories based on opportunities already identified or likely to emerge, and how the 'fertile soil' needed for them to develop can be provided.

6.6 Renewable Energy

The global renewable energy market has experienced rapid growth. Total investment in new installations, spearheaded by China, rose by 30% in 2010 alone to some \$243 billion (£154 billion)⁴⁶. However, a combination of ongoing uncertainty in financial markets, regulatory confusion and public sector fiscal retrenchment are exerting significant pressure on the sector across Europe and the US.

Guernsey has established development momentum in three renewables sectors (tidal, wave and offshore wind), and a programme of exploratory research is well underway to assess the extent of the opportunity, the nature of environmental impacts and public attitudes. The development threshold is likely to be in the tens of megawatts (MW), which should mean that renewables can both meet domestic energy needs (Guernsey currently has a baseload of 25MW and a peak of 85MW) and generate export earnings for the Island. In the longer term, to 2030 and beyond, the generation capacity could potentially grow well beyond the initial development threshold.

The three technologies are currently at very different stages of deployment:

- Existing and approved offshore wind schemes will take the UK's installed capacity to 4,000MW, while globally the sector grew by 51% in 2010;
- Wave and tidal power, however (together known as marine energy), are still considered 5-10 years away from commercial operation on a significant scale.

The States are currently adopting a cautious approach to the deployment of marine energy infrastructure, monitoring early developments in the UK with the reasoning that Guernsey should not be a test-bed for new and commercially

⁴⁶ Ernst and Young, Renewable Energy Country Attractiveness Indices (Issue 28, February 2011)

unproven technologies. This is a sensible approach: there are publicity benefits to be gained from being a first mover, but the Island does not enjoy the luxury of the public subsidies driving technology development in parts of the UK, so the financial risks are significantly greater.

Some of the key ongoing issues shaping renewables development in Guernsey include:

- **Jurisdiction** – the limit to the Island's jurisdiction of three nautical miles (nm) from the coastline, which means developments are currently constrained to that area. Particularly in the case of wave energy, the scale of the opportunity would be much greater if efforts to extend the development zone to 12nm prove successful.
- **Cost** – renewable energy is expensive, and its entry into the domestic market would push up the already high costs of energy to Guernsey households and firms. A regulatory 'Merit Order' currently obliges Guernsey Electricity to source energy at the lowest cost, meaning that renewables, typically coming at a 10-30% premium, are effectively barred from the domestic market at present. The Order is easily removed if policy supports it, but there are still real questions as to the viability of passing on additional costs – particularly for marine energy, which is one of the most expensive renewables – to local consumers. Alternatively, it would be possible to seek to export all the energy generated from renewable sources on the Island, but even this solution is likely to prove expensive, with upgrades to undersea cable capacity almost certain to be required.
- **Attitudes** – there are understandably negative public attitudes towards visually intrusive developments, most notably wind turbine arrays in close proximity to the scenic north-west coastline. However, there is also some local support for the development of renewable energy, and it is important to retain an accurate view of public opinion, rather than merely acknowledging those who 'shout the loudest'. Unfortunately for Guernsey, the available wind resource happens to co-exist alongside some of the most appealing scenery, particularly in the north from where the turbines would almost certainly be visible⁴⁷.

In principle, there is a strong strategic fit between Guernsey's economic development aims (e.g. higher-value job creation, innovation and environmental sustainability) and a strong renewable energy sector. However, the role of renewables in promoting economic development in Guernsey needs to be carefully understood.

The initial construction activity associated with installations around Guernsey's shoreline would probably generate some temporary local benefit, though it would

⁴⁷ Floating turbines could potentially reduce the visual impact of offshore wind developments, if successfully rolled out over the next few years. However, an extension of jurisdiction to 12nm would be required to make these a realistic option.

not be local contractors undertaking the bulk of the work. The operation and maintenance of the facilities – whether wind turbines or marine energy devices – could well create some permanent local employment, likely to involve scientific inspection, monitoring and maintenance work using small boats out of St Peter Port. But there will almost certainly not be hundreds of permanent high-value jobs created in Guernsey through the developments themselves (see Box 6.1 below).

Box 6.1: How many permanent jobs might be created through operating and maintaining Guernsey's renewable energy facilities?

Our previous research for Vestas, the leading wind turbine manufacturer, has shown that in the UK, the current 1,000MW installed capacity of offshore wind facilities supports 450 jobs in operation and maintenance activities – including direct, supply chain and knock-on spending effects. By 2020, the operation and maintenance associated with the 'central forecast' of 20,500MW of installed offshore wind capacity is expected to support 7,200 jobs through the same effects (including 4,000 jobs directly). This works out at around 2-3MW of installed capacity per total job.

Clearly, the estimates are indicative only. But since the average capacity of each device should only rise as technology improves, it seems unlikely that an offshore wind development of 12-30MW (as discussed in Guernsey's feasibility work), or even a significantly expanded version, would support more than a very few jobs in maintenance and operations.

The tidal and wave sectors are much less developed, but a 2011 'state of the industry' paper by RenewableUK suggests that just 9% of jobs supported by the sector are linked to the direct operation and maintenance of facilities (the majority are in R&D, manufacturing and admin support). According to the paper, by 2020, around 900 jobs may be directly associated with the operation of 1,600MW of capacity (9% of 10,000 total direct jobs across the UK). Based on an installed capacity in Guernsey of 100-230MW (the two scenarios discussed in the *Regional Environmental Assessment*), it is hard to envisage more than around 100 jobs directly supported in operation and maintenance activities, perhaps up to half of which might be permanently based locally.

This is not to downplay the validity of renewable energy sector development in Guernsey – rather to focus attention on the fact that capturing significant employment impacts from the renewables sector would probably depend on Guernsey's ability to develop a wider capability in office-based sector support roles (including finance, legal etc) and possibly in research. It is also possible that the job estimates above could understate the sector's true local potential, particularly as limited evidence is available on the roll-out of renewable energy in small island economies to date.

Realistically, the main economic contribution of renewable energy to Guernsey is unlikely to be job creation. Instead, it offers the very attractive outcomes of energy security, export earnings and also positive publicity which could help generate spin-off benefits in other areas. As noted by the Guernsey Renewable Energy Team (GRET), these might include, for example, an on-island research function, perhaps linked to a university and perhaps in the form of a permanent centre, which could specialise in certain aspects of renewable energy research and development. We would encourage further investigation of this option, since many universities are increasingly keen to establish overseas centres, particularly where skills and research potential coincide. Given its standing in the financial sector, Guernsey could also come to specialise in innovative financial models for renewable energy development, potentially to support larger projects far beyond the Island itself. Potentially, the Island could also aspire to build regulatory leadership in renewable energy, while there may in time be tourism benefits from a thriving renewables sector (see eco-tourism later in this chapter).

Aside from the deployment of offshore renewables, there may be potential to grow the micro-generation sector onshore, for example in the form of solar photovoltaic (PV) installations by households and firms. Solar PV is one of the fastest-growing renewable energy sectors, with global production volumes more than doubling in 2010 alone⁴⁸. The areas of Guernsey covered by redundant agricultural glasshouses would be an obvious possibility for such installations. A strong take-up of solar is often dependent on subsidised Feed-in-Tariffs (FITs), so in a constrained fiscal environment it may be some time before a clear financial imperative drives adoption rates.

Overall, renewable energy would probably be considered one of the safest bets for a future global growth sector. However, it will only start to achieve its economic potential when the costs of fossil fuel-based energy rise significantly – towards the cost of generating power from renewables. If international politics continues to exhibit a poor track record in delivering binding emissions targets, and if new oil supply from countries like Libya gradually comes on-stream as expected, the date of this ‘tipping point’ may still be some ten years or more away.

6.7 ICT and e-Gaming

ICT (Information and Communications Technology) is a notable international growth sector. Although global spending on ICT products and services was hit during the recession, it is forecast to reach pre-recession levels by 2013 and thereafter grow by 5-10% per year, with Asia as the driving force⁴⁹. Guernsey has a notable ICT sector largely based around micro-firms, and technology is a key part of the Island’s business proposition. Initial momentum was created in

⁴⁸ Source: Solar PV Status Report, European Commission Joint Research Centre, 2011.

⁴⁹ Source: World Information Technology and Services Alliance, 2011.

2001 when an ICT sector promotion scheme achieved core aims such as the sale of Guernsey Telecom to the private sector, enabling more effective competition and regulation to drive efficiency through liberalisation of the telecoms market. In 2009, figures showed the industry was worth around £55 million⁵⁰.

As a high-technology sector built around private innovation, some feel there is relatively little the States can do to promote growth in the ICT sector. This is a mistake. The public sector has an important role to play in creating the conditions for growth by ensuring strong infrastructure and connectivity supported by appropriate levels of incubation and serviced office space to promote business start-up and growth. Jersey is building rapid momentum in its efforts to promote ICT as an engine of economic growth, forming plans to build a cluster of high-value business activity around large-scale deployment of fibre connectivity. A co-ordinated strategic response from Guernsey is likely to be required if it is not to fall behind in external perceptions of ICT readiness.

Strongly linked to the ICT sector has been the growth of e-gaming in the Channel Islands. This can be traced to the initiation of a forward-thinking regulatory regime on Alderney in the late-1990s, initially focused on telephone gambling but quickly recognising the potential of the online market. Limited server capacity in Alderney saw some companies moving back to London after their initial relocation, but an agreement with Guernsey that allowed firms to use servers based on the larger island while still being licensed and regulated by Alderney Gambling Control Commission (AGCC) quickly proved successful in winning back business.

For Guernsey, the attractiveness of the business model is underpinned by the relatively high rents e-gaming providers are able to pay for server use. A total of 14 data centres are present on the Island, compared to 6 on Jersey, and it is thought e-gaming has been the driving force behind Guernsey's total used internet capacity rising to 10GB/s compared to 2GB/s in Jersey⁵¹. A major new development of server capacity and supporting business space, the Guernsey Data Park, will soon come to market and may help to grow the Island's e-gaming presence further – though it could equally be used to support growth in other ICT-based sectors.

Box 6.2: Company case study – Sportingbet

With two million customers in 30 markets around the world, Sportingbet is one of the leading online gaming operators. Founded in 1998, the company has been listed on main market of the London Stock Exchange since 2010, and claims to offer 8,000 online sports betting opportunities each day.

⁵⁰ Source: States of Guernsey Policy Council.

⁵¹ Source: Chris Evans, managing director of Jersey-based hosting firm Foreshore, cited in *Businesslife.co* magazine online, 1st May 2011.

Sportingbet employs around 100 people in Guernsey, working in activities including odds calculation, administration and marketing. Registered in Alderney, the company has its main IT centre in London and its customer call centre in Dublin. Only 50 of its Guernsey staff are locals, although a scheme to develop young traders aims to change this for the future.

According to the company's managing director: *'We started in Alderney in 1997 because it had an advanced regulatory framework and licensing process in place. The massive growth of the internet generally and our industry in particular meant the business outgrew the island's infrastructure, so when the UK became geared up for online gambling, we had to move to London'.*

Lured back in 2007 by the agreement between Alderney and Guernsey to share resources, the Island's telecoms capabilities, quality of life and internationally competitive regulatory regime were all strong factors in the decision to move, according to the company's human resources director, and provided an edge over other offshore centres with equally low tax rates such as Gibraltar and the Isle of Man.

The company found the Guernsey housing market a potential barrier to relocation, and with no prospect of receiving enough housing licences for its employees, it decided to purchase open market properties for its traders to share, and to support senior employees with their open market rental costs.

Sources: AP Group, Financial Times, Sportingbet

E-gaming is a clear growth industry, with disclosed global revenues forecast to rise 42% to around £20 billion by 2012⁵². With many markets effectively 'underground' at present due to anti-gambling laws, the real total could be much higher. During 2010, the number of licences held by the AGCC rose from 44 to 51, and research by KPMG estimated the sector's combined economic contribution to Alderney and Guernsey at some £50 million (when all licensees' spending on hosting, telecoms, utilities, professional and other services are included)⁵³. Within Europe, Alderney and Guernsey's rivals for business include the Isle of Man, Gibraltar, the Republic of Ireland and Austria.

The AGCC's strategy for growing the e-gaming sector makes a clear commitment to ensuring all activity takes place *'honestly and fairly...free from criminal influence... [and] regulated so as to protect the interests of the young and the vulnerable'*. There is still some reputational risk associated with providing ICT facilities to support the e-gaming industry on Alderney – for example, advertising by companies in the sector was only recently permitted in the UK, and online gambling remains partially outlawed in the US. If reputational issues are a concern for Guernsey in light of the international debate on offshore

⁵² KPMG, *Online Gaming: A Gamble or a Sure Bet?*, 2010

⁵³ Alderney Gambling Control Commission, *Annual Report and Accounts 2010*

finance, then there is a need to manage these risks with effective regulation – which is, to date, something the AGCC is considered to have done successfully. To balance the debate, it must also be recognised that social attitudes do change over time (reflecting this, the UK now has plans to include education on gambling and odds calculation in its school curriculum), and in some of the main global growth markets, such as China, gambling holds a much more central and accepted place within the prevailing culture.

There are clearly concerns about the evolution of e-gaming regulation in much of Europe, and the AGCC recognises that this poses a direct threat to Alderney's future competitiveness. The AGCC has shown remarkable innovation for many years in developing its position as a global regulatory leader, and it will probably have to do so again to maintain its hard-won status. For Guernsey, the imperative is to maintain an attractive environment for ICT-focused investment, whether this takes place in e-gaming or other growth areas such as e-commerce, e-security⁵⁴, e-retail or creative industries such as film production. Thanks to the excess bandwidth put in place in Guernsey to support potential growth in e-gaming, this environment appears generally to be in place, but there are choices to be made about the extent of next-generation infrastructure deployment and proactive marketing of the Island as a global ICT location.

6.8 Financial and Professional Services

Guernsey's thriving financial and professional services industry provides the Island's key economic strength, and underpins its affluent, skilled society. The 'four pillars' of finance are of course at the heart of the Island's competitiveness, and the Hunt Review confirmed that almost all residents and businesses in Guernsey benefit to some extent, either directly or indirectly, from the banking sector. But the expertise of the professional services industry goes far beyond the mechanics of banking, fund management, trusts and insurance, and position the Island strongly to capitalise on emerging trends in many aspects of global business.

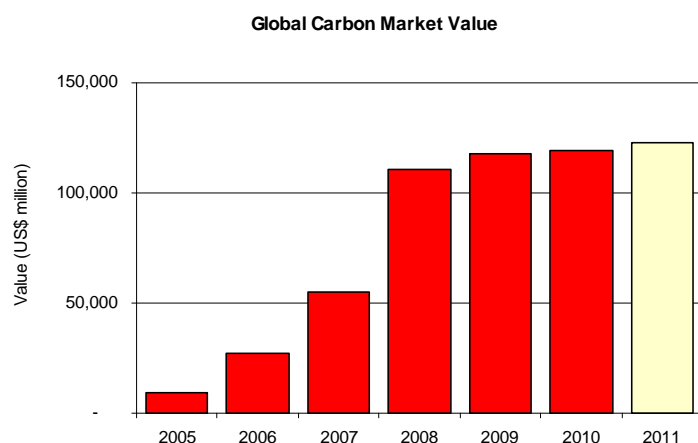
These emerging trends might include:

- **Environment** – opportunities to support an expanded global carbon trading and cleantech sector in the wake of a re-negotiated global emissions deal in 2012. The global carbon market has stagnated (Figure 6.1) in the face of political uncertainty and of course the recession, but many experts predict it will soon become a lynchpin of the global financial system. With its skills base and obvious branding strengths in relation to the sustainability agenda, Guernsey is well placed to become a known centre for 'green

⁵⁴ By e-security we are referring to technologies which help to protect private information flows across the world wide web, including financial transactions or database management, for example.

finance' covering support for onshore carbon trading, the financing of renewable energy projects and other emerging business streams over the next decade.

Figure 6.1:



Source: Oxford Economics analysis based on figures from Point Carbon and the World Bank

- **Media** – a growing competence in financing and administration for film and the creative industries, building on the existing work of Guernsey Film and exploiting the rapid worldwide growth of the creative sector, including in technology sectors such as digital media. More widely, the rapid rise of social media is perhaps the defining feature of present times, responsible for numerous dramatic and historic global developments – from bringing down tyrannical governments to revolutionising the way major companies interact with their customers – and capable of generating unprecedented social influence and reach. As adoption grows, focus will quickly turn to the legal and financial implications of the technology and its social impacts, and there will undoubtedly be business opportunities for first-movers coming to specialise in these areas.
- **Image** – capitalising upon the rising demand for specialist intellectual property (IP) and image rights services, building on the recent progress Guernsey has made in developing an IP register and becoming the first jurisdiction to introduce specific image rights legislation. As a known centre for high net-worth residents, including a growing number of celebrities, and with a strong indigenous capacity in legal and accountancy skills, the Island is well positioned to move into the nascent global image rights market and indeed to structure the business, sponsorship and promotional affairs of celebrities and sports stars more widely.

Opportunities for future growth in the core finance sector have been identified to include private banking, the relocation of wealthy individuals with business interests to Guernsey, and the repatriation of previous local residents with

overseas business experience. These will no doubt be pursued vigorously by an innovative business base. Rising incomes and rapid economic growth in the emerging markets and beyond will present major opportunities for all established centres in wealth management and private banking: a recent study by Oxford Economics and Deloitte found that across the 25 global markets most critical to the wealth management industry, the total wealth of millionaire households will more than double, to £202 billion, between 2011 and 2020, as the total number of such households grows from 38 million to more than 66 million (Table 6.1).

Table 6.1: Millionaire households in top global wealth markets, 2011-2020

Number of millionaire households ('000s)						Number of millionaire households ('000s)					
2011	Total	37,978	2020	Total	65,521	2011	Total	37,978	2020	Total	65,521
1	United States	10,541	1	United States	20,551	14	Switzerland	573	14	Hong Kong	1,178
2	Japan	5,705	2	Japan	8,649	15	South Korea	520	15	Brazil	1,001
3	Germany	3,485	3	Germany	5,789	16	Russia	375	16	Netherlands	959
4	United Kingdom	2,904	4	United Kingdom	3,814	17	Brazil	303	17	Switzerland	872
5	France	2,653	5	Italy	3,552	18	India	286	18	India	694
6	Italy	2,476	6	France	3,346	19	Turkey	273	19	Mexico	615
7	Canada	1,745	7	China	2,500	20	Sweden	252	20	Turkey	601
8	China	1,312	8	Canada	2,413	21	Singapore	221	21	Singapore	449
9	Spain	1,022	9	South Korea	1,730	22	Norway	178	22	Sweden	422
10	Taiwan	719	10	Australia	1,620	23	Mexico	170	23	Norway	319
11	Netherlands	713	11	Spain	1,602	24	Malaysia	76	24	Malaysia	249
12	Hong Kong	712	12	Taiwan	1,264	25	Poland	50	25	Poland	126
13	Australia	698	13	Russia	1,205						

Source: Deloitte, Oxford Economics; Note blue shading = emerging market; white shading = developed market

More widely, the evolving landscape of global financial regulation must be embraced, not rejected, if Guernsey is to prosper and develop trade with new markets; the finance community suggested the States have an important role to play in engaging with and arbitrating the debate.

It also seems clear, based on available evidence, that land and property constraints do potentially restrict the growth of the Island's business and professional services community, particularly at the top end of the market. This is not primarily a question of cost, but simply supply, and planning authorities will want to work closely with interested parties to ensure there is no sustained brake on the growth of this critically important sector for the Island economy.

6.9 Leisure Tourism

There is a danger of neglecting tourism in strategic economic planning because it invariably generates a lower GDP per job than industries such as finance. However, tourism is important to the Guernsey economy and would again become a main source of revenue in the event of a severe external shock to financial services (many small island economies around the world rely on tourism for up to 75% of their income). Travel and tourism is also a huge global growth sector as world incomes rise – it directly employed 100 million people in

2011, some 15% more than 10 years ago. Looking ahead, a net additional 21 million jobs are expected to be created by 2021 as the sector's contribution to global GDP rises by no less than 54%.

Subject to its natural constraints, Guernsey has an opportunity to tap into this global growth. For one thing, outside the mass market, tourism is highly compatible with the aims of the *States Strategic Plan* – economic, environmental and cultural – and so it should probably remain towards the forefront of any local economic strategy. It is also possible for tourism, if channelled towards niche, upmarket consumer segments, to generate growth in GDP per worker and to help Guernsey meet its long-term fiscal sustainability goals. Tourism will also generate valuable 'catalytic' benefits for Guernsey, simply through its own existence boosting trade, skills and investment in other unrelated industries, generating positive publicity as well as valuable social and cultural externalities⁵⁵.

Box 6.3: Guernsey's tourist accommodation offer



In 2011, Guernsey had 43 hotels offering 3,350 bedspaces across 1,560 rooms. Adding self-catering and other accommodation, it offered a total of 5,591 bedspaces, down from over 9,000 in 1991 and over 7,000 in 2001. The steady downward decline of bedspace stock, though more stable over the past five years, has been a key story in the Island's tourism industry – partly the result of hotels being converted to other, more lucrative commercial uses.

Within the hotel market, the offer is largely centred on three-star accommodation, which is responsible for 55% of the total room stock. There are six four-star properties (257 rooms in total) and one five-star establishment, Old Government House (62 rooms). Across the whole hotel market, assuming typical room rates for each star category and average year-round occupancy of 65%, the total revenue from staying hotel visitors (excluding discretionary spend) would be around £30-35 million per year.

In some cases, the large share of three-star accommodation masks a growing upscale boutique offer which has developed through recent

⁵⁵ See Oxford Economics' report on the economic impacts of tourism for the World Travel and Tourism Council, 2011

investment at many hotel and self-catering properties. Though it will be important to maintain an appropriate mid-range bedstock to service the needs of travel trade clients and other groups, there is still a possible case to grow further this upscale offer to increase tourism's overall economic potential and to help develop Guernsey's brand overseas.

As with most issues affecting Guernsey's economic development, there are strong and very divergent views amongst local stakeholders on tourism's future. These varied quite starkly in levels of optimism, and ranged from the opinion that the sector '*needs a good kick*' (a senior businessperson outside the tourism industry) to the view that '*we should just protect what we have*', to the more pessimistic suggestion that natural decline was inevitable and could not be deterred. Guernsey currently generates 40% of its tourism business from the package market and 60% from independent travellers, and there are advocates of both as the key future growth opportunity.

Perhaps the major concern in developing tourism is the constrained labour supply – of around 3,000 short-term housing licences issued each year in Guernsey for imported labour in lower-skilled occupations, around a third are within the hostelry (hotels and restaurants) sector. Growth in tourism would need to be supported in employment terms by a sensible mix of additional imported labour, re-allocation of existing tourism workers to higher-value functions (i.e. 'trading up' the value chain into more profitable market segments) and potentially some local people who may not, for whatever reason, currently choose to work but who may make themselves available for a role that was deemed attractive (e.g. within luxury or heritage tourism, or part-time/flexible positions). In general terms, Guernsey may be best advised to focus on growing *value* within the tourism industry, rather than the volume of employees *per se*.

Strategically, with a high average occupancy and obvious land, infrastructure and fiscal constraints, a 'quality over quantity' approach seems a sensible long-term approach for the Island. There is some evidence that this is the current market-led direction of travel, given recent investments in local properties. The strategy does, however, come with some potential risks attached, including:

- The danger of 'over-specialisation' in a particular niche, particularly if much of the sector follows the same route;
- The possibility of pricing current repeat visitors out of the market;
- A demographic risk, with higher prices and a 'luxury' focus largely appealing to older visitors who may be more likely to spend more per trip, but given current socio-economic trends may not be replaced by future generations with similar spending power.

However, recent experience has shown that the lower end of the hotel market has suffered more than the top end during the recession. There are two key reasons for this: firstly, unemployment has been more noticeable amongst lower skilled workers than higher skilled, higher income earners, so demand for upscale hotels has remained fairly solid; secondly, upper tier hotels have sometimes cut rates, allowing some 'trading up' from the mid-market.

Indeed, latest Oxford Economics forecasts for a major hotel group show that demand for the luxury segment of the UK hotel market is set to outstrip all other segments, with the sole exception of the lowest economy range, between 2011 and 2013 (Table 6.2). This is indicative of a wider 'polarisation' in the hotel market, with demand and indeed supply for luxury and economy properties driving industry growth at the expense of almost everything in between. For Guernsey, without a true economy sector, this is a positive indication of prospects for the higher end of the market, and perhaps a vindication of owners' decisions to invest in upgrades of midscale properties – for which demand appears stagnant at best – towards the top end.

Table 6.2:

Hotel Market: 3-year Forecast Summary									
	Supply			Demand			Occupancy		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
UK	1.9%	2.1%	0.4%	3.1%	1.2%	2.2%	1.2%	-0.8%	1.9%
Luxury	5.6%	2.2%	1.1%	7.3%	1.9%	3.8%	1.6%	-0.3%	2.7%
Upper Upscale	0.6%	1.6%	-0.8%	0.1%	0.1%	1.2%	-0.4%	-1.5%	2.1%
Upscale	4.5%	2.7%	-0.5%	4.3%	-0.3%	1.5%	-0.2%	-2.9%	2.1%
Upper Midscale	3.3%	1.3%	0.9%	4.4%	2.0%	3.1%	1.1%	0.8%	2.2%
Midscale	-1.3%	-0.9%	-1.3%	0.0%	-0.9%	-0.4%	1.2%	0.0%	1.0%
Economy	5.5%	4.6%	2.1%	7.9%	5.3%	6.1%	2.2%	0.7%	3.9%
Independent	0.0%	1.7%	0.2%	1.4%	0.1%	0.8%	1.4%	-1.6%	0.7%
London	3.3%	4.6%	0.5%	3.0%	3.8%	2.9%	-0.3%	-0.8%	2.4%
UK Provinces	1.5%	1.4%	0.3%	3.2%	0.4%	2.0%	1.6%	-1.0%	1.7%
France	0.3%	0.1%	0.3%	2.2%	-0.4%	3.3%	1.9%	-0.5%	3.0%
Paris	0.3%	0.2%	0.6%	2.8%	-0.8%	2.4%	2.5%	-1.0%	1.7%
Germany	1.4%	0.3%	0.7%	4.0%	-2.1%	1.6%	2.5%	-2.4%	0.9%

Source: Oxford Economics

With any island destination, access is a fundamental issue to tourism prospects. Any reduction in flights or routes by airlines can have significant implications – as shown by the recent example of Madeira. In 2005, airline capacity to the Portuguese island from European markets almost doubled with the arrival of a new entrant, but without an underlying increase in tourism demand to support it (Figure 6.2). The resulting pressure on load factors forced a key incumbent from the market, with the outcome of severely restricted access to previously key centres and a traumatic reconfiguration of inbound tourism routes.

The lessons from this example are numerous:

- Firstly, that tourism flows are often surprisingly supply-led, dependent on access almost as much as quality (as the story of Ryanair in eastern Europe also illustrates well);
- Secondly, that airlines are extremely sensitive to load factors when larger planes are involved (a reduced average of 90 passengers per flight was enough to see the Madeiran incumbent exit the market, after which the figure rose to a commercially viable level of around 140 again);
- Thirdly, that small island tourism is constantly vulnerable to the vagaries of market forces in the aviation market.

Figure 6.2:

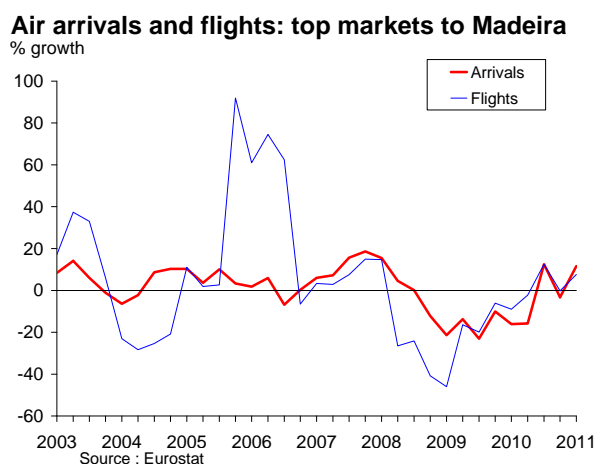
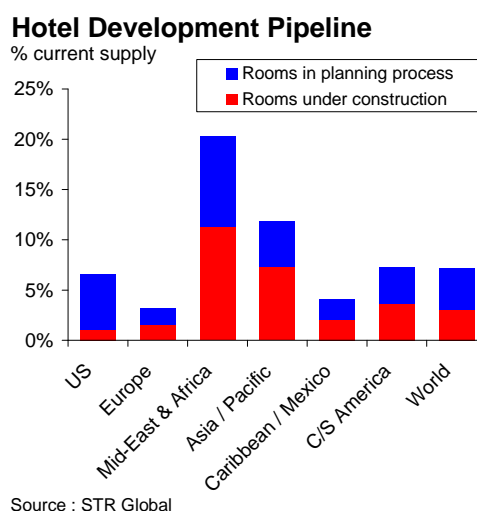


Figure 6.3:



Air routes from Guernsey, both to the UK and to Europe, have also seen a good deal of change in the past decade, with non-native operators entering and leaving the market at fairly regular frequency. Tourism performance, particularly in new or immature markets, will be highly dependent on the success of new air routes to the Island.

Competition across the tourism industry is also rising. Even within the mature European market, there are 120,000 new hotel rooms under construction (Figure 6.2), and Guernsey cannot afford to stand still in developing its tourism product. Emerging rivals are spending hugely to attract visitors: some 34% of all public and private investment in Montenegro, for instance, is in the tourism industry. Though not directly competing against the likes of Dubai and Abu Dhabi, money set aside by UK households for trips to exciting emerging destinations could also, in a climate of squeezed personal finances, easily push out an expensive midweek or long weekend break in Guernsey.

But on a more positive note, the size of the potential visitor market is also rising. More than 80% of Guernsey's tourists come from the UK, and this will naturally remain the Island's key marketing destination in the future. There is probably, however, real potential to grow inbound markets across northern Europe, with appropriate support for physical connectivity and marketing. Germany is the world's largest outbound tourism market – its residents spending £51 billion in 2010 on trips abroad, almost 60% more than their UK counterparts – and efforts to promote Guernsey in the country are showing encouraging signs. Seasonal flights to Dusseldorf, Hanover and Frankfurt have connected Guernsey to the large German package tour market, and further effort to target the 12 million residents of the five large regions surrounding Berlin could also bear fruit – average income growth to 2025 is set to be amongst the fastest in Europe⁵⁶.

Tourism spending on overseas trips, by country of origin...

1. Germany (\$77.7bn)
2. USA (\$74.6bn)
3. China (\$54.9bn)
4. UK (\$48.6bn)
5. France (\$39.4bn)
6. Canada (\$29.5bn)
7. Japan (\$27.9bn)
8. Italy (\$27.1bn)
9. Russia (\$26.5bn)
10. Australia (\$22.5bn)

*International tourism spending, 2010 (Source: UNWTO)

⁵⁶ Data from Oxford Economics' European Regional Forecasting Service.

Guernsey should neither ignore trends further afield, particularly the rapid rise of the emerging markets such as China and India. By 2020, Asian travellers will account for 32% of global outbound tourism spending, up from 21% in 2008, as the European share falls from 51% to 41%.⁵⁷ Just as Guernsey's finance industry sees opportunities servicing the needs of wealthy individuals in emerging nations, the tourism sector should look at opportunities, where costs allow, to 'piggy-back' the rising number of visitors from emerging markets to London and the UK.

The Chinese outbound tourism market is of particular note, with an extra 75 million foreign travellers (more than double the current total) set to generate an additional \$100 billion in overseas spend by 2021. Guernsey needs to ensure it is covered by Chinese 'approved destination' rules⁵⁸ to maximise the potential, but there may be an opportunity for the Island to tap into both group and independent traveller markets – where small volumes could generate significant value – trading off its scenery, cultural ambiguity (a strong appeal internationally) and excellent accessibility to London. Research suggests Chinese travellers are particularly keen to combine multiple countries on a single overseas tour, a trend which offers significant opportunity for Guernsey. An air link to Paris, enabling the Island to sell itself as a natural bridge between the two major city destinations and national cultures, would of course also be useful in this regard.

It is important to note that investing heavily in marketing directly to consumers in new emerging destinations is unlikely to generate value for money for Guernsey. Marketing and promotion do need to focus in large part on those destinations for which connectivity to Guernsey is already in place. But digital marketing offers cost-effective opportunities to broaden reach, and a co-ordinated approach to selling Guernsey within UK and European tour itineraries for emerging market travellers could also yield dividends.

We now briefly consider a number of niche tourism market segments – mainly focused on growing average spend from the core UK market, though also relevant to new European customers – which may have additional scope for future growth. None is a 'silver bullet' in terms of maximising the overall potential of tourism in Guernsey, and all will need to be evaluated in terms of their requirements for marketing spend, route connectivity and accommodation capacity, but taken together they may point towards a sensible and diverse development trajectory for the Island.

⁵⁷ Total outbound tourism spending forecasts. Source: Tourism Economics / Oxford Economics.

⁵⁸ Countries and territories awarded Approved Destination Status (ADS) by the Chinese authorities are able to service the large Chinese outbound group travel market. The UK is already accredited, but other major global tourism destinations, such as Canada, have only recently been granted the award.

6.9.1 Upmarket Short Breaks

Guernsey has seen an upsurge in recent interest from the UK market, most likely from a combination of factors including:

- The decline in value of sterling since 2008 (particularly against the Euro where it continues to lag close to parity);
- The continued rise in popularity of short breaks as a lifestyle option;
- Pressure on household budgets squeezing out long-haul options.

Overall, brochure enquiries for Guernsey are at their highest level for a decade (122,000 in 2010) and *VisitGuernsey* website hits are also up significantly (to 1.5 million in 2010). Recent times have seen mixed fortunes for the tourism sector across the UK and the Channel Islands, but there is cautiously optimistic evidence that Guernsey has at least weathered the storm, and perhaps even modestly bucked the trend – total visitor numbers saw solid single-digit growth in 2009 and 2010⁵⁹.

Box 6.4: Upmarket hotel properties



According to popular hotel review websites, Guernsey's most popular establishments with visitors are in the stylish, upmarket categories. Traditional and boutique properties such as The Farmhouse, Le Friquet, Old Government House, La Barbarie, Bella Luce and Duke of Normandie generally gain the best customer reviews.

This is probably a strong hint towards the strategic direction of travel in the tourism industry. We share the view of the new *Strategic Land Use Plan* that a new 'large-scale, high quality hotel' and leisure facility would be desirable for the Island. Evidence from the hotel market clearly points to growth in the luxury segment, and the 62-room Old Government House, though deservedly renowned, is unlikely to be able to serve demand on its own, particularly given the opportunities presented by Guernsey's high-end leisure/business crossover market.

To access this opportunity, Guernsey also needs to develop an integrated high-end offer and brand, differentiating from its UK and European short-

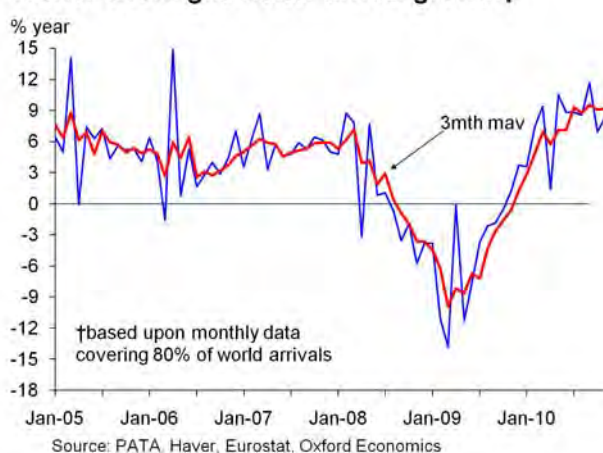
⁵⁹ Source: Marketing & Tourism Unit, C&E

break rivals through unique culture and heritage features but encompassing stylish, boutique accommodation, luxury restaurants and leisure amenities, scenery and outdoor activities, and perhaps elements of high-end retail such as jewellery. The target market will include sophisticated, affluent professionals in the 30-45 age bracket (boutique, outdoor and food & drink offer), plus older visitors (luxury and relaxation offer).

There are some interesting patterns in the nature of typical leisure visits to Guernsey. Amongst staying leisure visitors, of whom 70% come from the UK and 10% from France, the average duration of trip is 5.4 nights – a significant length of time probably inflated by the relatively high cost of travel to the Island (a return flight from the UK for less than £150 is hard to come by). By type of accommodation, the average length of stay ranges from 8.6 nights in self-catering to 4.3 nights in hotels. Average occupancy rates in leisure accommodation are high, approaching 90% between July and September and averaging around 70% through the shoulder season⁶⁰.

Figure 6.4:

World: Overnight visitor arrival growth†



In an era of short breaks via air travel, the fact that 41% of staying leisure visitors arrive by sea is perhaps also a reflection of both the costs of airfares to Guernsey and the close relationship between the Island and the towns and cities of England's south coast. It is also plausible that negative sentiment around the modern-day 'airport experience' could be supporting interest in sea-based trips from southern and central England – this is a genuine opportunity for Guernsey, particularly if air taxes also start to rise with the speed some predict and the environmental agenda recovers its momentum with consumers post-recession.

⁶⁰ Source: Marketing & Tourism Unit, C&E. Occupancy rates based on yearly average from 2006-2010.

With a high general price level, Guernsey has obvious challenges competing against cut-price weekend destinations in the UK and Europe. It is probably best served by targeting growth in the upmarket short break market, built around its growing capacity of boutique, farmhouse and luxury accommodation in the 3-5 star categories. It is important the Island maintains a broad offer to minimise the risks of over-specialisation, but current leisure industry trends would suggest the upscale short break market is potentially the most valuable future growth area.

6.9.2 Cultural Tourism

Guernsey has a rich cultural life and heritage, and many people comment that its potential tourism offer exceeds that of Jersey in this area. There are growth opportunities, particularly via the upscale short break market, linked to the arts, creative, heritage and food & drink sectors. Festival tourism has grown rapidly in the UK to the point where some industry commentators hint at saturation – but there are still opportunities for development where the quality of the offer is high and strongly differentiated, something Guernsey is well placed to achieve.

The Island has a strong offer in both heritage and more modern niches – the inaugural Guernsey Performing Arts Festival in July, for example, largely a modern music event, was recently nominated for 'best new festival' in the UK Festival Awards. Many types of cultural event can be highly effective in promoting destinations to visitors and generating income – for example:

- The year-round programme of arts, science, military and children's festivals in Edinburgh created £261 million for the local economy in 2010⁶¹;
- The Galway Arts Festival in the same year attracted 158,000 people over 14 days, half of them visitors, and generated €20 million in direct economic benefit against a cost of €2 million⁶²;
- Even small towns such as Ludlow in Shropshire generate valuable direct and indirect benefits from festival tourism, such as the renowned annual food & drink event whose positive branding impact has year-round spin-off impacts for the local agriculture and hospitality industries.

With a co-ordinated and well promoted programme, Guernsey could probably generate valuable economic benefits whilst promoting and protecting its cultural heritage and showcasing local industries. There may be scope for certain events to take place in the shoulder or even winter months to help spread tourism demand, given the accommodation capacity issues arising in the summer season.

⁶¹ Source: *Economic impact of the Edinburgh Festivals on the Scottish Economy*, for Festivals Edinburgh, 2011.

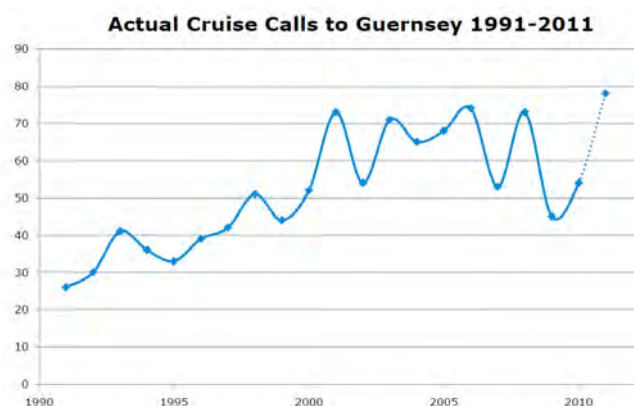
⁶² Source: Independent research for Galway Arts Festival, 2011.

6.9.3 Cruise Tourism

The cruise industry is large and growing: though dominated globally by the US, some 4.8 million people embarked on a cruise from a European port in 2009, generating 23.8 million passenger visits at European port cities, 10% up on the previous year. Together, the European cruise industry generated spending of 14.1 billion during the year and almost 300,000 jobs⁶³. Industry experts believe the number of Europeans taking cruises could more than double by 2020⁶⁴.

Understandably, there is consideration in Guernsey of how to secure some of this economic benefit for the Island. The Marketing & Tourism Unit (within C&E) estimate that total cruise industry 'value added' to the local economy was around £1.5 million in 2010 – including direct and multiplied visitor and crew spending plus income for handling agents and harbour fees – with feedback from cruise lines very positive in what is a fiercely competitive market. Latest data suggest 2011 was the most successful year ever for cruise calls to Guernsey, with 77 in total (against a ten-year average of 62) including two ships from the luxury Silversea line, considered perhaps the top brand in the industry. Previous data indicate that some 44,000 cruise passengers stepped ashore at St Peter Port in 2010.

Figure 6.5:



Despite the presence of some high-end operators, a strategy of larger-scale cruise market expansion is possibly going against the 'upmarket' tourism strategy to an extent, but it does offer some diversification for the Island. Guernsey has a strong offer in themed land tours – from World War II to flowers and gardens – but significant expansion in terms of passenger numbers is potentially contingent on development of new port facilities allowing larger ships to dock (the current maximum vessel length at St Peter Port is 140m). In the

⁶³ Source: European Cruise Council, *Contribution of Cruise Tourism to the Economies of Europe*, 2010.

⁶⁴ Source: World Travel and Tourism Council, *Travel and Tourism 2011*.

event of much larger ships being able to visit, via the development of an 'alongside berth', there are a number of issues to consider, including:

- The costs and potential payback period of the initial investment, and of course its technical feasibility;
- The likely average spend of cruise visitors to Guernsey, which in the absence of flagship charged attractions, and based on existing evidence from other European ports, may be relatively low;
- The temporary impact on the town's character of large numbers of passengers stepping ashore.

All of these factors need to be considered by new research and consultation before a cruise market strategy is finalised. But if a strong case can be made that payback periods would be reasonable (perhaps around ten years), then the development could well be in the Island's economic interest, given expected cruise market growth in the future.

6.9.4 Film Tourism

There is an established and well evidenced link between films showcasing a particular location and subsequent tourism activity in that location. A large number of examples from around the world prove the point, from *The Sound of Music* (Salzburg) to *Lord of the Rings* (New Zealand). Alnwick Castle in Northumberland saw a 120% increase in visitors after featuring in a *Harry Potter* movie, while the wineries of Santa Barbara saw a 300% rise in visits after the release of the film *Sideways*. As Thomson's marketing director has stated, '*with films effectively acting as virtual brochures, they can do much more for bookings than a large scale advertising campaign*'.

A previous piece of research by Oxford Economics for the UK film industry explored the link in some detail, and eventually estimated that film exposure may account for up to 10% of all tourism spending in the UK, or some £2 billion per year⁶⁵. With the film *The Guernsey Literary and Potato Peel Pie Society*, based on the successful novel by Mary Ann Schafer, now in production – though it appears that only parts of it will actually be filmed on the Island – it would appear Guernsey could benefit from a notable upsurge in tourism interest in 2012 or 2013 when the film is released. The US and UK are the most likely sources of demand, and the film could be an important opportunity for Guernsey to grow its share of the \$75bn outbound US tourism market.

It is probable that the growth in visitor interest will not be on the same scale as if the film had been shot in Guernsey, and this appears an opportunity missed for the Island to showcase itself directly to a large international audience. Nevertheless, the Marketing & Tourism Unit could follow up on its existing map of locations from the novel with a programme of promotion and one-off events to

⁶⁵ Source: Oxford Economics, *The Economic Contribution of the UK Film Industry*, report for Pinewood Studios Group and the UK Film Council, 2010.

capitalise on the likely growth in demand – and in the case of the US market, probably targeting ‘piggy back’ visits within longer trips by tourists to the UK and France.

6.9.5 Eco-Tourism

The tourism industry is seeing a significant increase in sustainable practices. More and more hotels, entertainment amenities and transportation companies are signing up to basic environmental codes and many are overhauling business models to incorporate sustainability. As consumer preferences evolve to demand better environmental performance of the companies they buy from, forward-thinking entrepreneurs are carving out lucrative new niches in the market – from eco-hotels to adventure trips to purpose-built convention centres.

There are some interesting comments on the potential for eco-tourism in Guernsey in the *Regional Environmental Assessment* for marine energy. Many of the points made in this report are valid, but the overall tone is perhaps too pessimistic. The sector will grow strongly at a global level and Guernsey has strong outdoor, food & drink and heritage offers as well as a large volume of higher-income consumers within a relatively short ferry journey of the Island. As technology and aviation develop, it could well be that short journeys by small aircraft from regional hubs produce fewer emissions and become perceived as ‘eco-friendly’ in relation to leisure transport alternatives.

We feel the medium-term prospects for branding Guernsey as an eco-tourism destination are fairly bright. There may be additional opportunities for a visitor centre to accompany any future renewable energy developments – as is the case with many current proposals for such developments around the UK. There may also be some potential to grow the farmstay sector to provide additional income for agricultural landowners; a number of emerging destinations, such as Slovenia, are enjoying success in this area as consumer interest in eco-tourism grows, and the appeal could be enhanced if Guernsey can develop and promote agricultural self-sufficiency.

6.10 Business Tourism and Events

Guernsey’s financial and business services industry is strongly linked to international markets, notably (but not exclusively) London. By consequence, its support of a significant business tourism industry provides an additional source of economic benefit to the Island. This benefit is not well understood, and has not been the subject of economic impact analysis. But the business industry supports a large proportion of activity at the top end of the hotel market – and indeed has almost certainly underpinned much of the recent investment in upgraded hotel facilities – as well as restaurants, leisure amenities and transport including air and taxi services.

Senior representatives of the business community confirmed during the consultations for this study that despite improvements in technology and video-conferencing, ‘*there is still no substitute for face-to-face meetings*’ and there

remains a heavy reliance on the frequent air services to and from London. This correlates with the message from a previous Oxford Economics study on business travel, which found that for every dollar invested, \$12.50 was generated in additional revenue and \$3.80 in additional profits⁶⁶. Put simply, business travel is essential to the prosperity of an island economy's business services sector, and this will continue to generate valuable spin-off opportunities for Guernsey.

Survey evidence suggests business travel spending has now broadly returned to pre-recession levels, and additional future growth is expected. Recent trends in the UK meetings and events sector, though demonstrating a reduction in overall value, are indeed favourable for a location like Guernsey – including a reduction in average event size with a skew towards more senior delegates, a resurgence in the corporate market, and a growing preference for unique and 'different' destinations in the most lucrative buyer segments.

Business tourism potentially offers valuable year-round consistency in demand to counteract the challenging seasonality of the leisure market. The increasingly blurred boundary between business and leisure trips also means that both sectors could benefit from an increase in meeting and conferencing activity, and by more effective promotion of Guernsey as an upmarket short break destination to a corporate sector audience. All in all, business tourism is worth promoting – and this can occur by making Guernsey as viable a meeting and conferencing destination as it can, given its size, realistically be.

There are choices to be made in how Guernsey develops its business tourism industry:

- **Access** – it is clear that the sector is fundamentally dependent upon the Island's ongoing competitiveness in the financial industry – without this, there is limited need for business tourism. With this in mind, support for the continuation of a direct London air link is a clear priority, and efforts to deliver an additional link to London City airport is noted as a possible driver of growth. Large Guernsey companies – notably the Specsavers Group – also operate their own aircraft to and from the Island several times a day, and there are also clear economic benefits from making the airport as friendly as possible to private corporate traffic.
- **Venues** – the largest current option is Beau Sejour Leisure and Conference Centre, in which the main multi-purpose conference hall seats 800 seated delegates (or 450 in tables of 10) but a larger sports hall can accommodate 1,600 seated guests when it is available. The 300-seat Performing Arts Centre is an attractive venue that could possibly be promoted more aggressively to the corporate market. There are meeting rooms at most of the main hotels, though a purpose-built conference venue could be created to improve the offer if additional research deemed it appropriate.

⁶⁶ Oxford Economics, *The Return on Investment of Business Travel in the US*, 2009.

- **Accommodation** – the hotel market is central to the appeal of any conferencing destination. Guernsey has a reasonable choice of upscale, characterful properties, and the Old Government House has recently achieved five-star status. Capacity is, however, an obvious issue for larger events – the Island currently has just 319 rooms at four-star level and above, with occupancy rarely below 60% – and feedback suggests some business is deterred by the prospect of delegates split across multiple hotels. The largest hotel is currently the four-star St Pierre Park, with 130 rooms and a main conference room seating 300.
- **Support** – the supporting ‘soft’ infrastructure of organisation and planning assistance can be crucial to attracting the most lucrative events, whether large or small. This support extends beyond organisation of facilities and accommodation to advice and booking of transport options, integrated catering, cruise-style excursion packages for delegates and a programme of supporting leisure or entertainment events. The Marketing & Tourism Unit offer an online information brochure (through *VisitGuernsey*) and checklist for meeting organisers, but there may be also potential to significantly ramp-up promotional activity, especially since web-based marketing is known to be a critical factor in securing events.

Growing the business tourism market in Guernsey *‘has been tried before and failed’*, according to some, but a fresh approach may yield dividends. There seems obvious potential to generate additional economic benefit, both from extensions of pre-planned individual trips and from meetings and events in what is a £20 billion industry in the UK alone⁶⁷. Guernsey should probably be chasing niche conference business in the higher-value segments, rather than the mass-market with its higher price sensitivity, but it should be possible to attract a greater number of events to the Island with an appropriate, well marketed offer. In the longer term, Guernsey could realistically aspire to host and attract specialist international events in the business sectors in which it develops new competitive niches.

6.11 Aviation

Guernsey airport underpins much of the Island’s economic activity, and its role in this regard is considered elsewhere in this report. It is, however, often commented that additional income could be generated from the aviation sector more widely, including from the private market.

Business aircraft are no longer a luxury, but a key part of operations in many high-value companies. They will remain attractive in Guernsey as they can take off regardless of the fog, removing the risk from early meetings in the UK or Europe. Though it will probably remain unfeasible for Guernsey to be connected widely throughout Europe on a commercial basis, business jets can provide

⁶⁷ Average of recent years’ figures for total spend from the UK Events Market Trends Survey.

flexible connectivity across the continent. However, due largely to parking restrictions, it appears that a majority of larger private aircraft are currently turned away from Guernsey, often to Jersey's gain. We understand, anecdotally from a well-placed source, that an entrepreneur recently intending to set up a trust fund in Guernsey eventually took his business to Jersey – where his plane ended up parking after initially depositing him in Guernsey.

There may be a case for a threefold policy to tackle this issue:

- Firstly, undertaking research to better understand the economic benefits of the private aviation market, including barriers to further growth;
- Secondly, developing a policy on private aviation to exploit the opportunities identified by such analysis;
- Thirdly, to investigate shorter-term options for improving the parking facilities for larger private aircraft at Guernsey airport. We understand that ongoing airport redevelopments mean that the “West Grass” area will be concreted to a high standard and that a portion of this area may be suitable for the task.

Spatial constraints would in turn appear to constrain the potential for aircraft servicing and maintenance activities in Guernsey to be expanded. These can be a useful source of income generation, particularly in higher-value areas such as avionics. With more space available there may be scope both to actively service more private aircraft, and also to develop an Aircraft Registry and become more involved in aircraft trading – another potentially lucrative market capable of generating export earnings by providing a service to non-residents.

Finally, in addition to the wider effects of providing a higher rate of service to private aircraft, there may be potential to provide a greater income for the airport directly. At present, smaller jets are allowed 24 hours parking free of charge; in other private airports this could cost up to £1,000. It is not suggested that Guernsey seek to price at this level, but an appropriate lower rate could perhaps be charged.

6.12 Creative and Digital Industries

Guernsey, like many scenic and coastal communities with a modern edge and good accessibility to a major global city, would normally serve as a natural magnet for creative industries professionals. Indeed, data suggest that some 20% of graduates from Guernsey hold degrees in creative or arts subjects, indicating the underlying level of interest. The Island does not necessarily share the goals of attracting significant numbers of creative professionals from elsewhere – though it could probably do so to a certain extent – but there is potential to grow the industry indigenously. This aim would align well with multiple SSP goals and could also bring knock-on benefits to industries such as tourism and ICT. There is already a solid core of activity within the sector – which is promoted by Guernsey Arts Commission with public funding of £95,000

per year – and this supports a growing arts event market led by areas such as photography.

Guernsey defines the creative industries using the broad definition developed by the UK Department for Culture, Media and Sport (DCMS), encompassing activities such as advertising and web design, and this wider focus will help to promote higher value, commercially exploitable activities, for example in the digital industries linked to Guernsey's ICT offer. This could also potentially include aspects of visual effects (VFX) and computer-generated imagery – a market for which there is major demand from global production studios, and which tends to thrive in locations combining strong technological connectivity with a high quality of life and scenery. It is true that Soho's global status in the VFX industry would be a natural draw for a young, creative-minded Guernsey ICT professional, but it is equally true that the 'big four' players in London are coming under pressure from other locations, from Germany with its high salaries to Vancouver with its quality of life. It is realistic to imagine Guernsey as a boutique centre for VFX activities, given the right start-up environment.

Box 6.5: Guernsey as a film location

'A lot of things have been shot on the Isle of Man and I don't want to do that, I really could feel the Norman influence in the way the streets are designed and the colours and the types of buildings and it's so beautiful there [Guernsey] you just fall in love.

When you do a film in a place you bring in millions and millions of dollars, so this will be probably a \$20-25 million film and that money gets pumped into the economy of wherever you shoot. So we're hoping the Guernsey government will come up with something that can be attractive to Fox.'

Paula Mazur, Creative Producer, *Guernsey Literary and Potato Peel Pie Society*, quoted at BBC News Online, 6 May 2011

It is perhaps unclear why Guernsey appears reticent in developing itself as a filming location. Insufficient direct financial support is often cited as the reason why *The Guernsey Literary and Potato Peel Pie Society* is not being majority filmed locally, and in this case, regrettably, the barrier may well have been insurmountable, given the constraints on local public spending and the sensitivity of the film-makers to production costs and financial support. Nevertheless, in a wider sense there are perhaps two key points to consider on the film debate:

1. There are significant direct and spin-off financial benefits on offer from being showcased internationally on the big screen, as clearly evidenced by the willingness of jurisdictions large and small to provide concessions and direct support to film producers. If only for positive publicity, the 'catalytic' economic benefits from film exposure are usually considered highly desirable.

2. Although Guernsey offers a higher cost and less production flexibility than many competing jurisdictions in the film location market – particularly the emerging film destinations in eastern Europe – its unique physical environment, strategic location and lack of corporate tax will still make it an attractive and viable option for filming smaller segments of some major productions.

In our assessment, both of these points are somewhat under-appreciated in Guernsey, and there would be merit in re-exploring the potential to develop the Island as a 'boutique' film location. Large production shoots are certainly not likely to be either feasible or desirable for Guernsey, given the stresses they would place on local infrastructure. However, the UK film industry is in strong health, worth over £3 billion per year in turnover and growing strongly despite the recession⁶⁸. Guernsey is the closest island location to key UK studios such as Pinewood (and the wider south-eastern film cluster), and creates seemingly obvious filming appeal with its natural scenery and unique built environment. It is probably unlikely that temporary disruption from smaller-scale filming activities would be excessive or unreasonable.

With an infrastructure of upscale amenities, privacy for celebrities and an airport hospitable to most private planes, Guernsey appears eminently suitable for hosting small elements of major films. Since tax incentives offered by host countries, including the UK, are usually based on a certain proportion of filming activity rather than the entire production, Guernsey and indeed the Channel Islands as a whole appear well-placed to pick up business working in partnership with the UK studios. A re-think on policy may be worthwhile, expanding on the film financing activity currently promoted by the States through Guernsey Film.

More widely in the audio-visual sector, there may also be an opportunity to lure UK-based TV animation companies, several of whom are currently looking at offshoring due to the UK Treasury's reluctance to match the incentives offered to filmmakers. Guernsey's zero corporate tax rate and attractive physical environment could prove a potent combination for attracting higher-value creative companies.

Across the creative industries, there are often strong links between the emergence of higher growth businesses and the availability of funding and capital to support them. The leading fashion designer Alice Temperley, for example, was able to expand her operations rapidly through financial support from her investment banker husband, who left his profession to become CEO of their business. With a thriving global financial sector in close proximity, the next generation of creative entrepreneurs in Guernsey should be able to count on support in return for good ideas and clear business plans.

⁶⁸ Source: Oxford Economics economic impact research, 2010.

6.13 Health and Social Care

Both health and social care are amongst relatively few economic sectors that can reliably be forecast to grow significantly over the coming decades, given prevailing demographic trends. Guernsey has immediate challenges in catering for a rapidly ageing population and ensuring its welfare system remains adequately funded to deliver the ever-greater public services required. But there will also be clear opportunities for the Island to generate commercial benefit from the rising demand for treatment and care, including from external consumers.

6.13.1 Medical Tourism

Developing the ‘medical tourism’ sector in Guernsey appears to have notable economic potential for a number of reasons – primarily to generate export earnings but also to help reduce the costs of care for local residents. The essentials of an emerging product appear already to be in place. Quality perceptions of Guernsey healthcare standards are high within the industry – although there is clearly a need to communicate this message externally to potential customers. There is spare capacity in operating theatres, a large bedstock, and expertise in a number of growing market areas including plastic surgery, gastric banding, hip and knee replacements, and mental healthcare for addiction and stress-related conditions. It is considered that additional training for nurses in post-operative care may be required to support a significant expansion in patient numbers, as might additional senior medical staff, but the barrier is unlikely to be insurmountable.

Cosmetic surgery represents one of the strongest opportunities – and not merely in the context of external tourism. Many common procedures have a relatively modest demand on bed space and theatre time, involve short recuperation periods (patient discharge time is usually within one or two days of surgery and further contact time with the consultant is rarely required), and deliver relatively high profit margins. Indeed, the UK industry is said to be worth £2.3bn per year, with growth of 17% between 2008 and 2010⁶⁹.

There are two potential markets for cosmetic surgery:

- The domestic market (for Guernsey residents), for which anecdotal evidence from within the profession suggests could already be worth tens or even hundreds of millions of pounds per year – revenue which is currently lost to the UK and other locations.
- The external market, initially focusing on the UK but potentially also looking to Europe and beyond once quality niches are developed. Guernsey’s position within the sterling zone and its geographical proximity to the UK should position it strongly to attract British residents – particularly if recent reports of a tightening of VAT laws on ‘aesthetic’ surgery puts upward

⁶⁹ Source: Mintel

pressure on prices⁷⁰. It may be possible for some operations to be conducted by UK-based surgeons, providing patients with re-assurance of UK medical standards being in place, if necessary.

In the tourism context, mid-range complexity operations such as hip and knee replacements are another potential area of opportunity, with demand for private operations currently rising strongly from an affluent, ageing population in the West. However, hip replacements tend to be more complex surgeries, more demanding on staff resource and bed space, and necessitating a longer period of recovery. It may therefore be less cost effective to use spare medical capacity in Guernsey for this purpose, although with a strong fit to the Island's 'rest and recuperation' tourism brand in ageing consumer segments – highly conducive to extended stays on the Island post-operation – the opportunity is certainly worth further exploration.

Other services such as gastric banding, a laparoscopic procedure considered relatively uninvase and highly effective for treating obesity, are also recognised as growth areas in the medical industry and could have income-generating potential for the Island, given its nascent capability in the field. This market is likely to be focused initially on the UK, where obesity rates are amongst the highest in the world, although if a niche reputation can be developed in the future, there will be major opportunities to service other English-speaking markets where wealth and obesity coincide, such as the US and perhaps increasingly India.

Finally, the mental health 'market' is also growing rapidly in parallel with high-end incomes and the perceived pressures of modern working life. There may in particular be scope for Guernsey to develop specialist expertise in recuperative treatments for work-related stress, given the strong natural alignment with its attractive physical environment and reputation as a renowned high-end business and financial services centre. Indeed, it is quite easy to imagine Guernsey becoming a recognised private centre for such services, and generating significant revenue from a core of high-income professional clients based in the UK and central Europe. Extending the theme further, addiction treatments are also considered an area of local capability, although this resource is probably best targeted initially at the local market to help reduce welfare dependency and to avoid the likely controversies associated with more extensive promotion.

Whichever services are developed, to attract appropriate higher-income consumers the medical tourism sector should probably be sold in tandem with Guernsey's existing core brand image – premium quality, skilled professional labour and relaxed, picturesque surroundings. Services offered should be high

⁷⁰ Current UK laws mean VAT is applicable to 'aesthetic' forms of cosmetic surgery, but 'medical' uses are exempt. In practice, it appears that almost all current operations are classed as medical, even when they are clearly non-essential, and media investigations confirmed that even the largest industry player in the UK was being advised by its tax consultants that VAT was not applicable to any of its services.

quality, selective and discreet in order to differentiate from key competitors and build an appropriate reputation. Unless capacity can be significantly expanded, Guernsey probably needs to treat medical tourism as a niche sector, in order to identify true specialisms and concentrate on providing key services to a higher standard than elsewhere.

To develop the sector, a joint working strategy needs to be developed between key public and private stakeholders in Guernsey's medical industry. There is a clear rationale for proactive involvement to develop:

- An appropriate contractual environment in which to deliver services, and clearly defined organisational roles in taking the activity forward;
- Suitable arrangements to market and promote the services to target consumers;
- A supporting infrastructure of skills and training, medical and recuperative accommodation, and appropriate external transportation options (e.g. depending on services offered, it may be necessary to consider issues such as the hospitality of airlines to passengers with restricted mobility).

6.13.2 Medical Research and Training

There may be some potential for Guernsey to build a core of small-scale, commercially-driven medical research activity, perhaps alongside the expansion of indigenous capability in certain services promoted within medical tourism. There are some notable barriers: pharmaceutical research, in particular, tends to require a strong nucleus of specialist skills to attract entrepreneurs, and spatial constraints also dictate that developing this sector from a standing start is unlikely to be a cost-effective strategic avenue to pursue. Nevertheless, developing a suitable and well-publicised network of start-up support for medical professionals could yield notable dividends in future years in the form of income-generating patented devices.

Guernsey's small, closed population is a favourable characteristic in the field of consumer-based medical research and clinical trials. There have been recent cancer research trials on the Island, and there could be scope to expand similar activities further – although excessive promotion of this area may prove somewhat controversial, based on past experience. However, there is certainly considerable and increasing criticism at the extent of regulations governing clinical trials in the UK, and assuming the reputational risks of potentially less stringent regulation in Guernsey can be managed and minimised, perhaps an opportunity for the Island to exploit.

Skills development and training is an additional area that could be developed commercially, perhaps through the existing Institute of Health and Social Care Studies based at Princess Elizabeth Hospital. Clearly, quality is the key consideration with any such move, and along with specialisation in emerging industry niches will be the critical factor in defining the extent of the commercial market.

6.13.3 Social Care

The social care industry is largely an 'enabling' or supporting sector in traditional economic terms, but it will undoubtedly grow quickly through prevailing demographic trends. It will almost certainly increase the demand for lower-skilled, flexible employment in social care professions on the Island, and this may need to be met by imported labour if the supply of local people willing to take such roles remains at its presently low level.

More widely, there will be emerging opportunities for innovation in social care employee training services and quality standards, and of course in the property sector with rising demand for specialist care homes and specialist housing for people with health and social care needs. With Guernsey's significantly above-average and rising number of older, higher-wealth residents – a customer base which can be extended to include family members of the many younger and middle-aged high-income residents, plus current off-Island residents intending to retire to the Island – there will be a large demand, and often a willingness to pay premium rates, for high quality residential care services.

6.14 Retail

There are perhaps three main types of retail business activity in Guernsey:

- The core high-street offer serving local residents, centred on St Peter Port but with coverage around the Island;
- A number of e-retail companies serving the UK market, largely built around Low Value Consignment Relief;
- Office functions supporting larger UK or international retailers, such as the Specsavers Group.

6.14.4 High-Street Retail

Information on retail employment in its own right is not available for Guernsey, but official data show that the wider 'wholesale, retail and repairs' sector supported around 4,400 jobs in March 2011 – a figure that had remained relatively stable since previous years – across 370 employing organisations. Analysis of consumer surveys suggests that retained retail spending on convenience goods (such as food) in Guernsey totalled £135 million during 2009, plus £139 million on comparison goods (such as TVs) – the latter net of 21% leakage to off-island and internet purchases⁷¹.

A detailed study on Guernsey's high-street retail industry by the planning consultants RTP in 2010 found that the Island's retail offer had faded over recent years. St Peter Port was not keeping pace with comparable UK centres and importantly had fallen some way behind St Helier in Jersey. Demand for

⁷¹ Source: RTP calculations based on Guernsey Household Expenditure Survey (2006) and Island Analysis survey of 500 Guernsey households (2009).

premises from local independent traders was stifled by unfavourable lease terms. A retail business survey suggested recruitment was a challenge, with inappropriate skills and experience coupled with unrealistic salary demands hinting that many local people may be overqualified for available positions.

The report was moved to conclude that *'a do nothing approach is not an option'* since current retail trends would accelerate the decline of Guernsey's competitiveness and reduce its investment appeal. It suggested a need for between 8-12,000 square metres of net additional sales floorspace to be created between 2009 and 2020, focused on larger premises in and around St Peter Port where possible, and potentially improving the offer in clothing and footwear, electrical, leisure and media goods. It also recommended a drive to bring vacant premises back into use, and to preserve the fading character of the town centre⁷². This presents a compelling case for action – there appears a clear opportunity to diversify the retail offer for the benefit of Guernsey residents, reduce leakage to internet sales (which are twice the UK average), and create new business activity.

There is often a clear link between the retail sector and opportunities to grow lower-skilled job creation and thereby reduce welfare dependency. This may be challenging in Guernsey, partly due to residents' relatively high average skill levels and partly, as in the UK and elsewhere, because of the tendency for migrants to fill many available jobs at comparatively low wage rates. Nevertheless, an expansion of retail on the lines above could surely provide significant 'first step' employment opportunities to help tackle emerging welfare dependency issues, and also provide a rare source of flexible-hours employment for Guernsey of benefit to many on the periphery of the labour market.

6.14.5 Online Retail and Mail Order

Online retail has provided Guernsey with some of its biggest-name businesses, such as Healthspan, HMV and Moonpig.com, which arrived in 2006 and has undergone significant expansion. Most retailers in this genre serve the UK market, taking advantage of the EU's Low Value Consignment Relief (LCVR) ruling which exempts mailed products with a value under £15 (previously £18 until October 2011) from VAT when they are posted from outside the region. This polarises opinion: UK Chancellor George Osborne has referred to the 'abuse' of an EU law which damages UK retail and costs the Treasury £140 million per year in tax revenue, and even in Guernsey, senior business people in other sectors have described the practice as a reputational threat to the Island and *'not a genuine business model'*.

⁷² Roger Tym and Partners, *Guernsey Retail Study*, 2010.

Company case study: Moonpig.com

The leading online greetings card retailer, Moonpig.com first launched its website in 2000 and saw rapid growth following a successful TV advertising campaign in 2006. Revenues grew 50% in 2010 to £31 million, and in 2011 the company featured at number three on the Sunday Times Profit Track 100 list of the UK's fastest-growing firms.

The company moved its card printing operation to Guernsey in 2006, initially occupying a 10,000 sq ft site at Garenne Park. Expanding rapidly and with an ambitious five-year growth plan, it subsequently paid £2.4 million for a 33,000 sq ft site at Braye Road Industrial Estate, moving in by late 2009.

Management invested a further £1.5 million in automated printing presses, and all of the company's products are now printed and despatched from Guernsey. Moonpig.com employs 100 people in Guernsey and its south London corporate headquarters. It agreed to be taken over by UK rival Photobox in 2011 in a £120 million deal.

Sources: Financial Director magazine, This Is Guernsey, Moonpig.com

A recent UK Treasury announcement has confirmed plans to abolish LVCR for the Channel Islands mail order industry from 1st April 2012. Having developed a 'fulfilment' industry worth £300 million in annual turnover and 650 jobs, this could bring significant short-run impacts for Guernsey's economy⁷³.

The full extent of the impacts, which have been analysed internally by the States, may depend heavily on decisions made by three of the largest mail order businesses – Healthspan, HMV and Thompson & Morgan – on whether or not to leave the Island, and this will in turn influence the scale of the revenue impact on Guernsey Post. The States may wish to consider potential actions in the event of a threatened withdrawal of business from the Island, to help retain some of the capital and labour invested in the sector. This may initially include:

- Lobbying for a further extension of the date of imposition, to help give businesses affected more time to adjust, and their staff more time to find alternative employment, if relevant;
- Making the case that a distinction should be drawn between low-footprint retailers and those that have invested significant sums in Guernsey; and
- Probing the legislative focus on the Channel Islands alone rather than all non-EU locations (as influenced by the original LVCR policy).

⁷³ Figures from States of Guernsey, cited in BBC News Online report, 6th November 2011. Internal analysis by the States shows that total employment in Guernsey's mail order and fulfilment industry, including 'non-LVCR' elements of existing businesses, is 810.

Proponents of the changes to LVCR argue that the sector has grown in the Channel Islands due to a 'market distortion', and that growth has been achieved at the direct expense of the UK. Empirically, there is some truth in this argument and in the long-run, Guernsey's best strategy may be to simply redeploy the labour and capital elsewhere and allow the economy to adjust. It is certainly worth encouraging dialogue with the larger investors, however, to assess options for retaining part or all of the existing facilities in alternative uses.

6.14.6 Corporate Location

There is an acknowledged element of chance in the corporate location decisions of several of Guernsey's most established companies – including its largest private employer Specsavers, the optical retailer. Quality of life was evidently a key factor in the location of Specsavers, with its founders Doug and Mary Perkins having already retired to the Island when they decided to start the company in 1984. In turn, Healthspan was created by the local entrepreneur Derek Coates, who has noted that he keeps his company in Guernsey rather than more potentially favourable locations elsewhere *'because I am a Guernseyman'*.

Guernsey should not be embarrassed by this apparently non-strategic rationale: **the tendency for capital, enterprise and high-end skills to migrate to locations offering a high standard of living is an established global economic trend, and expected to become more pronounced in the future.**

The challenge for Guernsey is to promote a policy structure conducive to maximising the on-island presence of such investors in strategic corporate functions such as marketing, new product development or legal services – as in the case of Specsavers – in addition to higher-value administrative functions such as human resources or ICT.

7 Strategic Options and Recommendations

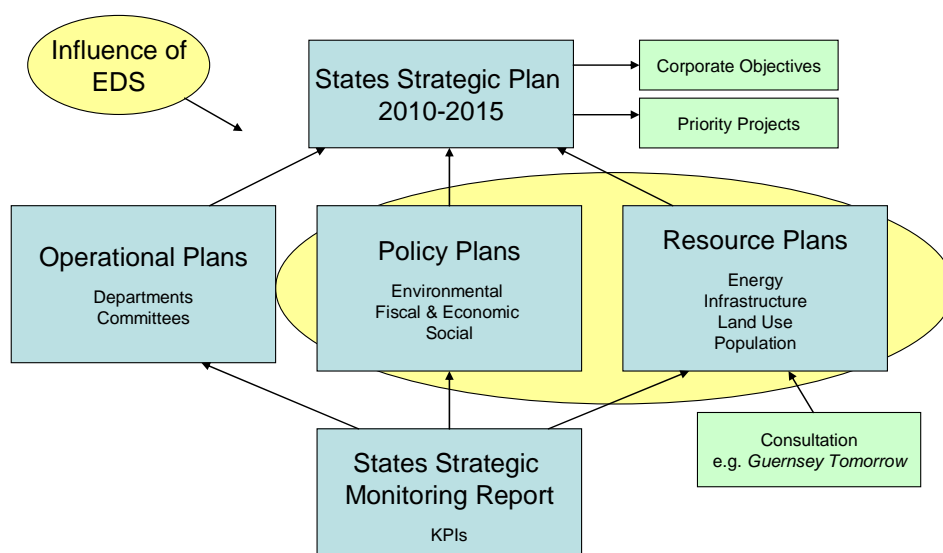
This section considers options for economic policy development, making recommendations as to which are likely to be the most effective choices for Guernsey in pursuing its unique economic objectives.

It is important to realise that to achieve successful and sustainable economic development, all of these options do not necessarily need to be pursued – some may be considered further and rejected, while others may fail in spite of support. In a market-led environment, that is inevitable and would not constitute failure. The key is to channel the efforts of stakeholders towards activities that are likely to serve the best long-term interests of the Island and its residents.

7.1 Economic Development Strategy

An economic development strategy is a notable gap in Guernsey's policy hierarchy. Whilst an overarching set of strategic aims for the Island are comprehensively set out in the SSP, and there is some detail on economic development issues presented within the Fiscal and Economic Plan, there is no single document presenting and discussing the possible future directions of the local economy and the choices available to Guernsey in promoting or delivering these.

- Given the extent of the debate locally about the desirability of different development paths for the Island, there is a clear rationale for articulating the key policy issues in a publicly available document to guide decision-making. We support the creation of an economic development strategy for Guernsey, based on the issues discussed in this document but with ownership developed and retained by the States and local stakeholders. This would provide a natural link between local Policy Plans and Resource Plans, and also update and embolden the valuable messages contained within the previous Strategic Economic Plan.



- As stakeholders review strategic options and develop a shortlist of actions, these need to be fully costed to allow decisions to be made. Strategy is important but many potential actions will of course cost money, and we recommend that a line-by-line review of existing economic development expenditure is undertaken to complement the process. This will help to link existing and new strategic actions, and to potentially re-prioritise issues and projects based on their effectiveness to date and their ongoing economic importance.

7.2 Policy Development

Based on our research, we now present a summary of our main comments and suggestions on key aspects of economic policy. To ensure emerging opportunities and threats are acted upon, we recommend that a cross-department 'Economic Development Strategic Implementation Group' meets quarterly to review outstanding issues – whether they concern sectors, planning, skills, media or other topics – and to provide a mechanism for the escalation of issues critical to Guernsey's economic competitiveness.

7.2.1 Infrastructure Policy

It is clear from any economic analysis of Guernsey, and from our extensive stakeholder consultations, that transport links play a key role in the Island's attractiveness as a place to live, visit and do business. In particular, physical air connectivity to London and the south of England are fundamental to both the success of Guernsey's economy and the social well-being of its residents.

A programme of welcome improvements to the airport runway infrastructure has recently commenced in 2011, and the terminal building was modernised in 2004. Most stakeholders are strongly supportive of the current and recent developments, which are seen as essential to maintaining Guernsey's economic competitiveness. There remain disparate views on the desirability of additional runway improvements allowing the operation of larger aircraft from Guernsey (see box). This remains a difficult issue to analyse, but a fundamental one to future economic development on the Island given its potential to change the nature and character of business and tourism flows:

- We share the view that a true step-change in the Island's business and tourism performance would probably necessitate increased air capacity, but fundamentally there remains little hard evidence that any destinations are currently under-served. Regular services to Paris, Dublin, the north of England and parts of central Europe are sometimes cited as gaps in the scheduling, but the reality is that none have proved commercially viable, even with public subsidies.
- In future, a runway extended to meet the needs of fully-laden 737s (and similar) could be a significant factor in projecting Guernsey's ambitions and delivering economic growth. But at present, the sensitivities on the Island in relation to development and resource use, coupled with prevailing attitudes

to financial risk driven by the challenging fiscal climate, would probably strengthen the case to continue to 'watch and wait' at this time.

- Despite the above, there are clear benefits to both Guernsey residents and to the Island's economy, most notably the tourism industry, from a diverse range of UK and European air routes. Without advocating large increases in spending on subsidies, we recommend strongly supporting efforts to expand and optimise the network of routes to Guernsey, including those to potential inbound tourism growth markets such as Germany, France and Holland.

Sea connectivity to and from Guernsey provides an important link to the outside world. This link may become even more important in the future, as environmental pressures on aviation continue to grow. Tidal restrictions arising in Jersey (and to a much lesser extent, St Malo harbour) place physical restrictions on connectivity options in terms of routes and timetabling, but the next opportunity to re-negotiate terms of operation with the market incumbent should be used to maximise the value of the service to the Island's economy. In the meantime, research needs to take place to sharpen understanding of current needs and future opportunities for sea transport to support economic development.

Box 7.1: The Case for Airport Development – 2011 Update

Developing Guernsey airport to enable it to handle larger planes is a fundamental issue in its future economic development. An £80 million programme of essential airport maintenance, including runway, apron and drainage improvements, has already commenced in 2011. But even after this is completed, the airport will still be unable to handle a fully loaded Boeing 737 or Airbus A320, both widely considered fundamental to the short and medium-haul air markets.



There remains significant debate on the desirability of further improvements, notably an extended airport runway (probably from 1460m to 1700m at an additional cost of perhaps £20-30 million). This would allow planes such as the Embraer 195 and Boeing 737, staples of modern short-haul commercial aviation, to operate from Guernsey. The issue runs deep into the heart of local economic planning – to encourage a step-change in future growth, with all the benefits and costs that may bring, or to maintain a *status quo*.

A previous report in 2009 by York Aviation considered airport development options in detail, but concluded that *'in the face of limited scope for market growth, the provision of a longer runway is simply a cost without any*

*incremental benefit*⁷⁴. From our recent consultations with business and economic stakeholders, it must be reported that there remain major differences in views about the desirability of the project.

On the one hand, the regular frequency of London services is a key factor underpinning Guernsey's offer to business, including the finance sector, and the introduction of larger aircraft would appear to threaten that frequency, based on experience elsewhere. A similar argument could also be made for the tourism sector – although some argue that higher-volume package business from Europe, plus additional supply at lower price levels from the the leading UK-based low-cost carriers, are amongst relatively few real growth opportunities for the industry.

Conversely, the challenging financial climate in the UK and Europe – which York Aviation perhaps underplayed in their analysis and which is likely to persist for some years to come – mean that airlines are keen to reduce costs and risk by flying fuller, larger planes less often. It is also not difficult to appreciate, in an era of Airbus A380s, that a future reliant on twin-propelled aviation may well see Guernsey linked only to peripheral and regional UK airports.

The introduction of larger aircraft to Guernsey could bring significant changes to the breadth, frequency and possibly also the price of airline services. In turn, this could change the nature of the economic activity the Island most effectively supports, and have real consequences for its future pattern of economic development. Whether the net effect of these changes would be positive or negative is probably still open to debate.

Key economic infrastructure is not limited to transport. A robust network of high-speed broadband connectivity is essential to economic growth, particularly in the service industries that will drive Guernsey's economy forward. To exploit this potential, the focus needs to be on off-island connectivity rather than speeds within and between the Channel Islands.

- We understand that telecoms operators generally respond quickly to evidence of demand, and that restricted bandwidth is unlikely to present a barrier to growth or competitiveness on the Island. 25% of UK firms and households can currently access a fibre connection. Most major businesses and government offices in Guernsey have direct fibre connections and the Guernsey Grid for Learning provides a cutting edge network linking educational establishments. Very few domestic properties in Guernsey have direct fibre connections with "final mile" ADSL connections being provided over copper at speeds of up to 18 Mb/s, Jersey has announced plans for pan-island gigabit connectivity delivered through its public-owned telecoms operator. The States must work closely with the private sector and

⁷⁴ York Aviation (June 2009), *Airport Development – Economic Assessment of Options*, report for the States of Guernsey Policy Council.

the regulator to identify bottlenecks, cost alternative development options and ensure broadband connectivity remains internationally competitive.

Finally, a sound economic infrastructure also includes legislation and policy. The States need to observe and engage with the debate on emerging financial regulation, ensuring its policy framework remains both competitive and internationally accepted. They also need to support efforts to develop, internationalise and market a competitive intellectual property regime, which is a fundamental long-run source of economic growth and should not be judged in terms of short-run fee income.

7.2.2 Sector Policy

Developing sectors is a highly sensitive and frequently politicised issue, in Guernsey and beyond. However, there is an emerging global consensus on the benefits of a mature, light-touch industrial policy to create the conditions for socially desirable growth and to catalyse development in a small number of embryonic sectors which may offer the potential to deliver this.

- **Professional Services** – a strategy based on professional services development appears favourable to Guernsey for a variety of reasons, not least its potential to support and promote the established financial services sector, its complementarity with the existing skills profile (and respected local institutions like the GTA) and its smaller spatial requirements in comparison to other global growth sectors such as high-tech manufacturing. New developments will be driven and underpinned by private innovation, but there may be a supporting role for the public sector to build momentum in key thematic areas of opportunity (for example environment, media or image rights) by co-ordinating investment and branding initiatives, developing a forward-looking skills and training offer through the GTA and other local providers, or incentivising high-value spin-outs from experienced finance sector professionals. The States also have a role in preserving an internationally competitive ICT and intellectual property infrastructure, and in lifting the emerging brake on sector growth from the limited supply of high quality office accommodation.
- **Renewable Energy** – the States have, and are playing, an important role in the development of a renewable energy sector for Guernsey. Exploration of the technical feasibility and economic opportunities of such a development should continue, taking into account the potential knock-on effects on fisheries and tourism. Renewable energy's impact is not likely to come in the form of large-scale, high-value job creation – at least not for many years – but there are important strategic benefits of energy security, export earnings and research spin-offs that are well worth promoting. We particularly advocate the promotion of an on-island university research centre which would have numerous spin-off benefits for the economy. Guernsey is also well positioned to become a known international centre for the financing of renewable energy developments.

- **ICT** – Guernsey has a relatively strong ICT infrastructure and can probably be considered, at present, the leading ICT industry player in the Channel Islands. Through policy innovation it has built a notable presence in the support of Alderney-based e-gaming activities, and this has in turn encouraged the market-led provision of significant bandwidth to support growth across the ICT sector. We recommend the encouragement, where possible, of diversification into additional ICT sub-sectors with major global growth potential, such as e-security and e-finance. Jersey has recently announced bold plans to develop a fibre-led business cluster around ‘gigabit connectivity’, and Guernsey needs to consider its response to avoid being overtaken by its rival.

Box 7.2: Illustrative scenarios for ICT sector development

Guernsey needs to consider its options in developing an internationally competitive ICT sector. For illustrative purposes, we present three hypothetical scenarios based on currently known information:

Scenario A – the ‘deluxe’ option: Guernsey responds to Jersey’s ambitious plans for ICT sector development. It supports fibre deployment to all businesses and residents across the Island, and free public Wifi in all areas of St Peter Port, Admiral Park and St Sampson. It develops a holistic ICT strategy, and agrees to create a joint sector development body with Jersey to promote the Channel Islands internationally as a leading technology player. It quickly diversifies its ICT sector beyond e-gaming, attracts new global investment and comes to specialise in new growth markets in e-commerce, e-security and virtual worlds.

Scenario B – the ‘halfway’ option: Guernsey makes a considered, strategic response to Jersey’s plans for ICT development. It designates ICT as one of a small number of target growth sectors to promote economic diversification. It develops a focused ICT strategy and works closely with the regulator and the two main telecoms market players to maximise connectivity without committing to large public subsidies. A tightly-run strategic promotion body is set up to market Guernsey’s offer to key individuals, linked to its supporting offer in financial services, the creative industries and intellectual property. The Island successfully diversifies its ICT sector beyond e-gaming, and though Jersey secures enviable high-profile investments, Guernsey generates a valuable new source of employment and growth with a strong return to a modest initial outlay.

Scenario C: the ‘do nothing’ option: Guernsey opts for a ‘market-led’ approach to ICT sector development. It watches as Jersey becomes a funnel for ICT investment into the Channel Islands. Guernsey remains competitive in e-gaming, in partnership with Alderney, but this market starts to dwindle on the back of new EU laws. Some new investments are secured and data centre capacity continues to grow, but at a slower rate. Few high-value ICT jobs are created – Guernsey continues to be seen as a viable back-office

centre, but little more – and server rental remains the primary source of income. ICT makes a limited contribution to economic diversification.

Source: Oxford Economics

- **Tourism** – this is, and will remain, an important economic sector for Guernsey, even though labour and infrastructure constraints mean that attention should initially focus on growing value over volume. Key global trends – such as the rise of the emerging markets, the sustainability agenda, rising income inequality, ageing demographics and fluctuating exchange rate movements – all present opportunities and demand a nimble, responsive marketing strategy. The market is undoubtedly competitive, and we are not suggesting that tourism will be able to generate the levels of GDP per worker that the professional services industry achieves. But we do advocate a general policy of greater ambition and optimism, since Guernsey's is a strong product and will have international appeal in a number of growing segments across the leisure and business markets. There is a real need for economic impact research to better understand tourism's contribution to Guernsey (current and potential), and to assess the drivers of inbound visitor growth in higher-income UK and European markets.
- **Aviation** – Guernsey is well placed internationally to develop a greater presence and generate greater income from the incessant growth of private aviation. There are practical issues around its physical capacity to deliver on-island services, but we have set out a threefold policy to understand and explore this opportunity further. More widely, aircraft registration is a popular offshore export sector and appears under-developed at present (we support emerging plans to develop a joint aircraft registry with Jersey), while there are obvious benefits from maximising Guernsey's appeal to high-net-worth entrepreneurs, for whom business location decisions can be influenced significantly by the availability of suitable private aviation facilities.
- **Creative** – economic growth can be promoted across the creative and digital industries, including in higher-value digital sectors, and there are strong potential synergies with ICT, finance and tourism. We suggest a re-think on film production policy and an expansion of promotional activities to cover the digital industries and cultural and events tourism. For the latter, a flexible, accessible indoor events space appears a notable gap in Guernsey's offer, and there may be potential to promote wider business tourism activity with a new purpose-built development. Given the importance of finance to creative business growth, we suggest promoting links to start-up capital and support via the local financial industry.
- **Health** – internationally, health and social care are amongst relatively few sectors which can reliably be predicted to grow over the coming years. There are numerous opportunities for Guernsey to exploit this growth commercially, perhaps most notably through medical tourism, small-scale

specialist research activities and high-end residential care. In medical tourism, we suggest a strategy to define roles and responsibilities, bring to market a high quality service offering focusing on a small number of high-value niches, and develop an appropriate supporting infrastructure of skills and facilities. We suggest that cosmetic surgery, mid-scale complexity medical operations and stress rehabilitation may be some of the important areas to pursue, with an offer built around Guernsey's core brand values.

To promote these opportunities, economic policy needs to be co-ordinated but not prescriptive. In some cases, co-ordination would probably benefit from extending beyond the jurisdiction of Guernsey itself. For example, the fragmented nature of Channel Island governance has resulted in at least three different programmes of renewables sector development being pursued (Guernsey, Jersey and Alderney). We understand that information and experience is generally shared, and we do not necessarily disagree with the view that technological deployment would progress at the same pace even if a single, joint approach was taken to meeting the opportunity. But ultimately, to attract developers and to achieve very real efficiency savings during the operational phase of any future projects, a unified Channel Islands renewable energy strategy – with a common legislative framework linked strongly to UK, Irish and French programmes – is probably in the best interests of all.

7.2.3 Population, Employment and Skills Policy

With a limited supply of labour and capital, Guernsey relies on innovation to move itself upwards on the value chain and to generate sustainable growth in income. Skills are the key driver of productivity to maximise the value of human capital.

- **Skills** – we strongly support the implementation of a skills strategy for Guernsey, and encourage all stakeholders to re-engage with the debate on skills promotion. In particular, Guernsey plc will benefit significantly from on-island, employer-focused training provision, so although care needs to be taken to promote growth in high quality, specialised private training provision, the 'GTA model' needs to be built upon and linked strongly to all forms of post-16 education. More widely, education is the core building block of future economic competitiveness, and recent issues in the school system will only serve to damage Guernsey's prospects if not addressed decisively.
- **Resources** – managing Guernsey's population is a sensitive topic, as a recent consultation process has showed. Ultimately, more skilled people will enable the Island's economy to grow at a faster rate, but there is a clear potential trade-off with the preservation of the natural environment and local quality of life. These are difficult choices for Guernsey, and in the face of subjectivity on quality of life issues, economic theory alone cannot dictate the best path to take. A population management mechanism that, as the name suggests, shifts the focus from controlling the occupation of the Island's housing stock to managing the size and make-up of the Island's population – as the States are proposing – is a clear imperative. Beyond

that, the emerging demographic pressures facing the Island, and the impacts they will have on future welfare dependency, would strongly suggest that either population growth or taxation increases will be necessary to preserve the Island's fiscal sustainability.

- **Flexibility** – it is important for Guernsey to maintain an employment base that serves the needs of all of its residents. As we often heard in our consultations, *'not everyone wants to work in a bank'* and indeed the financial services sector is not generally noted for its compatibility with flexible or remote working practices. Employment protection is also more limited in Guernsey than places such as the UK or Europe: draft laws on maternity entitlement, for example, have only recently passed into consultation. A sensible combination of employment regulation and diversification into other higher-value sectors is likely to promote inclusiveness for Guernsey, enabling it to make the most of its constrained resources.
- **Welfare** – in the context of a rising welfare bill and limited capacity for importing skilled labour, there is an obvious imperative to tackle issues of benefit dependency, to bring as many of the economically inactive as possible back into work, and to minimise demand for social housing. Available data combined with anecdotal evidence point to issues with the long-term entrenchment of mental health-related sickness and 'hidden' unemployment amongst single parents: innovative projects promoting third sector delivery of work readiness support are worth exploring here. More widely, it is alarming that the yawning gap between below-median wages and high private housing costs are leading to growing numbers of younger people in Guernsey – a prosperous, affluent location by any standards – to enter social housing. This must surely be a cause for action to grow the supply of first-time buyer accommodation and to promote innovative financial models conducive to home ownership.
- **Demographics** – given the challenges it faces from a population of over-60s set to double in thirty years, Guernsey needs to think laterally about expanding the local base of skills and enterprise. One opportunity surrounds older workers – a wasted resource in most economies but one Guernsey simply cannot afford to ignore, given its ageing population of skilled, affluent residents and the noted examples of successful entrepreneurship driven by previous retirees. Initiatives to tap into this growing resource should encompass mentoring and coaching but ideally need to extend much further by encouraging the commercial exploitation of opportunities for non-executive directorships, consultancy and direct business start-up.

7.2.4 Enterprise Policy

Guernsey has a prosperous financial sector, but although its supply chain 'trickle-down' effect is notable and we understand its charitable contribution is significant, there is perhaps a danger that the gap between the financial community and the rest of Guernsey is becoming too wide. This is contributing

to emerging social costs including an inflated and inaccessible cost of living for young people, low income earners and even the increasingly 'squeezed middle'. There is obvious potential for the finance sector to make additional contributions to enterprise and skills promotion on the Island.

- **Capital** – Guernsey's thriving finance sector should probably contribute more than it does to the wider Island community. Whether or not this involves tax policy changes, the pool of capital and know-how within finance could be used more effectively to promote business and enterprise across Guernsey. Some individuals are already active in business angel investment, but such opportunities are not widely promoted and there is scope to do much more.
- **Coaching** – in an economy where 31% of employers feel their staff are under-skilled and the most notable gaps are leadership, communication and customer handling abilities⁷⁵, the obvious presence of such talents within a globally-connected financial industry should be used for external mentoring and coaching. Again, tax or other financial incentives can be used to encourage this 'social partnership' approach.

Finally, we suggest that the climate for start-up businesses in Guernsey is less than optimal, from unfavourable commercial property markets to uncertainty over the impact of the housing licence system on expansion plans, to an under-promoted and perhaps under-resourced enterprise advisory service.

- **Advice** – Guernsey has a proud tradition of entrepreneurialism across all sectors of the economy. To ensure the next generation of local entrepreneurs see Guernsey as a viable location for their business, a more comprehensive and co-ordinated system of enterprise support may be needed. Guernsey Enterprise Agency is well regarded and achieves strong client feedback on a small budget, but there is probably scope to improve the co-ordination of activity, including by linking to the emerging suite of intellectual property legislation to encourage enterprise in emerging high-value niches that offer long-run wealth creation potential.
- **Experience** – there are opportunities for high-value business creation through spin-outs from existing successful Guernsey companies, given an appropriate network of technology-focused workspace and greater start-up support. A register of businesses seeking premises could help to better understand small firm property needs. Guernsey has a far above-average concentration of skilled, experienced employees, particularly in business and professional services, and this is an enviable resource conducive to successful business creation.

7.2.5 Planning Policy

The perennial challenge of balancing economic and environmental needs falls squarely on the planning system. Based on our research, the most notable land

⁷⁵ Source: Frontier Economics, 2010.

and property issues in Guernsey appear to be housing affordability, a shortage of high-end office space, a financial disincentive to grow the tourist accommodation stock, and perhaps the significant number of redundant or derelict sites, from prominent buildings in St Peter Port to rural agricultural glasshouses. More widely, Guernsey could be deemed to be at a crossroads in terms of its economic development: unrestrained ambition in pursuing growth would probably now generate significant negative impacts on its character and environment.

Our headline recommendations would surround the themes of:

- **Hierarchy** – there are clear economic advantages for Guernsey in focusing business development on the interlinked zone connecting St Peter Port, Admiral Park and St Sampson. There are significant differences in character between the three areas, and these must be recognised in planning policy, but in broad terms this region can be viewed as Guernsey's engine of future economic growth. There is merit in promoting smaller, tightly controlled residential and commercial developments in other centres across the Island to improve their vitality, but the rural environment should be carefully protected to avoid compromising a key part of Guernsey's appeal.
- **Efficiency** – brownfield regeneration and the re-use of vacant sites and premises should be clearly prioritised. Tax incentives and a vacant buildings register could help to ease the problem of derelict properties, particularly in and around St Peter Port. Addressing the longstanding issue of redundant glasshouses, perhaps through carefully managed incentives towards developing eco-friendly tourist or residential accommodation, or even solar PV installations, would attract positive publicity and help to make more of this wasted land resource. More widely, brownfield sites should be strongly promoted for business and light industrial development.
- **Attractiveness** – Guernsey must not lose sight of the fact that its high quality physical environment, and unique culture and heritage, are at the forefront of its appeal to HNWEs, investors, skilled workers and indeed its future tourism clients. Without these factors, the residential appeal and economic prospects of a small island in the English Channel are much more limited. Economic theory still struggles to quantify the benefits of physical attractiveness, but its importance cannot be in doubt and **planning policy must not compromise in its protection of Guernsey's natural, physical and cultural environment**. Key issues to manage include the development of offshore renewable energy on the scenic north coast, the regeneration of brownfield sites and also the potential 'de-industrialisation' of the St Peter Port harbour area to improve its somewhat hidden aesthetic appeal.
- **Partnership** – the new SLUP recognises Guernsey's patchy track record of public-private partnership working, and acknowledges the need for this to change because of the lack of external funding the Island receives. Though it has become a cliché, there is a genuine need for a truly joined-up approach to address future challenges.

7.3 Marketing and Promotion

Guernsey is an island, dependent on external trade and connectivity to maintain the standards of living it has come to enjoy. The global marketplace for trade and investment is becoming increasingly competitive, with rivals across developed and emerging economies competing fiercely for business and many focused on increasingly higher-value propositions.

- **Awareness** – there is potential to improve the way Guernsey is marketed overseas, both as a place to do business and a place to visit. It remains true that networking between key individuals is the source of many new investments and developments, but in a growing market where trade covers ever-greater distances, Guernsey needs to shout louder to be heard. The Island has many under-appreciated strengths, from a large ICT capacity to a highly competitive intellectual property regime, and it would do well to communicate them more effectively to the outside world – not least to reposition its somewhat opaque and misunderstood image as a business destination. It is important that marketing and economic strategies are closely linked, so that promises made to prospective investors are not undermined by practical barriers such as the planning system or the availability of property and staff.
- **Collaboration** – with a few exceptions, there is relatively little integration and co-ordination with other Channel Islands on international marketing and promotion. Jersey in particular is still viewed as a fierce rival offering little scope for collaboration. This stance is understandable and deeply rooted in history and tradition, but it is rapidly becoming outdated in the context of global economic development. Guernsey shares obvious economic interests and characteristics with its island neighbours, and to stay visible in a crowded marketplace, it needs to join forces more often.
- **Innovation** – differentiation is key to securing positive publicity, which in turn is increasingly key to winning trade and investment in a media-driven world. There may be potential branding and PR opportunities from unique, forward-thinking and enlightened policies that serve the Island's interests, such as becoming the first Western jurisdiction to formally adopt alternative measures to GDP as its primary economic goals.
- **Image** – enhancing Guernsey's world standing and promoting it as a good place to do business will be significantly influenced by how the Island is portrayed in the global media. With information and communication shared globally at the click of a button, the way the Island is portrayed on issues which affect it both internally and externally is of high importance. It will be crucial that government and other stakeholders continue to develop a culture of co-operation with the media to ensure that the development and successes of the Strategy are positively reported.

A further, more specific strategic marketing issue concerns the tourism sector. The Marketing & Tourism Unit is clear that its role is to focus on building general awareness of the Island as a destination, and to leave 'closing the sale' to individual tourism businesses (e.g. hotels). This is a perfectly reasonable and justifiable approach, in theory, and frequent advertisements in key publications, such as the UK broadsheets, are probably generating fairly strong brand recall within target consumer groups. But there may presently be a disconnect between general brand awareness and specific motivation to purchase, which potentially means that spending on generic destination advertising is failing to convert recall into actual visits.

To bridge the gap, partners may wish to consider more penetrative forms of advertising, for example direct marketing or smartphone barcoding, or even simply a more varied programme of placed advertisements, possibly featuring new targeted, integrated or personalised sub-brands (e.g. *BoutiqueGuernsey*, *EcoGuernsey*, *MyGuernsey*)⁷⁶. There may also be a case that images used in current advertising campaigns – typically showcasing the 'beach and fishing boat' offer – are insufficiently differentiated from rival UK products, for example Cornwall or Wales, and do not emphasise Guernsey's unique cultural heritage as they could.

Finally, though not an issue directly affecting Guernsey's own competitiveness, and not one whose motives would be entirely connected to marketing and public relations, we understand that although Guernsey is recognised as a strong, successful economy, it performs relatively poorly on overseas aid contributions (on a per capita basis). If in the future it was agreed to raise aid spending to a higher level, such as that recommended by the UN, there may be an opportunity to focus the £10 million or more potentially being spent on a 'signature project' (or projects), such as a hospital, school or research station, which could benefit from the medical, construction and training expertise in Guernsey. Besides generating positive socio-economic impacts in the recipient country, this type of activity could also have a positive impact on Guernsey's own overseas image.

7.4 Information Provision

Providing information can be a key activity of government to overcome potential market failures and to reconcile supply with demand. It is also a cost effective

⁷⁶ For example, *EcoGuernsey* could showcase numerous complementary components of the tourism product, such as the outdoor and food & drink offerings (and even, in time, aspects of renewable energy). Adverts for *BoutiqueGuernsey* could feature images of boutique hotels, the harbourfront and upmarket restaurants, with smartphone barcodes providing instant access to trip planning tools showcasing all relevant businesses on the Island. *MyGuernsey* could perhaps be built around a downloadable smartphone app allowing personalised itineraries to be constructed.

form of intervention since it is often inexpensive and does not risk crowding out the private sector.

- **Regulation** – there is a view, even from within the finance industry, that the States have an important role to play in promoting and engaging with the ongoing debate on financial regulation. More widely, all relevant business and employment regulation, including proposed policy developments and their rationale, could perhaps be summarised more effectively through a single online portal.
- **Enterprise** – there is also a potential role in supporting entrepreneurship in the more ‘technical’ higher-value sectors (i.e. those reliant on technical or scientific rather than commercial knowledge) by providing information and signposting on the administrative and legal aspects of starting a business, for example to research-active medical professionals or existing ICT industry employees. Guernsey’s emerging intellectual property offer will offer the potential to generate long-term economic benefit, but this will not be unlocked without appropriate marketing to potential entrepreneurs and investors.
- **Housing** – there would be potential benefit from an improved system of ‘handholding’ for new business as they navigate what can initially be a confusing housing licence system to avoid creating an unnecessary barrier to investment and growth. Our consultations suggest there may also be a possible need to improve external perceptions of the transparency of approval criteria.
- **Data** – as a general point, we strongly encourage the continuation of efforts to improve the reach and robustness of economic data for Guernsey. This is certainly a challenging task and new business survey approaches have met with frustrating resistance, but sound policy decisions are strongly linked to the availability of timely, comprehensive information and there are a number of areas where data remains scarce. This also extends to the tourism sector, where the absence of robust economic impact data is potentially damaging to effective policy development.
- **E-government** – finally, we would promote the development of a new ‘e-States’ government platform for Guernsey, in part to improve the efficiency of public service delivery but primarily to reduce the physical and psychological ‘distance’ between the States and their customers, the general public. This could encourage greater direct feedback and debate, showcase policy decision-making and evidence, and provide a more immediate platform for interaction in a climate of rapidly growing social media adoption.

7.5 Economic Sustainability

A commitment to environmental protection is at the heart of the SSP, and the States need to follow up this commitment by taking the lead on the promotion

and co-ordination of sustainability initiatives across the Island. This should have several dimensions:

- **Energy** – the States are wisely exploring the technical and commercial feasibility of wind and marine energy in some detail, but they also have an important role in promoting smaller-scale local green technology sectors, not least through ‘exemplar’ procurement. Solar PV installations are one example of this.
- **Buildings** – the States spend over £25 million each year on large capital building projects. For practical reasons, such as the need to transport large quantities of materials to the Island, it is difficult to incorporate some international best practice standards on sustainable construction. But the States should still be promoting energy efficiency heavily through its own procurement. Setting aside the embedded carbon used in transport and construction, there is no reason why high standards for the operation of new buildings and facilities cannot be achieved.
- **Skills** – the competitive workforce of tomorrow will need to be well versed in the technical and commercial aspects of sustainability. All forms of skills and training provision and brokerage should fully incorporate environmental issues relevant to business, and there is an opportunity to work with employers to achieve this.
- **Policy** – sustainability should not be a vague objective but an immediate, fundamental consideration in strategic decision-making. Investment, planning and housing licence approvals should be clearly linked to transparent criteria on environmental performance and their contribution to green industries.

8 Conclusions: Towards a Prosperous and Sustainable Economic Future for Guernsey

This section summarises the economic development challenge facing Guernsey and considers how the options and recommendations in this report may be taken forward by the States, in partnership with other stakeholders.

8.1 Guernsey's Ambitions

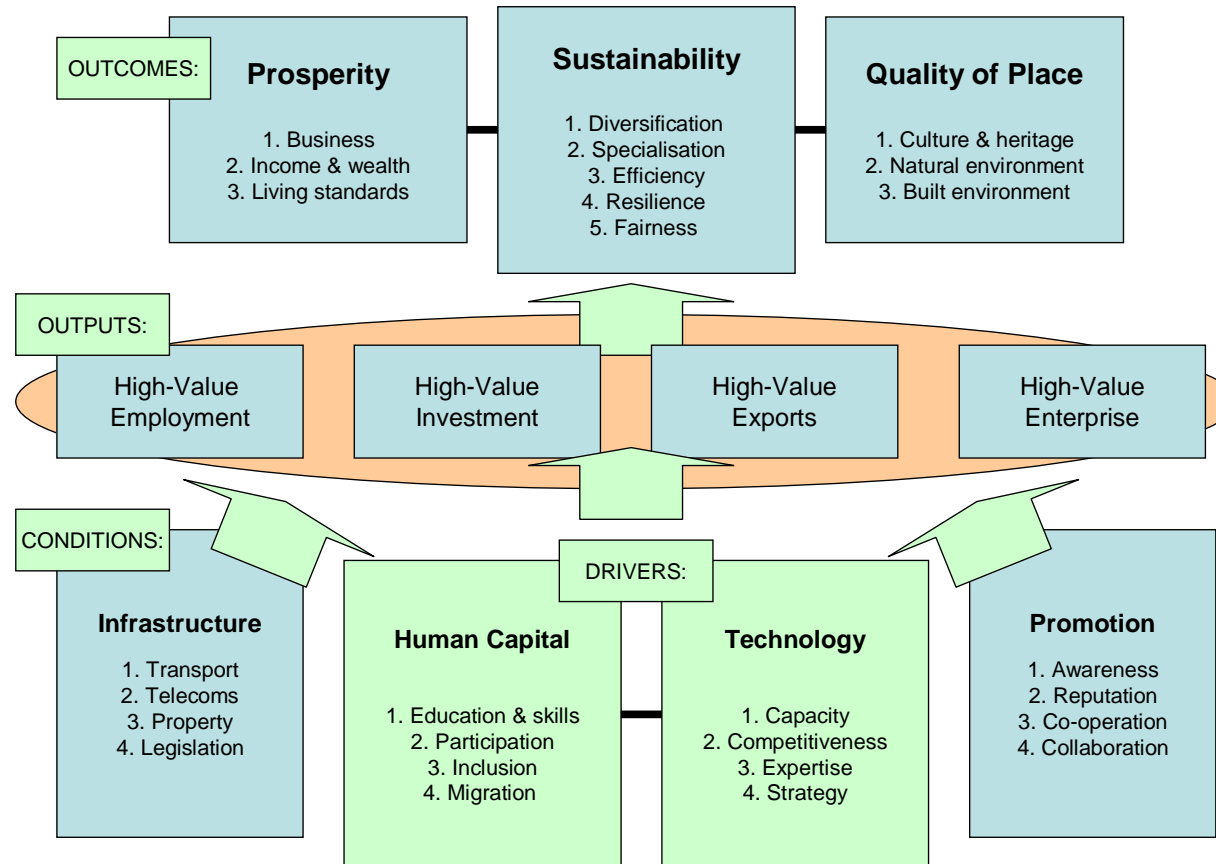
As set out in its overarching strategic plan, Guernsey has multi-faceted economic aspirations. Its unique socio-economic environment means the promotion of business activities and income growth sits alongside, not above, environmental and cultural goals. These are enlightened policies, though challenging to enact in the context of rising domestic fiscal pressures and fierce international competition. In this context, protecting what Guernsey already has, to some extent, is a valid objective of economic development strategy. But to avoid falling behind and losing valued aspects of its competitiveness, greater ambition and innovation will be required.

Guernsey is in many ways a classic case study in resource-use economics. With near-full employment and limited land mass, the natural way to achieve growth is through an expansion of human capital – not numbers, but skills and productivity – and through development of technology. To generate income to support a finite and ageing population, Guernsey must progress up the value chain into higher-skilled, higher-tech, higher-wage, higher-profit activities. With up to a third of its 32,000 employees already working in a vibrant, internationally-oriented financial and business services industry, that is a tall order.

To move forward, there is a need for ambition and a shared vision. Though it is certainly unlikely, for cost reasons, that another major company would locate and maintain as many as 500 corporate jobs in Guernsey – as Specsavers continue to do – there does not appear to be any reason why, given the Island's obvious location advantages and ready supply of skilled labour, it could not aspire to attract companies creating perhaps 200 or more higher-value positions with a single investment. In our view, the commonly heard Guernsey phrase *'there will never be another Specsavers'* strikes an excessively pessimistic note, and does not send out the message of being open and ready for investment that is necessary to sell the Island overseas.

We summarise a proposed economic development framework for Guernsey in Figure 8.1 on the following page. This emphasises human capital and technology as the twin drivers of growth, and the role of infrastructure and promotion in creating the conditions to support them. Outputs of high-value employment, investment, exports and enterprise lead to the target outcomes of prosperity, sustainability and quality of place.

Figure 8.1: Economic development drivers and goals for Guernsey



8.2 Promoting Diversification and Sustainability

Guernsey has prospered through what might be termed ‘offshore economics’. A competitive tax regime has attracted capital from mainland centres, which it proves lucrative to manage and administer; flexibility and policy responsiveness, often linked to near neighbours, has delivered additional investment. The visitor economy remains important, and the high quality physical environment generates valuable spin-offs in the form of wealthy resident entrepreneurs – many of whom, even once retired, cannot help themselves from engaging in high-value commerce.

Diversification should not compromise specialisation and competitiveness in what Guernsey does well. Nevertheless, a sensible, forward-looking economic policy must consider the need to create high-value, sustainable job opportunities for local people beyond the financial services industry. The key factors will be productivity – achieved through skills development across the board plus continued innovation through technology – and responsiveness to new international opportunities in a rapidly changing global economy.

We have considered growth opportunities in a broad range of economic sectors, and found few in which Guernsey should not be optimistic about its prospects. In particular, ICT, the creative and digital industries, medical tourism and research, leisure and business tourism and numerous emerging financial and legal services niches offer strong potential. There are many things the States, working in partnership with all economic stakeholders, can and should do to promote and co-ordinate these opportunities. But equally, it must be recognised that part of the strategy will be to ‘watch and wait’ for opportunities as they arise, and to be able to respond as appropriate.

More widely, there is perhaps a need to review arrangements for investment, trade and enterprise promotion, including the co-ordination of Guernsey’s ‘corporate message’ as promoted by government and its strategic positioning in the global marketplace. The current marketing of Guernsey as a business destination appears to involve a number of very competent individuals working semi-independently, across organisations and without a single, bold ‘voice’ or online media presence. The policy of reacting to opportunities rather than actively promoting them is linked to the extreme nervousness surrounding industrial policy – but shouting for Guernsey is very different to picking winners.

At what is now a tipping point for the global sustainability agenda, the States also have a fundamental role to play – like all governments around the world – in promoting the transition to a truly low carbon economy, both through its own procurement activity and through supporting the growth of new industries. Policy should be built around the threefold criteria of efficiency, resilience and opportunity in the face of the significant changes to the external trading environment this agenda will bring.

Table 8.1: Summary of main recommended action points for Guernsey economic development strategy

Recommendation	Further action points	Key partners
1. Ensure an internationally competitive ICT infrastructure	Work with private telcos and the regulator to build competitive infrastructure; promote Guernsey as a world-class ICT destination; diversify the ICT business presence into new sectors such as e-security or e-finance; set up a focused sector promotion body to promote Guernsey to key individuals and react to new opportunities; develop specialist ICT workspace facilities	C&E, OUR, private sector
2. Improve the co-ordination of commercial marketing and investment promotion messages	Link separate channels of external marketing activity; develop unified InvestGuernsey brand; utilise innovative, modern communication channels; develop sub-brands for emerging opportunity areas (e.g. environment, media or image)	C&E, States members, Guernsey Finance, GEA, private sector
3. Finalise and implement an Island-wide skills strategy	Promote lifelong learning; utilise new population management mechanism to support skills requirements through imported labour; support the GTA model at all levels of post-16 education; address weaknesses in pre-16 education system	C&E, SSDG, Education, GTA, private sector
4. Optimise the commercial property offer to encourage business growth and investment	Review commercial property needs; set up a register of vacant buildings and firms seeking new premises; use tax incentives to encourage re-use of existing stock; ensure planning system supports appropriate development; grow stock of and start-up space	C&E, Environment, private sector
5. Improve the co-ordination of enterprise and business development support	Promote and signpost business angel activity; grow the availability and quality of mentoring and enterprise advice; support and incentivise spin-outs from finance to other professional sectors	C&E, GEA, private sector
6. Maximise the size of the economically contributing population to reduce fiscal pressures	Develop the 'silver economy' and tap into the experience, know-how and capital of older residents, including through enterprise promotion; review and consult on options for pension reform, including eligibility criteria, multi-tiered systems and means-testing; explore innovative third-sector approaches to tackling worklessness, and evaluate the success of all schemes; create strong incentives to work through the welfare system	C&E, SSD, Housing

Recommendation	Further action points	Key partners
7. Diversify key trading markets towards emerging economies, in finance and beyond	Target business growth markets in Asia, the Middle East, Latin America and beyond; grow tourism arrivals from Europe, US and Asia; directly promote Guernsey as a business destination more actively in key emerging markets	C&E, Guernsey Finance, Marketing & Tourism Unit, private sector
8. Lightly support the continued growth of financial and professional services as the primary economic engine	Engage with and arbitrate the debate on financial regulation; co-ordinate targeted investment and branding initiatives in niche growth areas where relevant; maintain a strong skills and training offer through the GTA and other local providers; incentivise high-value spin-outs from experienced finance sector professionals; develop and effectively market a leading ICT and intellectual property infrastructure; work to grow the stock of: a) high quality office accommodation and b) technology-focused and start-up workspace	C&E, Guernsey Finance, GFSC, IPO, private sector
9. Promote sustainability and environmental efficiency at all levels	Pursue renewable energy goals, including on-island research centre and carbon financing specialism; use public procurement to stimulate local activity; explore opportunities within professional services, e.g. carbon trading administration	C&E, GRET, Environment, Housing, Guernsey Finance, private sector
10. Grow value in the tourism sector, focusing on upmarket growth segments and new markets	Focus marketing on key target segments, and make more direct; explore new markets in Europe and Asia; capitalise on film tourism potential; grow boutique and eco offers; promote new high-end hotel development; ensure marketing materials focus on what makes Guernsey unique	Marketing & Tourism Unit, C&E, Guernsey Airport, private sector
11. Enhance the retail offer for the benefit of locals and visitors	Develop and implement a retail strategy; create a vacant property register; encourage local independent traders with more favourable leasing arrangements; improve premises portfolio in and around St Peter Port; incorporate high-end offer in visitor marketing	C&E, Environment, private sector
12. Promote a thriving creative and digital sector showcasing the best of Guernsey, new and old	Optimise ICT offer and promote Guernsey as a leading digital business destination; re-consider film location policy; develop creative incubation space and promote business angel and spin-out activity; improve local events offer and their visitor appeal	C&E, Arts Commission
13. Explore, develop and promote a competitive medical tourism offer	Define organisational roles and responsibilities; identify suitable high-value service niches; develop supporting infrastructure of skills and facilities	C&E, HSSD, MSG

Source: Oxford Economics recommendations based on research undertaken in late 2011.

8.3 Delivering Success

To implement an economic development strategy effectively within the States' organisational architecture, joined-up working across departments, and potentially across jurisdictions, will be required:

- It is sensible for Commerce & Employment to retain internal ownership of the strategy within the States, and responsibility for developing it in co-operation with others. But sustainable economic development encompasses all elements of public services, and we strongly recommend that all Departments are handed a stake, and a direct role, in its evolution.
- The strategy will be finalised and implemented by the States, but it will be 'owned' in theoretical terms by everyone in Guernsey. Recognising that opinions will differ across this broad and diverse interest group, it is nevertheless true that to be effective and successful, the strategy needs support from a broad range of stakeholders, across both the public and private sectors.
- The States have an important role to play in guiding and promoting economic development, but they also have a more immediate role as a major Island employer. Promotion of an efficient, flexible and unified Guernsey economy should start from within, and the ongoing financial transformation programme offers opportunities to grow its effectiveness as an economic agent.
- As discussed widely in this report, economic policy in Guernsey needs to focus on creating the conditions for business-led growth. Long term prosperity will stem from private sector innovation. The role of the States should centre on the creation of a socially acceptable framework in which business can flourish.
- The emerging low-carbon agenda is manifestly cross-cutting – cross-departmental, multi-partner working is fundamental to effective implementation. With proactive support and co-ordination, sustainability can both promote the internal fiscal efficiency agenda and support wider wealth creation.
- Finally, though Guernsey and Jersey have experienced and indeed benefited from a strong competitive rivalry over many years, the role and stature of both islands is under threat from a changing and ever more competitive global economy. Looking ahead, we respectfully suggest consideration of a unified Channel Islands Economic Development Commission to promote and co-ordinate economic strategy and ensure the islands are best placed to exploit growth in emerging markets and industries. This includes the exploration of existing and potential future complementary strengths and specialisms.

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In addition, we reviewed a wide range of articles from the *Guernsey Press*, including via the website www.thisisguernsey.com.

Appendix B: List of Consultees

Oxford Economics would like to thank the following people (listed in alphabetical order) for serving as consultees on this study:

Name	Organisation and Role
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Ed Ashton	Social Security Department: Deputy Chief Officer
Tony Brassell	Guernsey Enterprise Agency: Director
Jon Buckland	Commerce and Employment Department: Chief Officer
Peter Budwin	Confederation of Guernsey Industry: Committee Member
Mark Bunce	FlyASG (Aviation Services Company): Financial Director
Andrew Carey	Commerce and Employment Department: Business Diversity and Development Manager
Andrew Chantrell	Old Government House Hotel: General Manager
Dave Clark	Institute of Directors: Committee Member
Mark Cooke	Health and Social Services Department: Chief Officer
Jarrold Cowley Grimmond	Commerce and Employment Department: Commercial Lawyer
Richard Crowder	Senior business representative
Mat Desforges	Guernsey Renewable Energy Team
Tony Gallienne	Norman Piette (Builder's Merchants), Chief Executive / Guernsey Arts Commission
Damon Hackley	Policy Council: Strategic Planning Officer
Wayne Hassall	Commerce and Employment Department: Director of Policy, Economic Development
Matthew Henry	Swoffers (Property Agents): Director
Gareth Jones	Commerce and Employment Department: Senior Policy Officer

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Angela Lockwood	Policy Council: Deputy Policy Analyst
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Peter Niven	Guernsey Finance: Chief Executive
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Paul Veron	Policy Council: Policy Analyst
Dominic Wheatley	Guernsey International Business Association: Chairman
Julian Winser	Guernsey Chamber of Commerce: President

Appendix C: About Oxford Economics



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