



XX
2008

BILLET D'ÉTAT

WEDNESDAY, 10th DECEMBER, 2008

TREASURY AND RESOURCES DEPARTMENT -
CAPITAL PRIORITISATION

B I L L E T D ' É T A T

TO THE MEMBERS OF THE STATES OF THE ISLAND OF GUERNSEY

I have the honour to inform you that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE, on WEDNESDAY, the 10th DECEMBER, 2008,** immediately after the meetings of the States of Election and the States of Deliberation already convened for that day, to consider the item contained in this Billet d'État which has been submitted for debate.

G. R. ROWLAND
Bailiff and Presiding Officer

The Royal Court House
Guernsey
21 November 2008

TREASURY AND RESOURCES DEPARTMENT**CAPITAL PRIORITISATION**

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

14th November 2008

Dear Sir

1. Executive Summary

The purpose of this States Report is to set out the process that the Treasury and Resources Department intends to put in place between December and March 2009 when the States will debate and establish its capital priorities for this term. Importantly, the Department intends to ensure that all States Members are fully informed and engaged in the process leading up to the March debate.

This report also outlines the structure of the report that the Department will submit to the States in March on capital prioritisation. The March report will put forward recommendations on which projects the States should consider as the highest priority based on the results of the strategic review process to which each capital project will have been subjected. It will also address the possibility of strategic partnerships with the private sector to deliver States capital projects and include fully researched proposals on various borrowing options.

Finally, the March States Report will include information on the economic climate and other important considerations that have been taken into account by the Department in developing the capital programme (including timings) which will be recommended to the States.

2. Background

In the November 2007 Budget Report, it was stated that *“During the latter part of 2008, a further capital prioritisation process will be undertaken which will identify those projects which should be progressed during the period up to 2012 (i.e. during the life of the next House)”*.

Due to the complexity of this task, which will be evident from the remainder of this Report, the Treasury and Resources Department has had to delay the presentation of its

States Report on capital prioritisation which it now intends to submit for consideration at the March 2009 States Meeting.

The capital prioritisation process will not be a simple allocation of Capital Reserve Funds to General Revenue projects as was the case in 2006. Instead, it will also address: -

- The capital funding requirements of trading entities.
- The possibility of entering into strategic partnerships with the private sector.
- The issue of borrowing to enable more projects to be undertaken.
- The available routes for any borrowings.
- An analysis of the impact on the general economy, construction industry and States finances of progressing the top priorities.

All capital project submissions will have been subjected to the recently introduced rigorous and objective strategic review process (see below) to assist the Treasury and Resources Department in giving some direction to the States on the relative merits of each project.

In excess of 30 projects costing in the region of £400million have been submitted for strategic review although a significant proportion could be self-funding. The reasons for these capital projects are varied including increases in public expectation, legislative requirements, technological advances, demographic changes and the life-expiry of existing facilities.

3. The process

Prior to the States debate in March 2009 on capital prioritisation, the Treasury and Resources Department intends to put in place a process to assist States Members in being fully informed beforehand on the capital projects that have been submitted by Departments.

It is particularly important that States Members are provided with this necessary information in advance of the March debate particularly in relation to three of the major projects that have been submitted. The process that the Department intends to implement should also ensure that the debate in March on capital prioritisation is more focused.

It is therefore intended that the following **five-part** programme will be delivered: -

Part 1

Between December and February three major projects will be debated under Rule 12(4) of the States Rules of Procedure such that they are considered by the States without

amendment. Members will however be able to debate the proposals and ask detailed and searching questions.

The three projects are: -

- December 2008 Billet d'Etat – the Public Services Department's report on Guernsey Airport's Pavements Rehabilitation project.
- January 2009 Billet d'Etat – the Health and Social Services Department's report on Mental Health Facilities,
- February 2009 Billet d'Etat - the Education Department's report on the Redevelopment of Les Beaucamps School.

Part 2

In respect of all other capital projects that have been submitted for prioritisation, the Treasury and Resources Department will facilitate a series of presentations during February where the respective Departments will be invited to present their proposals to States Members.

Part 3

The Treasury and Resources Department will also arrange separate presentations for States Members in February/March to explain: -

- Details of the strategic review process through which each project has been put.
- The issues associated with entering into strategic partnerships with the private sector to deliver States capital projects.
- The available routes for any necessary borrowing.

Part 4 (States Report)

Detailed summaries of all of the capital projects that have been submitted by Departments, including the three major ones mentioned above, will appear in the States Report on capital prioritisation. That report will be submitted by the Treasury and Resources Department for debate by the States in March 2009 and will enable the States to determine its capital priorities and its capital programme for the next four years.

At the same time, the States will also be asked to agree on the funding route(s) for the recommended capital programme. Of course, should the States decide not to enter into any borrowing arrangements then fewer projects (and especially those without income streams) will be capable of being progressed.

Part 5

Following the States debate in March on capital prioritisation, those projects that have been prioritised for funding by the States, **including** any/all of the three major projects mentioned above that the States decides to prioritise, will then each need to be the subject of a further report to the States. Those reports will include an appropriate level of detail together with the final costings and will seek States approval for a capital vote to be established (i.e. agreement for the funds to be released). At that stage, States Members will be able to propose amendments to any aspect of a particular project.

4. Structure of the March States Report

The Treasury and Resources Department's Report to the States on Capital Prioritisation will address seven main areas. It will: -

- Include an explanation of the Strategic Review process (see section 6 below).
- Include a standard summary of each project, detailing the proposal, cost (capital and revenue implications) and timing together with the priority ranking it has been allocated.
- Recommend a capital programme (see Section 5 below) which requires funding from General Revenue – either in whole or in part. These projects would be funded from the Capital Reserve, by a withdrawal from the Contingency Reserve Fund, by increased taxation or through borrowing which would be repaid from General Revenue over the project's anticipated lifetime.
- Recommend a schedule of capital projects which are self-funded through an existing or new income stream (fees and charges). These projects may have a borrowing requirement to finance the initial capital cost which would be repaid over the project lifetime.
- Consider the economic conditions – this will include analysing the possible impact on the local economy in delivering the capital programme, in particular the use of on and off island resources. Consideration will also be given to the benefit of supporting the local economy by undertaking capital expenditure during any period of recession and securing best value for money in what may be difficult market conditions.
- Address the possibility of strategic partnerships with the private sector to deliver States capital projects including private finance initiatives, public private partnerships and joint ventures.
- Address the issue of any borrowing that is necessary to finance the States capital programme including an analysis of how such borrowing could be sourced (conventional bank loan, bond issue, private placement, etc) and how it would be repaid and the consequential impact on States finances.

5. The Capital Programme

The Treasury and Resources Department will consider the outcome of all the strategic reviews and devise a capital programme for the period up to 30 April 2012 to be recommended in its March States Report on Capital Prioritisation. The recommended programme can, of course, be accepted, rejected or amended by the States.

As alluded to above, the inclusion by the States of a project in the capital programme does not mean that the project is able to commence; a States Report requesting approval of a capital vote will then be required.

Additionally, the categorisation of a Project as a Priority 1 through the Strategic Review process does not mean that it will automatically be included within the capital programme. It may be the case that the capital programme does not include some high value Priority 1 Projects as sufficient funding is not available, but there is funding available to undertake several minor Priority 2 projects.

The recommended capital programme will, of course, take account of the priority rankings that each project achieved through the Strategic Review process but will also have regard to other important considerations such as the likely capacity within the construction industry, the impact of timing of projects, the funding and the availability of States resources to manage the projects. A recommended timeline for the various projects will also be included.

It will also be beneficial to include within the capital programme a stream of lower value projects to be undertaken by small/medium sized local firms, such that the on-island skill base is supported.

6. The Strategic Review Process

The strategic review process is designed to be a consistent and transparent method of assessing the relative merits of a large number of diverse capital projects including construction, Information and Communication Technology and major equipment purchases. Individual projects are reviewed and scored by a panel of three senior civil servants under eight criteria headings:

- Mandate/Policy Delivery
- Economic Sensitivity
- Community Sensitivity
- Financial Sensitivity
- Resource Sensitivity

- Heritage and Cultural Impact
- Programme Sensitivity
- Other Risks which will be project-specific.

All of the capital projects will be allocated a priority ranking as follows:

- Priority 1 – Recommended for inclusion in the capital programme for the current prioritisation period.
- Priority 2 – Recommended for inclusion in the capital programme but not necessarily in this prioritisation period.
- Priority 3 – Not recommended for inclusion in the capital programme.

Projects which are assessed as Priority 1 will display some or all of the following attributes:

- Benefit substantial parts of the community in a significant way.
- Represent value for money (including whole life costing).
- Appropriate time to undertake project (i.e. economic and commercial considerations as well as need).
- Add to or significantly enhance the Island's Infrastructure for the long term.
- Add to the Bailiwick's heritage (i.e. quality of project, sustainability, environmental impact, etc.).

As stated earlier in this report, a presentation for States Members will be held in February/March where a detailed explanation of the Strategic Review process will be given. More information will also be included in the Department's March States Report.

7. Recommendation

The Treasury and Resources Department requests that the following proposition is debated under Rule 12(4) of the Rules of Procedure such that it is considered by the States without amendment.

Accordingly the Department recommends the States:

To note the Capital Prioritisation process that the Treasury and Resources Department intends to facilitate prior to the March States Meeting together with

the proposed structure of the States Report on Capital Prioritisation that the Department intends to submit for consideration in March 2009.

Yours faithfully

C N K Parkinson
Minister

NB The Policy Council endorses the proposed capital prioritisation process and supports the proposal.)

The States are asked to decide:

Whether, after consideration of the Report dated 14th November, 2008, of the Treasury and Resources Department they are of the opinion:-

To note the Capital Prioritisation process that the Treasury and Resources Department intends to facilitate prior to the March States Meeting together with the proposed structure of the States Report on Capital Prioritisation that the Department intends to submit for consideration in March 2009.

(NB The Treasury and Resources Department has requested that this matter be debated in accordance with Rule 12 (4) of the Rules of Procedure of the States of Deliberation which provides

“Where a Department or Committee originating a matter for debate before the States is of the opinion that the proposals it is submitting to the States are ones of general policy, and where it is desirable that the general principles of that policy should be considered, the Department or Committee may request that its propositions be considered by the States without amendment, on the understanding that if the propositions are accepted, the Department or Committee would return with detailed proposals which could be accepted or rejected, together with any amendments...”)

**IN THE STATES OF THE ISLAND OF GUERNSEY
ON THE 10th DAY OF DECEMBER, 2008**

**The States resolved as follows concerning Billet d'État No XX
dated 21st November 2008**

TREASURY AND RESOURCES DEPARTMENT

CAPITAL PRIORITISATION

After consideration of the Report dated 14th November, 2008, of the Treasury and Resources Department:-

To note the Capital Prioritisation process that the Treasury and Resources Department intends to facilitate prior to the March States Meeting together with the proposed structure of the States Report on Capital Prioritisation that the Department intends to submit for consideration in March 2009.

**K H TOUGH
HER MAJESTY'S GREFFIER**