

Proposition in pursuance of Rule 18 submitted by the President of the Policy & Resources Committee

**THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY**

POLICY & RESOURCES COMMITTEE

COVID-19 PANDEMIC – INITIAL ECONOMIC AND FINANCIAL RESPONSE

The States are asked to decide:

Whether, after consideration of the policy letter entitled 'Covid-19 Pandemic – Initial Economic and Financial Response' of the Policy & Resources Committee, they are of the opinion:

1. To delegate authority to the Policy & Resources Committee to approve measures that give direct financial assistance to companies or individuals, at a maximum cost of £30million, to be funded from the General Revenue Account Reserve.
2. To increase the existing authority for the Policy & Resources Committee to make available a temporary overdraft facility to Aurigny or guaranteeing external facilities by £27million to a maximum of £52.7million in 2020.
3. To delegate authority to the Policy & Resources Committee to undertake such negotiations, as may be necessary, to facilitate a loan guarantee scheme, for additional loans only, and to provide, on behalf of the States of Guernsey, underwriting guarantees of up to 80% of lending effected pursuant to the scheme in respect of Bailiwick businesses up to a maximum of £40million.

The above Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications in accordance with Rule 4 (1) of the Rules of Procedure of the States of Deliberation and their Committees.

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

POLICY & RESOURCES COMMITTEE

COVID-19 PANDEMIC – INITIAL ECONOMIC AND FINANCIAL RESPONSE

The Presiding Officer
States of Guernsey
Royal Court House
St Peter Port

20 March, 2020

Dear Sir

1 Executive Summary

- 1.1 This policy letter sets out the proposed initial economic and financial response to the unprecedented Bailiwick position in relation to the Covid-19 outbreak and proposes that the States approves funding of £30million to enable the Policy & Resources Committee to put in place measures that provide direct financial assistance to individuals and businesses. The Policy & Resources Committee has been working closely with other committees, and businesses, in compiling an initial package of measures designed to respond to immediate, and short-term, community needs.
- 1.2 The Policy & Resources Committee will act swiftly and decisively to put in place appropriate measures to support our community, and businesses, through this period. **There is likely to be a requirement for additional funding in excess of the initial £30million in order to fund measures which are well judged, proportionate and relevant to the Bailiwick's needs.** At the appropriate time, further policy letter(s) will be submitted to request additional funding.
- 1.3 It is proposed that the £30million is funded from the General Revenue Account Reserve which will exhaust that Reserve. It is likely that any further funding requirements would require use of the Core Investment Reserve, established to be used in the exceptional and specific circumstances of severe and structural decline in public sector finances or major emergencies, which had a balance of £195.7million at the end of 2019.

- 1.4 The Policy & Resources Committee is also seeking authority to facilitate a Loan Guarantee Scheme which will enable additional liquidity support to be made available to Bailiwick businesses. This will require the provision of underwriting guarantees of up to 80% of additional lending effected pursuant to the Scheme, up to a maximum of £40million. The Scheme will not provide underwriting support for any lending currently in place so there will be no transferring of existing risk to the States under the Scheme.
- 1.5 In addition, work will be undertaken to develop a mechanism by which members of the public can contribute directly to a hardship fund.
- 1.6 However, as the duration and magnitude of the economic shock as a result of this unprecedented situation is highly uncertain, it would be unrealistic and unaffordable for the States to support the whole economy and all businesses through this period. Therefore, whilst it is not possible to commit that no job losses and bankruptcies will occur as a result of this crisis, the reasonable objective is that, as far as possible, the economic and fiscal response will focus on preventing job losses and business failures as a result of this crisis. There is an expectation that businesses must act responsibly towards, and engage openly with, all their stakeholders: employees, customers, suppliers, landlords and their banks.

2 Direct Assistance and Cash Flow Support

- 2.1 There is a very real need to provide appropriate financial support at this time and the very real impacts of the Covid-19 outbreak are already being felt in several sectors, for example, those in the travel and hospitality sectors have felt the full force of the travel restrictions put in place and encouraged by numerous governments. This, and other sectors, will undoubtedly require help to tide them over this difficult period and retain a strong and vibrant hospitality sector for the future.
- 2.2 One of the most immediate issues being faced by local businesses is the challenge on cash flows and consequential increased requirement for working capital in order to continue operating.
- 2.3 Following consultation with the Committee *for* Economic Development and, where appropriate, the agreement of the Committee *for* Employment & Social Security, it is planned to put in place a number of initial measures that will provide financial assistance to specific groups of individuals and businesses including deferral of payments due to the States of Guernsey.

2.4 A package of measures is being developed that will include:

- Consideration given for companies, and the self-employed, to be allowed to defer payment of employer's / self-employed social insurance contributions which are due in respect of the first two quarters of 2020¹;
- Consideration given for commercial Tax on Real Property to be deferred, with landlords encouraged to pass this benefit on to tenants¹;
- Where the States of Guernsey is landlord to a local business, consideration will be given deferring rent due up to the end of June 2020, with all commercial landlords also encouraged to consider a similar approach;
- In order to assist individuals who are facing significant hardship and would not otherwise be entitled to States' benefits, it is planned to establish a 'hardship' allocation for individuals which will be administered alongside our social security benefits and provide targeted support. It is intended that the initial allocation for this purpose will be £5million; and
- The mooring fees for registered and licensed commercial fishermen will be waived until the end of 2020 in recognition of the immediate and particular difficulties being faced by that sector.

2.5 In order to assist small non-regulated businesses, it is planned to establish a 'hardship' allocation for businesses to provide targeted support primarily to enable them to retain employees. It is intended that the initial allocation for this purpose will be £5million

2.6 In addition, where the States of Guernsey is a creditor to a local business, every effort will be made to pay swiftly and not wait for standard credit terms. Finally, where the States of Guernsey is a debtor, every effort will be made to treat customers sensitively and supportively at this time.

2.7 Work is ongoing to develop the detailed principles, and criteria, for all of these measures and it is anticipated that further details will be released next week. These are initial measures for a limited period of time and they may be extended or expanded as events progress. Those measures designed at easing business cash flow will adversely affect the States' cash flow. However, measures are being put in place to increase the States' overall liquidity and it is anticipated that this can be managed, at least in the short-term with active consideration of options to seek our own credit-lines to avoid the requirement to sell financial assets in our investment portfolio in a falling market, which

¹ This will exclude professional services and regulated finance businesses.

would crystallise losses.

- 2.8 **Therefore, it is recommended that the Policy & Resources Committee is given delegated authority to approve measures that give direct financial assistance to companies or individuals, at a maximum cost of £30million, to be funded from the General Revenue Account Reserve.**

3 Aurigny

- 3.1 In normal circumstances, Aurigny has an annual turnover in the region of £45million per annum. It employs approximately 310 staff, predominantly in Guernsey and Alderney, but with around 40 based in the UK (mostly handling staff).
- 3.2 As part of the 2020 Budget Report, the States authorised the Policy & Resources Committee to make available a temporary overdraft facility to Aurigny or guarantee external facilities of a maximum of £25.7million in 2020, in order to meet its cash requirement.
- 3.3 However, the current restrictions in respect of non-essential travel will significantly increase the company's losses and cash requirement. The company currently holds approximately £7million in forward sales and it is very difficult to forecast how much of that may need to be refunded. In addition, the company has seen a substantial fall in advance bookings, which is also increasing the cash requirements. The current estimate range, based on best information available at this time, is that there will be a cash requirement for 2020 of between a further £23million and £27million should the current restrictions remain in place for the remainder of the year.
- 3.4 Representatives of the States' Trading Supervisory Board (STSB) are in daily contact with Aurigny about the airline's operating schedules and its cash flow position. There have been two assumptions that have underpinned discussions with the airline which have been agreed by the STSB²:
- The States will want its airline to maintain a degree of connectivity between Guernsey and the UK for essential/emergency travel purposes throughout the crisis period. At the time of writing, it is anticipated that the schedules will be progressively reduced over the days and weeks ahead to eventually no more than one or two daily rotations to London Gatwick. An inter-island service (including the medevac/patient transfer service) between Guernsey and Alderney will be maintained; and

² For the avoidance of doubt, the Policy & Resources Committee has not had an opportunity to consider or endorse these assumptions.

- Whilst the airline will take whatever steps it can to reduce its costs during this period, no reductions in staff are being planned. This will ensure that Aurigny remains in place as an “airline in waiting” and can be positioned to restore services as quickly as possible when circumstances allow. The airline is developing its plans to ensure that a ‘re-start plan’ is in place.
- 3.5 The STSB will formally review the above assumptions with Aurigny on no less than a fortnightly frequency, but in any event, will remain in daily contact with the airline to monitor the position.
- 3.6 **Therefore, it is recommended that the States increases the existing authority of the Policy & Resources Committee to make available a temporary overdraft facility to Aurigny, or guaranteeing external facilities, by £27million to a maximum of £52.7million in 2020.**

4 Loan Guarantee Scheme

- 4.1 It is expected that Guernsey trading businesses’ first port of call for financial assistance will be their bank but it is recognised that they may be reluctant to extend new credit, through loans, overdrafts or facilities, to otherwise viable businesses whilst the economic outlook is so uncertain. The Policy & Resources Committee is working with the local banks, and co-ordinating with Jersey and the Isle of Man, to seek to expeditiously ensure liquidity support is available to those domestic businesses who need it. It is expected that firm announcements regarding the introduction of such a scheme (‘the Scheme’), which will have a limit of £50million of lending, will be made over the next two weeks.
- 4.2 In order to facilitate the Scheme, it will be necessary for the States of Guernsey to share the risk with the banks by offering underwriting support for up to 80% of the Scheme’s lending in respect of Bailiwick businesses (excluding regulated financial services businesses), i.e. a maximum of £40million. There will be a limit placed on the maximum lending that will be underwritten for an individual business. The Scheme will be designed to respond to the current, unprecedented, situation so will not provide underwriting support for any lending currently in place so there will be no transferring of existing risk to the States under the Scheme.
- 4.3 **Therefore, it is recommended that the States authorises the Policy & Resources Committee to undertake such negotiations as may be necessary to facilitate the Scheme and to provide, on behalf of the States of Guernsey, underwriting guarantees of up to 80% of additional lending effected pursuant to the Scheme, in respect of Bailiwick businesses, up to a maximum of £40million.**

5 States expenditure

- 5.1 The Policy & Resources Committee will be advising all States Committees that it will use its existing delegated authority to make transfers from the Budget Reserve, to increase Committee budgets, in order to fund additional non-formula led expenditure necessarily incurred as a result of the Covid-19 outbreak which cannot be accommodated within existing budgets. Whilst additional expenditure will inevitably be incurred in a number of areas, the expectation is that budgets in other areas will be unspent, for example off-island health care. At this stage, it is expected that the existing balance of the Budget Reserve will be able to accommodate the net effect of these expenditure pressures.
- 5.2 However, it is anticipated that there will be an increase in expenditure on formula-led benefits, primarily income support. At this stage, it is considered unlikely that this will be capable of being accommodated within the overall States' expenditure budget for 2020 and would therefore result in an overspend which would be met from the £30million of funding being requested from the General Revenue Account Reserve.

6 Compliance with Rule 4

- 6.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.
- 6.2 In accordance with Rule 4(1), the Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications. She has advised that there is no reason in law why the Propositions should not to be put into effect.
- 6.3 In accordance with Rule 4(3), the Propositions include proposals that will have material financial implications to the States which are detailed in the policy letter.
- 6.4 In accordance with Rule 4(4) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed that the propositions have the unanimous support of the Policy & Resources Committee.
- 6.5 In accordance with Rule 4(5), the Propositions relate to the duties of the Policy & Resources Committee to advise the States and to develop and implement policies and programmes relating to fiscal policy, economic affairs and the financial and other resources of the States.

Yours faithfully

G A St Pier
President

L S Trott
Vice-President

A H Brouard
J P Le Tocq
T J Stephens