



Strategic Economic Plan

Produced by the Fiscal and Economic Policy Steering Group for
inclusion in the Government Business Plan to be considered by
the States at its July 2007 meeting (Billet XVIII, 2007)



Fiscal & Economic Policy
Steering Group

Building confidence in our economic future



Introduction

The structure and further development of a Government Business Plan (GBP) was approved by the States at its meeting in December 2006 and it was agreed that two subsidiary plans would be incorporated as standard elements of the GBP: the Strategic Land Use Plan (SLUP) that already exists; and a new Economic Development Plan to be developed under the leadership of the Commerce and Employment Department.

It was subsequently agreed that as a corporate economic strategy needed to sit alongside and mutually complement other corporate strategies, the development of the economic strategy should be overseen and endorsed by the Fiscal and Economic Policy Steering Group prior to submission to the States by the Policy Council. This is the first iteration of what is now titled the Strategic Economic Plan (SEP); it recommends the adoption by the States of Strategic Economic Objectives and presents some economic concepts to provide a background to those objectives.

It also presents a number of Action Points (see Section 6 for summary) which the Steering Group believes must be pursued in order to achieve those objectives, some of which are already being pursued and some which involve new work streams. With each subsequent iteration the need to present economic concepts will reduce, however, as the economy and circumstances develop, new areas for research and consultation will emerge to revise existing or develop new objectives and Action Points.

Economic success results from a combination of circumstances. It is the ambitions of the community in turning those circumstances to its advantage which brings economic success. To reflect this, the SEP has been developed under the headline objective of *building confidence in our economic future*.





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1 The Context

The island, as a small independent jurisdiction, enjoys constitutional rights to self-determination, fiscal independence and legislative competence. However, being small impacts on the nature of the economy required to sustain the community.

The community needs to generate export earnings from diverse “outward facing” businesses to balance both the importation of goods and services supplied by “inward facing” businesses and the public sector or other “not for profit” bodies within the constraints of:

- the size and make up of the population, particularly that of its workforce, which is influenced not only by birth and death rates but also by levels of immigration and emigration;
- the limited land mass which requires a balance to be achieved between building and infrastructure development to meet social and economic needs and the effect of that development on the environment;
- the application of fiscal policies which need to achieve a balance between funding the level of public services desired by the community in a way which meets social objectives whilst remaining competitive in sustaining and developing export activities;
- the application of a legislative environment, including regulation, which needs to achieve a balance between encouraging and facilitating business activities whilst preventing market abuse and avoiding unnecessary bureaucracy;
- the need to maintain connectivity with the outside world in terms of travel, freight, voice and information communications and access to markets.

Working within these constraints will require the generation and absorption of ideas, innovation and confidence sustains and continually develops a resilient economy coupled with a corporate commitment to, and encouragement for, developing and maintaining conditions conducive to economic development.



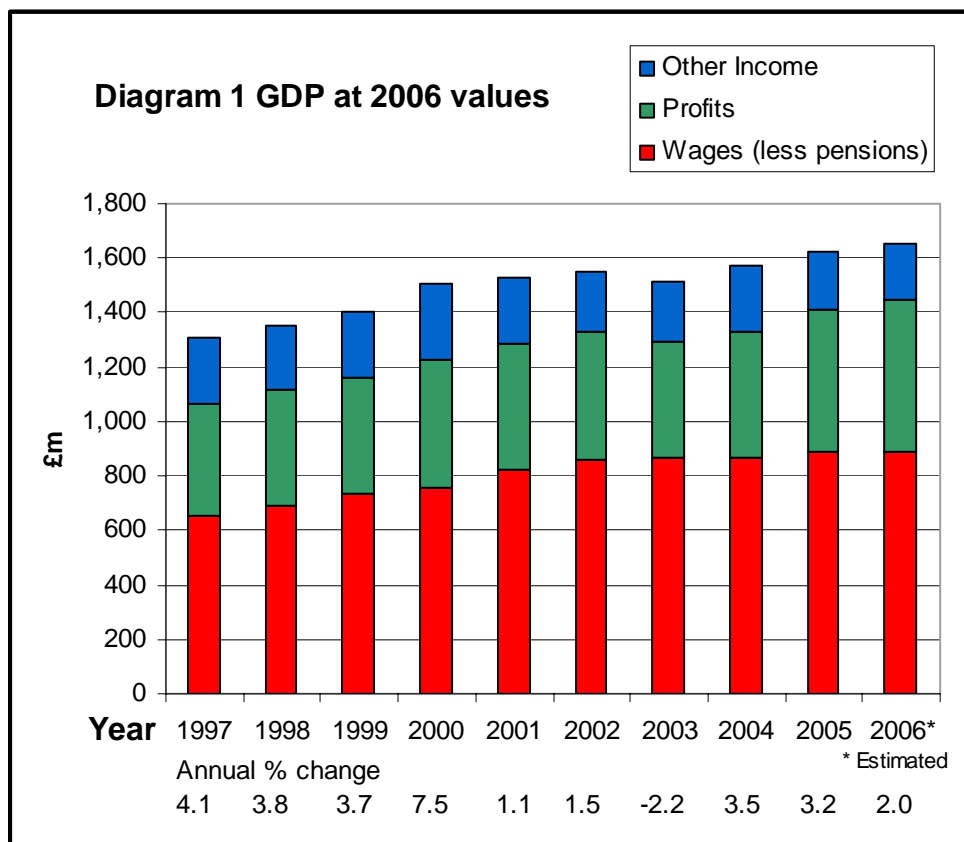


2 Economic Concepts - Measuring the Economy

2.1 GDP

A generally accepted way of measuring the size of an economy is by Gross Domestic Product (GDP). The customary method used in Guernsey for calculating GDP is the “sum of island income (wages plus profits and other local income from capital).”

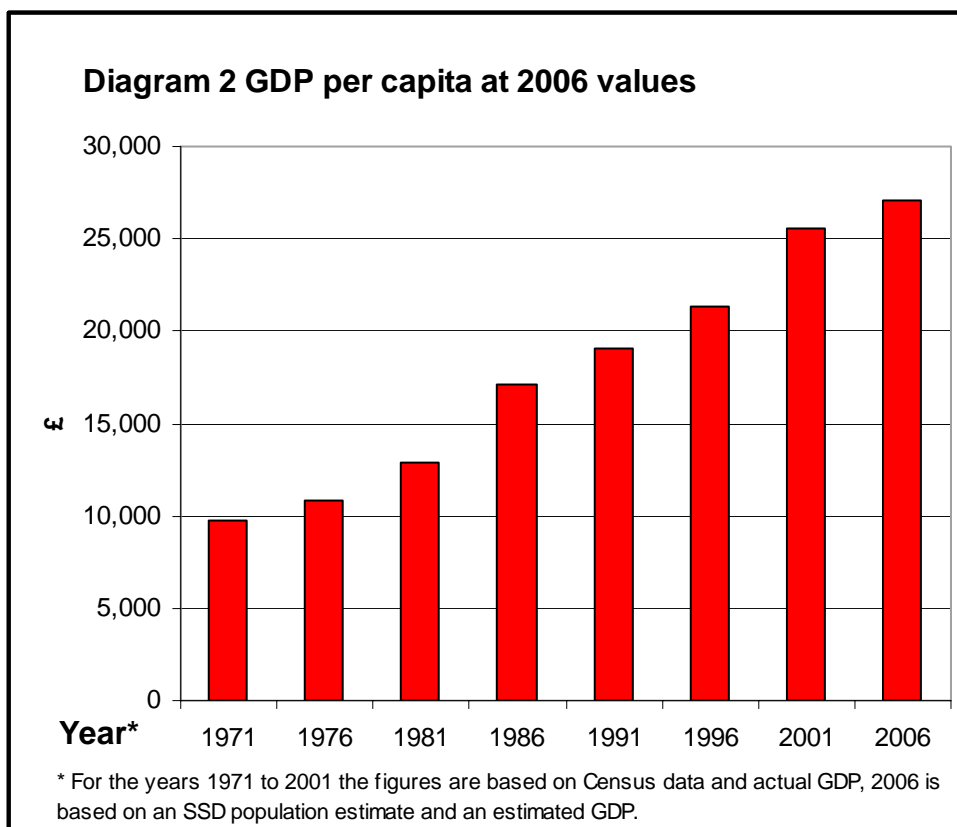
Diagram 1 below shows the trend in Guernsey’s GDP over the last decade.



2.2 GDP per Capita

Division of GDP by the population of the island gives GDP per capita which provides an indication of the prosperity of a community, which (potentially) can be compared with that of other communities. Diagram 2 shows the trend in GDP per capita over the last 25 years [2] which is the period over which Horticulture declined from being the island's main exporter to be replaced by the Finance Sector.





The customary method of calculating Guernsey's GDP is, however, not consistent with that used by other jurisdictions. Using a comparable method of compiling GDP, Guernsey's GDP per capita for 2005 was £31,728 compared with £36,000 for Jersey, £20,000 for the Isle of Man and £21,000 for the UK.

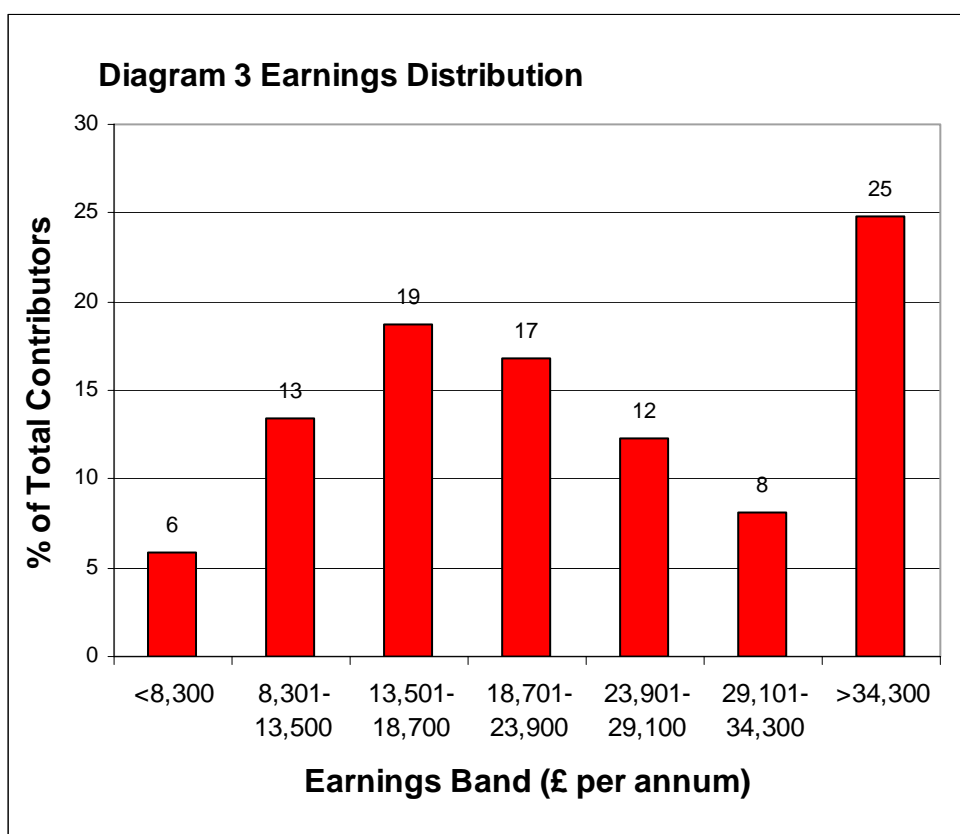
The ability of the community to maintain or improve its prosperity will be influenced by the size and make up of the population and its economic productivity.

2.3 Distribution of Economic Prosperity

Whilst Guernsey's GDP per capita is high compared to most other western nations, of equal importance is how that prosperity is distributed amongst the population, and in particular through income distribution in the workforce.

Comprehensive data on income distribution in Guernsey is not recorded. The best available comes from the Social Security Department (SSD) information on the earnings liable to social security contributions. This is presented in Diagram 3.





The SSD does not record a breakdown of earnings above a cap, which until recently, was £34,320 per annum. Improved data on income distribution will be available in June 2007 following the increase in the cap to £53,664 with effect from January 2007.

The aspirations of the community to improve its overall prosperity will be achieved more equitably if, through economic efficiency, more people are able to achieve higher earnings.

2.4 Primary and Secondary Benefits

The benefit of an individual business activity to the island has traditionally been assessed on the basis of:

- Its levels of profits and the tax it pays on those profits (as reflected in GDP).
- Its consumption of goods and services, which includes the remuneration of staff and the tax paid on that remuneration which recirculates in the economy, generating profits and employment in other businesses - the multiplier effect.





A significant proportion of local businesses, particularly in the finance sector, is owned by non-resident entities and, consequently, a proportion of profits is exported and does not multiply through, or “stick to”, the local economy and thereby generate additional economic benefit.

Similarly a significant proportion of business expenditure goes on imported goods and services, which again do not generate local economic benefit.

The proportion of the turnover of a business which generates local economic benefit can be referred to as its Primary Benefit.

The level of Primary Benefit generated by a business is important, particularly for export earning businesses, but the island also needs to sustain a diverse range of activities which bring “Secondary Benefits”, such as supporting other essential business activities and employment opportunities which may deliver social or environmental benefits to the island.

Monitoring changes in the performance of the economy as a whole and assessing the contribution of individual businesses to that performance needs to take into account both Primary and Secondary benefits. This concept is expanded upon in Annex 1.

2.5 Implications of Zero – Ten

As a result of adopting a zero – ten tax strategy there will be an immediate net reduction in the income tax take from profits. A significant proportion of that reduction will represent a loss of Primary Benefit to the economy through profits which will no longer be liable to tax and which are remitted to non - resident owners of businesses.

This initial loss of Primary Benefit is such a relatively small proportion of the total economy that it should not have any immediate recessionary effects. The important issue, however, is the possible ongoing implications of the new tax structure on generating economic benefit from economic development.

Part of the reduction in corporate income tax take will be offset by increases in the tax/contribution rates applied to other sources of public sector income. This will have the effect of increasing the proportion of public sector income generated from individuals as opposed to businesses. It is also anticipated that levels of growth in the total remuneration received by individuals experienced over the last decade will continue and further offset part of the initial loss of income.





Public sector expenditure will be contained but if the above measures do not result in the generation of sufficient public sector income, consideration will be given to the introduction of new taxes and fees.

A successful amendment to the original zero – ten proposals directed the Policy Council to:

- Afford a high degree of priority to initiatives that are favourable to the development of sectors other than financial services.

This has not been interpreted to mean that continued economic growth should be achieved solely through the activities of the non-finance sectors but that measures to develop the finance sector must continue to be pursued alongside measures to develop the non-finance sectors and thereby achieve a better balanced economy.

Priority 3 of the GBP sets out the fiscal objective of the States as being:

- To increase revenue income by 3% above RPI and contain expenditure to RPI or less.

The Fiscal and Economic Policy Steering Group will be bringing forward detailed proposals to implement the various phases of the zero – ten strategy. The SEP complements this strategy and integrates the fiscal objectives with overall economic objectives.

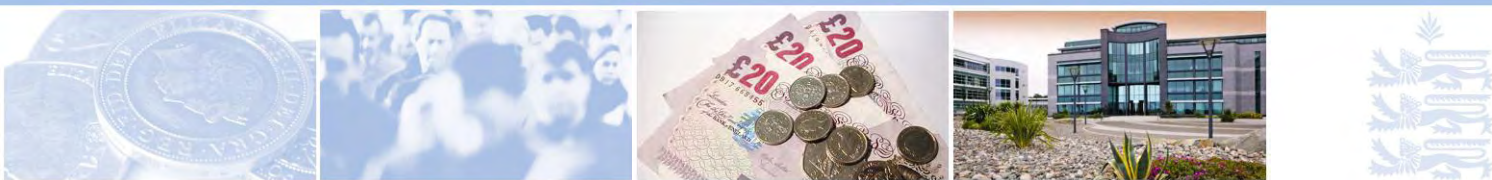
2.6 Exports, Local Goods and Services

The overwhelming majority of the goods consumed by the community, by both individuals and businesses, is imported into the island and money flows off the island to pay for them. Money also flows off the island to pay for some services, such as holidays, medical treatment etc.

Money flows into the island as payment for exported goods and services, particularly financial services but, also high tech products, franchise and fulfilment services, flowers etc. Tourists pay for goods and services provided on or from the island and therefore also generate export earnings. Another potential source of export earnings is income from overseas investments, individuals who generate substantial earnings from such sources are referred to as “rentiers” or “high net worth individuals”

Those businesses that provide local goods and services may be considered to be “inward facing” and those, which generate export earnings may be considered to be “outward facing”. Some of the goods and services consumed





by residents are provided by the States and other “not for profit” inward facing organisations.

The difference between the value of imported goods and services and the value of exported goods and services is reflected in the economic concept of the “balance of payments” or “balance of trade” although these concepts also take into account transfers of capital and nowadays are relevant more to currency exchange rates than to national economies.

An ongoing negative balance of trade (value of imports higher than value of exports) however may be considered to be unsustainable for any small community. Guernsey is within the overall sterling area and capital transfers are not recorded in a form, which makes it practical to seek to measure the island’s actual balance of trade.

This is not to say that outward facing exporting businesses are “more important” than inward facing businesses and other bodies. As will be seen below, inward facing activities account for some two thirds of the economic activity on the island providing employment opportunities and providing a wide range of local goods and services without many of which the community could not function.

Outward and inward facing entities compete for local land, labour and other resources to undertake their activities.

Resources will always be limited in an island economy and the local markets are limited in the volume of trade they can sustain. Guernsey therefore needs to maintain what might be termed a “balance of resources”, particularly labour and land resources, to ensure that the outward facing businesses retain the capacity to balance the increasing demands for goods and services generated by an increasingly prosperous community.

2.7 Economic Data

High-level economic data on the economy as a whole is reasonably reliable but becomes less so when broken down by business category. Standard business categories are generally used but, for Guernsey’s requirements, these are imprecise and the allocation of a business to a particular category is haphazard.

This is not a criticism of those involved in compiling the data in the past. It reflects the priorities of a period when economic growth, driven by the growth in financial services, was perhaps taken for granted and it was not considered necessary to produce detailed data on the performance of the economy as a whole.





A considerable amount of analysis of the finance sector was undertaken as part of the development of the zero – ten strategy.

If the States is to achieve its economic growth targets in the changed circumstances of a zero – ten regime and a tough competitive environment for export markets, it will need to more closely monitor, analyse, and interpret performance across all business sectors so as to identify and react to opportunities and to take action to reverse adverse trends.

Action Point 1

The Fiscal and Economic Policy Steering Group will oversee a major review of the economic data currently available with the aim of introducing systems to provide revised or additional data which enables more meaningful analysis of the performance and trends in the Guernsey economy.

Lead - Fiscal and Economic Policy Steering Group – Work commenced.

Diagrams 4 to 6 present the contribution to GDP of the business sectors, as currently categorised, and the labour distribution across those business categories.

The wages and profits for each sector may be taken as an indication of its financial contribution to the total economy, the numbers of employees as the current allocation of the key resource of labour across the economy and the wages and profits per employee as an indication of the economic productivity of labour across the economy.

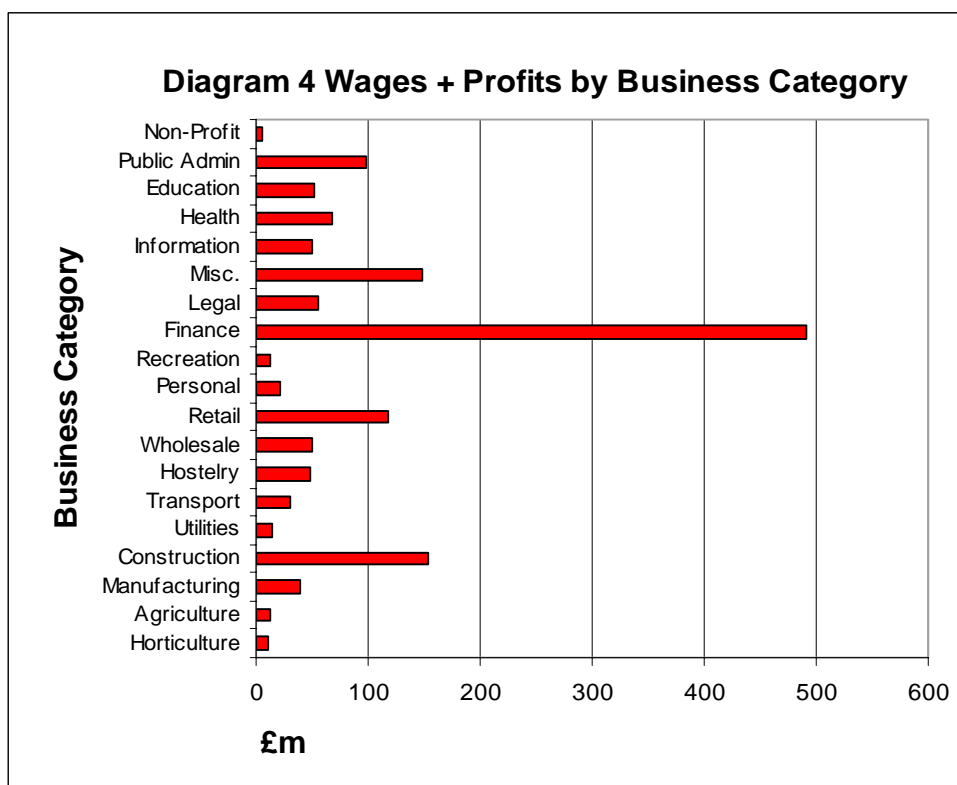




Diagram 5 Employment by Business Category

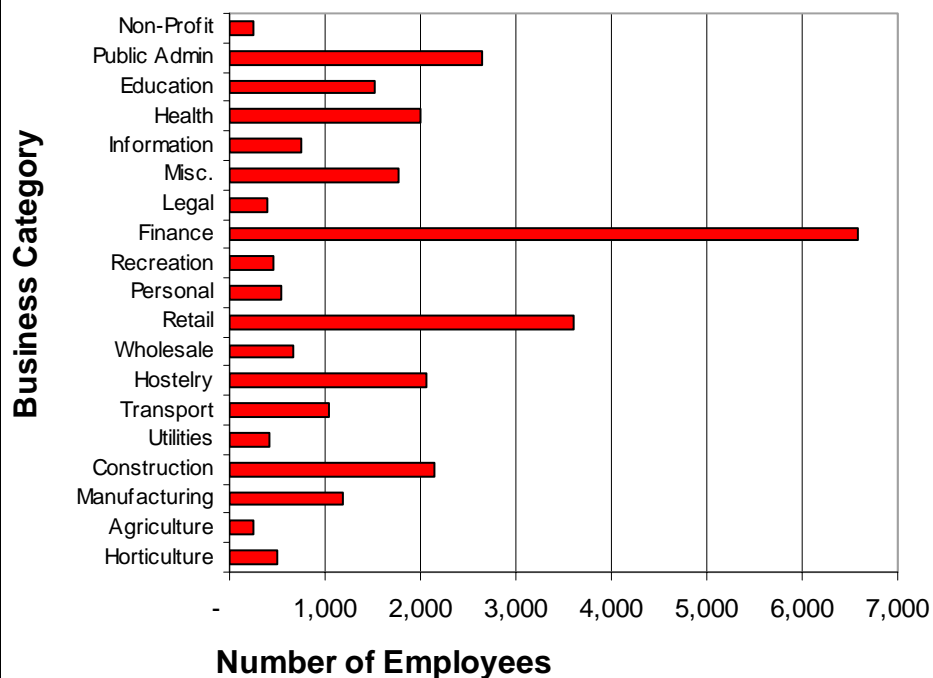


Diagram 6 Wages + Profits per Employee

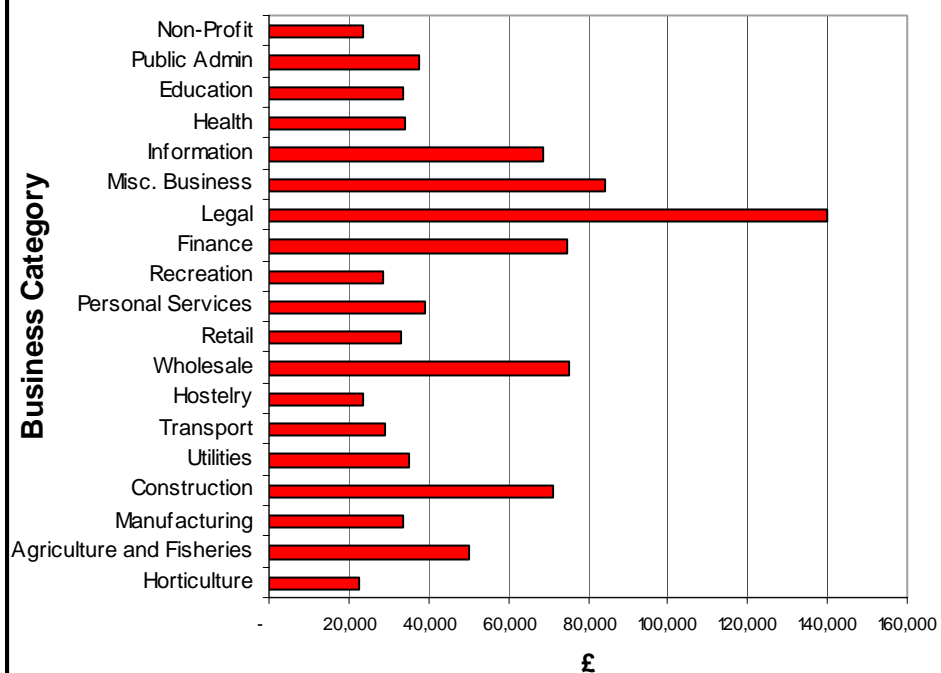
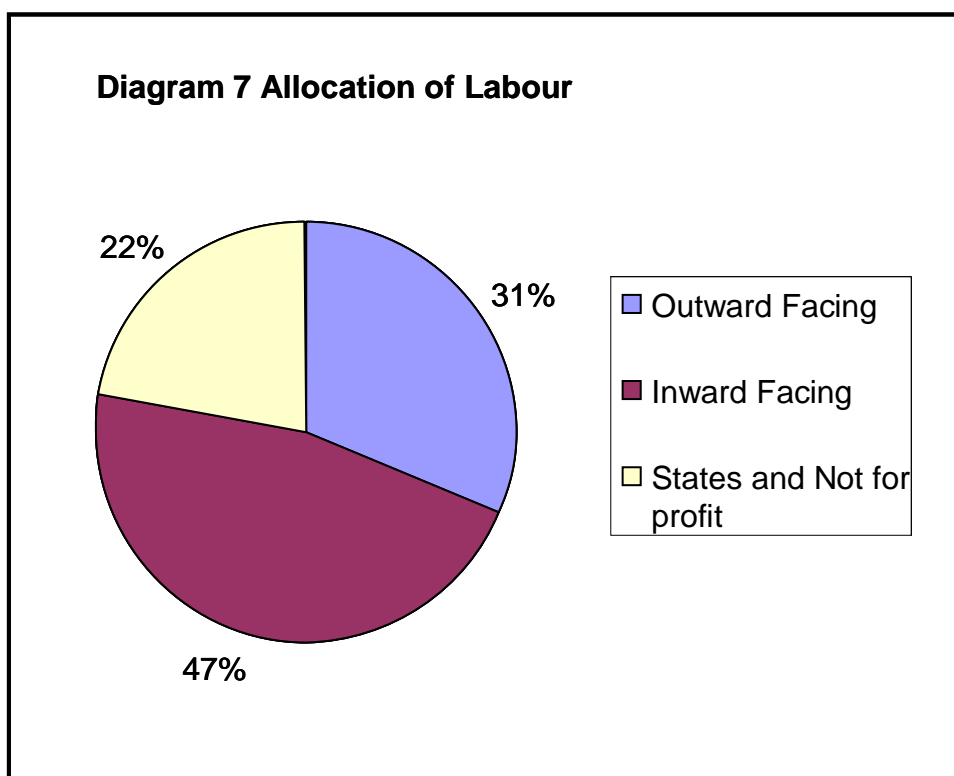




Diagram 7 is an attempt to present the current proportions of labour allocated to: the outward facing exporting businesses; to the inward facing businesses providing local goods and services; and to the States and other non-profit making enterprises providing public goods and services. The Diagram should be taken as only presenting a broad indication due to the limitations of the currently available data.



n.b. Outward Facing businesses have been taken as those in the Hostelry, Finance and Legal business categories, exporting businesses in the other categories are not identified separately in the currently available data.

States and Not for Profit activities have been taken as those in the Health, Education, Public Administration and Not for Profit categories.

Inward Facing businesses have been taken as those in the remaining categories.

Even given the limitations of the current data, there should be concern if the proportion of labour employed in the inward facing and public/not for profit sectors increased significantly at the expense of the outward facing business sectors.



Priorities 12 & 13 of the GDP are to streamline and rationalise the scope of public services and to revitalise public sector working practices to focus on efficiency, quality and innovation. These initiatives could potentially release labour resources for use in the private sector.

To a large extent, the allocation of labour to the provision of local goods and services should and could be determined by competition and local labour market forces.

3 Exports

3.1 Finance Sector Exports

As is commented earlier, the Fiscal and Economic Policy Steering Group is bringing forward detailed proposals to implement the various phases of the zero – ten strategy which has been adopted primarily to maintain a competitive environment for the maintenance and development of the Finance Sector.

The island has a strong and respected global brand for the provision of financial services which generate the major proportion of the island's export earnings and (as currently measured) utilises more than 20% of the island's workforce.

There is a wide diversity of Finance Sector activities but each is closely interconnected and mutually supportive:

- banking: 49 banks, £105bn deposits, £116bn balance sheet;
- funds: Involves managers, administrators, custodians and trustees, £140bn under administration;
- captive Insurance: leading jurisdiction in Europe, 4th in world, 617 captive entities, £3.2bn premiums;
- fiduciary: 138 entities with £200bn assets.

The sector is supported by pragmatic regulation through the GFSC, strong legal, accountancy and actuarial sectors, the locally based Channel Islands Stock Exchange and the Guernsey Training Agency which has recently been university affiliated.

Looking internally, the Finance Sector considers that it is experiencing a shortage of support services, such as ITC, and a shortage of other resources, particularly labour and the availability of office accommodation which meets modern business requirements.





Externally, the Finance Sector is concerned at what it sees as an erosion of confidentiality through information exchange agreements with other jurisdictions and increasing world standards. Embracing these developments is, however, part and parcel of maintaining a strong and respected global brand for the provision of financial services.

It is essential that the Island does not adopt practices and standards which are significantly out of line with those of other competing jurisdictions.

The opportunities for increasing the economic contribution of the Finance Sector are seen as being:

- increasing the focus on banking deposits to capture the 10% tax on banking profits post 2008;
- encouraging additional banking groups into the market through the managed bank concept;
- making better use of resources through:
 - outsourcing lower value added process to other jurisdictions and utilising released resources for higher value added activities;
 - achieving productivity increases through ITC and improved process engineering;
- continuing to up-skill labour to enable them to take on higher value added work and increase their earnings potential;
- maintaining and developing the island's brand by being at the forefront of innovative product development through legislative and regulatory pragmatism;
- opening up new business streams in emerging world market economies including: China, Eastern Europe, the Middle and Far East.

The principles of Primary and Secondary benefits applies as much to financial services as to other business activities when assessing opportunities for the substitution of resources.

3.2 Non-Finance Exports

Traditionally, the main export activities of the island have been considered as financial services, light industry, horticulture, the visitor economy and investment income from high net worth individuals.



Prior to the 1980s, horticulture was the island's predominant export sector. Due to a number of factors including labour costs, energy costs, and competition from the EU and globally, horticulture in Guernsey has contracted from mass production to servicing a number of niche markets. It is more appropriate now to consider horticulture as a sub-sector of what was known as light industry.

The current significant non-finance exporters include Specsavers (whose activities span franchise management and wholesale suppliers of spectacles), fulfilment (Healthspan, Healthydirect, Thompson and Morgan, HMV etc.) as well as providers of other miscellaneous goods and services.

Using the term light industry for these activities risks confusion when considering land use and imported labour allocations and the term "Non-Finance Exports" is being adopted to describe these activities. Such activities will increasingly be specialist knowledge or high tech skills based rather than based on general light manufacturing expertise.

To successfully diversify and expand the Non-Finance Exports sector, the allocation of land, imported labour and, where appropriate, on-island training and development resources, will need to be targeted appropriately. Such activities are increasingly likely to be based on specialist knowledge and high tech skills rather than light manufacturing activities.

Another factor to take into account is that the use of the Internet is an increasingly significant factor in the activities of both the finance and non-finance exports sectors. Providing and maintaining hosting facilities now supports locally based export activities and provides export earnings in its own right by supporting activities undertaken off-island.

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.





One such potential winner which has been recognised is the provision of back office support services to the eGambling operators which have been attracted to locate in the Bailiwick by:

- the top quality regulatory regime developed by Alderney (through the Alderney Gambling Control Commission (AGCC));
- the fiscal environment; and
- Guernsey's excellent telecoms links which are about to be further enhanced by a link to the UK being installed by Jersey Telecoms.

Under current legislation the eGambling transactions take place on servers located in Guernsey but they are regulated by the AGCC. This generates licence fees for Alderney and income from high bandwidth use to the telecoms service providers which in turn benefits telecoms customers as a whole.

Back office work for these transactions, which include the calculation of odds, ongoing development of sophisticated interactive web sites, fraud control, marketing etc. are high value added but are currently undertaken outside the Bailiwick. Many jurisdictions, including the UK, Jersey and the Isle of Man are actively seeking to attract and develop such high value activities.

Because of the lead established by the AGCC in attracting more than 20 leading eGambling operators to the Bailiwick, Guernsey is in a strong competitive position to attract these high value export earning back office activities.

This opportunity to widen the economic base of the Island and generate high value added employment opportunities within the local workforce was the subject of a recent Briefing Paper issued by the Commerce and Employment Department. The closer harmonisation of the Guernsey and Alderney gambling control Laws in respect of eGambling will also be covered in a future report to the States from the Home Department on the results of a general review of Guernsey's Law.

The Visitor Economy continues to generate Primary benefits through export earnings and Secondary benefits to the community as a whole through its support of transport, hostelry and retail activities. This sector merits States support to enable it to compete successfully with other visitor destinations.

The cap on the tax on off-island investment income to be introduced under the zero –ten strategy provides an opportunity to attract more high net worth individuals to generate additional export earnings from such income.





4 Economic Objectives

The community will judge economic success on the basis of its ability to enjoy a good quality of life supported by;

- the availability of a sufficient number and variety of well paid job opportunities which result in:
- the maximising of income to the individual (including providing for retirement) and;
- the ability to fund the desired extent and standard of public services.

Businesses which generate profits are good for Guernsey as they keep business viable, provide returns to their owners and provide well paid employment opportunities for the local workforce. Some business profits are better than others however, and generate increased Primary economic benefits if they are:

- retained and re-invested in the business; and/or;
- distributed to resident owners and therefore subject to tax; and/or;
- subject to a tax rate above zero.

With the implementation of the zero – ten strategy the total profits generated by the economy, and as recorded in GDP, will become less relevant in assessing the benefit of economic activity. The predominant factor will be the income generated by individuals and the tax generated from that income.

To this end, the key objective adopted by the Commerce and Employment Department in its Building Confidence document was to:

- Increase the primary and secondary benefits to the community of business activity whilst at the same time increasing the opportunity for the working population to migrate into higher paid jobs.

This can be restated as increasing the overall prosperity of the community and achieving a better earnings distribution.





The Fiscal and Economic Steering group is recommending the adoption of Strategic Economic Objectives, which seek to achieve a convergence between:

- the aspirations of the community as a whole; and
- the desired restoration and eventual increases in tax take.

Action Point 2

The States should adopt the Strategic Economic Objectives of:

- creating and maintaining conditions conducive to achieving the annual levels of economic growth for the next 5 years as has been experienced on average over the last decade;
- increasing the primary and secondary benefits to the community of business activity whilst at the same time increasing the opportunity for the working population to migrate into higher paid jobs;
- achieving an expansion and diversification of high value exporting activities within both the finance and non-finance sectors where possible through the substitution of low value activities;
- using the total value of income to individuals from remuneration and other sources as the prime reflection of economic performance;
- pursuing policies to achieve 3% growth pa in the total value of income to individuals from remuneration and other sources.

Work is ongoing to identify the proportion of “other income” in the GDP figures that relate to individuals and what relates to businesses.

These past rates of growth have, in part, been achieved by the release of labour, land and other resources from declining traditional industries.

Given this, and an increasingly competitive world in export markets, maintaining past levels of economic growth will be harder to achieve in the future and will require a determined commitment by the States and the community as a whole to be pro-active and target initiatives, resources and support towards this end.





5 Strategies for Achieving Objectives

The following sections in the SEP propose strategies to achieve the recommended economic objectives.



The Population and Workforce



Land for Business and Industry



Fiscal Policies



Legislation and Regulation



Connectivity



Corporate Commitment and Encouragement





5.1 The Population and Workforce



The size and make up of the population, particularly that of the workforce, is influenced not only by birth and death rates but also by levels of immigration and emigration.

At its meeting in April 2007 the States resolved to adopt a Population and Migration Policy statement:

- *States' policies should be consistent with maintaining Guernsey's population at approximately its current level.*

The resolution resulted from an amendment of the proposals in a report from the Policy Council which related population policy to rates of net migration and the effect this would have on the size and make up of the population in terms of age bands. The age make up as well as the size of the population has important economic implications.

At the time of the drafting of this report, a detailed assessment of the possible implications to the make up of the population through implementing the Population and Migration Policy Statement had yet to be undertaken. It is possible however, to get a broad indication by applying the proportions (%) for each age band, resulting from the projections of the effects of 0 net migration, to the current level of Guernsey's population (which for simplicity is taken to be 60,000). This calculation is explained in detail in Annex 1.

It can be seen from Annex 1 that implementing the Population and Migration Policy Statement implies 0 annual net migration up to 2013 followed by annual net migration of between 100 and 200 in the following years.

Broad Indication of Population Make Up Over Next 20 Years

	2004	2008	2013	2023
0 to 15	10,600	9,800	9,000	8,200
16 to 64	39,700	40,100	39,300	37,100
65+	9,700	10,100	11,700	14,700
Total	60,000	60,000	60,000	60,000

Working Age Group (16 to 64) as % of Total Population

	66	67	65	62
Dependency Ratio (number of persons supported by each person of working age)	0.51	0.50	0.53	0.62





On the assumption that the workforce is drawn from the 16 to 64 age group, the Dependency Ratio and Working Age Group as a % of the total population serve as approximations for assessing the economic implications of the make up of the population. However, not all in that age group are economically active and others outside this age group may well be (including those who receive investment income from overseas).

It can be seen that from the indicative population projection that, in the period up to 2023, the implementation of the Population and Migration Policy Statement would result in:

- the total population remaining static at approximately 60,000,
- the working age population decreasing from 39,700 to 37,100 (-6.5%) and
- the working age population as a proportion of the total population reducing from 66% to 62%.

To maintain and improve the prosperity of the community (as reflected in GDP per capita or an improved measure) the number of those in the community who are economically active, and the economic productivity of those that are active, will need to be increased and optimised.

This will require an expansion and diversification of high value exporting activities within both the finance and non-finance sectors as reflected in the proposed Economic Objectives. Core to achieving this will be the targeting of Housing Licences to support economic development towards these types of businesses.





Action Point 3

The Housing Department should, in consultation with the Commerce and Employment Department, research the feasibility of adopting policies that could enable employment-related housing licences to favour those working in 'outward facing' businesses.

Outward facing businesses which could qualify for such priority include: the finance sector; the non-finance exporting sector (including the emerging eGambling support services sector); and the visitor economy sector.

Lead - Housing Department – Already subject to joint discussion with the Commerce and Employment Department .

Action Point 4

The Demographic Policy Group (previously the Strategic Population Working Group) should:

Identify and monitor the actual extent of those economically active across the whole population and identify how this number might be increased.

Develop policies and take actions to try and ensure that all persons who are legally housed in Guernsey are encouraged and permitted to be economically active; and to

Develop policies and take actions to try and ensure that all persons legally working in Guernsey benefit from the opportunities afforded to them through training and development to assist them in being more effective and productive.

Lead – Demographic Policy Group - Reflects GBP Priority 5 Level 2 statements.





5.2 Land for Business & Industry



The limited land mass that requires a balance to be achieved between building and infrastructure development to meet social and economic needs and the effect of that development on the environment.

Strategic Objective 2 of the Strategic Land Use Plan (SLUP) is

- *to provide an adequate range of opportunities to meet the needs of existing, Island-based industries and incoming businesses that support the local economy within the capacity of the Island's resources, while conserving and enhancing environmental quality and social well-being.*

The figures in brackets in this section refer to the paragraph numbers in the December 2006 SLUP. The Strategic Land Planning Group (SLPG) advise the policy council on the review and revision of the SLUP.

The SLUP recognises that high value uses of land tend to squeeze out lower value uses even if those lower value uses are valuable to the community (13.15). The SLUP also comments that the ability to ring fence sites for particular purposes and to prevent creeping changes up the value chain is limited. Revised Use Class designations and the future introduction of of Planning Covenants/Agreements may assist but these devices are not a panacea for protection (13.16).

The necessity to provide an “adequate” supply of land for businesses is recognised by the SLUP and is almost a pre-requisite to achieving the continued economic growth targets proposed in this Plan. There is competition for land, not only for the provision of local goods and services, but also for the establishment of new and development of existing exporting businesses. Assessing adequacy based on historic information and unpredictable demands would tend to result in an undersupply.





Action Point 5

Given the inability of the land use planning process to ring fence sites for particular purposes, the SLPG should consider and report back to the States on adopting the principle that an “adequate” supply of land for businesses should provide for a degree of over-supply to allow market forces to determine use within broad use categories across all business activities and to provide “headroom” to facilitate movement and unpredictable expansion.

Lead – SPLG – Work not yet commenced.

Development of the Eastern Seaboard

Appendix 2 of the Policy Council's March 2007 report on the future of Guernsey's Eastern Seaboard commented:

- *The impetus is not the need for urban regeneration to tackle existing problems of dereliction and decay but to explore what greater unrealised potential the waterfront area may have to support continuing prosperity and well being for the future particularly bearing in mind the challenge of achieving sustainable economic growth.*

The potential of the waterfront could include opportunities for a degree of land reclamation.

Action Point 6

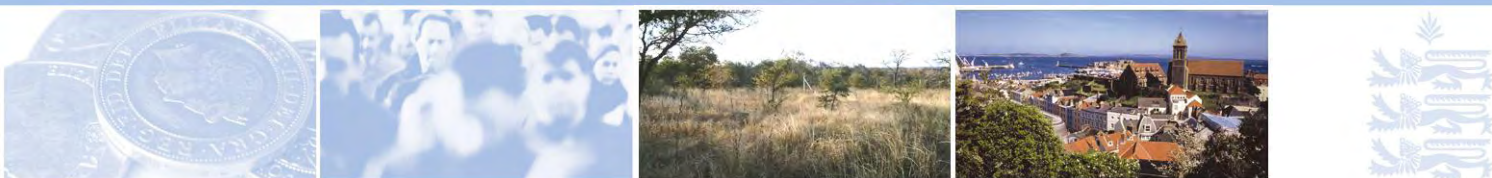
The SLPG will oversee an initiative to identify a range of options and scenarios for the future of Guernsey's Eastern Seaboard including the opportunities it presents for stimulating economic growth.

Lead – SLPG – Direction already approved by the States.

Office Accommodation

Strategic Policy 10 of the SLUP directs that further provision for major office development should only be made if it can be demonstrated that there is an acknowledged demand. The Strategic Land Planning Group SLPG has acknowledged the concerns expressed by the financial services sector and others on the lack of availability of vacant modern office accommodation and has instigated a review of supply and demand.





Action Point 7

The SLPG should oversee a review of the current supply and demand for modern office accommodation with the intention of including proposals for additional provision to be made in the Urban Area Plan (UAP) should supply be found not to be adequate as defined in Action Point 5.

Lead – SLPG – Work already commenced.

General Industry

The SLUP refers to a joint exercise between The Commerce and Employment Department and the Environment Department to maximise the supply of industrial land within the terms of existing Development Plan policies and that if this substantiates that there is a shortfall that cannot reasonably await the next comprehensive review of the UAP, the SLPG may request that an early Plan amendment be brought forward (13.9).

The joint exercise has identified that, including the release of the Saltpans site, sufficient provision has been made in Development Plans to potentially meet current demand for the development of premises to meet middle and higher value industrial use. There is, however, an immediate need for the release of additional land suitable for use as open storage areas and small workshops by the lower range of the spectrum, both to meet current need and potential demand arising from displacement.

Action Point 8

The SLPG should oversee the process for identifying and providing additional land for open storage areas and small workshops by early amendment of the Development Plans.

Lead SLPG – Research already being undertaken jointly by Environment and the Commerce & Employment Department.





Action Point 9

The Detailed Development Plans will make provision for the designation of Strategic Industrial Reserves to meet long-term requirements for land for industry which will be released through a similar mechanism as that for Housing Target Areas through a minor Planning Inquiry.

Lead SLPG - (Section 13.13 and SP11 of SLUP) Research already being undertaken jointly by Environment and the Commerce & Employment Department.

As is stated in Section 3.2, what used to be termed light industry now consists of export activities including franchise management, wholesale suppliers, fulfilment, provision and maintenance hosting facilities etc. The revised term Non Finance Exports has been adopted to describe such activities which will increasingly be specialist knowledge or high tech skills based rather than based on general light manufacturing expertise.

General Industry

The SLUP recognises that the contemporary nature of business is that the traditional distinctions between offices/service uses and light industry have been eroded. Uses that cross these traditional boundaries include data processing, software development, telemarketing, research and development, information technology etc. The supply of land and accommodation for business and industry needs to respond to the changing nature of demand so that innovation and entrepreneurship can be encouraged (13.18/19).

Action Point 10

The Detailed Development Plans will make provision for a comprehensive range of accommodation to meet the needs of manufacturing and service employers. To ensure that the availability of premises for Non-Finance Exports sector activities is not hindered by policies based on outdated definitions of light industry, the SLPG should be asked to oversee a review of these definitions and policies.

Lead SLPG – (Builds on SP 13 of the SLUP) Work not yet commenced.





Visitor Accommodation

The States has approved amendments to the Detailed Development Plans to allow for unsuitable visitor accommodation units to leave the sector to achieve a better balance between supply and demand in terms of capacity and quality so as to achieve higher returns to fund re/investment.

Action Point 11

For the visitor accommodation sector the aim will be to achieve an average annual room occupancy level for the serviced accommodation sector of 65% (based on year-round occupancy) and for self-catering accommodation of 75% (based on seasonal occupancy).

Lead SLPG - Already enshrined in SLUP and Detailed Development Plans.

As well as allowing unsuitable accommodation to leave, the sector would also benefit from increased levels of investment to develop additional high quality units either by extension of existing or development of new sites. As well as providing flexibility in the land use planning process to achieve this, there may also be benefit in considering measures to encourage positive investment decisions.

Visitor accommodation has benefited by being able to diversify into amenities such as conference facilities, health suites etc. which are not necessarily principally used by visitors but also provide amenities for local residents. The principle of granting a sole casino concession conditional on a major investment in hotel facilities is an example of providing an “economic enabler” even though in that instance it was not successful in stimulating the level of investment required by the States.

A more general enabler may be the provision of managed residential accommodation conditional on a major investment in hotel and other facilities which benefit the community.

Action Point 12

The SLPG should consider the possible benefits of allowing, in the Detailed Development Plans, greater flexibility for the re/development of high quality visitor accommodation and for more diversification into associated areas, such as managed residential accommodation, conditional on a major investment in facilities that benefit the community.

Lead – The Commerce and Employment Department – Work Commenced.





Horticulture

The SLUP comments that with notable exceptions, the horticultural industry is contracting and significant areas of glass remain uncropped. In terms of the overall area under glass, therefore, there remains no requirement to make provision for any net or overall increase in the area of land which may be used for horticulture (13.24). As has been commented earlier, it is now more appropriate to consider horticulture as a sub-sector of Other Exported Goods and Services rather than as a sector in its own right.

The SLUP recognises however that, to assist with the process of rationalisation of horticultural holdings, there may be justification to protect high quality horticultural land from alternative forms of development (13.25).

Action Point 13

Detailed Development Plans will seek to protect high quality horticultural land from alternative forms of development where this would assist the process of rationalisation.

Lead SLPG - Already enshrined in SLUP and Detailed Development Plans.

Agriculture

The SLUP recognises that a viable farming industry is essential to the protection of countryside character and quality. To manage and conserve its value, the countryside needs viable agricultural businesses which promote and protect the rural environment. The particular role of farmers and farming practices in fulfilling this policy has been recognised through contractual payments to farmers who farm in an environmentally sensitive way (13.164/5/6).

Action Point 14

The character, appearance and amenity of the countryside will be improved and enhanced by the integrated development of viable farming business linked to nature conservation and environmental management (SP 36).

Lead SLPG - Already enshrined in SLUP and Detailed Development Plans.

Because of traditional patterns of development, farm buildings are often clustered around the farmer's dwelling and the dwelling is often the major asset of the farm. Farm buildings can be lost to agriculture when the dwelling is sold to a non-farmer. Because of this, succession, in terms of the persons operating farms and the availability of farm buildings, is becoming a major concern.





Action Point 15

The SLPG should consider bringing forward the necessary amendments to land use planning policies to provide for a degree of physical separation between dwellings and farm buildings so that when a farmer leaves the sector and sells up he can separate his business from his home without adjacent farm buildings being lost to production.

Lead – The Commerce and Employment Department - Work not yet commenced.

Retail

The aim of the SLUP is to direct retail development to the existing centres, but there may be circumstances where retail development may be acceptable elsewhere. It should be possible in many cases to locate these types of development in previously allocated areas at Le Bouet and at Leale's Yard, or in other appropriate edge of centre locations. If there are no such sites available, and there is an acknowledged demand for the development concerned, then other suitable sites may be considered (13.38).

Action Point 16

Provision of additional retail space is not considered to be a current priority but rental levels and the effect this may be having on take up of retail space in Town should be monitored by the Commerce and Employment Department in order to identify if there is any structural imbalance in supply and demand.

Lead – the Commerce & Employment Department – Work not yet commenced.

Reacting to opportunities for economic development

The Strategic Land Use Plan is prepared by the Policy Council in pursuance of the Island Development (Amendment) (Guernsey) Law 1990 and is laid before the States in pursuance of Section 2(3) of that Law. It sets out the strategic objectives to be followed by the Environment Department in implementing the Island Development (Guernsey) Laws 1966-90.

This involves the preparation of the Detailed Development Plans (DDPs, the Urban and Rural Area Plans, UAP and RAP) which must comply with the version of the SLUP current at the time of preparation and which are put to a public Planning Inquiry prior to adoption by the States. No subsequent alteration to the SLUP can over-ride the policies in the DDPs.





The preparation of the DDPs is complex and resource hungry, and these Plans are often extended past their original 5 year life. Changes to land use policies can be made between major reviews of the DDPs but these must go through the process of prior changes to the SLUP and the preparation of draft amendments to the DDPs prior to being put to a Planning Inquiry and ultimately to the States for adoption.

The UAP which covers the area where most development is to be located, requires the preparation of a Planning and Design Statement to be submitted with any application for sites of more than 0.1 hectare or developments of more than 4 dwellings or a Development Brief for sites of more than 0.5 hectares or developments greater than 20 dwellings. Development Briefs are normally prepared by the Environment Department and published with an invitation for comment (Policy DBE2).

The preparation of Planning Briefs and the possible future introduction of Planning Covenants/Agreements are also resource hungry and potentially time consuming.

In addition to the preparation of Plans, Briefs etc. is the time taken to consider specific applications for development. The Saltpans has been identified as a Key Industrial Area but it has taken two years to prepare and publish a Development Brief and the conclusions from the public consultation process have yet to be announced.

Whilst planning decisions will impact on the community for years to come and the community is committed to protecting the environment, the land use planning process is not conducive to being proactive in the provision of land for business and industry or seizing opportunities for economic benefit in unforeseen circumstances.

The process could be speeded up by making available more staff resources for long term planning and consideration of applications but the Environment Department is under staff number constraints as are all States Department. The States has agreed that a new temporary post should be created to progress the Eastern Seaboard initiative but this is a new, additional initiative and will not have any significant impact on the day to day work of the Environment Department.





If additional resources are not available to speed things up under the current land use planning and application processes, the choice seems to be:

- to accept current, and possible increased timescales in reacting to economic opportunities or
- streamlining the processes to match the resources available without unacceptable undermining of democratic processes and environmental considerations

Action Point 17

The SLPG should review the current land use planning and application processes to establish if there is a case to make additional resources available to the Environment Department to enable more appropriate administration of current processes or whether those processes should be streamlined to enable the Department to react more quickly to opportunities for economic development.

Lead – SLPG – Work not yet commenced.





5.3 Fiscal Policies



The application of fiscal policies needs to achieve a balance between funding the level of public services desired by the community, spreading the tax burden in a way that meets social objectives and is competitive in attracting activities.

Like many other offshore financial services centres, Guernsey's fiscal policies not only generate the funds for the provision of public services, they are also a major factor in the attraction and retention of the global financial services businesses which power the local economy.

The June 2006 States resolutions on the Future Economic and Taxation Strategy provided for a package of measures that impact across the whole of the economy:

- zero basic rate of tax for all businesses except certain banking activities that are subject to 10% and regulated utilities which are subject to 20%;
- personal tax at 20% including on profits distributed to resident owners of local businesses and rental/investment income;
- a cap of £250,000 tax on an individuals investment and non-Guernsey trading income;
- reduced relief on interest payments and life assurance policies;
- increased rates on indirect taxes and social security contributions;
- priority to be given to the development of non-financial services businesses.

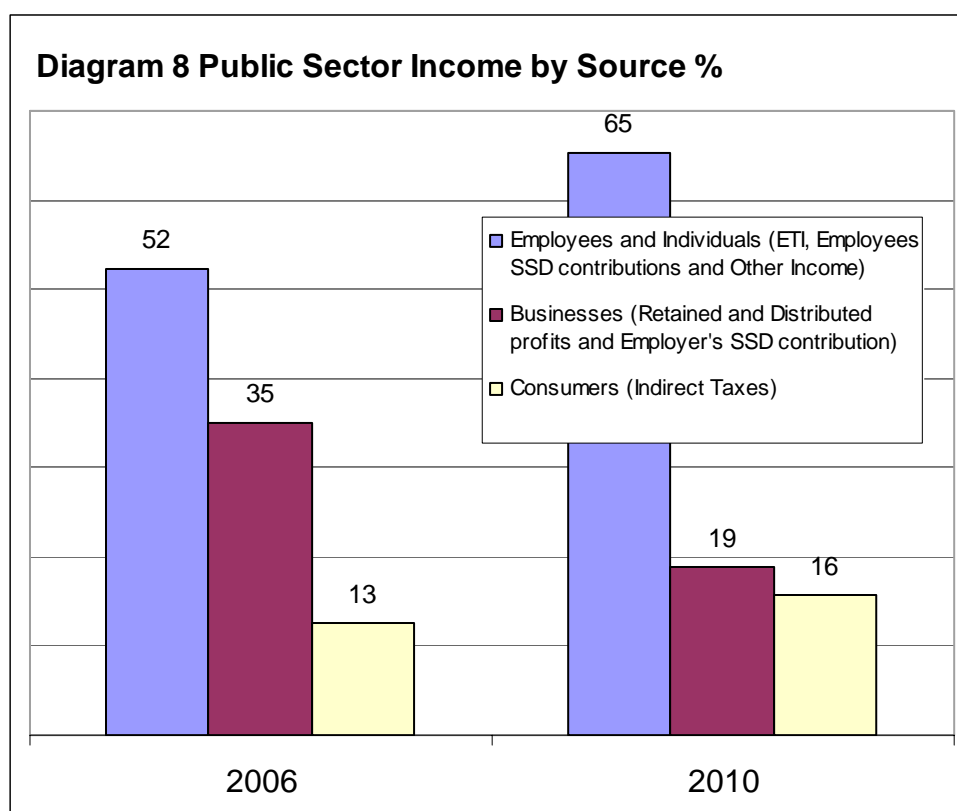
Responsibility for the development and implementation of the fiscal and other policies which arise from the Future Economic and Taxation Strategy rests with the Policy Council's Fiscal and Economic Policy Steering Group. One of a series of reports on implementing the strategy was considered and approved at the May 2007 States meeting.





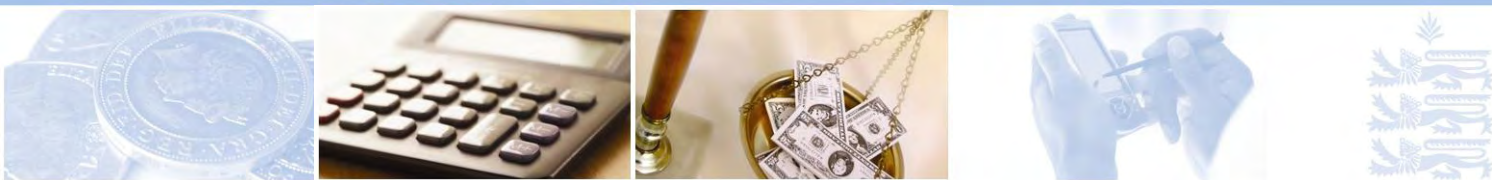
The implementation of the strategy will:

- increase indirect taxation and social security contributions and increase the above the line costs of doing business in Guernsey. Care will need to be taken to ensure that such costs do not exceed those of other competing jurisdictions;
- accelerate the shift in the funding of public sector expenditure away from business and towards individuals and consumption as illustrated in Diagram 8*. The burden on individuals will still be no higher than in many other competing jurisdictions.



*Figures taken from Appendix 11 of the May 2007 report on Implementation of the Economic and Taxation Strategy, and SSD audited but not yet published accounts for 2006.

Appendix 11 of the May 2007 report shows a 20% increase in ETI income over the period 2006 to 2010 and for the purposes of producing this diagram it has been assumed that SSD contributions will rise by the same % with an additional £25m collected to make up for the reduction in the States Grant as shown in Appendix 11.



This should be taken as giving only an indication of the magnitude of SSD contributions as detailed analysis has yet to be undertaken and the States Grant is currently calculated as a % of contribution income, not a cash sum.

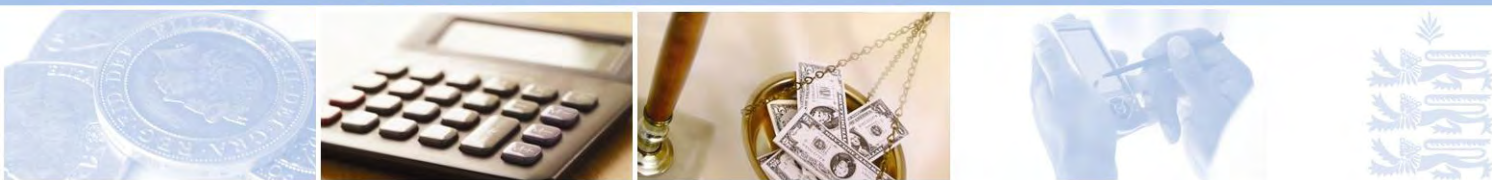
The fiscal strategy will continue to provide a highly competitive environment for businesses and business owners and enable the development of high value added and high paid job opportunities to generate tax income.

Action Point 18

In the development of the economy, particular emphasis should be given to maximise the income tax yield through:

- Promotion of the increased opportunities to retain high net worth individuals who may be attracted by the tax cap to come over to live and invest in the island;
- maximising banking deposits to capture the 10% tax on banking profits post 2008;
- encouraging additional banking groups into the market through the managed bank concept.

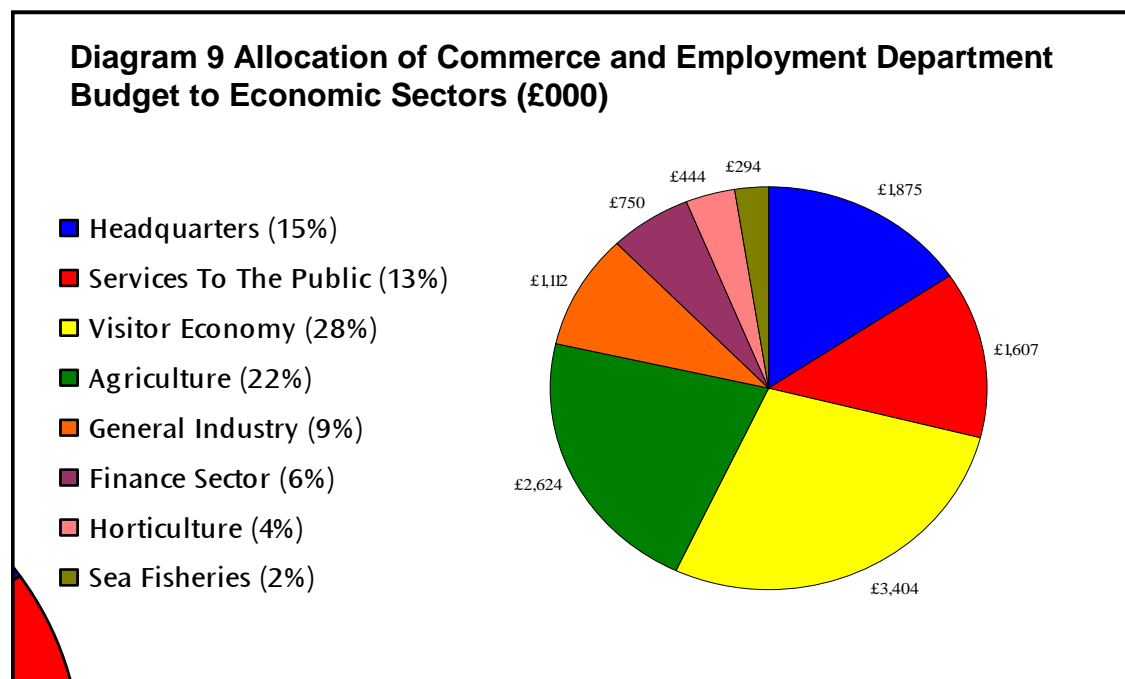
Lead – The Commerce and Employment Department – Work already commenced.



Industry Support Schemes

As well as maintaining a competitive tax environment for business activities, fiscal policies also generate funds for the provision of public services which may include support for business activities.

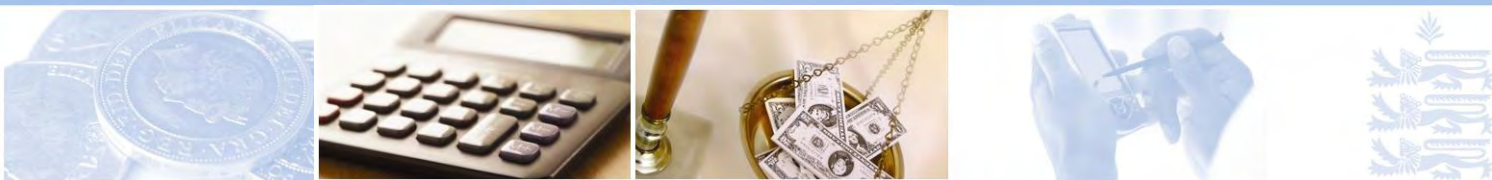
Financial support for industry is provided through the budget of the Commerce and Employment Department as shown in Diagram 9.



The major elements of current support are:

- Support to business generally
 - Guernsey Enterprise Agency grant: business advice
 - Guernsey Training Agency grant: facilitating access to training
 - Air Route development: also benefits community as a whole
- Support to sectors
 - Finance: promotion of Guernsey as a finance centre
 - Visitor economy: promotion of Guernsey as a visitor destination
 - General: promotion of Guernsey as a place to live and do business
 - Agriculture: milk price support, advice and environmental programmes
- Support to individual businesses
 - Exhibition Support Scheme: currently under review





There is a presumption against States intervention in business activities through the provision of financial support but where such intervention is considered necessary, it is provided in a transparent manner with clearly defined targets and conditions.

The emphasis will continue to be on supporting business activities as a whole with specific initiatives targeted at the export earning sectors and/or those which generate significant secondary benefits.

Action Point 19

Fiscal support for general business should be focussed on targeted support for sector wide initiatives which deliver substantial Secondary benefits or one-off initiatives by businesses to develop export markets and deliver substantial Primary benefits rather than for ongoing marketing and promotion by individual businesses.

Lead - The Commerce and Employment Department – Work already commenced.





5.4 Legislation & Regulation



The application of a legislative environment, including regulation, to achieve a balance between encouraging and facilitating business activities whilst preventing market abuse and avoiding un-necessary

bureaucracy.

Legislation and Regulation that Facilitates Business

Legislation and regulation can act as a facilitator in providing innovative financial services products and giving clients and other jurisdictions confidence that local business practices comply with established international standards.

Examples of legislation facilitating financial services business are:

- New companies Law
- New streamlined company formation process and IT based company registry
- New IP legislation
- New Funds and Trust laws

The new Medicines Law currently out to consultation will regulate local health supplement exporters and help protect the reputation of scrupulous businesses from being tarnished by the activities of unscrupulous businesses.

The Commerce and Employment Department is funding the employment of a commercial lawyer within St James's Chambers and the development of a streamlined company formation process and IP registry are well in hand.

Action Point 20

Priority should be given to the introduction of innovative legislation to provide additional financial services products or facilitate financial services activities.

Lead – The Commerce and Employment Department – Work already commenced.





Regulation of Competition in Local Markets

The expectations of the local community are influenced by the development of the legislative environment controlling business activities in the UK and EU and it is looking to have in place statutory competition laws and other regimes which prevent un-acceptable abuse of local markets.

Because of the island's size and geographical isolation, however, the markets for the provision of local goods and services are sometimes imperfect and can result in natural monopolies or market dominance by a few players. Whilst abuse of such a position, or the adoption of anticompetitive behavior generally is unacceptable, regimes appropriate to regulate competition in large markets can be costly and un-necessarily restrictive of business activities in a small market.

In some circumstances (e.g. air routes, taxis, etc.) there is a risk of a market failure to provide an acceptable level of essential services without the statutory control of competition through legislation or regulation.

Action Point 21

Local legislation which seeks to address competition and market failures should not mimic the regimes in large jurisdictions but will be tailored to reflect local market conditions and avoid un-necessary bureaucracy and interference in normal business activities.

Lead – The Commerce and Employment Department – Reflects current approach which States is recommended to endorse.

Current priorities for developing the existing and introducing new legislative measures to address competition and market failures are:

- Consultation on the possible introduction of minimum wage legislation
- The introduction of competition legislation to:
 - Address abuse of a market dominance or monopoly position
 - Address anti-competitive behaviour
 - Bring fair trading practices up to date
- Consideration of legislation to control strategically significant mergers and acquisitions
- Consideration of bringing gas within the remit of the regulation of utilities legislation





Economic Regulation

Economic regulation of strategically important monopoly or market dominant utilities is currently undertaken by the OUR in respect of Post, Telecoms and Electricity. In May 2006 the States considered a joint report from the Treasury and Resource Department and the Commerce and Employment Department on a review of commercialisation and regulation and agreed changes to the OUR governing legislation to facilitate a “risk based” approach, which would be more proportional to the scale of local markets.

Following consideration of the report from the Environment Department on Waste Disposal, the States agreed in January 2007 that, if responsibility for waste disposal activities was to be transferred from the States to a private body on a monopoly basis, consideration should be given to extending economic regulation to cover these activities.

Action Point 22

Consideration will be given to introducing economic regulation of the island's solid waste disposal activities should these be transferred to a private body as is currently being considered.

Lead – The Commerce and Employment Department – Reflects States resolution on Waste Disposal.





5.5 Connectivity & Communications



Maintain and enhance connectivity with the outside world in terms of travel, freight, voice and information communications and access to markets;

The undoubted economic advantages of Guernsey as an island can only be maintained if post, freight, electronic communications and transport links allow it to connect to the world at a reasonable cost. It is the States role to maintain the robustness of these services and create certainty and dependability as a secure backdrop to business.

Post

In the postal sector, Guernsey Post Limited (GPL) has been awarded exclusive rights to provide postal services in the Bailiwick to the extent necessary to ensure the maintenance of a specified universal postal service to the community as a whole. Included in the exclusive, or reserved, area is a significant proportion of the items dispatched by fulfilment companies as “bulk mail” and which generate export earnings.

A change in the way in which the Royal Mail charges GPL for access to its delivery network in the UK has resulted in significant increases in local postal charges and this has impacted on the activities of the bulk mailers. However, the level of cross subsidy Bulk Mailers have been paying to cover the cost of other postal services has been removed.

Action Point 23

The opportunities for improving the efficiency and costs of handling bulk mail should be kept under review with Guernsey Post Limited and the OUR.

Lead – The Commerce and Employment Department - Preliminary talks held with bulk mailers and OUR.





Telecoms

Global telecoms links are increasingly important to all areas of business activities in the island and the provision of two additional undersea cable networks (by Cable & Wireless and Jersey Telecoms) will increase capacity, resilience and price competition to the benefit of all. The links also provide the opportunity for the further development of Internet based businesses which should be exploited to the full.

Since the sale of GT and the introduction of independent statutory regulation, considerable progress has been made in the liberalisation of the local telecoms market. This has stimulated investment in infrastructure and the development of services by the incumbent operator and new entrants alike. As competition develops further, regulation, as a proxy for competition, will become less necessary.

Action Point 24

With the maturing of the liberalised telecoms market, the necessity for regulation as a proxy for competition reduces in some areas and the opportunity to do this should be taken as market conditions allow.

In other areas, regulation should continue to be implemented to achieve a balance between encouraging investment and the development of services by all players, whilst protecting consumers from anti-competitive practices and operators from abuse of dominance.

Lead – The Commerce and Employment Department – Discussions already held with OUR.

Transport Links - Air

Passenger transport links to and from the Island provide benefits to the whole community by facilitating:

- Travel by leisure visitors
- Travel by business persons to and from the island which benefits all sectors of the economy;
- Leisure travel by residents, visits to and from friends and relatives and travel for other personal reasons.





The levels of resident travel for personal reasons and business travel will be largely determined by the services offered by carriers and the general state of the economy. The level of visitor leisure travel is the most “influenceable” element of the total demand for travel.

Because of trends in aviation generally and in the visitor market in particular, the network of air links to Guernsey has contracted over the past decade. The economy and the community will benefit if this trend can be reversed through:

- Stimulating demand for travel
- Minimising, as much as possible, the costs for carriers operating into the island, in particular in respect of airport charges and facilities.
- Reducing the financial risk of carriers prepared to open up new routes, at least in the start up phase.
- Minimising operational constraints on aircraft that can use the airport arising from specifications and capacity of the runway, taxiways and apron.

In addition, the current air transport licensing policies and processes could be seen as a disincentive to carriers to open up new routes. There is also an outstanding States resolution requiring an assessment to be undertaken to establish if any conflict of interest arises with the States being both the licensing body and the owner of Aurigny.

The Visitor Economy Strategy document published by the Commerce and Employment Department sets out how demand for visitor leisure travel may be stimulated and sets a target of increasing annual air passenger movements by 100,000 over the next 2/3 years which it is projected would increase visitor numbers by some 25,000 per annum.

The Commerce and Employment Department's marketing and promotion programme, together with initiatives to improve the overall quality of accommodation, is aimed at stimulating a greater number of visitors staying for longer periods.

It is now recognised that the existing route development support payment of £1.05 per passenger on designated “Key Routes” (totalling £825,000 pa) is in reality a subsidy on airport charges and that this subsidy should in future be extended to all scheduled services to destinations outside the CI.





Action Point 25

The Commerce and Employment Department should invite proposals from carriers for the opening up of targeted new air routes to improve access to Guernsey, including access to an international hub airport, with initial support from the States to share the risks involved.

Lead – The Commerce & Employment Department – Work already commenced.

The Commerce and Employment Department has received approval from the Policy Council that it has the discretion to use its own existing resources to provide such support. Any proposals which are considered particularly beneficial to the community but which cannot be supported within existing resources will be referred back to the Policy Council to consider if there is a case for making additional funding available.

Action Points 26, 27 and 28

The financial structure of the airport should be reviewed to confirm if it is purely a self-funding trading operation whose costs require charges some 3 to 4 times that of other regional airports or if it is to be considered as a gateway to the island which merits general revenue support as a strategic asset thus permitting charges to be reduced.

The costs of works to the airport runway, including remedial and extension works, should be reviewed so that the States can take an informed decision on the extent of works to be undertaken and how they should be funded.

A consultation exercise should be undertaken on the possible introduction of a more liberalised air route licensing regime to remove any un-necessary disincentives to route development whilst preventing cherry picking of services along with consideration of whether The Commerce and Employment Department should continue to be the licensing body.

Lead – The Commerce and Employment Department – Work already commenced.





Transport Links - Sea

Freight links to the island are considered to be robust and subject to open competition to the extent that no positive States intervention is necessary in these activities.

Car and Passenger services to France are not subject to any agreement and were at one time provided in competition between Condor Ltd and Emeraude Lines prior to the latter's withdrawal. HD Ferries entered into the market in the spring of 2007.

Car and Passenger links to the UK are currently subject to a Service Level Agreement (SLA) between the States and Condor Ltd entered into in 1999 and subsequently extended to the end of 2008. Jersey had a similar SLA which expired at the end of 2006 but which has been extended for a further year.

Discussions are being undertaken by the Commerce and Employment Department and the Public Services Department with the Jersey authorities on what should replace the current agreements for the long term. Jersey has legislation allowing it to control access to its ro-ro ramps to enforce whatever policy it adopts. Guernsey has no such legislation and ultimately any agreement with carriers it enters into can be no more than a "Memorandum of Understanding". Recognising this would address confusion in the public's mind as to what the States can, and cannot oblige carriers to do and would reflect a light touch philosophy.

Jersey is inclined to enter into longer term agreements with carriers as soon as possible, Guernsey could if it chooses to, not make any decisions on future arrangements before the end of 2008.

Action Point 29

Discussions should continue with the Jersey authorities and the sea carriers to identify what, if any, agreements should be put in place to facilitate the most beneficial sea links to and from Guernsey.

Lead – External Transport Group – Work already commenced.



5.6 Corporate Commitment & Encouragement



Overcoming the constraints of being a small independent jurisdiction will require the generation and absorption of ideas, innovation and confidence which sustains and continually develops a resilient economy coupled with a corporate commitment to, and

encouragement for, developing and maintaining conditions conducive to economic development.

In addition to the tangible factors of economic activity (land, labour and capital), a successful community is one which can generate and absorb ideas, is innovative and has the confidence to harness those tangible factors to grow its economy in an increasingly competitive world.

In some ways, the community has become complacent about the economy over the last decade. Financial services have driven growth providing well remunerated jobs either directly, through the provision of support services, or through the multiplier effect of the increasing consumption of local goods and services.

Guernsey cannot afford to remain complacent about future economic growth given the global competition for financial services, for other export markets and the competition for attracting and retaining entrepreneurs and high net worth individuals

Ideas and innovation have, and will continue to be, generated internally but the island has also traditionally supplemented this by welcoming and encouraging entrepreneurs who have the track record and necessary resources to grow new Non-Finance Sector exporting businesses on the island.

The increased global competition in financial services has stimulated a radical restructuring of the corporate tax structure which will take effect from 2008 and which will completely change the way in which the island derives economic benefit for various business activities.





Action Point 30

The States should work in partnership with the financial services industry to develop and promote the brand of the island as a provider of financial services (The joint Sector/States/GFSC Financial Services Group (FSG) and the jointly funded Finance Guernsey organisation are already well established).

Negotiation of international agreements relating to financial services activities should achieve balance between embracing international standards and seeking to ensure that the Island avoids adopting and implementing practices and standards which are not implemented “on a level playing field” in other competing jurisdictions.

Lead – Policy Council and the Commerce and Employment Department – Work already commenced.

Action Point 31

As part of its overall programme to promote the island as a place to visit and do business, C&E should instigate a promotion campaign aimed at those both on and off-island who advise, or have access to, high net worth individuals to encourage them to recommend the island as a pleasant place to live and do business and where a cap on the tax on off-island investment income makes it fiscally very competitive.

Directly, and through support of the Guernsey Enterprise Agency, the Commerce and Employment Department should ensure that businesses wishing to establish or expand in Guernsey have access to the appropriate levels of advice, support and a welcoming approach.

C&E should continue to promote the business benefits of Guernsey, both internally and externally, through initiating and where appropriate supporting events such as the Industry Awards for Achievement or other high profile business orientated events.

Lead –Commerce and Employment – Work already commenced.





Action Point 32

To create and maintain conditions conducive to maintaining the annual levels of economic growth for the next 5 years as have been experienced over the last decade, the States and the community as a whole should commit to:

Promoting, internally and externally, the attractions of Guernsey as a place to do business, particularly export business;

Identifying and assessing opportunities for developing such business and delivering Primary and Secondary benefits as and when they arise;

A joined up approach to facilitating such business development particularly in terms of: the legislative, regulatory and fiscal environment; training and development of the workforce; access to imported labour where necessary; and the availability of land within flexible, quick reacting land use planning policies.

At the highest level, the states should have confidence in, and seek to instil the confidence of others in Guernsey's economic future.

Lead – Policy Statement to be adopted by the States.





6 Summary of Action Points

Where the States has already endorsed a policy (e.g. in the Strategic Land Use Plan) or where a task is to be undertaken by the Fiscal and Economic Policy Steering Group, the Action Point states that an action “will” be pursued. If a policy or task is being put forward for States endorsement, the Action Point states that an action “should” be pursued.

Economic Concepts – Measuring the Economy

Action Point 1

The Fiscal and Economic Policy Steering Group will oversee a major review of the economic data currently available with the aim of introducing systems to provide revised or additional data which enables more meaningful analysis of the performance and trends in the Guernsey economy.

Economic Objectives

Action Point 2

The States should adopt the Strategic Economic Objectives of:

- creating and maintaining conditions conducive to achieving the annual levels of economic growth for the next 5 years as has been experienced on average over the last decade;
- increasing the primary and secondary benefits to the community of business activity whilst at the same time increasing the opportunity for the working population to migrate into higher paid jobs;
- achieving an expansion and diversification of high value exporting activities within both the finance and non-finance sectors where possible through the substitution of low value activities;
- using the total value of income to individuals from remuneration and other sources as the prime reflection of economic performance;
- pursuing policies to achieve 3% growth pa in the total value of income to individuals from remuneration and other sources.



The Population and Workforce

Action Point 3

The Housing Department should, in consultation with the Commerce and Employment Department, research the feasibility of adopting policies that could enable employment-related housing licences to favour those working in 'outward facing' businesses.

Outward facing businesses which could qualify for such priority include: the finance sector; the non-finance exporting sector (including the emerging eGambling support services sector); and the visitor economy sector.

Lead - Housing Department – Already subject to joint discussion with the Commerce and Employment Department.

Action Point 4

The Demographic Policy Group (previously the Strategic Population Working Group) should:

Identify and monitor the actual extent of those economically active across the whole population and identify how this number might be increased.

Develop policies and take actions to try and ensure that all persons who are legally housed in Guernsey are encouraged and permitted to be economically active; and to

Develop policies and take actions to try and ensure that all persons legally working in Guernsey benefit from the opportunities afforded to them through training and development to assist them in being more effective and productive.

Land for Business & Industry

Action Point 5

Given the inability of the land use planning process to ring fence sites for particular purposes, the SLPG should consider and report back to the States on adopting the principle that an "adequate" supply of land for businesses should provide for a degree of over-supply to allow market forces to determine use within broad use categories across all business activities and to provide "headroom" to facilitate movement and unpredictable expansion.





Action Point 6

The SLPG will oversee an initiative to identify a range of options and scenarios for the future of Guernsey's Eastern Seaboard including the opportunities it presents for stimulating economic growth.

Action Point 7

The SLPG should oversee a review of the current supply and demand for modern office accommodation with the intention of including proposals for additional provision to be made in the Urban Area Plan (UAP) should supply be found not to be adequate as defined in Action Point 5.

Action Point 8

The SLPG should oversee the process for identifying and providing additional land for open storage areas and small workshops by early amendment of the Development Plans.

Action Point 9

The Detailed Development Plans will make provision for the designation of Strategic Industrial Reserves to meet long-term requirements for land for industry which will be released through a similar mechanism as that for Housing Target Areas through a minor Planning Inquiry.

Action Point 10

The Detailed Development Plans will make provision for a comprehensive range of accommodation to meet the needs of manufacturing and service employers. To ensure that the availability of premises for Non-Finance Exports sector activities is not hindered by policies based on outdated definitions of light industry, the SLPG should be asked to oversee a review of these definitions and policies.

Action Point 11

For the visitor accommodation sector the aim will be to achieve an average annual room occupancy level for the serviced accommodation sector of 65% (based on year-round occupancy) and for self-catering accommodation of 75% (based on seasonal occupancy).





Action Point 12

The SLPG should consider the possible benefits of allowing, in the Detailed Development Plans, greater flexibility for the re/development of high quality visitor accommodation and for more diversification into associated areas, such as managed residential accommodation, conditional on a major investment in facilities that benefit the community.

Action Point 13

Detailed Development Plans will seek to protect high quality horticultural land from alternative forms of development where this would assist the process of rationalisation.

Action Point 14

The character, appearance and amenity of the countryside will be improved and enhanced by the integrated development of viable farming business linked to nature conservation and environmental management (SP 36).

Action Point 15

The SLPG should consider bringing forward the necessary amendments to land use planning policies to provide for a degree of physical separation between dwellings and farm buildings so that when a farmer leaves the sector and sells up he can separate his business from his home without adjacent farm buildings being lost to production.

Action Point 16

Provision of additional retail space is not considered to be a current priority but rental levels and the effect this may be having on take up of retail space in Town should be monitored by the Commerce and Employment Department in order to identify if there is any structural imbalance in supply and demand.

Action Point 17

The SLPG should review the current land use planning and application processes to establish if there is a case to make additional resources available to the Environment Department to enable more appropriate administration of current processes or whether those processes should be streamlined to enable the Department to react more quickly to opportunities for economic development.





Fiscal Policies

Action Point 18

In the development of the economy, particular emphasis should be given to maximise the income tax yield through:

- promotion of the increased opportunities to retain high net worth individuals who may be attracted by the tax cap to come over to live and invest in the island;
- maximising banking deposits to capture the 10% tax on banking profits post 2008;
- encouraging additional banking groups into the market through the managed bank concept.

Action Point 19

Fiscal support for general business should be focussed on targeted support for sector wide initiatives which deliver substantial Secondary benefits or one-off initiatives by businesses to develop export markets and deliver substantial Primary benefits rather than for ongoing marketing and promotion by individual businesses.

Legislation and Regulation

Action Point 20

Priority should be given to the introduction of innovative legislation to provide additional financial services products or facilitate financial services activities

Action Point 21

Local legislation which seeks to address competition and market failures should not mimic the regimes in large jurisdictions but will be tailored to reflect local market conditions and avoid un-necessary bureaucracy and interference in normal business activities.

Action Point 22

Consideration will be given to introducing economic regulation of the island's solid waste disposal activities should these be transferred to a private body as is currently being considered.





Connectivity and Communications

Action Point 23

The opportunities for improving the efficiency and costs of handling bulk mail should be kept under review with Guernsey Post Limited and the OUR.

Action Point 24

With the maturing of the liberalised telecoms market, the necessity for regulation as a proxy for competition reduces in some areas and the opportunity to do this should be taken as market conditions allow.

In other areas, regulation should continue to be implemented to achieve a balance between encouraging investment and the development of services by all players, whilst protecting consumers from anti-competitive practices and operators from abuse of dominance.

Action Point 25

The Commerce and Employment Department should invite proposals from carriers for the opening up of targeted new air routes to improve access to Guernsey, including access to an international hub airport, with initial support from the States to share the risks involved.

Action Points 26, 27 and 28

The financial structure of the airport should be reviewed to confirm if it is purely a self-funding trading operation whose costs require charges some 3 to 4 times that of other regional airports or if it is to be considered as a gateway to the island which merits general revenue support as a strategic asset thus permitting charges to be reduced.

The costs of works to the airport runway, including remedial and extension works, should be reviewed so that the States can take an informed decision on the extent of works to be undertaken and how they should be funded.

A consultation exercise should be undertaken on the possible introduction of a more liberalised air route licensing regime to remove any un-necessary disincentives to route development whilst preventing cherry picking of services along with consideration of whether The Commerce and Employment Department should continue to be the licensing body.





Action Point 29

Discussions should continue with the Jersey authorities and the sea carriers to identify what, if any, agreements should be put in place to facilitate the most beneficial sea links to and from Guernsey.

Corporate Commitment & Encouragement

Action Point 30

The States should work in partnership with the financial services industry to develop and promote the brand of the island as a provider of financial services (The joint Sector/States/GFSC Financial Services Group (FSG) and the jointly funded Finance Guernsey organisation are already well established).

Negotiation of international agreements relating to financial services activities should achieve balance between embracing international standards and seeking to ensure that the Island avoids adopting and implementing practices and standards which are not implemented “on a level playing field” in other competing jurisdictions.

Action Point 31

As part of its overall programme to promote the island as a place to visit and do business, C&E should instigate a promotion campaign aimed at those both on and off-island who advise, or have access to, high net worth individuals to encourage them to recommend the island as a pleasant place to live and do business and where a cap on the tax on off-island investment income makes it fiscally very competitive.

Directly, and through support of the Guernsey Enterprise Agency, the Commerce and Employment Department should ensure that businesses wishing to establish or expand in Guernsey have access to the appropriate levels of advice, support and a welcoming approach.

C&E should continue to promote the business benefits of Guernsey, both internally and externally, through initiating and where appropriate supporting events such as the Industry Awards for Achievement or other high profile business orientated events.





Action Point 32

To create and maintain conditions conducive to maintaining the annual levels of economic growth for the next 5 years as have been experienced over the last decade, the States and the community as a whole should commit to:

Promoting, internally and externally, the attractions of Guernsey as a place to do business, particularly export business;

Identifying and assessing opportunities for developing such business and delivering Primary and Secondary benefits as and when they arise;

A joined up approach to facilitating such business development particularly in terms of: the legislative, regulatory and fiscal environment; training and development of the workforce; access to imported labour where necessary; and the availability of land within flexible, quick reacting land use planning policies.

At the highest level, the states should have confidence in, and seek to instil the confidence of others in Guernsey's economic future.





Annex 1 - Principles of Primary & Secondary Benefits

Traditionally, the benefit of a business activity to the island has been judged on

- Its levels of profits and the tax it pays on those profits;
- its consumption of goods and services, including the remuneration of staff and the tax paid on that remuneration, which circulates money around the economy generating a “multiplier effect”;
- its level of capital investment;
- on this basis, an indication of the benefit of a business’s activities can be determined from its Profit and Loss Account and Balance Sheet;
- there has always been a recognition that, for some businesses, a proportion of benefits do not actually “stick” to Guernsey because, for instance, net profits are remitted to off-island owners or use is made of off-island providers of goods and services. The net amount that sticks to Guernsey is considered to be the Primary economic benefit to the community and this cannot necessarily be determined from the conventional businesses accounts;
- the tax paid on business profits has generally (excluding concessionary and exempt arrangements) been a consistent source of primary benefits;
- the adoption of a zero - ten tax package will have a significant impact on how business profits are taxed and how resident and non-resident owners of all companies trading in Guernsey will be treated for tax purposes. Research undertaken as part of the review of fiscal policy has highlighted the degree of off-island ownership of businesses across all sectors together with the pattern of remittance of profits and use of off-island provided goods and services;

In future therefore the financial or Primary Benefit to Guernsey of a business activity will need to be judged on:

- The magnitude of its profits that are:
 - retained and re-invested in the business; and/or
 - distributed to resident owners and therefore subject to tax; and/or
 - subject to a tax rate above zero.





- Its consumption of local goods and services, including the remuneration of staff and the tax paid on that remuneration

Whilst the level of primary financial benefit generated by a business is a key element in assessing a business's value to the island, the island also needs to sustain a diverse range of business and other activities. Businesses may therefore provide Secondary Benefits such as:

- widening the economic base of the island and/or contributing to a cluster effect where activities lack critical mass;
- adding to the diversity of job opportunities on the island including for those who might tend to be excluded from the workforce (e.g. those with family commitments or disability);
- supporting other essential business activities (e.g. the Visitor Economy supports island air and sea links, hostelry and retail facilities that benefit the community as a whole);
- acting as a gateway for funds to be invested through other local institutions (e.g. Captive Insurance activities);
- enhancing the island's reputation, status or "brand" (e.g. Guernsey Clematis, Specsavers etc.);
- provides positive environmental benefits (e.g. the stewardship of the country side by the agriculture sector);
- reduces monopoly or market dominance and/or extends competition;
- has a positive impact on the diversity and character of Island;
- extends provision of cultural or leisure activity where there is an under provision;
- reflects and /or enhances the heritage, uniqueness or constitutional status of the Island;
- acts as a good "corporate citizen" with an active involvement in local charity and community activities.

When considering the benefit of business activities to Guernsey and whether the States should encourage (smile) or discourage (frown) on such activities through the granting of Housing Licences, allocation of land, introduction of facilitating legislation or other "softer" measures, the application of the principles of Primary and Secondary Benefits will be a valuable tool.





7 Annex 2 - Indication of Population Make Up resulting from Population and Migration Policy Statement

Appendix 3 of the Population and Migration Policy Report, Billet IV of 2007, presents population projections based on various levels of annual net-migration. The projections were produced by the Government Actuary based on assumptions of birth and death rates (fertility and mortality) etc.

The most relevant projections, and how the resulting total population would vary from the current population (which for simplicity is regarded as 60,000) stipulated in the Population and Migration Policy Statement, are shown below.

0 Net Migration pa	2004	2008	2013	2023	2033	2043	2053	2063
0 to 15	10,678	9,838	9,029	8,100	7,526	6,555	5,852	5,378
16 to 64	39,934	40,329	39,366	36,661	32,445	29,450	26,675	23,469
65+	9,770	10,142	11,726	14,542	17,253	17,530	16,516	15,604
Total	60,382	60,309	60,121	59,303	57,224	53,534	49,043	44,451
Variation from 60,000	382	309	121	-697	-2,776	-6,466	-10,957	-15,549

+100 Net Migration pa	2004	2008	2013	2023	2033	2043	2053	2063
0 to 15	10,678	9,961	9,292	8,604	8,253	7,487	6,956	6,637
16 to 64	39,934	40,617	40,056	38,278	34,979	32,841	30,861	28,363
65+	9,770	10,142	11,726	14,557	17,426	18,011	17,401	16,927
Total	60,382	60,720	61,074	61,439	60,658	58,339	55,218	51,927
Variation from 60,000	382	720	1,074	1,439	658	-1,661	-4,782	-8,073

+200 Net Migration pa	2004	2008	2013	2023	2033	2043	2053	2063
0 to 15	10678	10084	9556	9108	8980	8418	9061	7895
16 to 64	39934	40904	40746	39896	37513	36233	35046	33257
65+	9770	10142	11726	14572	17600	18493	18285	18250
Total	60382	61130	62028	63576	64093	63144	62392	59402
Variation from 60,000	382	1130	2028	3576	4093	3144	2392	-598

It can be seen that, for the period up to 2023, the projection based on 0 net migration per annum produces total populations that most closely matches the 60,000 specified in the Policy Statement.

A closer indication of the make up of the population that could result from the Policy Statement over the next 20 years is to take the proportions (%) of each age band from the 0 net migration projection and apply them to a constant 60,000 total population.

0 Net Migration pa (%)	2004	2008	2013	2023
0 to 15	18	16	15	14
16 to 64	66	67	65	62
65+	16	17	20	25
Total	100	100	100	100

% Applied to constant 60,000 (rounded)				
	2004	2008	2013	2023
0 to 15	10,600	9,800	9,000	8,200
16 to 64	39,700	40,100	39,300	37,100
65+	9,700	10,100	11,700	14,700
Total	60,000	60,000	60,000	60,000



