

Revive and Thrive
Chamber of Commerce
27th July 2020

Good afternoon everyone.

First of all – thank you.

Thank you as individuals and families for supporting the public health messages and restrictions which have helped us get to Phase 5 so quickly.

Thank you also for all that you have done in the last few, very challenging months, to support your employees, your customers and your supply chain and to get the economy moving again after lock down. It has not been easy for anyone or any business.

Thank you too to the Chamber of Commerce. Your assistance in helping us develop the financial support packages for businesses, providing a rapid response, providing check and challenge, has been invaluable – as too has your assistance in helping us get information to your members.

The past four months have, of course, been totally unprecedented in any of our lifetimes – in fact, it is almost become a cliché to say so.

But it is a fact that the government and the public service has had to design, establish and deliver services that have never been needed before and in record time – pandemic testing capability, track and tracing capability and the administration of business support measures.

I said a few weeks ago at a press briefing: First Wave – Under Control. We cannot be complacent. With a new worldwide daily high of 200,000 cases, we cannot be complacent. There are many more tests and challenges to come. We will do all we can in government to ensure we are ready for them.

But today, collectively, let's take a deep breath.

And firstly, let me ask you the question: how are YOU feeling today?

Do you feel that you and your loved ones are living through the worst global public health threat in 100 years?

That you've lost the prospect of a bonus this year?

Has your pay been cut? Have your summer holiday plans turned to dust leaving you out of pocket?

Hundreds of your fellow islanders – some of whom you know – have lost their jobs. And your children's career prospects just got a lot harder.

The economy is forecast to contract by an truly unprecedented 8-9% this year.

25% of the workforce, 7,000 islanders need to be supported in employment by co-payments from government.

The public finances are shredded – revenues are down and expenditure is up and as a result, putting a £150m hole in this year's budget meaning that the island's sovereign wealth fund, our core investment reserve, built over 30 years, was blown in a matter of weeks – and the spectre of millions of pounds of public debt looms large.

But, on the other hand....

The sun is shining; shops and restaurants are open; face masks exist only on TV news from distant lands.

You enjoyed the unplanned downtime with your family over the past few months, and the peace and quiet that enveloped the whole island at the same time.

You cannot imagine anywhere else in the world you'd rather be sitting out a global pandemic - and you are not remotely surprised that Locate Guernsey has had so many requests this year for information to move to the island.

You have learnt to work from home; you are exercising more, you are feeling more connected through #GuernseyTogether, the rainbows, clapping for carers and the pebble towers, than you have ever felt with your neighbours and community.

You feel intense pride at the positive recognition given nationally and internationally to Guernsey's handling of the crisis; you are determined to enjoy some staycation downtime in the Bailiwick over the summer; and your order book on the return to work was fuller than you anticipated.

You may have ordered a new kitchen – joining the many that have led the construction sector to be enjoying a mini-boom. In short, counter-intuitively, you are more upbeat and optimistic about the future than you were at the turn of the year – you are enjoying a 'feel good factor'.

I'm in the latter camp.

And I think a majority of islanders are too.

Not everyone of course – not those who have lost their jobs or their business; not those waiting postponed health treatment; not those who feel lonely and isolated, cut off from family and friends in the UK or further away.

As we exited lockdown faster than we could have hoped when we entered it, most islanders recognise that as a community we have a whole bag of new problems we didn't have four months ago – on top of the many challenges we already faced.

And yet by working together we have faced Covid-19, and we've proven that if we can maintain #GuernseyTogether we can solve all those problems too.

So what next?

Revive and Thrive.

The overarching aim of the Revive and Thrive recovery strategy is for us to be better off than we would have been in three years' time without any actions.

To do this, we will need to invest in our recovery; and to do that, we will need to be prepared to borrow to invest.

To achieve this we will develop and implement an economic recovery plan. Working with Chamber, your members and other businesses and business representative bodies, we will seek to build back better

However, while we build the detailed action plan, there are some steps we intend to take quickly.

Competitiveness is critical to our economic recovery. We have long been a good place to do business. In order to recover, we must now become a great place to do business.

There are four bedrocks for competitiveness that we know we must work at pace to put in place: connectivity, data resilience, investment and skills.

Work is already ongoing as part of the implementation of the States' Economic Development Strategy, but now we need to put our foot down on the accelerator. This pandemic has shown just how quickly we're able to make big changes, when we need to; we need to maintain that pace and make things happen.

We have also seen that during the lockdown period, these were the critical components of competitiveness that businesses needed. Now they form the basis on which we must build our future economy and prosperity.

Taking each in turn.

Connectivity – transport connectivity must be addressed. The reviews of strategic air and sea links infrastructure and of aviation policy will be completed. There will be clear recommendations on the future role of Aurigny as an economic enabler, the provision of long-term resilient lifeline sea links, the potential for investment in our ports, and the network of destinations we need to connect into.

Digital – the review of the use and licensing of 5G technology will now include an overhaul of our existing telecoms strategy, with clear recommendations for future investment for business, home and government users. We will build a data infrastructure that is resilient, secure and world class. We will become a recognised global leader in respect of data.

Investment – we will provide a plan for investment in Guernsey’s critical national infrastructure; in our economic infrastructure, including transport and data; and in the regeneration of our seafront and our built environment. We will also ensure we work with the Development & Planning Authority to achieve its ambition to be a tool to enable recovery.

People and skills – the strategic review of population management will be restarted with a revised scope to identify the people and skills our economy needs to recover and grow, and to set out the changes needed to ensure we can do that quickly. We will also start work on a human capital strategy that combines attracting the people we need from off-island with the training and equipping of our on-island population to meet the challenges of recovery.

This is the work we are accelerating while we build the detailed action plan.

As a community, we are rapidly approaching a roundabout with the General Election on October 7th. It is unusual because it only has two exits: the way ahead and the way we've just come from.

We can go around the roundabout and head back down the familiar road we have been on for years – mediocrity accompanied by slow, comfortable but incremental change.

Or we can power on down the road ahead with new community cohesion and confidence; with determination to seize the strategic opportunities presented by the Covid-19 crisis, whether in the transformation of our public services, using technology in new ways or reclaiming the public spaces – such as the Quay - we enjoyed in the lockdown; with big, bold and brave plans to invest in our infrastructure, both capital and social; and a resolute commitment to make a step change in our climate change and environmental impacts.

Time and again Guernsey has shown, despite our size that we can be not only a global leader but a safe haven, whether from the dysfunctional politics of Brexit or a global pandemic. Now is the time to go out and obtain the recognition we deserve.

We've shown once again this year that we can do better and be better.

I hope that is reflected when we take the strategy – now approved by the States - to the next stage, which will see us engaging with community groups, the third sector and businesses to get input from the whole Bailiwick. This needs to be a Bailiwick-owned strategy. And the ideas need to come from you.

We need to take on the task of recovery much as we took on the initial response to the COVID-19 pandemic: united and in the spirit of togetherness.

If we can agree that we need to be bold, if we can agree we need to take big steps, if we can agree we cannot be afraid of change – then we will make our recovery a huge success.

But knowing our track record, that's a lot of big 'ifs', and it starts with us – political representatives – who need to lead and bring the community with us. That goes for not just the current Assembly, but the next one - as it is the next Assembly that will need to deliver this recovery.

We will need political representatives who are prepared to work together and, more importantly, who are prepared to get behind and implement change when they are in a minority – and stop regarding defeat as merely tactical to be overturned at the first opportunity.

There is without a doubt a lot of work to be done to build up the substance of our recovery strategy.

So what should we do now that will make our new 'Revive and Thrive' future different to the same old, same old?

Firstly, we need to start spending money investing in our seafront. The projects already identified for key sites such as the Tourist Information Centre and Bathing Pools need to happen now. We cannot lose our nerve if one or two voices say 'no' to change.

We need to take the seafront enhancement programme much further, much faster and look at radically rethinking the use of the harbours and piers – the entire stretch from Havelet to St Sampson's.

We will of course get opposition to any changes put forward as that is the nature of change – you cannot please everyone; but we cannot let that send us back time and again to the drawing board. We suffer from 'paralysis by analysis' forgetting that, as General Patton said, a good plan executed now is better a perfect plan next week.

The same is true for grappling with our air links, and deciding finally what the role of Aurigny is. We own an airline, which is a huge asset and puts us in an excellent position post-COVID as so many jurisdictions are struggling to rebuild their transport links.

But we need to use it far more effectively, give clarity to the airline on how to take the business forward, and make sure they are working in harmony with the Island's objectives. And we need to seriously rethink our population management regime. Again, we have let fear and protectionism create a system that adds another level of bureaucracy in an open, dynamic economy; and it creates another hurdle to new skills to support and grow business.

We need new people, with new skills and new ideas, and a newfound love of our Island to have a far easier path to locating here and helping us support our recovery and improve our quality of life.

The roll-out of 5G and improved telecoms and digital infrastructure is self-evidently critical as we move forward from COVID and the lockdown that came with it. We've all seen how fundamental a role digital connectivity played in our ability to continue with work, but also in staying connected to each other, and who really doubts that role in the future will be any less fundamental. It's a no-brainer.

All of these changes need to happen quickly – at Covid speed - but it's not what the States was known for in pre-COVID times. So that is the revolution that needs to happen right now. When States Members' call for boldness, I hope they mean it and I hope Islanders say very loudly that's what they want too. Because it will mean all of us embracing change now, not procrastinating as we look forever for a 'perfect plan'.

We have the most significant opportunity in a generation to improve our Island and our Bailiwick for the better. To create a well-being economy that supports health, wealth and community.

So I want to set out the scale of the challenge we face; why Revive and Thrive is the right recovery strategy to meet that challenge; the opportunity that recovery presents; and how we can approach our recovery plans.

The scale of the challenge

We must not under-estimate the scale of the challenge.

Economic modelling for the impact in 2020 has a central case with a loss of GVA of an estimated 8-9%, or approximately £300m, in real terms and its recovery to previous levels, without any action, could take a decade. I hope it will be less but that's our starting point.

Unmanaged, the consequences for our community are severe, with impact on islanders' physical and mental health, their life chances and opportunities, and the well-being of our community.

All sectors of the economy have been affected but, particularly of course tourism, hospitality and the transport sectors.

Some employers have responded to Covid by adapting their operating models but, nonetheless, indications are that whilst unemployment has fallen from its peak, we can expect further more permanent job losses later in the year and into next.

Guernsey has been relatively fortunate in that the finance sector, which represents 40% of the economy, is in large part sufficiently diversified and digitally equipped to enable it to continue operating remotely. This kept a significant proportion of our population employed and productive during the height of lockdown.

However different parts of the finance sector will be impacted in different ways. The challenge is to support the different parts of the sector in remaining competitive in a significantly changed global environment amidst a severe global recession.

Transport connectivity, data security and resilience, risk-based regulation and an effective long-term approach to skills and population will be among the critical factors in enhancing competitiveness, as will be effective external relationships, reputation management and promotion.

Many businesses have applied a substantial amount of their reserves to weather the period of enforced inactivity. Many have been reluctant to take on further debt - as evidenced by the so-far little used government-guaranteed loan scheme.

This means that there is a critical role for public stimulus to play in promoting activity by providing liquidity and demand for services in the likely absence of demand from the private sector.

This demand stimulus, and other measures, may help mitigate increased levels of unemployment as we move beyond the crisis, but they will need to be carefully designed and co-ordinated within the whole Strategy.

For households a recession on this scale is likely to have significant effects. Most notably:

- Higher levels of unemployment persisting;
- A contraction in earnings when comparing jobs on a like for like basis; and
- Lower household incomes.

Our modelling undertaken indicates that the effect on Guernsey's public finances of the pandemic in 2020 will be in the region of £190m, comprised of:

- Business financial support schemes;
- A reduction in States' revenues of £75m this year and £30-40m next;
- An increase in States' expenditure;
- A reduction in States' operating income; and
- A significant impact on some of the States' trading entities, notably the ports and Aurigny.

Based on the projected impact to the public purse, prioritisation and affordability **must** now be at the heart of all government and operational decision making. This will be vital to enable investment to be targeted for recovery which has the best overall impact.

Our economic modelling based on several recovery scenarios shows that, without fiscal stimulus, the recovery could take – as I've said - up to a decade.

Consequently, the recovery in Guernsey's public finances would also take a similar period as the global and local economy recovers.

Why this Recovery Strategy?

This underlines the importance of adopting a recovery strategy designed to accelerate growth in the economy in a sustainable and resilient way; and to rebuild confidence and resilience in our community at the same time.

The economic aim of this strategy will be to develop and invest in initiatives which demonstrably improve the recovery curve and accelerate the return of jobs and wealth to our community.

The Strategy has at its core the ambition not just of restoring the majority of economic activity in 2021, but also promoting sufficient economic growth to exceed the previous growth path for the economy within three years.

Achieving this ambition will require employers to be able to re-employ the majority of staff and have access to sufficient liquidity to invest in recovery. Our ambition is to consider fiscal stimulus - primarily around construction, financial and professional services and information and communication services multiplying through the rest of the economy – enabling growth rates to improve by an average of 1% per annum.

This scenario would see GVA exceed its previous growth path by 2023 and provide a cumulative increase in GVA of some £1.4bn between 2021 and 2030 compared to the 'central case' illustrated.

As well as exceeding the previously predicted GVA, stimulating the economy will improve States' revenues. If it is assumed that between 20% and 25% of additional GVA is translated

to tax revenues, this represents an additional £280m to £360m of government revenues over the course of a decade.

Such stimulus should also reduce unemployment levels, improve household income, reduce fiscal stress on household incomes and reduce reliance on means-tested benefits, with all the consequent positive impact on the community health and mental well-being.

In short, to revive and thrive, our vision for recovery requires investment and confidence. This is a consciously different response to the post-2008 so-called black hole in our finances; by comparison, what we now face is a super nova and we cannot cut and tax our way out of it.

That is why it is right that the Assembly will be asked to support borrowing to be undertaken to invest in that recovery while maintaining our reserves. Given our circumstances, we would be foolish not to take advantage of record low interest rates. The cleanest and most transparent approach may be to develop a fiscal and borrowing framework that supports borrowing to invest in our future capital spending and stock, allowing us to release our capital reserve to plug the short term hole in our finances. In other words, our future capital programme – buying assets for future use - could in the short term be funded by borrowing rather than out of saving – which of course is entirely normal in a business context.

Our recovery will also need to rebuild community resilience. Over these past few months, our community has faced significant challenges.

The partial closure of schools has substantially disrupted the school year for students from pre-school through to higher education.

It also impacted parents' ability to work. A survey by Island Global Research reported that 53% of employed or self-employed parents had had their capacity work affected by childcare.

Concerns over the risk of contracting the virus, the economic impact of lockdown, domestic stresses from working at home while home-educating children, and the more limited social interaction and activity all have the potential to impact individuals' well-being. Some 20% of respondents to the Community Monitoring Tool requested information on emotional and mental health.

The pandemic has resulted in financial insecurity, stress, and uncertainty, as well as the decreased visibility of households. A 30-40% increase in domestic abuse cases has been observed, as well as a spike in referrals for children at risk. I expect the number of recorded cases will have increased now that agencies have returned to more normal working practices.

The impact of the pandemic has resulted in greater demand for services provided by the third sector, from food banks to refuge accommodation – and gaps in service provision such as accommodation for those coming out of prison. At the same time it has impacted on the third sector's ability to raise the funds required to provide those services. A classic squeeze.

The effects of the pandemic will not impact all people equally. Some parts of the community will have been disproportionately disadvantaged.

It is possible that the accelerated relaxation of the emergency restrictions will mitigate many of the social impacts of the pandemic. Stimulating the economy in a sustainable and resilient way will help to improve individuals' capacity to support themselves and the States' capacity to provide social support where and how it is needed.

The economic recovery and the community recovery are **not** separate missions – they are intimately inter-connected and must be approached together, outside of the usual committee mandates of our machinery of government.

How we can approach our recovery plans

The recovery will be made up of three action plans:

- sustainable economy
- community
- health and care

These action plans are interlinked; they must be developed together and will be underpinned and framed by fiscal stimuli and investment to catalyse growth over the short and medium term.

The public service will be critical - from development through to delivery of the action plans – be that the delivery of services or commissioning. Using recent experience, the public service must continue to adapt quickly to deliver the transformed, efficient and resilient public services the community will require.

The anticipated magnitude of the impact of the pandemic locally and internationally means that recovery will be a multi-year effort.

We will focus on a combination of short- and medium-term measures designed to revive in 2021 and thrive within three years.

We recognise that recovery may take longer than three years to achieve but this time horizon provides a clear focus and will enable progress to be tested and future plans adjusted before designing any further phases.

The opportunity recovery presents

But we should remember that there have been some positive effects which the community has identified itself. For example, the traffic levels in Guernsey reduced by approximately 60%; air quality improved, and more people appeared to be exercising.

Recovery efforts must seek to build on the opportunities generated by positive impacts to support new ways of working and sustainable practices. Some jurisdictions, for example, are considering attaching so-called ‘green strings’ to fiscal support, ensuring that businesses are

rewarded by continuing to consider environmental and social, as well as financial, outcomes. We will be actively exploring that.

We are blessed with a rich and diverse natural environment and our unique Anglo-Norman cultural heritage. We should nurture these to support environmental and community renewal, our economic diversification, and to promote the Bailiwick as a unique part of the world.

This is our opportunity to ensure that we build a well-being economy, and do not focus only on economic well-being, critical as that is.

As we start to shape the Island's recovery post-COVID, it is important to recognise the role that our natural and built heritage plays in underpinning the financial security of the Island.

The connection between nature and our health and well-being was brought into sharp focus during lockdown; whether it was the feeling we got listening to the birds in the garden or during a walk along our flower-lined cliff paths.

Recent reports by the World Economic Forum and PwC calculated the economic cost of biodiversity loss at 7.5% of global GDP and that 50% of the global GDP is moderately or highly dependent upon nature. So it is no surprise that biodiversity loss has been cited as the second most impactful, after climate change, and third most likely risk to the global economy in the next decade.

If COVID-19 has taught us anything, it is that we should not take the everyday for granted. We pride ourselves on our Island's stunning scenery but let's take that for granted either; let's recognize that it also has an economic role - boosting tourism and helping to attract high net worth individuals to Guernsey.

Without knowing it, we rely on services which nature provides: be it flood and coastal protection, soil fertilisation, air and water filtration, pollination and carbon sequestration,

among many other examples, but these benefits and services - our natural capital - is not as visible on our balance sheet during policy making as it needs to become.

We would not overlook the management of infrastructure assets that are valued at 7.5% of our GDP or impact potentially 50% of our GDP. By not acknowledging the role of the environment in the delivery of a resilient economy for the future then we run the risk of falling into the same trap again, to a point where our natural assets can no longer provide these services for future generations.

The evidence is clear. A 2019 habitat survey has shown that our Island's habitats and ecosystems, our natural heritage, are being degraded due to climate change and other human pressures. It is these 'other human pressures' that are, in the main, within our control. How we choose to protect and build the resilience of our natural environment over the coming years will demonstrate whether we have truly learned from the COVID-19 experience and gone beyond simply returning to the pre-virus status quo.

As I said at the IOD annual conference in October last year, if we want to sell Guernsey as a centre for green finance our whole system, our whole culture needs to be consistent and needs to be aligned if we are to be credible. We need to 'walk-the-walk' as well as 'talk-the-talk'.

So the Recovery Strategy's approach is informed by the United Nations Sustainable Development Goals.

These goals, scaled to Guernsey, will be critical to guiding how we plan and implement our recovery. These include:

To end poverty and inequality of all kinds in our community, and to ensure inclusive and equitable, quality education and promote lifelong learning opportunities for all.

To promote a sustainable supply chain, sustainable production, and sustainable consumption.

To ensure healthy lives and promote well-being for all at all ages.

To ensure access to affordable, reliable, sustainable and modern energy for all – principles at the heart of the energy strategy that the States decisively endorsed two weeks ago.

To promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all.

To build resilient infrastructure and foster innovation.

To ensure our built environment is inclusive, safe, resilient and sustainable.

To take urgent action to combat climate change and its impacts, to conserve and sustainably use the oceans, seas and marine resources for sustainable development, and to restore and promote sustainable stewardship of our natural environment.

These are bold ambitions but the principles are the framework for our recovery strategy; and they must therefore be reflected in the actions plans that we now co-design with our community.

Opportunities for investment, innovation and job creation need to be maximised, and the well-being of the community should be kept at the heart of the recovery.

We now have an opportunity to go beyond simply returning to the pre-virus status quo and can strive to achieve longer-term socio-economic and environmental resilience for our community. It is a tremendously exciting time and opportunity for us; but to avoid letting it slip through our fingers we will need to get the politics right too.

Concluding comments

In a matter of weeks there will be a General Election in Guernsey. The most important in a decades – and not just because it will be the first to use a unique electoral system.

Prior to that, we will put in place the building blocks of Revive and Thrive, so that we can begin to work with businesses and the community on the development of a meaningful and deliverable set of plans.

The new States, post-election, will need to show leadership, ambition and an appetite for investment and risk.

Your support in ensuring that the States does that is critical.

So thank you again for all you do – and please do think about how you can input into the thinking that can drive recovery.