



VISION CI
Realising the Potential

CHANNEL ISLANDS

CHALLENGES & OPPORTUNITIES

2023



THE CONCEPT

‘It always seems impossible until it’s done!’

The concept of a pan-Channel Islands' vision covering CI public services was raised in 2020 by Critical Economics when it produced an outline framework on the subject. However, the COVID Pandemic emergency was in place at the time and completion of the Case Study was put on hold. Nevertheless, the outline framework only heightened interest in a pan-CI vision being openly discussed once the emergency was lifted and normality prevailed.

The impact of both the challenging priorities facing each island at present and the current backdrop of long-term international and national tensions and events is a daunting scenario. Therefore, it is unlikely that there will ever be a better opportunity than now to review a pan-CI approach to the provision of many key CI public sector functions.

A number of initial presentations on the VISION CI concept were given during 2022 and were very well received - albeit not without some minor scepticism being recorded. Accordingly, to move the project forward, this document has been drafted to encapsulate what has been presented to-date, stimulate constructive debate, and set out possible next steps options for consideration by all potential stakeholders.



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1. INTRODUCTION

What constitutes the 'ideal island' in terms of:

- Land area,
- Population level,
- Economic profile,
- Social infrastructure and wellbeing,
- Fiscal performance,
- Climate.

This question is impossible to answer but, while all islands experience varying degrees of isolation, some island communities have a distinct advantage over others, purely because of their critical mass and their ability to benefit from economies of scale.

There is clear evidence globally that all islands have major challenges to address (primarily relating to the funding and delivery of public services) which require long-term strategic planning and financial commitment.

However, questions arise as to what island 'A' with a population of, say, 16,000 should have by way of on-island versus off-island services and infrastructure as opposed to island 'B' with a population of, say, three times the size. That infrastructure includes such things as the size of hospital and local medical services to airport and harbour facilities.

But the most important point to make is that, based on only population size, island 'A' does not necessarily have just a third of what island 'B' has available. In many instances, island 'A' may

well strive to provide similar service levels as Island 'B' because its citizens demand the same level of on-island public services that island 'B' can offer.

These scenarios equally apply to the Channel Islands which has an overall population of 170,000 (the same as Reading in the UK). But unlike mainland towns, the population is unevenly split between a number of island locations only a very short distance apart with separate government structures and populations ranging from over 100k down to just 500. In addition, any population expansion is difficult to achieve due to the lack of land availability.

Total CI public sector operational expenditure is currently standing at around £1.5 billion annually. In addition, some very costly capital infrastructure projects are either in the pipeline or being considered (e.g. hospital facilities, secondary schools, airport development, etc.).

In comparison with most other island communities of a similar size, the Channel Islands enjoy a high standard of living and are geographically well positioned in terms of connectivity and access to markets. On the other hand, the islands are vulnerable in that:

- The economic performance and social infrastructure of the two main islands - Jersey and Guernsey are diverging. The much smaller islands of Alderney and Sark face real challenges because of ageing demographics and connectivity issues.
- Nearly half of the Channel Islands' economy is dependent upon just one sector - Financial Services. However, the 2008 financial crisis illustrated that no economic sector is immune to shocks.

contd.

1. INTRODUCTION contd.

While the islands came off relatively lightly over the subsequent ten years, there are always unknown factors which could adversely impact that sector once again.

- The private sector has embraced critical mass and economies of scale in a range of functions across the Channel Islands. It is primarily the public sector that has yet to benefit from an integration of services on a pan-CI basis.
- Over the next twenty years, there will be a significant increase in the number of people who will have reached retirement age. However, those who will be aged over 80 will probably be well in excess 20,000. It is this latter age group which takes up most healthcare resources and, therefore, costs. In addition, there will also be an enormous burden placed on the voluntary care system including family household units looking after elderly relatives.
- A previous period of real economic and geo-political tensions occurred in the early 1970s when the UK joined the EEC at the same time as a world oil crisis. These events had serious repercussions particularly on Guernsey's economy. However, unlike in the early 70s when the CI population profile was predominantly under 30 - thus providing a degree of resilience, it is now over 50 and far less adaptable to rapid economic change.

It should be stressed, however, that the challenges of critical mass and economies of scale are not unique just to the Channel Islands but are common to other island jurisdictions elsewhere in the world.

Therefore, a number of island best practice examples have been selected as to how critical mass and economies of scale are being applied by these island communities and which could equally be adopted in the Channel Islands.

Consequently, this Case Study is designed to be thought-provoking by setting out the significant issues facing the Channel Islands as a whole and then to:

- highlight the potential benefits of 'critical mass' and the application of 'economies of scale' in meeting these issues jointly rather than separately across the islands, and
- develop a possible way forward which would stimulate and embrace pan-island co-operation in the delivery of public sector services including public/private partnerships in the provision of essential services in the future.

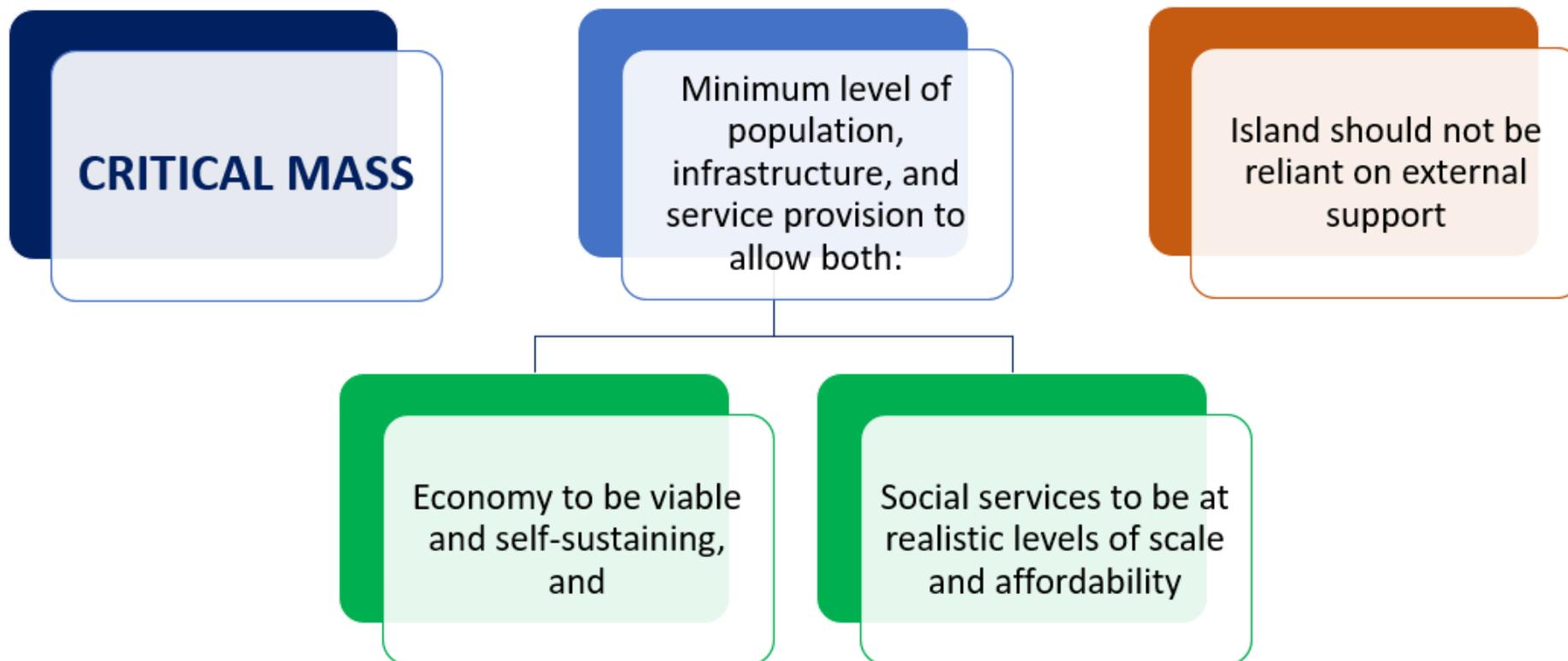
Above all, the Study endeavours to open up objective debate rather than 'spark' inter-island rivalries and competing agendas. At the same time, it hopefully preserves (and sensitively) takes account of the constitutional integrity of each of the islands,

2. DEFINITIONS (ISLAND CONTEXT) - Critical Mass

It is important at the outset to define what is meant by 'Critical Mass' and 'Economies of Scale' in an island context.

Critical mass is defined as the minimum level that an island's population, infrastructure and service provision should be in order to allow both: the island's economy to be viable and financially self-sustaining, and social services to be at optimum levels of scale and affordability. Above all, the island's very existence should not be reliant on external support from a neighbouring island or country.

When an island reaches this critical mass, a decision needs to be taken on whether or not it should pursue further, perhaps unsustainable, economic growth to provide for ever-increasing levels of service and, therefore, costs or whether or not it should focus on following a sustainable economic track with affordable on-island services and a balanced society.

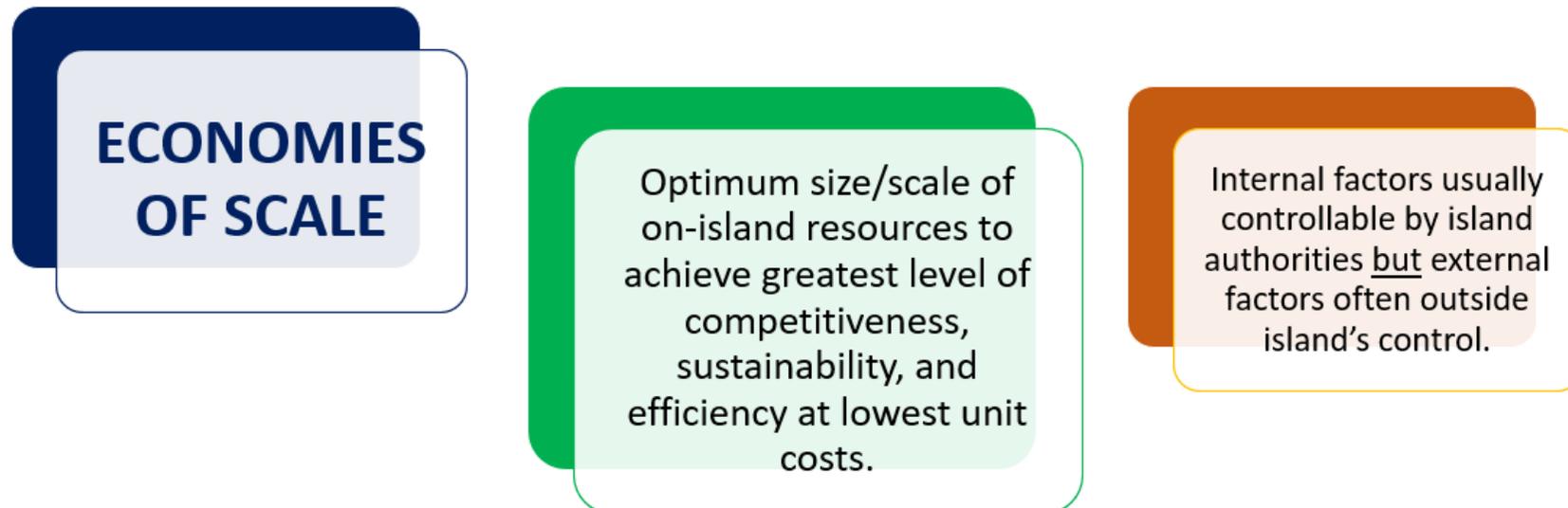


2. DEFINITIONS (ISLAND CONTEXT) - Economies of Scale

As far as economies of scale in an island context is concerned, this describes the advantage that a large island has in terms of its population size, land area, and economic profile over a smaller island community. In simple terms, the larger the island is, the lower should be its unit costs and the greater is its competitiveness and efficiency.

There are two main forms of economies of scale - internal and external. Internal economies are, as the name implies, internal to the island itself and controllable by its government. External economies are supported by external factors. These factors include geographic location, 'mother' country or international agency support etc.

Small more remote island groups simply do not have the leverage to take advantage of external economies of scale. However, they can work together and take advantage of geographic economies of scale by clustering similar services in one location.



3. KEY CI HISTORICAL LIFECYCLES

A rebuilding of the economic and social infrastructure after the end of the Second World War led to a transformation of the Channel Islands in comparison with pre-war conditions. The rapid growth in tourism, horticulture and agriculture attracted net immigration made up of both returning islanders and new residents.

In the 1950s and 1960s, tourism, in particular, benefited from the expansion of the UK domestic holiday market, greater affluence generally, and cheap/free travel options available to British Rail employees and their families. (At the time, UK/CI passenger ferry services were owned/operated by British Rail - a publicly owned organisation). In addition, CI population levels, as in the UK, were also further enhanced by the immediate post-war baby boom.

It was from the early 1970s onwards that things started to diverge economically and socially between the islands. Therefore, 1971 is used as a benchmark year (immediately prior to the UK joining the European Economic Community (EEC)). This divergence was primarily driven at the time by different economic factors and policies adopted by each of the Channel Islands.

Over the last half century (1971 - 2020), there have been some major milestones which have impacted both positively and negatively on the Channel Islands. The rate of change in population growth between the islands since 1971 can be viewed as an indicator of key economic and social circumstances at a point in time.

The 50-year timeline chart overleaf sets out these trends by decade and identifies some of the significant influencing lifecycle factors. Certainly, there is every likelihood that such factors will become more frequent and intense during the next couple of decades.



The Watersplash, Jersey



Key Factors

Finance sector continues to develop rapidly in Jersey and sector starts to look at Guernsey as a base. Having experienced record levels of unemployment, this is welcomed by Guernsey with major population growth as a result of new employment opportunities occurring in this island during the second half of the decade.

Both islands introduce stringent employment control measures to moderate overheating economies and net immigration.

CI tourism continues to find it difficult to compete with the growing overseas package holiday market. Jersey tourism boosted to some extent by the BBC TV 'Bergerac' series which was filmed in the Island between 1981 and 1991.

Population Change Jersey +11%
Population Change Guernsey +10%

Key Factors

As in other parts of the world, the rapid expansion of the banking sector again responsible for population growth, more in Jersey than Guernsey.

Significant strengthening of sterling adversely affects the islands' European visitor market as does growth of low-cost air transport model which does not encompass CI. This results in a major decline in the number of hotel beds.

While the 2008 financial crisis did not immediately have a negative impact in the CI, the tightening of regulation and the growth in the use of information technology results in a contraction of the sector, and ultimately, of the CI economy.

Population Change Jersey +12%
Population Change Guernsey +5%

1971-1980

Key Factors

UK joins EEC in 1973 - Guernsey's largest economic sector adversely affected by major decline of its UK market due to lifting of tariffs on flower and tomato imports into the UK. This coincides with 1973 oil crisis which saw a threefold increase in oil prices (Guernsey horticulture depended on oil to heat its glasshouses. Holland heated its glasshouse sector using cheap natural gas).

Finance sector develops in Jersey.

CI 'traditional' visitor market under threat from package holiday growth to countries such as Spain, Greece, Italy and other European destinations.

Population Change Jersey +10%
Population Change Guernsey +4%

1981-1990

1991-2000

Key Factors

The UK Economic recession during the first half of decade as well as monetary crises adversely impacts both islands.

Greater regulatory requirements introduced in the finance sector and other jurisdictions begin to enter the finance sector market attracting business in their own right.

CI tourism boosted by the very low value of sterling versus European currencies. The islands see rapid expansion of the mainland European tourism market with the introduction of many direct flights between the islands and the continent.

Population Change Jersey +4%
Population Change Guernsey +2%

2001-2010

2011-2020

Key Factors

Major contraction of CI banking sector, the further tightening of regulation, and the continuing development of IT have significant impact on CI economies. However, product diversification begins to turn round finance sector.

Merger and consolidation of many Guernsey and Jersey based companies takes place with more 'headquarter' emphasis in Jersey. Inter-island air connectivity deteriorates to the detriment of Guernsey economy. Jersey able to embrace low-cost air travel market. Jersey relaxes immigration policy.

Online shopping has a detrimental effect on traditional retail market and employment levels. Guernsey construction sector contracts due to lack of public and private sector building projects.

BREXIT vote and subsequent uncertainties create real challenges for CI governance and economies. Current COVID-19 Pandemic has long-term negative economic and social ramifications on all communities around the world including CI.

Population Change Jersey +10%
Population Change Guernsey +0%

4. CHANNEL ISLANDS

CHALLENGES INTO THE 2020s and 2030s

This section sets out some of the primary challenges facing the Channel Islands into this decade and beyond. Of course, there are other issues which have to be addressed from time to time but most are common to both Jersey and Guernsey as well as Alderney and Sark.

One thing is clear from previous events and lifecycles. The Channel Islands are less sheltered from external pressures than perhaps they have been in the past and the cost of having to deal with a rapidly changing economic, social and environmental landscape could well be significant.



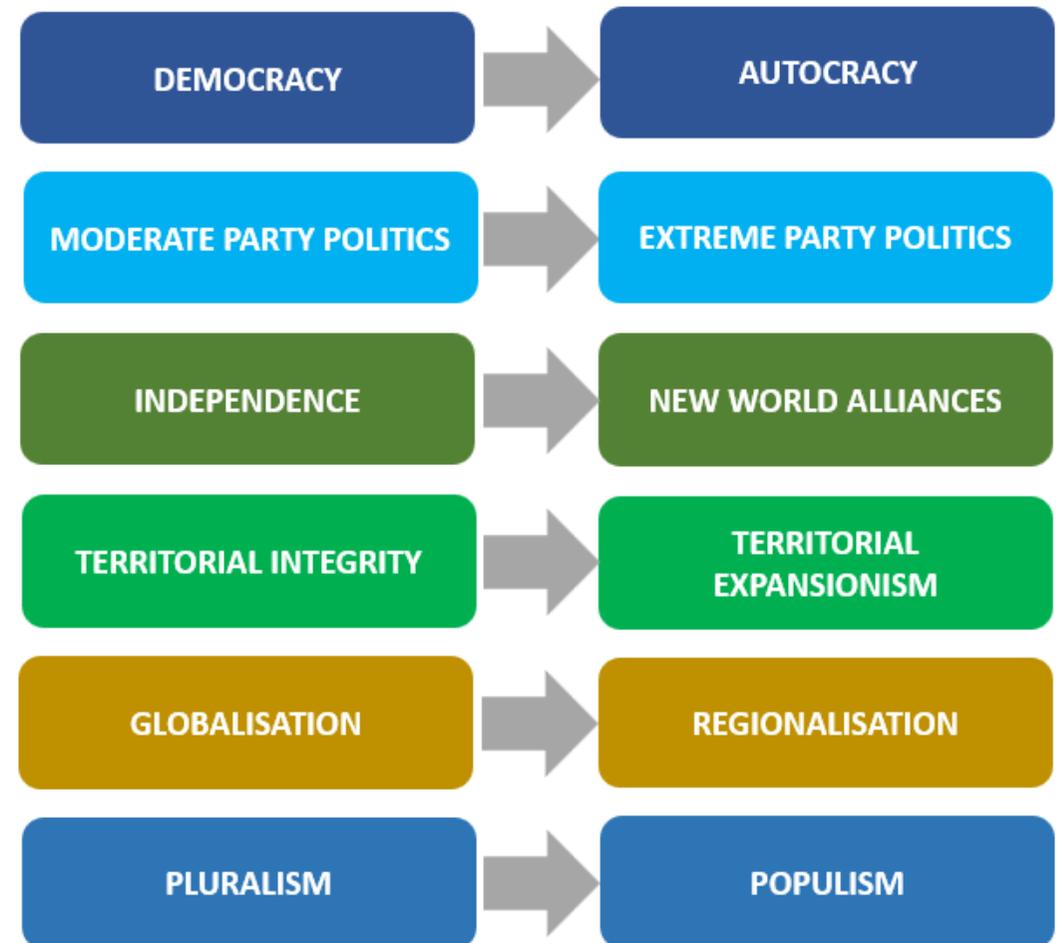
4.1 GEO-POLITICAL TENSIONS & EVENTS

Geo-political tensions in all parts of the world are already having greater repercussions on how island jurisdictions plan their affairs in the medium and long-term. At the time of writing, the following issues are identified as being of importance directly or indirectly.

- Chinese and Russian foreign policy particularly in the Far East and eastern Europe (including the war in Ukraine).
- Human migration trends worldwide.
- United States' domestic and foreign policy post 2022 mid-term elections and the next presidential election in 2024.
- The widening gap in many countries between left and right-wing populist politics.
- General erosion of the democratic election process in many parts of the world.
- Continued human rights abuses in several countries.
- Ongoing Middle East conflicts.
- Tax harmonisation and international financial regulation.

While it is impossible to predict how any of these as well as other issues will evolve or be resolved over time, they can certainly have destabilising impacts on administrations not directly associated with a particular area of tension. These impacts to a greater or lesser extent have financial, economic and social consequences which, in turn, can materially and rapidly alter the direction of any long-term strategies in place at the time.

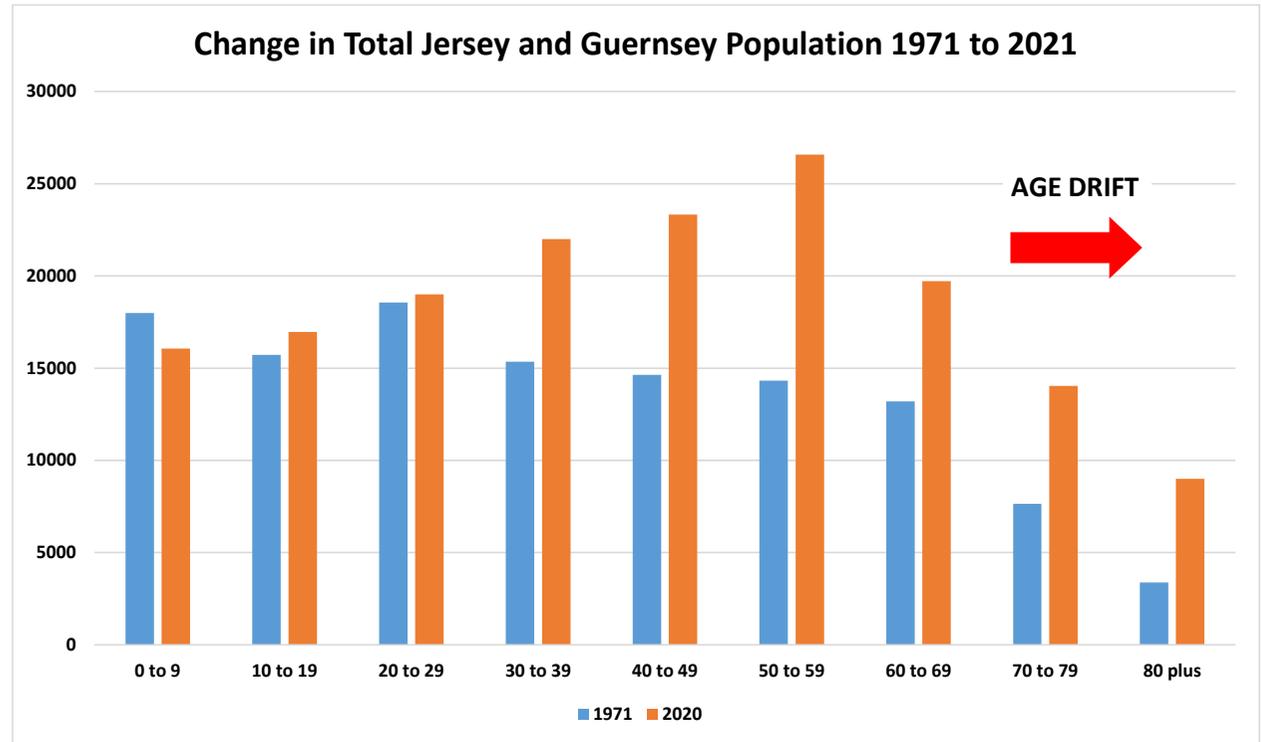
CURRENT TREND PATTERNS



4.2 AGE DRIFT

In 2021, the Channel Islands' population stood at just under 170k. Taking the two largest islands, the combined Jersey and Guernsey population stood at 167k, a 38% increase over 1971 (at 121k). The population balance between the islands has also changed significantly with 62% (57% in 1971) of the total now residing in Jersey and 38% (43% in 1971) in Guernsey.

Jersey's current population is 49% larger than it was in 1971 (+34k people) while Guernsey's population is 23% greater (+12k people). There has been no real change in the population levels of Alderney and Sark over the 50 year period albeit the population in each of these islands did increase during the 1970s and 1980s only to decline back to 1971 levels during the last decade or so and then stabilise.



Despite the 23% increase in Guernsey's population since 1971, there are now 3k fewer 0-19 year-olds in the island than there were half a century ago. This is not the case in Jersey where there has been a 2k increase. The 50 - 59 age group now represents the peak age band in both islands with 27k people in this group as compared with 14k in 1971 - an 86% increase.

In 1971, the largest age group in Guernsey comprised 0 - 9 year-olds and, in Jersey, 20 - 29 year-olds. There are now three times the number of residents in Jersey and Guernsey who are aged 80 (9k) and over as compared with 1971 (3k). There are a further 14k who are currently aged between 70 and 79 (7.6k in 1971), an 84% increase. As far as Alderney is concerned, just under half of the island's current population is now aged 70 and over.

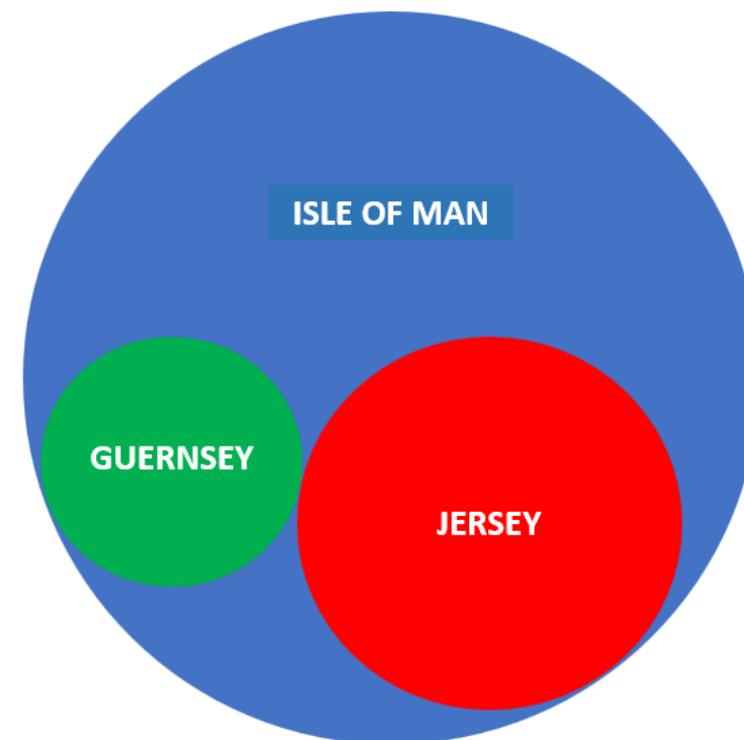
Source: States of Guernsey and Government of Jersey Census Data

4.3 LAND AREA & POPULATION DENSITY

One of the issues which both Jersey and Guernsey faces is the shortage of potential land upon which the development of housing and infrastructure can be undertaken within sustainable and environmental limitations.

Taking the three Crown Dependencies, the diagram on the right illustrates the land areas of Jersey and Guernsey overlaid onto the land area of the Isle of Man (the area of each circle is equivalent to each island's land mass). The chart below sets out the population density of each of the Channel Islands. By comparison, the population density in the Isle of Man is just under 400 per square mile.

	Population ('000)	Land Area (square miles)	Population Density per square mile	Population Density per square km
Guernsey	63	25 (65 sq. km)	2,538	976
Jersey	103	46 (120 sq. km)	2,245	861
Alderney	2	3 (8 sq. km)	634	245
Sark	0.5	2 (5.5 sq. km)	250	92



While there has been a degree of land reclamation carried out in both Jersey and Guernsey over the years, this has been limited. However, there are now new challenges in that households post the Pandemic and during the current energy crisis are seeking greater internal and external living space and energy efficient and well-insulated homes. This is the case in both social and demand housing sectors. Another real problem as a result of the shortage of land is the availability of sites for long-term care home facilities and affordable accommodation for key personnel.

All of these issues are further exacerbated by the rapid escalation in the cost of building materials and the shortage of construction workers and skilled tradesmen generally.

4.4 HEALTH & LONG-TERM CARE

The future of public healthcare provision is the 'Achilles Heel' of all western societies. The Channel Islands are no exception with current cost of healthcare standing at £0.5 billion. However, this cost would be substantially higher but for the number of households that have private medical cover as compared with the UK. Statistics are hard to obtain but a common estimate in the UK is that around 6% of the population has private medical cover.

In the Channel Islands, given that the vast majority of the finance sector as well as many other employers offer private health cover for their staff and family members as an employment benefit, it is estimated the percentage of the CI population with such cover could be as high as 25%/30%. The very important point to bear in mind is this cover ceases in most instances when the member of staff entitled to private cover retires. Premiums also go up rapidly with age and often become simply too expensive over time for those who maintain private cover into late age.

The other significant difference between the UK and CI is in primary care where the patient in the Channel Islands is liable for a large percentage of primary health care costs.

However, if current CI age profiles are projected forwards by 20 years and allowing for mortality averages, it is estimated the number of people over 80 in the CI could be in the order of 20-25k as compared to 9k now (a near threefold increase). Those over 70 will potentially double increasing from 22k to 52k.

Taking account of the age of the population where most health and social service costs are incurred, and factoring in the number of people who may well have to revert to public rather than private healthcare at the point of retirement, these projections would undoubtedly mean that CI health and social services costs could increase by as much as 50% over a twenty-year period or the equivalent of £250m per annum in current value terms.

As highlighted earlier, the provision of long-term care home facilities is the 'elephant in the room'. Already, both islands are woefully short of such facilities let alone care home personnel and suitable sites available to build such accommodation.



4.5 EMPLOYMENT & LABOUR AVAILABILITY

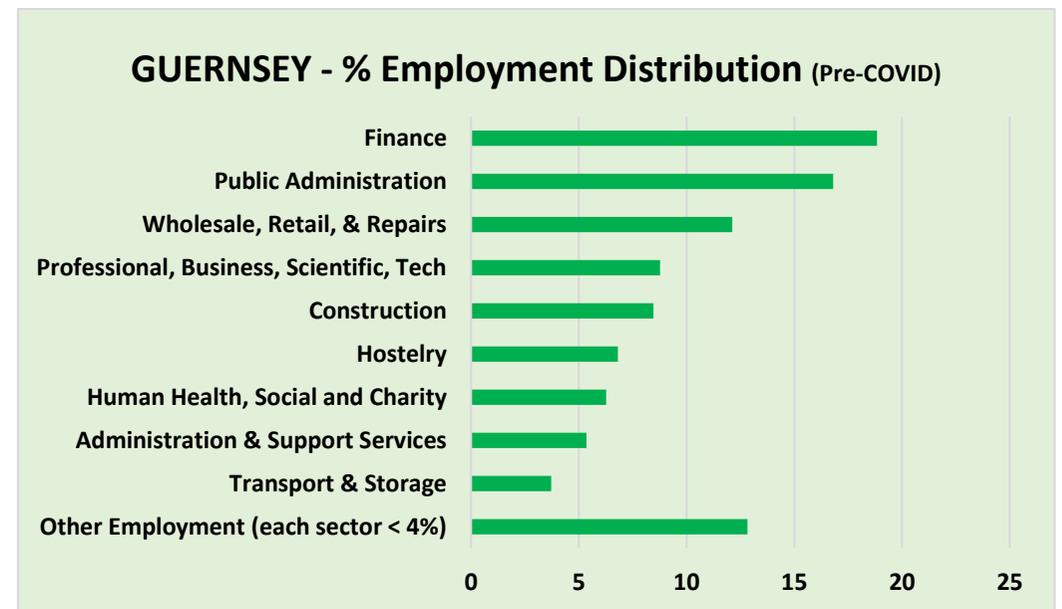
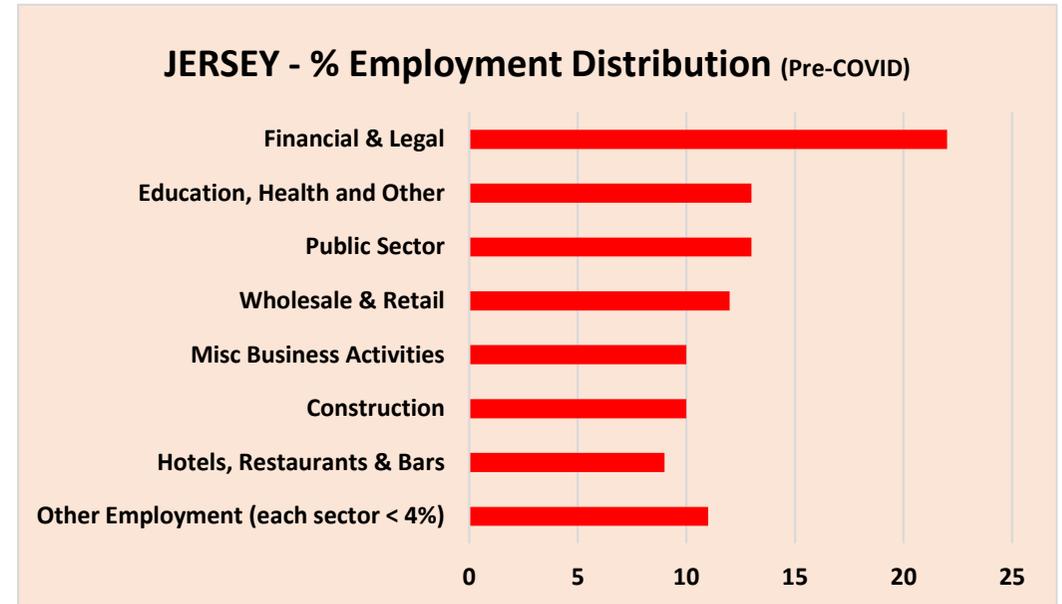
The charts on the right set out the employment distribution by sector in Jersey and Guernsey. (The sector headings are those applied by each island and are 2019 percentage figures to avoid any 'distortions' in employment levels in 2020/21 and into 2022 due to the Pandemic.)

The employment scene worldwide is changing rapidly and the negative impacts are already being felt in the Channel Islands as elsewhere. These include:

- Demographic age drift and early retirement trends,
- Global shortages of skilled personnel in many key sectors,
- An increasing lack of affordable housing in a number of countries (and islands),
- Wage inflation, and
- The rapid advancement of artificial intelligence.

Given the external geo-political pressures and economic uncertainty which currently exist and which will probably remain a problem for some time to come, the issues relating to labour challenges that both Jersey and Guernsey face are likely to increase rather than diminish over time.

As highlighted earlier, the lack of land availability and on-island resources (e.g. in the construction sector) further exacerbate the problem and emphasise the importance of addressing critical mass and focusing on economies of scale across the Channel Islands as a whole,



Sources: States of Guernsey and Government of Jersey

4.6 CLIMATE CHANGE

The speed at which actions are adopted to reduce global warming will depend upon what transpires following COP27 in Egypt this last November. However, there is a probability that jointly agreed actions will again be superseded by the many geopolitical tensions currently existing worldwide and by the ongoing economic and social challenges still prevailing as a result of the COVID Pandemic.

These could lead to a division of priorities with less emphasis being placed on climate change resulting in global warming of at least a minimum of 1.5°C happening over a much shorter time period than projected with a 2°C increase being far more likely by 2100. Consequently, island government climate change priorities and timescales may well have to be revisited and amended sooner rather than later.

Current island climate change policies generally focus on the introduction of measures in the short and medium term to reduce the population's per capita carbon footprint. However, this focus could well have to concentrate far more on mitigation measures to physically protect each of the communities from actual damage caused by inevitable sea level rise and the increased frequency of extreme weather events.

Both Jersey and Guernsey have densely populated areas which are vulnerable to sea level rise and storm surge. Therefore, the capital infrastructure costs associated with the additional protection of low-lying coastal areas as well as port and other key infrastructure facilities (e.g. energy) will undoubtedly be very high and the work will take a considerable time to plan and roll out.

Notwithstanding the fact that Guernsey and Jersey are financially in a far stronger position to introduce global warming mitigation measures as compared to many other island communities, such financial resources of these jurisdictions are already under considerable strain as a result of COVID Pandemic funding and the impact (e.g. inflation) of subsequent global events.

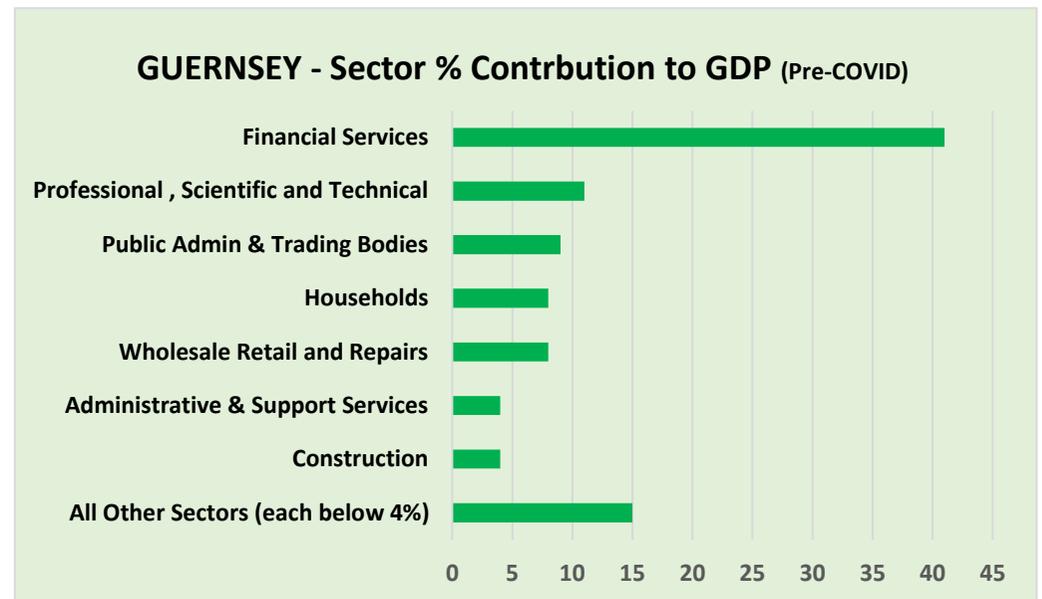
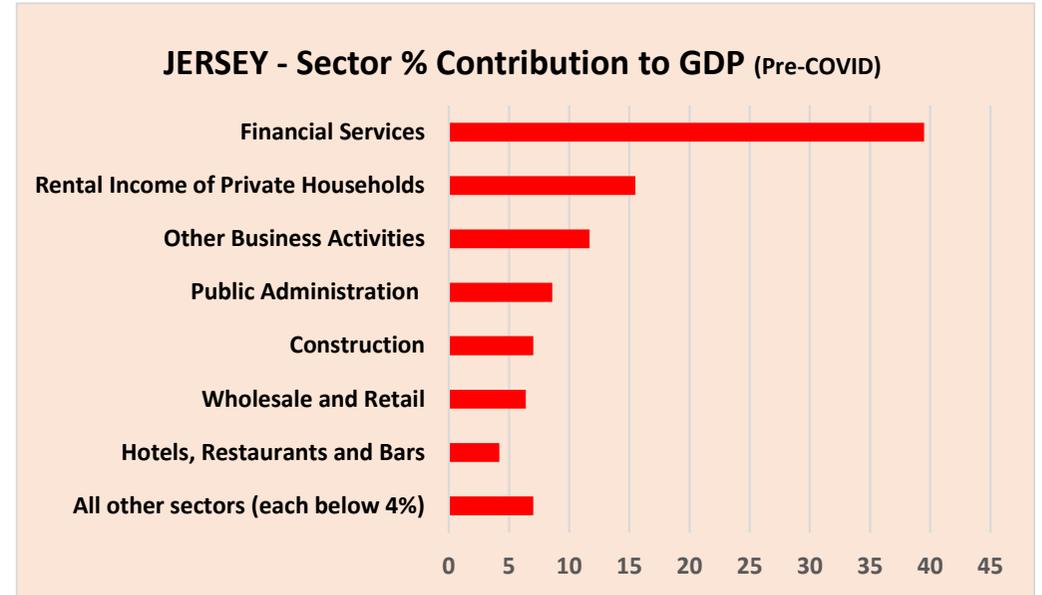


4.7 ECONOMIC SECTOR IMBALANCE

The charts on the right set out the economic contributions of the various sectors in Jersey and Guernsey. (The sector headings are those used by each island and, as with the employment figures, they are 2019 percentages to avoid any 'distortions' resulting from the Pandemic in 2020/21.)

As highlighted earlier, the evolution of the economic and employment profiles of both Jersey and Guernsey have been significant over the past 50 years and now bear little resemblance to what were in place in 1971 (primarily tourism, horticulture, agriculture, and manufacturing). While both islands' current profiles are broadly similar, they have gradually been redefined as a result of different population policies adopted in each island. In addition, the inevitable impact of information technology and artificial intelligence could further diverge each island's economic base.

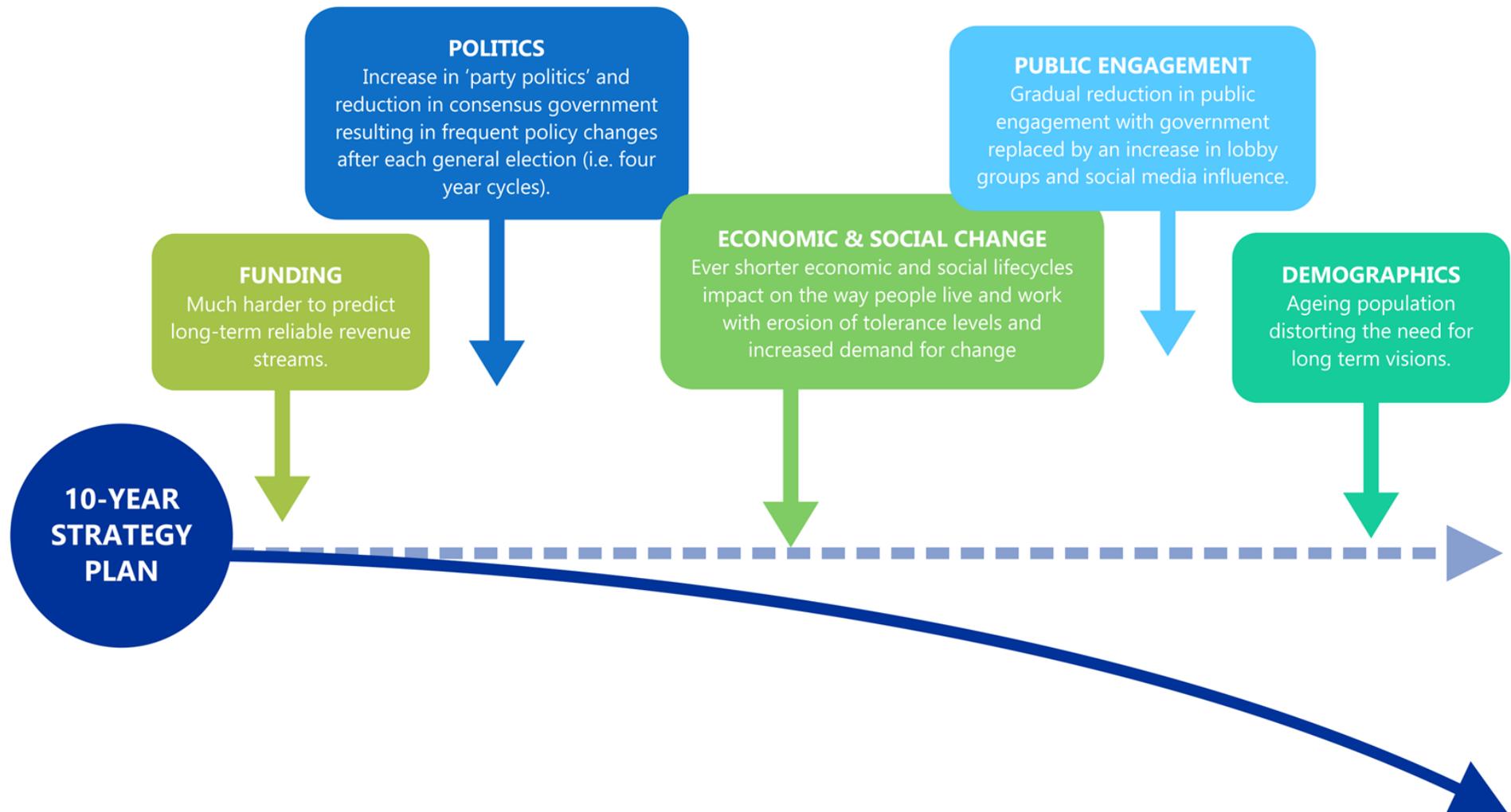
While the continued dominance of the finance sector is, to some extent, reassuring and must be welcomed in terms of value, it is not without potential risks. The 2008 world financial crisis did adversely affect the economies of both islands for a number of years and illustrated how unforeseen circumstances can change the profile of this sector within a short period of time. The charts also highlight the challenges facing both islands if they needed to diversify their economies quickly. However, one thing is clear. No other economic sector could generate anywhere near the same level of economic and fiscal benefits per capita as does the financial services sector.



Sources: States of Guernsey and Government of Jersey

4.8 LONG-TERM STRATEGIC PLANNING

During the last decade or so, the speed of government decision-making has tended to slow down and risk aversion has been more obvious. On occasions, this has manifested itself in the production of lengthy strategic and policy documents which, in several instances, have not been actioned. In addition to the international and national pressures now impacting more than ever on the effective rollout of island strategies and policies, there are on-island factors (see below) which can also divert the implementation process of any medium/long-term plan.



4.9 PUBLIC SECTOR INCOME & EXPENDITURE

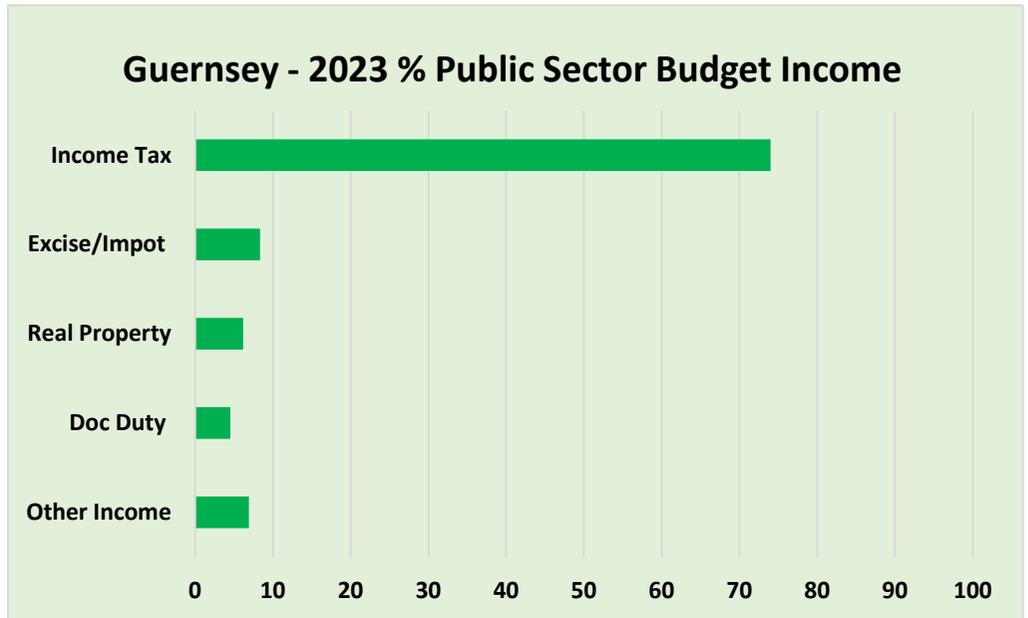
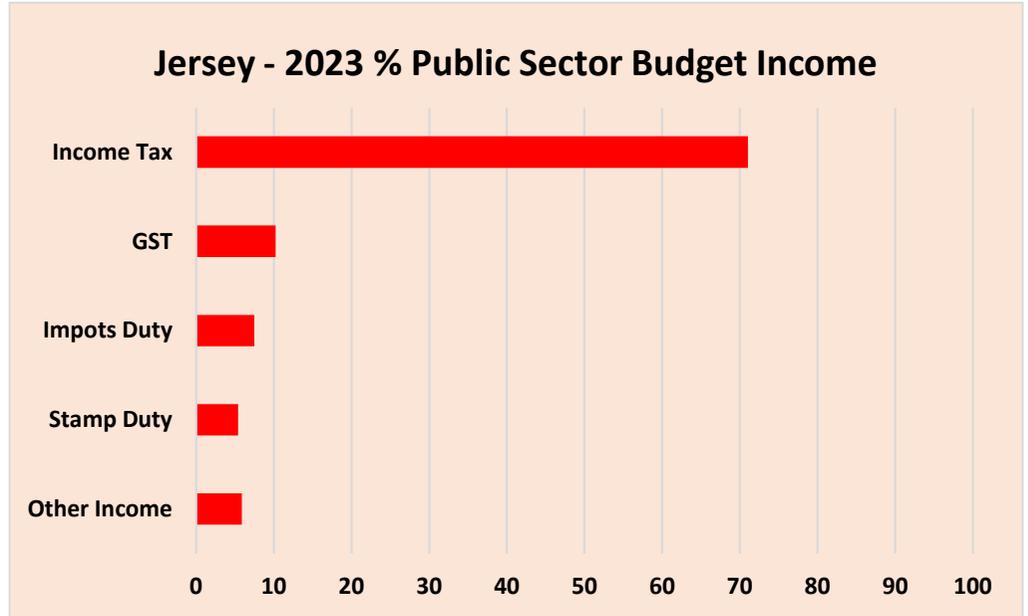
The charts on the right set out each island's government income sources budgeted for 2023.

These show how dependent Jersey and Guernsey are on income tax revenue with both at around 70% of total revenue. It was in 2007 that the islands decided on a 'zero 10' Corporation Tax policy. However, Jersey also introduced GST at the same time.

When one looks at the total income on a per capita basis, Jersey is estimated to generate approximately £10.2k on a per capita basis while, in Guernsey, this will be at £8.4k.

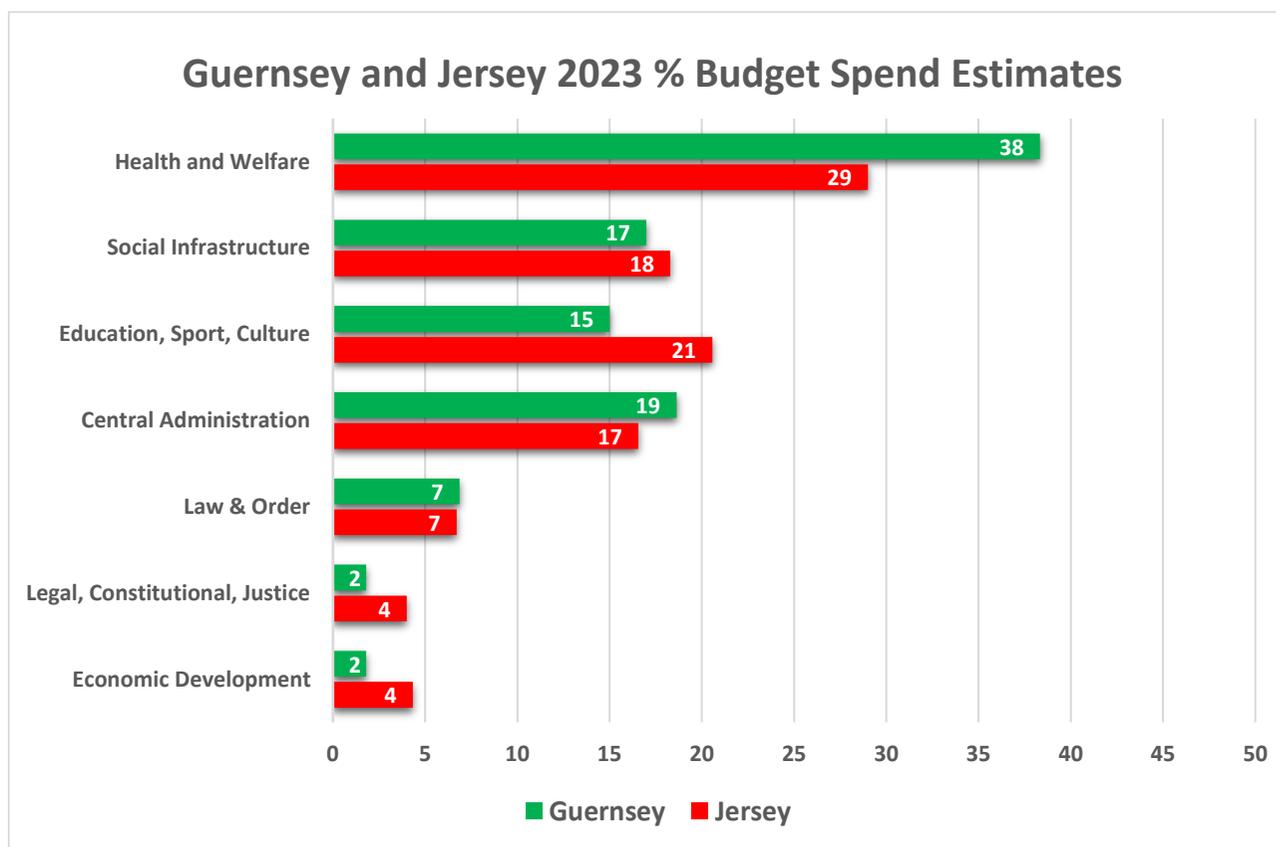
Another factor to take account in terms of resilience, is the level of revenue from direct income tax take. The age drift of each island (Slide 12) shows the number of residents approaching retirement age over the next 10 years at which point the tax take per household will drop - perhaps substantially. This will be during a period when costs primarily in healthcare will inevitably be increasing in real terms and at a time when higher inflation rates will be more likely.

As far as 2023 budgeted expenditure is concerned, the chart overleaf (Slide 20) covers each island's 2023 budgeted expenditure levels. As the budget headings do differ between the islands, each island's headings have been allocated under seven categories. There could be some discussion over this process but it will not dramatically change the percentages as most of the major areas of expenditure are dominated by the primary services common to both communities.



Sources: States of Guernsey and Government of Jersey

4.9 PUBLIC SECTOR INCOME & EXPENDITURE contd.



Spend allocations generated from States of Guernsey and Government of Jersey Budget data

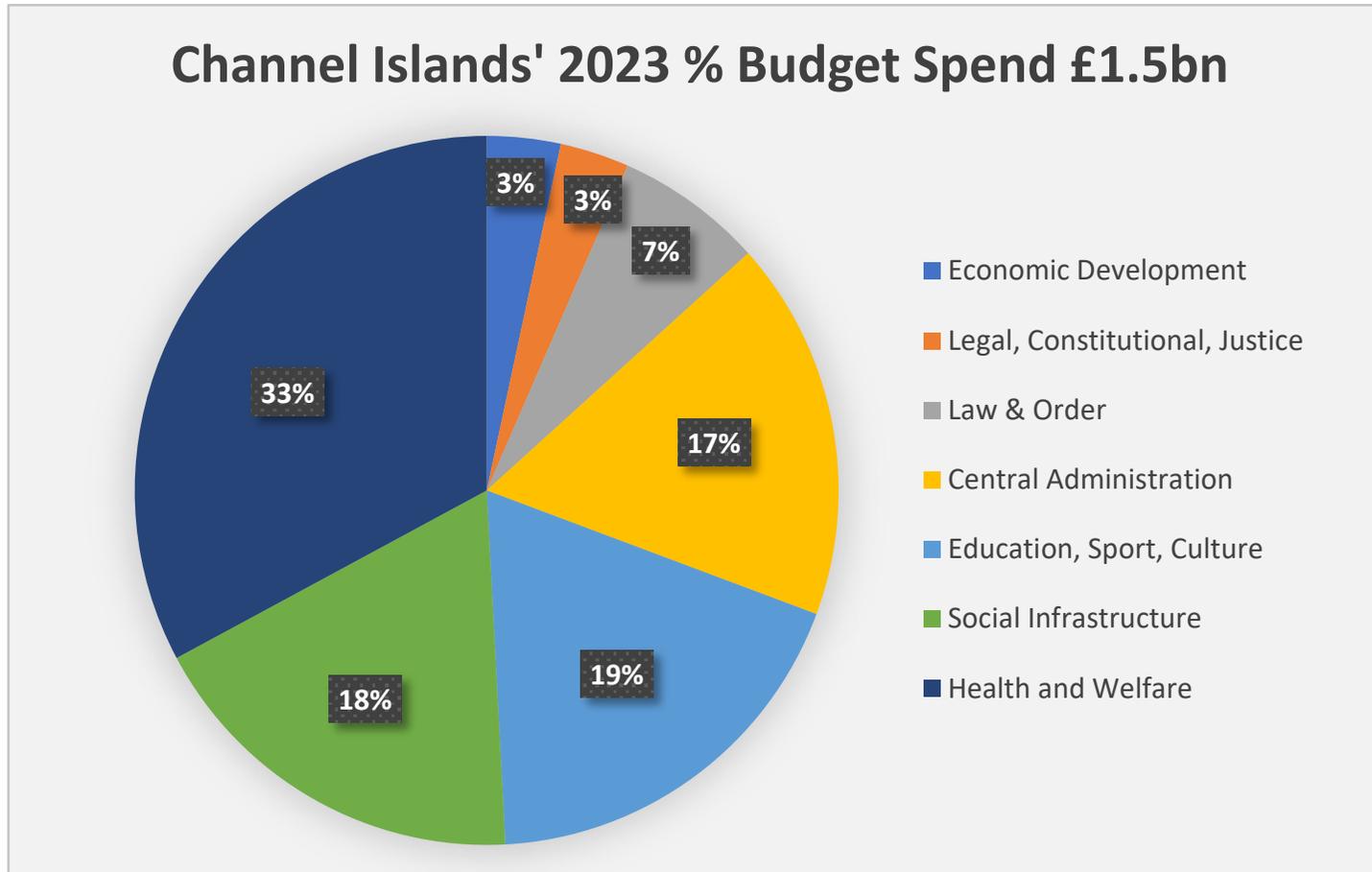
This chart highlights how similar are the islands in relation to 2023 government expenditure commitments to various functions. The main difference is in healthcare which represents 29% of overall expenditure levels in Jersey, while in Guernsey, it is at 38%. This is perhaps an example of the 'critical mass' and 'economies of scale' challenges two adjacent islands have with significantly different population levels but providing minimum on-island facilities and meeting similar public expectations (as referred to in the Introduction (Slide 4)).

In terms of per capita expenditure levels per annum, these are not too dissimilar between the islands with Jersey at £9.0k and Guernsey at £8.4k. However, in relation just to healthcare, the per capita cost per annum in Jersey is currently at £2.6k while, in Guernsey, this stands at £3.2k.

4.9 PUBLIC SECTOR INCOME & EXPENDITURE contd.

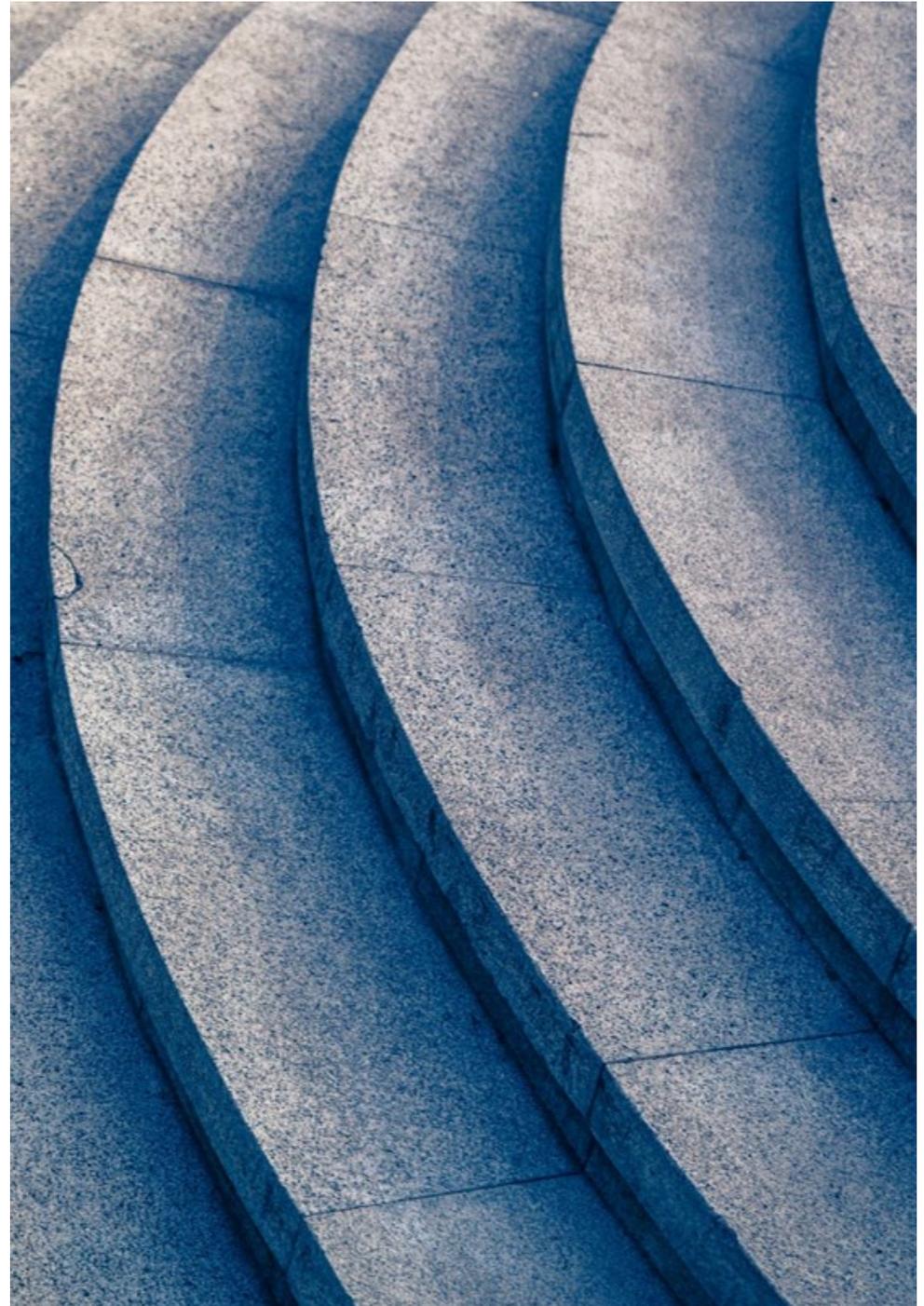
To illustrate the level of current public expenditure on a Channel Islands' basis, the following chart merges the 2023 expenditure budgets of both Jersey and Guernsey giving a total expenditure level of just under £1.5bn (1% equivalent to £15m).

The trend across both islands indicates an increasing number of cost centres and parallel aspirations on how each island should move forward. These are set out in a number of 'review' reports produced recently. The funding requirements for capital expenditure projects is considerable in both islands and, again, there are common projects between the communities.





5. POSSIBLE NEXT STEPS



5.1 VISION CI - PRIMARY OBJECTIVES

There are some very clear objectives to achieve in pursuing the 'VISION CI' initiative.

The funding of public services presents an increasing challenge. The previous section highlights some of the major threats facing not only the Channel Islands but also island jurisdictions throughout the world. The merging of services on a pan-CI basis could well curb the inevitable growth in public expenditure.

CI residents may be able to benefit from more specialised and efficient services delivered locally rather than having to travel to the UK and rely on Mainland services. Already, there is every likelihood that the UK is going to face severe resourcing issues over the next couple of decades. This is manifesting itself in a number of areas but, particularly, in healthcare.

As previously noted, 'game-changing' external events are becoming more frequent and will require greater on-island resilience to combat the inevitable repercussions. Taking a pan-CI stance in relation to these events could well be a lot more effective than meeting these challenges on an individual island basis.

Finally, many resources worldwide are becoming more scarce due to increasingly limited and finite reserves or as a result of global conflict and trade constraints. Pursuing a common CI policy, the duplication of services requiring the provision of such scarce (including human) resources could be reduced.

SUMMARY OBJECTIVES



To achieve significant savings in public expenditure across the CI as a whole



To provide seamless services across the CI for the benefit of the CI as a whole



To offer greater resilience locally to external sometimes unforeseen events



To benefit from shared often increasingly scarce resources

5.2 PRIVATE SECTOR ALREADY EMBRACING CI ECONOMIES OF SCALE

Over the last 15 years or so, critical mass and economies of scale have already been applied in many areas of the private sector within the Channel Islands. There have been numerous businesses, particularly UK corporate organisations which have seen the merit in operating seamlessly across both Jersey and Guernsey and, in some instances, Alderney as well.

However, since the 2008 financial crisis and the contraction/recovery of the finance sector in each island, companies have increasingly recognised the financial and business advantages of applying critical mass and economies of scale primarily through:

- a merger of separately owned businesses previously located in one particular island, and
- the expansion in the number of companies now operating on a pan-CI basis.

This growing pan-CI trend can now be seen across the majority of economic sectors and mainly in the areas set out in the chart overleaf (Slide 25).

In some instances, mergers and acquisitions have occurred out of necessity because of a contraction of market size and/or greater competition, but other factors come into play including:

- a reduction in the frequency of inter-island travel,
- the growth in the use of IT and artificial intelligence,
- the varying pace of economic development in each island, and

- the need to achieve economies of scale by providing a broader skills base within the organisation and increasing overall buying power.

However, one resultant trend over the past few years has been the preference for new business to favour Jersey as the CI hub. There are some important factors which have encouraged this to happen including:

- better air transport connectivity to and from Jersey,
- lower cost of travel to and from Jersey,
- more flexible labour/immigration policies in Jersey than in Guernsey, and
- The benefits of a greater land area in Jersey as compared with Guernsey which has enabled an expansion of business premises to occur and private household accommodation to be constructed.

A number of marketing functions are still undertaken separately in each island. The three most significant are in tourism, financial services and the attraction of new business and high net worth individuals. While there are synergies within tourism (benefits of island hopping, shared external marketing promotions etc.), very little joint working occurs in the marketing of financial services.

Finally, it is important to note the growth in business being generated within the Channel Islands market as a whole by companies based in other parts of the world. A notable example is Amazon.

5.2 PRIVATE SECTOR ALREADY EMBRACING CI ECONOMIES OF SCALE contd.



5.3 LEARNING FROM OTHERS

Embracing Benchmarking & Best Practice

This section identifies relevant best practice elsewhere in terms of 'critical mass' and 'economies of scale'. There are many examples around the world but the four that are used are drawn from island communities which are:

- more remote than the Channel Islands with regard to mainland (mother country) connectivity and services, and
- made up of many more islands than the CI and where the actual physical distances and population distribution between each island community are much greater than between Jersey, Guernsey, Alderney, and Sark.

As in any island group, inter-island 'rivalry' is always a factor whether this manifests itself in areas such local politics, sporting events, tourism product offer, etc. However, there is always the need to work together to ensure the group of islands as one entity is being administered in the most efficient and effective way for the good of the archipelago as a whole.

Therefore, these best practice examples illustrate how a centralised administration in relation to economies of scale is being applied in a number of areas. The common factor is the skewed population distribution between the islands forming the group as a whole.



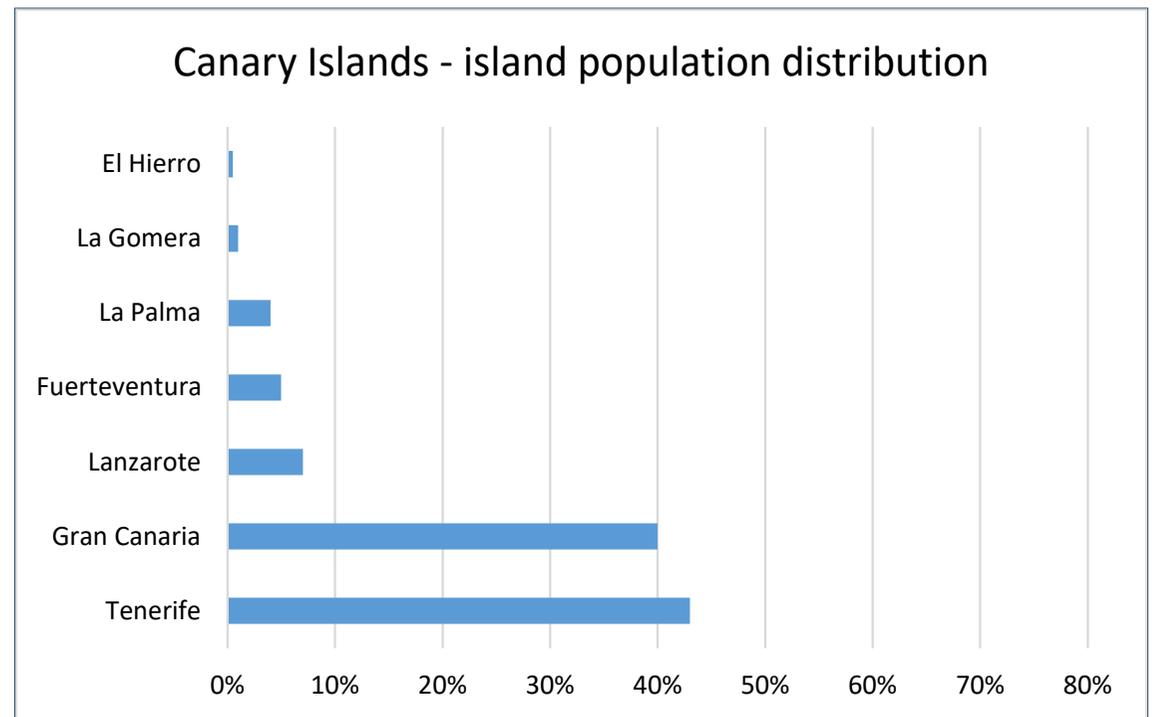
5.3 CANARY ISLANDS - HEALTH MODEL

The Autonomous Community of the Canary Islands is spread over a surface area of 35,000 square miles and, in total has a land mass of just under 3,000 square miles. There are seven main islands and while the overall population is 2.1m, the percentage population distribution between the islands is extreme as per the chart on the right.

The Community comprises two Provinces - 'Las Palmas' and 'Santa Cruz de Tenerife'. Each of the seven major islands has an island council. The islands have 13 seats in the Spanish Senate. Of these, 11 seats are directly elected, three for Gran Canaria, three for Tenerife, and one for each other island. Two seats are indirectly elected by the regional Autonomous Government.

Notwithstanding the split constitution and governance of the islands, the most important factor is that there is one autonomous body responsible for health services across all the islands. The islands' health system is arguably among the best in Spain in relation to medical assistance, with a high level of quality in comparison with other EU countries.

Primary care services are offered in primary care districts across all the islands. In each of these districts, there are health centres and clinics delivering primary care to residents. The health administration has a wide network of hospitals and assistance centres (public and private), and its emergency services provide a very high quality of care for all of the islands' inhabitants and visitors alike.



Source: Canary Islands Census Data

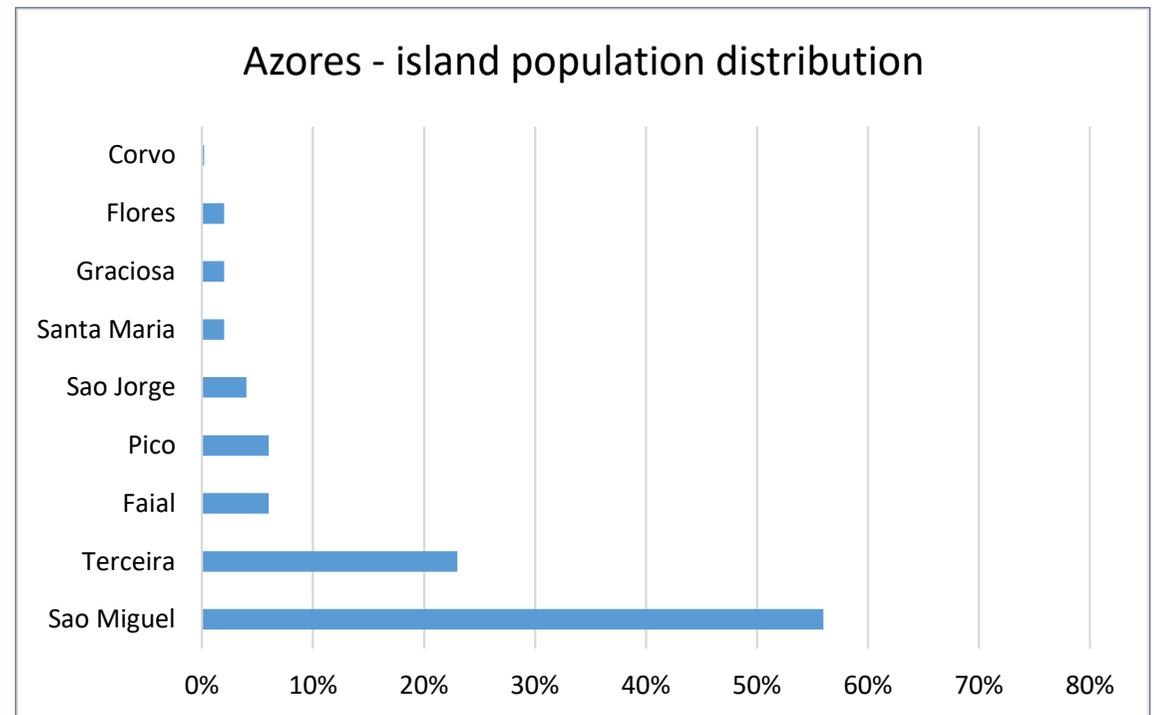
5.3 AZORES - EDUCATION MODEL

The Azores is a Portuguese archipelago located in the middle of the Atlantic Ocean. Comprising nine islands, the land mass is 900 square miles and the overall population is 250k. For the last 40 years, the Azores have been an autonomous self-governing region within the Portuguese Republic.

Just over half the population (137k) lives on one island (Sao Miguel) with the next most populated island (Terceira) having a population of 56k. The remaining population is spread over the other seven islands.

While each island has its own administrative infrastructure and local autonomy, one education system applies across all the islands. In addition, there is a University of the Azores covering all the islands which, since its foundation over 40 years ago, has played a fundamental role in education and research.

This facility offers professional qualifications, social improvement and intercultural awareness of the islands to residents in all the communities. In addition, many foreign students choose to pursue their studies in the Azores and benefit from the academic facilities internationally acknowledged in different fields of work but, particularly, the environment.



Source: Azores Census Data

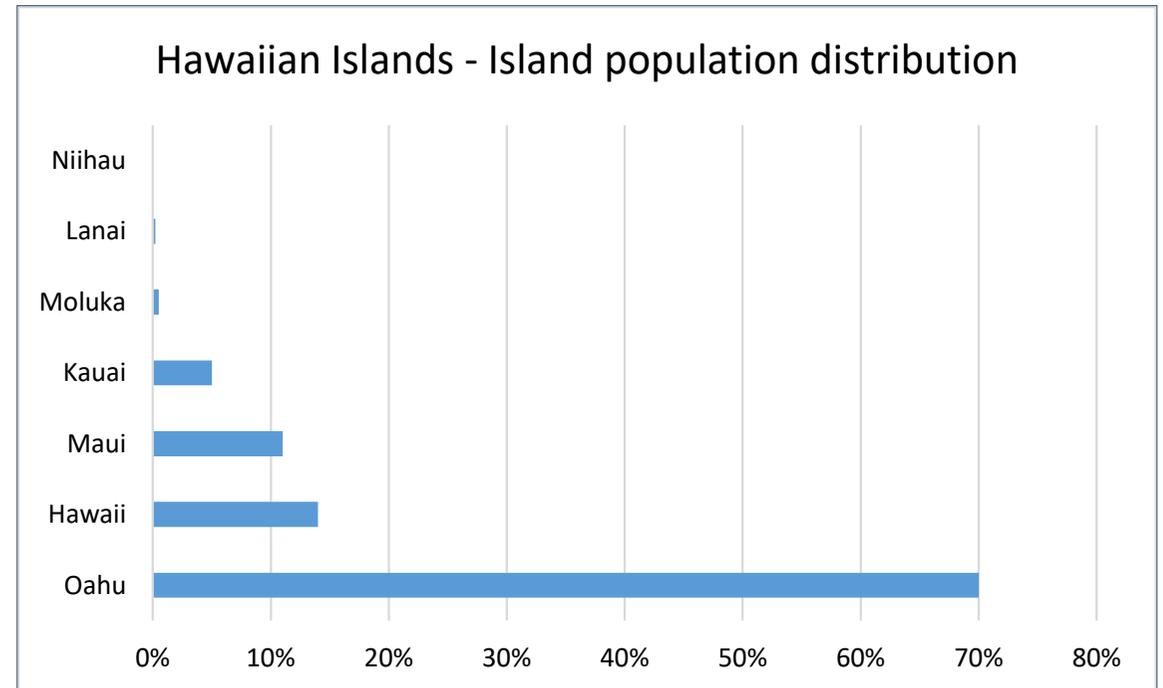
5.3 HAWAIIAN ISLANDS - COMMUNICATIONS MODEL

The Hawaiian Islands stretch for over 1,500 miles in the Pacific Ocean (equivalent distance between Jersey and Istanbul) and comprise around 140 islands and atolls, of which seven are inhabited. The overall population is approximately 1.5m. However, population distribution between islands is heavily skewed as shown on the right.

This presents some real problems in terms of the effective delivery of public services across such a vast distance. As a result, there has been significant investment made in the use of information technology to provide consistent services for all the islands. This covers telemedicine, distance learning, as well as a number of other public service functions such as planning.

Only as recently as last year, a major investment report was released focusing on the further enhancement and coordinated use of information technology and broadband connectivity.

While the rollout of suitable infrastructure is obviously a key strategy, one of the priority areas is the use of IT across all generations and the provision of 'virtual' and e-training support for older residents. It is accepted that e-skills are improving in all age groups, but it is also recognised that the pace of change in IT is now accelerating and outpacing any improvements in the levels of IT skills.



Source: Hawaiian Islands Census Data

5.3 FAROE ISLANDS - PHYSICAL CONNECTIVITY MODEL

The Faroe Islands' tunnel network which was commenced as far back as the 1960s is an essential economic and social enabler for the community as a whole. The population of the islands is only 50k.

The latest project will comprise a 25km long tunnel connection between the southern-most island of Suduroy and Sandoy. This will then complete the whole inter-island network system and facilitate each island's air and sea transport connectivity with the rest of Europe through one central hub.

The tunnel network has proved to be immensely popular and, above all, profitable even though the construction cost per capita has been higher than similar projects elsewhere in Europe due to a limited population.

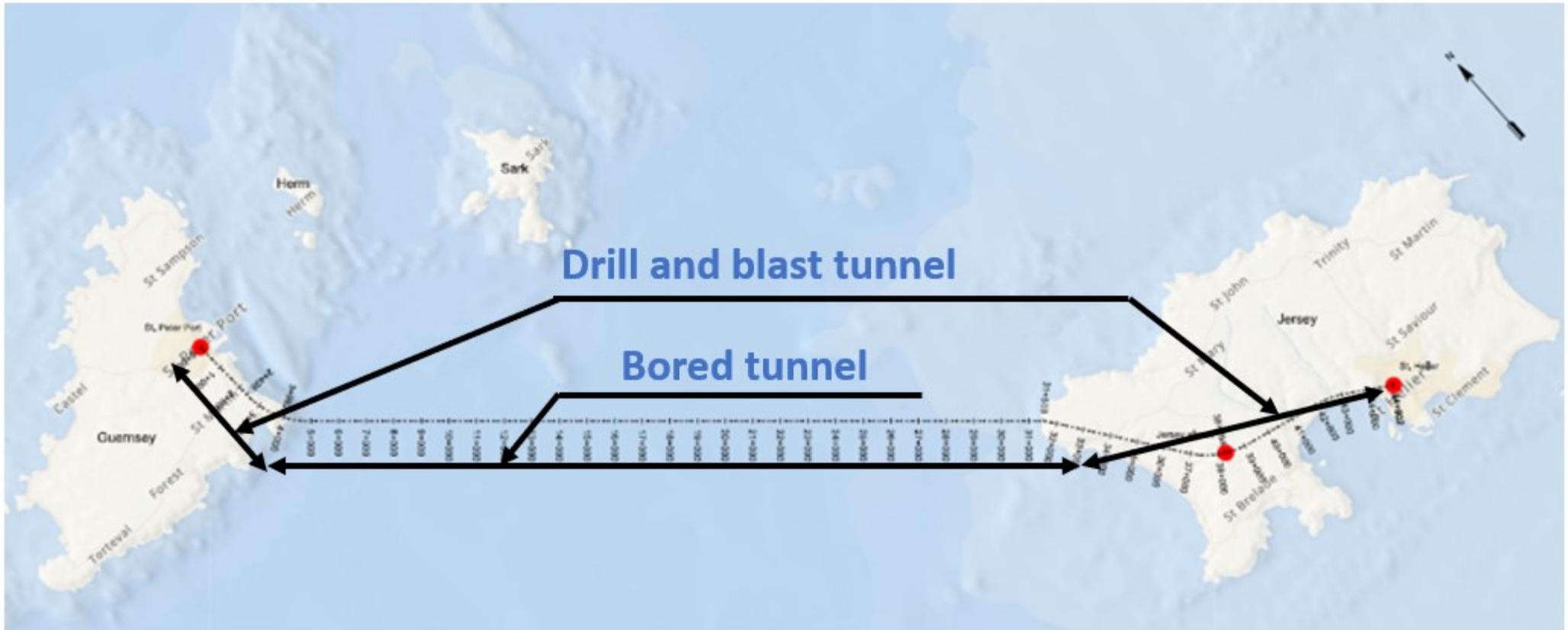
There is now a total network of 44 km of tunnels (excluding the planned connection referred to earlier). The time taken to travel across the archipelago, which used to take a full day, has been reduced to an hour with nearly 90% of the population now permanently inter-connected 24 hours a day.

In this context, there are draft proposals to connect Jersey and Guernsey with a tunnel network and the slide (31) overleaf sets out a proposed option.



● ALREADY INTER-CONNECTED

● TO BE CONNECTED



Source: **RAMBOLL** Bright ideas. Sustainable change.



Alignment length	Rock type	Expected advance rate*
4 km (Guernsey)	Drill and blast tunnelling	~5 km/year (2 or 4)
28 km (Offshore)	Bored tunnelling	~3 km/year (2)
12 km (Jersey)	Drill and blast tunnelling	~5 km/year (2 or 4)



5.4 CREATION OF A 'VISION CI' STRATEGIC FORUM

5.4 CREATION OF A 'VISION CI' STRATEGIC FORUM

Possible Way Forward

There are a number of ways in which the VISION CI initiative can move to the next stage. The challenge is that each public service is a separate entity, split between two or more islands and requiring specific expertise in the functions that it delivers (e.g. Health, Law & Order, Education, etc.). There are also some government functions which are more relevant to how residents in each island run their own lives on a day-to-day basis (e.g. employment policy, etc.).

Membership

The suggested route forward is, therefore, the creation of a pan-CI, 'non-political' and independent Strategic Forum comprising representatives drawn from each island.

Each potential Forum applicant should be required to submit the reasons why he or she should be a member of the group.

Representation from the islands' younger generations would also be a key element of the Forum's constitution.

Professional and advisory support resources would be necessary and this would have to be determined at the appropriate time. The timescale for the review should also be agreed initially.

From the outset, a 'can-do', innovative thinking attitude should prevail with no competing, insular agendas being brought to the table. Checks and balances would have to be built into the process but nothing should be off the agenda. Consensus decision-making should also be the order of the day.

Funding

The funding of the Forum's executive functions should be equally shared between Guernsey (inclusive of Alderney and Sark) and Jersey.

Mandate

The Forum's responsibilities are seen as follows:

- Undertaking an objective overview of the various services provided across the CI as whole.
- Assessing the ever-growing number of external threats which, to a greater or lesser extent, will certainly have an impact on the CI over the next two decades or so.
- Identifying on a consensus basis the functions which have the greatest commonality between the islands and which, if administered and funded on a pan-CI basis, would potentially have the most impact in terms of financial, social and environmental benefits and efficiencies for the CI as a whole.
- Liaising with relevant island government departments (political and administrative) on a regular basis to discuss possible options (including funding), and interim conclusions.
- Taking account of best practice elsewhere and where similar practice adopted within the CI would be a positive move.
- Covering the 'micro' issues which are equally as important and which justify joint consideration and co-operation. These common areas include such functions as external affairs, governance, promotion, regulation, etc.

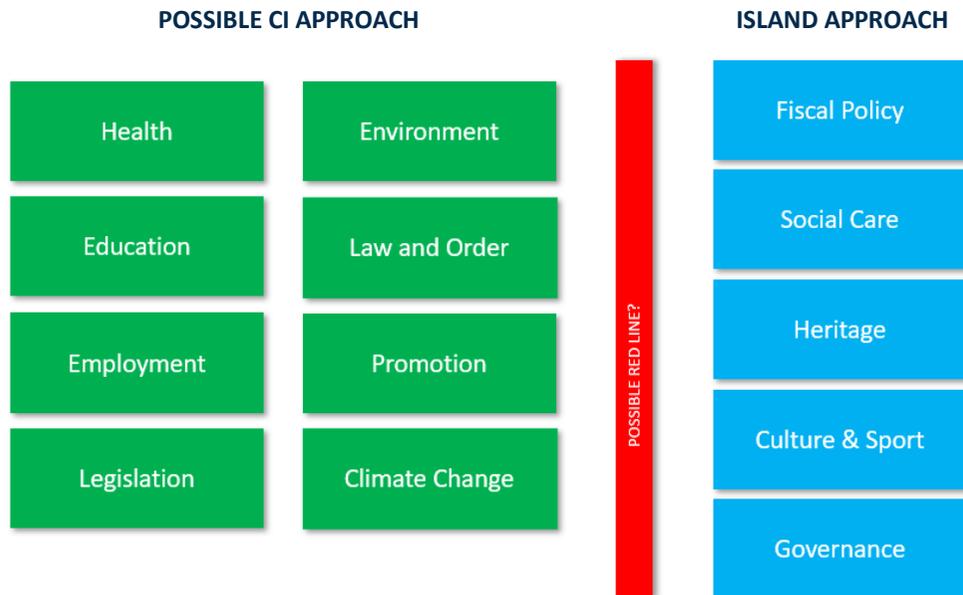
5.4 CREATION OF A 'VISION CI' STRATEGIC FORUM contd.

Possible 'Red Lines'

The Forum should also review where, in the short and medium term, there should perhaps be some red lines drawn between:

- those services considered best to be delivered on a pan-CI basis, and
- those services which should remain within an individual island jurisdiction.

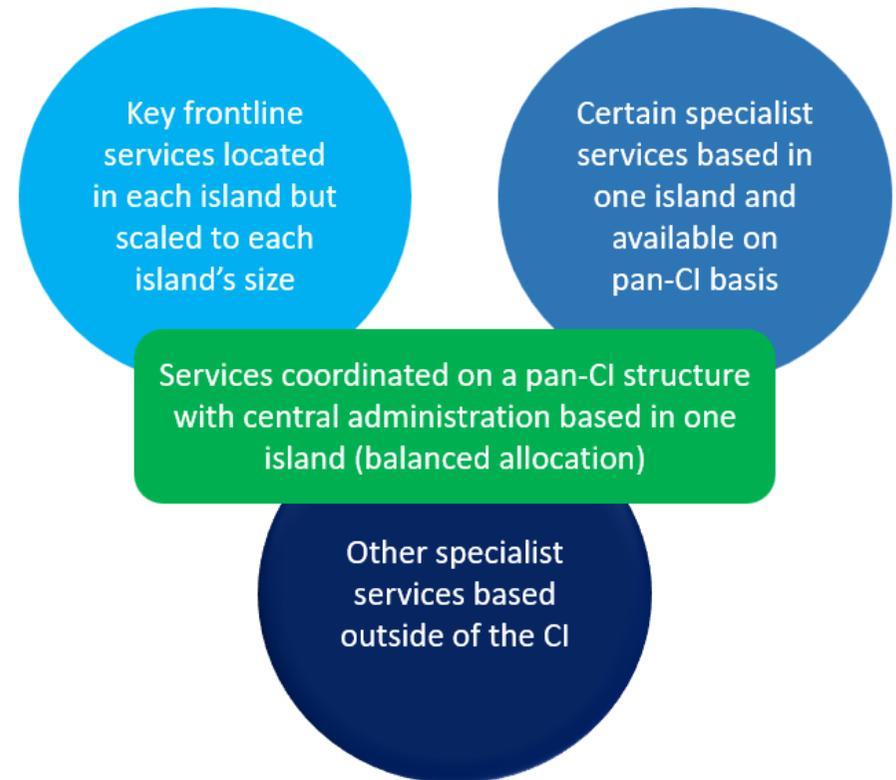
The model below is purely an example of this element of the work:



Possible Service Delivery

Part of the review process would also be to examine how a pan-CI service could be delivered across all the islands.

Again, the model below sets out a possible scenario but there are others depending upon the particular service.



5.4 CREATION OF A 'VISION CI' STRATEGIC FORUM contd.

Many ideas which embrace pan-CI policy have been put forward both during and after the presentations. The following are perhaps four of the most popular to-date but there are a number of others.

1. Pan-CI Flexible Employment Pool

The COVID Pandemic has only hastened changes in work practices and lifestyle choices, let alone the growth of artificial intelligence which will impact on all the islands both positively and negatively. Flexible employment and 'skills for the future' are important areas which could be dealt with on a pan-CI basis due to the world shortage of labour generally. A policy of the free movement (physically and virtually) within the whole of the CI of economically active persons should be given real thought.

2. Pan CI Delivery of Education and Training

In terms of vision, there could well be a time when the traditional school model will change and the use of remote learning will become the norm with schools gradually being replaced by centres for 'soft skills' training. Such a change would justify a common approach across the Channel Islands particularly in the provision of e-learning facilities. Additionally, the growing shortage of teachers across the islands is not only a local but a national and international problem.

3. Climate Change and the Environment

The ever-pressing demands of climate change mitigation have not diminished in any way - indeed, probably the opposite is the case. Again, the ramifications on the CI could be potentially significant.

Three obvious impact areas are sea level rise (storm surges and flooding), water supply security, and CO2 emissions policy. Again, a common pan-CI strategy would not only address the question of climate change but also enhance the reputation of the CI in being seen as working as one.

4. Ageing Population: Resource Demands

As already highlighted, the number of people aged over 80 in the Channel Islands is likely to nearly treble (from 9k to 20/25k) over the next 20 years. This will significantly increase health costs and impact immensely on CI resources as a whole with a real danger of service duplication in each island. Another factor is the shortage of long-term care facilities and personnel which will inevitably draw economically active residents away from other economic sectors. A pan-CI strategy would be eminently sensible particularly in developing innovative home care and artificial intelligence solutions.

Other areas that have been mentioned include:

- One Law and Order administration covering all of the Channel Islands.
- Co-ordinated marketing and promotional strategies in a number of common areas which emphasise the Channel Islands as the destination and then the specific strengths of each island location.

6. KEY CONCLUSIONS

Since the commencement of the VISION CI initiative, it has been very interesting to note the positivity shown generally for the project to move forward. Those who have commented have been surprised that it currently costs £1.5 billion per annum to run public services across the Channel Islands as a whole and, given the escalating expenditure of certain services, this could be approaching £2 billion by the end of this decade.

There are naturally some who are of the opinion that the concept will be impossible to get off the ground because the islands will never agree to go down the joint services route. But this seems to be very much a minority viewpoint.

The world and UK are in a very tenuous position at present and there are no signs that this will improve. Therefore, the islands should be in a much stronger position if they look to the future as one body rather than continuing to adopt diverse approaches to the delivery of services. Such a route in no way tries to undermine the unique heritage and identity of each island. However, the initiative should provide greater resilience and stability over the decades to come. The challenge is to get the project off the ground in the simplest and most cost-effective way possible.

Over the generations, respective committees in one island have regularly met their counterparts in the other island(s). While this is an entirely appropriate thing to do in terms of exchanging views and understanding each other's respective policies, in practical terms, that tends to be the limit of such dialogue although, from time to time, some common strategies are agreed.

Such exchanges have never really stimulated open, innovative, back-to-basics thinking. Hence, the creation of the Strategic Forum made up of members with a range of backgrounds and experience with no pre-determined opinions and drawn from all age groups within the Channel Islands' is the proposed direction to take.

Above all, the world is not the same place that it was ten or even just five years ago. The pressures on each of the Channel Islands remaining financially, economically and socially stable will increase rather than diminish. Consequently, the VISION CI initiative is tabled to address these challenges through innovative but practical solutions and achieve a balanced society across all the islands.



7. KEY PAN-CI POTENTIAL BENEFITS

Finally, there are many opportunities identified in justifying the VISION CI concept but the primary benefits are seen as follows:

- Rationalisation of a range of public services across all the islands leading to a greater ability to resource and deliver specialist services in the future.
- Financial savings/cost containment in the future provision of public services (e.g. centralised procurement, non-duplication of certain functions, etc.)
- Adoption of common employment (labour demand) policies across all the islands.
- Islands speaking with 'one voice' in the international and national arena.

- A possible tunnel enabler.
- Capital infrastructure rationalisation (healthcare, education, transport etc.) including the positive use of artificial intelligence on a pan-CI basis (e-learning, telemedicine, etc.).
- Joint strategies in addressing the demographic challenge.
- Joint focus on island internal and external resilience/ vulnerability factors (e.g. climate change).
- Greater use of public/private partnerships in the delivery of key services.

There is no reason why the Channel Islands as a whole could not be 'fit for the future' and a centre of excellence in a number of areas in the medium and long-term.





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